

Financial Crisis and the Information Gaps: Implementing the G20 Recommendations

Recommendation 6: Structured Products

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Agenda

- IOSCO Policy Process
- ABS Disclosure Principles
- Narrowing the gap
- Conclusions

IOSCO Policy Process

IOSCO Policy Process (I)

- IOSCO develops global standards for securities market regulation and, subsequently, assesses their implementation.
- Policy standing committees and task forces develop recommendations and principles which are presented in reports, covering global regulatory needs.
- These are discussed within the Technical Committee (policy making body of the 18 most important jurisdictions) and send out for consultation among stakeholders.

IOSCO Policy Process (II)

- After this, the standing committees and task forces compose a final report, which is discussed again in the Technical Committee, and subsequently published.
- The IOSCO members agreed to implement the IOSCO standards into the laws of each jurisdiction or as requirements by regulators.

IOSCO Policy Process (III)

- Every three years or so, an Implementation Committee reviews all new recommendations and principles, and brings the relevant ones into the IOSCO Objectives and Principles of Securities Regulation and subsequently into the IOSCO Methodology which is used in the assessment of IOSCO members.
- The IOSCO Objectives and Principles, and the Methodology, are one of the sets of standards of the FSAP program of the IMF and World Bank to assess the strengths and weaknesses in the financial system of countries.

ABS Disclosure Principles

Introduction (I)

- IOSCO started Asset Backed Securities Disclosure work in the middle of the crisis (early 2008) well before G-20 call and the Recommendation in the IMF/FSB report as the outcome of the end-2007 IOSCO crisis assessment
- ABS contains Residential Mortgage Backed Securities and Commercial Mortgage Backed Securities, the fields were the crisis started

Introduction (II)

- IOSCO International Debt Disclosure Principles were the basis
- Differences ABS and other fixed income securities:
 - ABS issuer is different to corporate issuer
 - Different information needed
- Regulators of 120 IOSCO members' jurisdictions to incorporate principles in their regulatory framework in a principle-based way

Scope of ABS Disclosure Principles

The ABS Disclosure Principles will apply to **listings and public offerings of ABS**, defined as those securities that are primarily serviced by the cash flows of a discrete pool of receivables or other financial assets that by their terms convert into cash within a finite period of time. These would not apply to securities backed by asset pools that are actively managed (such as securities issued by investment companies or collateralized debt obligations) or that contain assets that do not by their terms convert to cash.

ABS Disclosure Principles (I)

The proposed ABS Disclosure Principles for regulatory regimes outline the information which should be included in any offer document, and these are:

- Parties Responsible for the Document
- Identity of Parties Involved In the Transaction
- Functions and Responsibilities of Significant Parties Involved In the Securitization Transaction
- Static Pool Information
- Pool Assets
- Significant Obligor of Pool Assets

ABS Disclosure Principles (II)

- Description of the Asset Backed Securities
- Structure of the Transaction
- Credit Enhancement and Other Support, Excluding Certain Derivative Instruments
- Certain Derivative Instruments
- Risk Factors
- Markets
- Information about the Public Offering
- Taxation

