WHAT'S NEXT FOR SECURITIES REGULATORS?

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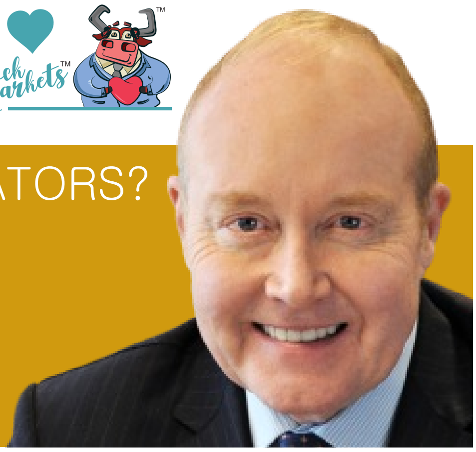

The financial industry has managed through the unprecedented COVID-19 crisis. March was a difficult month so far, as banks and securities firms coped with business disruptions in retail, investment banking and trading caused by the sudden and steep collapse of debt and equity markets. At the same time, the industry took on the challenges to convert to remote-based operations for retail and institutional clients and to shift trading to various contingency locations to continue operations and keep capital markets open to facilitate capital-raising and trading activities. Being declared an essential service, the industry engaged with regulators to consult on interim adjustments to regulations and practices to accommodate the changed business environment. As financial markets rebounded from their nadir in late March, the challenges continued, but the volume of retail and corporate business picked up considerably as clients positioned to benefit from higher asset prices and the expectation of even higher prices.

While quarantines and business lockdowns continue, investors, business and governments are starting to think about the trajectory of recovery. The consensus is for a gradual resumption of business as the incidence of infection wanes and social distancing and lockdowns are lifted. Public pressure may intensify to open up the economy and put people back to work.

The International Organization of Securities Commissions (IOSCO) is coordinating with securities regulators across the globe to ensure the continued functioning of equity, credit, and funding markets. The focus of securities regulators is on:

- the operational and financial resilience of market infrastructure,
- the operational capability of market users,
- the continued flow of information to these markets, and
- providing the appropriate regulatory flexibility to help market participants address the challenges posed by COVID-19 while ensuring that market integrity and investor protection principles are maintained.

IOSCO is also coordinating with other Standard Setting bodies (for example, the Basel Committee on Banking Supervision, and the Committee on Payments and Market Infrastructures) and the Financial Stability Board (FSB). Banking and securities regulators are also cooperating across jurisdictions to ensure adequate liquidity and funding.

As the crisis winds down, regulators will move quickly to the next steps to implement a ratcheting up in additional capital and liquidity rules, notably the proposed Net Stable Funding Ratio (NSFR) aimed at creating incentives for banks to fund their activities with more stable sources of funding on an ongoing basis, and also additional rules for the wholesale trading operations of the banks, the Fundamental Review of the Trading Book (FRTB). It will be important for regulators to calibrate these additional rules to provide better stability without unduly constraining capital markets activity.

In this crisis, banks and their dealer affiliates have demonstrated resilience and provided strong support to weakening and volatile credit markets, to manage high levels of federal and provincial government borrowing, and record financings in the corporate sector. The timely and effective central bank interventions through enhanced repo facilities to bridge and support financial institutions and business enabled the effective functioning of short-term and longer-term credit markets during the crisis.

On the securities regulatory front, reforms implemented in recent years to improve the disclosure of the investment process and advisor compensation, and new rules to require detailed knowledge of the investor and frequent scrutiny of investment suitability, thereby strengthening the client-advisor relationship, probably calmed retail markets and mitigated panic selling during the COVID-19 crisis. Quick investor response to get back into markets is evidence of advised and confident investors.

In many instances, securities regulators have delayed implementation of reforms and extended consultation periods for industry input on prosed new regulation in recognition of the enormous and unprecedented challenges member firms are facing as a result of the pandemic and the priority to focus their resources to meet the current needs of clients. However, work continues to progress.

On the public policy front, infrastructure investment will be critical to boost economic growth and enable a solid recovery from the pandemic. An important priority will be to strengthen the functioning and liquidity of the green and sustainable bond markets to attract issuers and investors to finance new sustainable projects. Transition bonds are particularly important for industries, especially the energy sector, that are not currently viewed as green.

Ultimately, the economic recovery from the COVID crisis will depend on a strong resurgence in small and mid-sized enterprise. While the recent wage subsidy and loans programs have critically helped small business to manage and survive the COVID-19 crisis, the priority is to raise equity capital as the foundation for a growing business.

Ian Russell has long held a prominent position in the investment industry, both on a domestic and global level. He is President and CEO of the Investment Industry Association of Canada (IIAC), a position he has held since the IIAC's inauguration, April 2006.

Ian is a prolific writer and columnist, both in industry publications and newspapers with national reach. He is also a frequent commentator in the media, and a sought-after presenter and speaker on industry issues and developments that are critical to the Canadian economy.

Prior to his appointment at the IIAC, Ian was Senior Vice-President, Industry Relations and Representation, at the Investment Dealers Association of Canada (IDA). In his more than 20-year tenure with the IDA and the IIAC, he has participated actively in many committees and working groups involved in regulatory and tax issues related to the securities industry and capital markets in Canada. Ian spent nearly a decade of his career at the Bank of Canada and worked as a financial analyst at the highly respected international publication The Bank Credit Analyst.