



The IOSCO Agenda for the Investment Fund Industry

Federação Iberoamericana de Fundos de Investimento

São José, Costa Rica

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- IOSCO and the Subprime Crisis
- IOSCO Standing Committee 5 – Asset Management
- Activities of the IOSCO Self Regulation Consultative Committee (SROCC)
- Supervision of the Brazilian Investment Fund by ANBID

IOSCO and the Subprime

Task force on Credit Rating Agencies (CRA)



RESULTS

**Amendments to the
Code of Conduct
Fundamentals for CRA**

**19 amendments / new
recommendations**

HIGHLIGHTS

1- Quality and Integrity of the Rating Process

- Prohibits CRA analysts from making proposals/recommendations ref to design of structured products that the CRA rates

2- CRA Independence and No Conflicts of Interest

- Disclose whether any one issuer, originator, arranger, subscriber or other client and its affiliates make up more than 10 % of the CRA annual revenue

3- CRA Responsibilities to the Investing Public and Issuers

- Differentiate ratings of structured finance products from other ratings, preferably through different rating symbols
- Disclose main methodology or methodology version used when determining a rating

IOSCO and the Subprime

Task force on Subprime Crisis



| Main Topics | Relevant Conclusions |
|---|--|
| Issuer and market transparency and investor due diligence | <ul style="list-style-type: none">- Effects of market turmoil varies by countries and relatively less effect on public traded structures;- Secondary trading is opaque |
| Firm risk management and prudential supervision | <p>Institutional investors, investment banks relied on:</p> <ul style="list-style-type: none">- Inadequate risk models and internal controls- External ratings- Inadequate balance sheet liquidity, even when adequate capitalized |
| Valuation and accounting issues | <ul style="list-style-type: none">- Fair value of accounting principles in providing strength of financial firms- Inadequate human and technological resources to model financial positions under illiquid conditions |

Short Term

- Disclosure of “Point of SALE” to retail Investors (POS) – general principles
- Funds of Hedge Funds – general principles in liquidity risk, nature and condition of due diligence process
- Investment decision process – initial risk assessment, due diligence and valuation of credit products
- Conflicts of interest within the private equity sector – private equity firms in their interaction with public markets and intermediaries
- Sovereign Wealth Funds

Standing Committee 5 – Asset Management



Medium Term

- Exchange Traded Funds (ETFs) – paper to discuss with the industry
- Real State Funds – conflicts of interest, liquidity management and valuation
- Valuation of collective investment scheme – review and update in light of the Subprime crisis
- Soft Commission arrangements for investment funds – development of high level principles

- **Self Regulation Models**

- 1) Legal delegation; 2) Legal approve of rules; 3) Guidance or recommendations recognized by authorities; and 4) Market practices, supervision, enforcement on a voluntary basis;

- **Regulatory Staff Training**

- Training program developed to emerging markets supervisors

- **Ahead of the Curve**

- Prudential supervision, innovative trading strategies and ageing population.

- Professional Association that:
 - Represents its members;
 - **Self regulate members activities;**
 - Promotes market information;
 - Promotes investors education, certifies capital and financial market professionals.
- Nbr. of Members
 - 100 (investment banks and independent asset managers).

ANBID Supervision Programs



| | |
|-------------------------------|--|
| Public Offering of Securities | Registration and analysis of all Offerings. |
| Investment Funds | Registration and analysis of funds documents (regulation and prospectus), marketing material, mark to market manuals and statistic filters. |
| Certification | Programs to certificate financial and capital market professionals. |
| Securities Services | Annual audit program – risk based supervision. |
| Private Banking | Annual audit program – risk based supervision. |

Investment Funds Supervision



| Type of process | Since |
|--|-------|
| Registration of Investment Funds, Prospectus analysis and marketing material | 2000 |
| Mark to Market (Guidelines) | 2002 |
| Mark to Market Manual (Registration) | 2005 |
| Statistical filters | 2006 |
| Theme analysis | 2007 |

Supervision of MtM Practices

Monthly Supervision and Analysis

- Selection of funds based on filter of risk/return (Sharpe):
 - Funds with greater rentability and less volatility;
 - 5 business days portfolio (end and beginning of month).
- Analysis include:
 - Assets or derivatives with public prices: data base comparison;
 - Assets without public prices: explanation of procedures and compliance with the MtM Manual.

Supervision through Statistical Filters



Monthly Supervision and Analysis

- Statistical Filters are possible using the daily informed rentability that allows ANBID to identify “outliers” in relation to:
 - Its peers type (fixed income, equity, hedge fund, etc) and/or;
 - Its own historical performance;
- Two Statistical Filters were implemented in 2006:
 - Performed bi-weekly for all mutual funds;
 - Performed in moments of Market stress (high volatility)
- Analysis of:
 - Funds performance informed by the institutions;
 - Portfolio composition;
 - Documentation of Funds registered with ANBID.

Supervision through Theme Analysis

Research and analysis of portfolio composition in order to deepen knowledge on specific themes, generate information as well as recommendations to the industry.

- Focus: assets concentration and mark to market practices;
- Recent examples:
 - concentration of private bonds in all funds (debentures, CDs, Mortgage Back Securities, Bank Credit Bill, etc);
 - Derivatives MtM practices for all hedge funds.

| Number of Analysis per Segment | |
|--------------------------------------|-------|
| Investment Funds | |
| - Registration | 2.259 |
| - Alterations | 5.293 |
| Prospectus analysis (Open end Funds) | 438 |
| Marketing Material analysis | 99 |
| MtM Manuals analysis | 35 |
| Monitoring of MtM | 120 |
| Statistical Filters | 579 |

Penalties



| | | Recommendation Letters | Fines/Penalties | Legal Processes |
|---------------------|--------|------------------------|-----------------|-----------------|
| Prospectus | 2006 | 105 | 141 | 0 |
| | 2007 | 24 | 190 | 0 |
| | abr/08 | 22 | 12 | 0 |
| MtM | 2006 | 39 | n.a. | 0 |
| | 2007 | 22 | n.a. | 0 |
| | abr/08 | 0 | n.a. | 0 |
| Marketing Material | 2006 | 13 | 1 | 0 |
| | 2007 | 16 | 3 | 3 |
| | abr/08 | 11 | 6 | 0 |
| Statistical Filters | 2006 | 2 | n.a. | 2 |
| | 2007 | 14 | n.a. | 10 |
| | abr/08 | 3 | n.a. | 0 |

Next Steps



- Private Equity – develop a self regulation Code for the Industry (companies and funds);
- Auditing Asset Managers – Risk Based Supervision;
- Partnership with the Brazilian Securities Commission (CVM) to supervise some aspects of the Fund Industry;
- Full disclosure of the self regulation processes to the public.

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