

## **Core Principles of a Securities Markets Framework (SMF)**

### **1. The SMF should enhance confidence in the market and promote investors' protection, market efficiency, fairness and transparency.**

*Investors should be fully informed about the potentiality and risk of the investment and protected from fraudulent practices. Market fairness is also achieved through implementation of high standards by exchanges and trading system operators under the supervision of the regulator. The SMF should provide for fair and equitable rules for all securities market participants and prohibit any unfair practices. Efficiency is reached through timely dissemination of information and transparent formation of prices.*

### **2. The SMF should be clear and flexible.**

*The level of regulation depends upon market characteristics, including the structure of the market, the sophistication of market users, right to access and the types of products traded. A SMF should be flexible enough to allow fast adaptation to market changes. It should be fully harmonised with other sectors of law, avoiding loopholes and dubious interpretation. A SMF should include primary legislation, implementing provisions and standards issued by self-regulatory organisations. The law should layout the basis for investors' protection, market fairness, efficiency, transparency and reduction of risk. The law should grant the regulator the authority to issue secondary legislation on pure technical issues. Exchange, trading, clearing and settlement systems should be allowed to issue their own standards and rules under the supervision of the regulator.*

### **3. The SMF should be enforceable.**

*Investors should have the possibility to clearly understand their rights and enforce them in an efficient manner. The mandatory rules should be backed by sanctions and preventive measures to secure enforcement. Regulators should have the power to start action and impose sanctions in case of breach of law and regulation. Exchanges, trading, clearing and settlement systems should provide investors with independent and reliable alternate dispute resolution mechanisms in addition to judicial recourse.*

### **4. Market information should be easily available, timely, clear, reliable and complete.**

*Investors should be able to assess the risks and rewards of their investment opportunities. Mechanisms should be in place to allow investors to obtain information easily and in a timely manner. Information should be clear, accurate and complete. Accounting and auditing standards should be in place and of a high and internationally acceptable quality in order to guarantee the reliability of financial information.*

### **5. The regulator should be independent, accountable and have the necessary resources, expertise and powers.**

*The SMF should clearly define the responsibilities of the regulator that should be exercised based on the principles of accountability and judicial review. The regulator should have adequate powers, proper resources and the capacity to perform its functions and exercise its powers. Such powers may include powers of licensing,*

*supervision, inspection, investigation and enforcement. Meanwhile, the regulator should be operationally independent from external political or commercial interference in the exercise of its functions and have legal protection when the regulator or its staff is acting in bona fide. Independence and resourcefulness is enhanced by a stable source of funding for the regulator.*

**6. The regulator should be able to cooperate nationally and internationally for purposes of regulation and supervision.**

*The variety and increasing internationalisation of financial activities and the globalisation of markets means that information relevant to authorisation or approvals is often beyond the immediate jurisdictional reach of the competent regulator. Effective regulation can be compromised when necessary information is not available or accessible. Regulators should also be allowed to share information about matters of regulatory concern.*

**7. Market professionals should be subject to licensing and ongoing supervision.**

*Market professionals should be subject to specific licensing and ongoing criteria, duly supervised by the regulator. Regulation should address entry criteria, capital adequacy and prudential requirements, ongoing supervision and discipline of entrants and the consequences of default and financial failure. Supervision should be directed where public confidence and investors money may most be put at risk.*

**8. Trading procedures should be transparent.**

*Transparency of trading is an essential condition for investors' confidence in the market. Price formation mechanisms, trading order execution rules, clearing and settlement procedures should be transparent. They should be approved by the regulator and disclosed to the market participants. Pre-trade information (allowing investors to know whether and at what price they can trade) and post-trade information (prices and volume of all transactions concluded) should be publicly available on a real-time basis. Information on completed transactions should be provided on the same basis to all participants*

**9. Collective Investments Schemes should be subject to specific regulation and supervision for protection of clients' assets**

*Investors in collective investment schemes rely upon operators of the schemes to manage their funds and to act in their best interest. It follows that specific criteria for licensing and supervision should be applied. Investors should be able to understand the suitability of the scheme for their specific needs before entering into the scheme and should receive information on an ongoing basis, concerning pricing and redemption of units, so that they can understand asset valuation. The management of the scheme should ensure that client assets are not mixed with those belonging to the investments firm and the regulator should monitor any potential conflict of interest.*

**10. The SMF should provide for adequate guarantees in case of market failure.**

*It is not possible to absolutely prevent the financial failure of market intermediaries, but regulation and supervision should aim to limit their negative impact when they do occur. Capital adequacy and segregation of assets requirements, investors' compensation funds and other mechanisms should be in place in order to minimise the loss to investors in case of intermediaries' insolvency or market failure.*