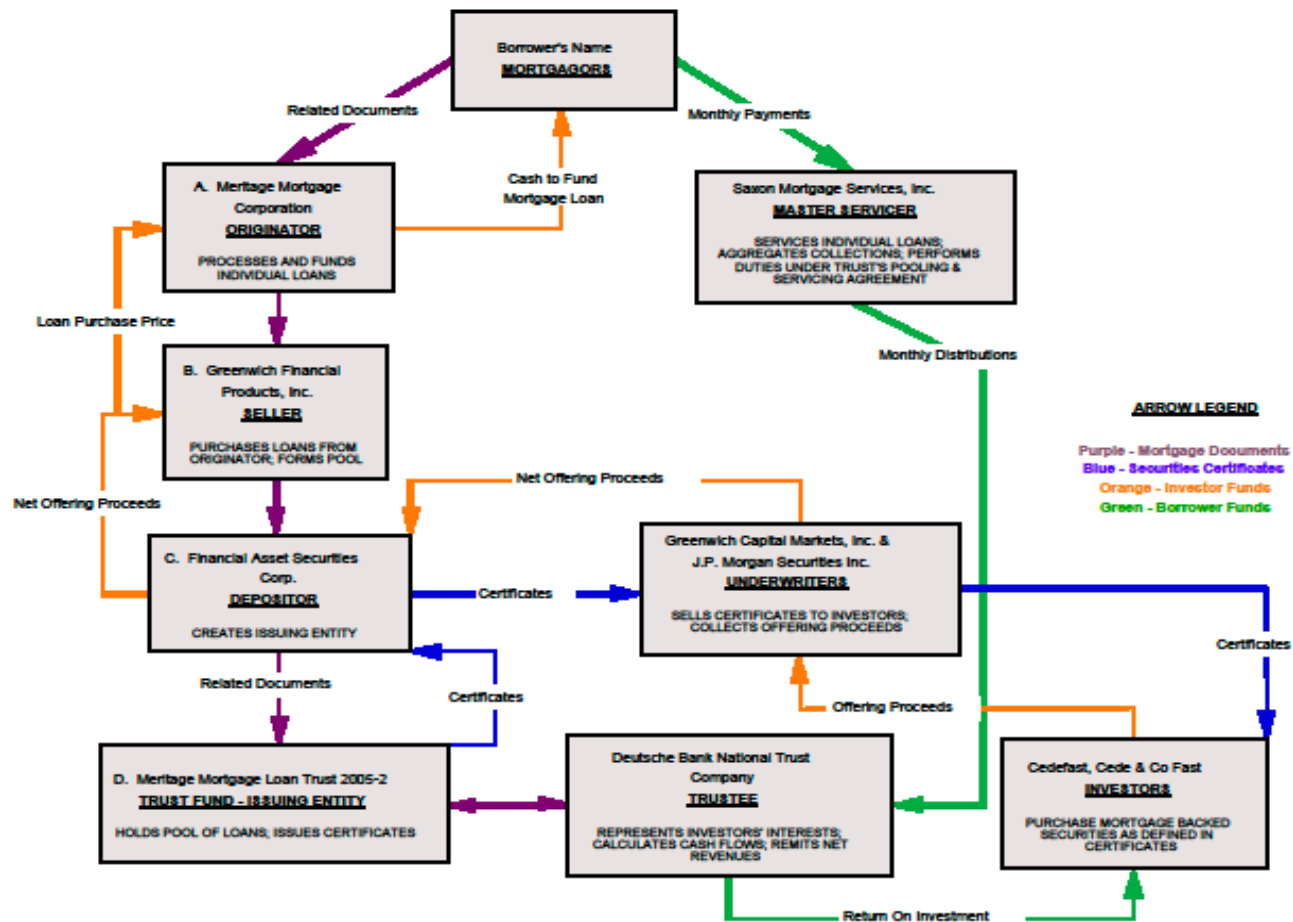
ABS Disclosure Principles (III)

- Legal Proceedings
- Reports
- Affiliations and Certain Relationships and Related Transactions
- Interests of Experts And Counsel
- Additional Information

ABS Parties Involved

SECURITIZATION FLOW CHART

Meritage Mortgage Loan Trust 2005-2, Asset-Backed Certificates, Series 2005-2



Narrowing the Information Gap

Narrowing the Information Gap

- Now Recommendation 6 is met, more and better disclosure of each stage and actor in the securitization process will be available on a global scale (the IOSCO ABS Principles)
- More and better disclosure of trading on the secondary markets (IOSCO work on Structured Finance Products)
- Standardization of securitized products (the market)
- Creation of enhanced Trading Platforms

Conclusions

Conclusions (I)

- Securities markets play an enormous role in financial stability through transferring money, financial instruments and risks.
- Transparency is crucial for the functioning of securities markets and for the confidence of investors in the financial markets and thus for financial stability. Transparency will be improved by ABS Disclosure Principles.

Conclusions (II)

- As innovation goes on and investment money looks for opportunities, market participants will create new investment products.
- So, regulators face an eternal and increasing challenge narrowing the information gap.
- To meet these challenges IOSCO has planned to create a Research Department.