

## **Foreword and Executive Summary**

This Document sets out 38 Principles of securities<sup>1</sup> regulation, which are based upon three Objectives of securities regulation. These are:

- **protecting investors;**<sup>2</sup>
- **ensuring that markets are fair, efficient and transparent;**
- **reducing systemic risk.**

The 38 Principles need to be practically implemented under the relevant legal framework to achieve the Objectives of regulation described above. The Principles are grouped into ten categories.

1 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.”

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

### **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.

6 The Regulator should have or contribute to a process to identify, monitor, mitigate and manage systemic risk, appropriate to its mandate.

7 The Regulator should have or contribute to a process to review the perimeter of regulation regularly.

8 The Regulator should seek to ensure that conflicts of interest and misalignment of incentives are avoided, eliminated, disclosed or otherwise managed.

## **B. Principles for Self-Regulation**

9 Where the regulatory system makes use of Self-Regulatory Organizations (SROs) that exercise some direct oversight responsibility for their respective areas of competence, such 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**

10 The Regulator should have comprehensive inspection, investigation and surveillance powers.

11 The Regulator should have comprehensive enforcement powers.

12 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**

13 The Regulator should have authority to share both public and non-public information with domestic and foreign counterparts.

14 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.

15 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**

16 There should be full, accurate and timely disclosure of financial results, risk and other information which is material to investors' decisions.

17 Holders of securities in a company should be treated in a fair and equitable manner.

18 Accounting standards used by issuers to prepare financial statements should be of a high and internationally acceptable quality.

## **F. Principles for Auditors, Credit Rating Agencies, and other information service providers**

19 Auditors should be subject to adequate levels of oversight.

20 Auditors should be independent of the issuing entity that they audit.

21 Audit standards should be of a high and internationally acceptable quality.

22 Credit rating agencies should be subject to adequate levels of oversight. The regulatory system should ensure that credit rating agencies whose ratings are used for regulatory purposes are subject to registration and ongoing supervision.

23 Other entities that offer investors analytical or evaluative services should be subject to oversight and regulation appropriate to the impact their activities have on the market or the degree to which the regulatory system relies on them.

#### **G. Principles for Collective Investment Schemes**

24 The regulatory system should set standards for the eligibility, governance, organization and operational conduct of those who wish to market or operate a collective investment scheme.

25 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.

26 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.

27 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.

28 Regulation should ensure that hedge funds and/or hedge funds managers/advisers are subject to appropriate oversight.

#### **H. Principles for Market Intermediaries**

29 Regulation should provide for minimum entry standards for market intermediaries.

30 There should be initial and ongoing capital and other prudential requirements for market intermediaries that reflect the risks that the intermediaries undertake.

31 Market intermediaries should be required to establish an internal function that delivers compliance with standards for internal organization and operational

conduct, with the aim of protecting the interests of clients and their assets and ensuring proper management of risk, through which management of the intermediary accepts primary responsibility for these matters.

32 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.

#### **I. Principles for Secondary and Other Markets**

33 The establishment of trading systems including securities exchanges should be subject to regulatory authorization and oversight.

34 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.

35 Regulation should promote transparency of trading.

36 Regulation should be designed to detect and deter manipulation and other unfair trading practices.

37 Regulation should aim to ensure the proper management of large exposures, default risk and market disruption.

#### **J. Principles Relating to Clearing and Settlement**

38 Securities settlement systems, central securities depositories, trade repositories and central counterparties should be subject to regulatory and supervisory requirements that are designed to ensure that they are fair, effective and efficient and that they reduce systemic risk.