

# **Objectives and Principles of Securities Regulation**



**OICV-IOSCO**

**International Organization of Securities Commissions**

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## Foreword and Executive Summary

This document sets out 30 principles of securities<sup>1</sup> regulation, which are based upon three objectives of securities regulation. These are:

- **The protection of investors;**<sup>2</sup>
- **Ensuring that markets are fair, efficient and transparent;**
- **The reduction of systemic risk.**

The 30 principles need to be practically implemented under the relevant legal framework to achieve the objectives of regulation described above. The principles are grouped into eight categories.

### A. Principles Relating to the Regulator

- 1 The responsibilities of the regulator should be clear and objectively stated.
- 2 The regulator should be operationally independent and accountable in the exercise of its functions and powers
- 3 The regulator should have adequate powers, proper resources and the capacity to perform its functions and exercise its powers.
- 4 The regulator should adopt clear and consistent regulatory processes.
- 5 The staff of the regulator should observe the highest professional standards including appropriate standards of confidentiality.

### B. Principles for Self-Regulation

- 6 The regulatory regime should make appropriate use of Self-Regulatory Organizations (SROs) that exercise some direct oversight responsibility for their respective areas of competence, to the extent appropriate to the size and complexity of the markets.
- 7 SROs should be subject to the oversight of the regulator and should observe standards of fairness and confidentiality when exercising powers and delegated responsibilities.

### C. Principles for the Enforcement of Securities Regulation

- 8 The regulator should have comprehensive inspection, investigation and surveillance powers.

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<sup>1</sup> For convenience, in this document, the words “securities markets” are used, where the context permits, to refer compendiously to the various market sectors. In particular, where the context permits they should be understood to include reference to the derivatives markets. The same applies to the use of the words “securities regulation.” (See IOSCO By-Laws, Explanatory Memorandum).

<sup>2</sup> The term “investor” is intended to include customers or other consumers of financial services.

- 9 The regulator should have comprehensive enforcement powers.
- 10 The regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers and implementation of an effective compliance program.

**D. Principles for Cooperation in Regulation**

- 11 The regulator should have authority to share both public and non-public information with domestic and foreign counterparts.
- 12 Regulators should establish information sharing mechanisms that set out when and how they will share both public and non-public information with their domestic and foreign counterparts.
- 13 The regulatory system should allow for assistance to be provided to foreign regulators who need to make inquiries in the discharge of their functions and exercise of their powers.

**E. Principles for Issuers**

- 14 There should be full, timely and accurate disclosure of financial results and other information that is material to investors' decisions.
- 15 Holders of securities in a company should be treated in a fair and equitable manner.
- 16 Accounting and auditing standards should be of a high and internationally acceptable quality.

**F. Principles for Collective Investment Schemes**

- 17 The regulatory system should set standards for the eligibility and the regulation of those who wish to market or operate a collective investment scheme.
- 18 The regulatory system should provide for rules governing the legal form and structure of collective investment schemes and the segregation and protection of client assets.
- 19 Regulation should require disclosure, as set forth under the principles for issuers, which is necessary to evaluate the suitability of a collective investment scheme for a particular investor and the value of the investor's interest in the scheme.
- 20 Regulation should ensure that there is a proper and disclosed basis for asset valuation and the pricing and the redemption of units in a collective investment scheme.

**G. Principles for Market Intermediaries**

- 21 Regulation should provide for minimum entry standards for market intermediaries.
- 22 There should be initial and ongoing capital and other prudential requirements for market intermediaries that reflect the risks that the intermediaries undertake.

- 23 Market intermediaries should be required to comply with standards for internal organization and operational conduct that aim to protect the interests of clients, ensure proper management of risk, and under which management of the intermediary accepts primary responsibility for these matters.
- 24 There should be procedures for dealing with the failure of a market intermediary in order to minimize damage and loss to investors and to contain systemic risk.

#### **H. Principles for the Secondary Market**

- 25 The establishment of trading systems including securities exchanges should be subject to regulatory authorization and oversight.
- 26 There should be ongoing regulatory supervision of exchanges and trading systems which should aim to ensure that the integrity of trading is maintained through fair and equitable rules that strike an appropriate balance between the demands of different market participants.
- 27 Regulation should promote transparency of trading.
- 28 Regulation should be designed to detect and deter manipulation and other unfair trading practices.
- 29 Regulation should aim to ensure the proper management of large exposures, default risk and market disruption.
- 30 Systems for clearing and settlement of securities transactions should be subject to regulatory oversight, and designed to ensure that they are fair, effective and efficient and that they reduce systemic risk.