

Sustainable Finance and International Regulation

Professor Kern Alexander
University of Zurich

International Financial Law
23 April 2026

‘Stability and Sustainability in Banking Reform: Are environmental risks missing in Basel III?’

Alexander (Oct 2014) (Chap 13 – textbook)

- History demonstrates links between systemic environmental risks and banking instability
- The Basel Capital Accord does not adequately address systemic environmental risks
- Existing regulatory practices outside Basel that do address systemic environmental risks
- Changing the focus of the Basel Accord through Pillar 2 to address systemic environmental risks

Basel III

Pillar 1	Pillar 2	Pillar 3
Minimum Capital Requirements	Supervisory Review Process	Market Discipline
Additional / Refined Capital Basis - Liquidity Coverage Ratio (LCR) - Net Stable Funding Ratio (NSFR) - OTC Derivatives Charge - Quality and Level of Capital - Leverage Ratio - Capital Conservation Buffers - Countercyclical Buffers - Enhanced Loss Absorption Clause (Write-Off or Debt Conversion)	Supervision (Dialogue) - Firm-wide Corporate Governance - Managing Risk Concentrations - Alignment of LT Incentives - Sound Compensation Practices - Supervisory Colleges Capital (ICAAP) - Firm-wide Risk Management - Valuation Practice, Stress Tests Supervisory Review Evaluation Process (SREP) - Capital - Governance	Additional / Enhanced Disclosure - Risk Management <ul style="list-style-type: none"> • Market • Credit • Operational - Regulatory Capital Components - Detailed Reconciliation of Capital - Regulatory Capital Ratios - Securitisation Exposures

The management of certain transaction-specific environmental risks on credit and operational risks is already required by paragraph 510

ICAAP and SREP can be used to assess portfolio risk exposures to systemic environmental risks

Standardised or harmonised disclosure of information about exposure to, and management of, systemic environmental risks could form part of additional or enhanced disclosure requirements

Pre-Basel III state practice to address environmental risks

China – Green Credit Guidelines

- Promoting bank lending to environmentally sustainable economic activities
- Requiring banks to include in their loan documentation covenants to comply with environmental standards
- Collect data to inform of progress and breach of environmental regulation violations

Brazil

- Using Pillar 2 to require banks to assess exposure to carbon risk
- Guidelines relating to Supervisory Review for how to consider banks' exposure to environmental and social risks
- Using Pillar 3 to require public disclosure of exposure for market discipline

Peru

- Environmental and social due diligence approach for projects
- Bank requires project manager to produce due diligence report before investment

What are the Financial Risks?

- Bank of England:
 - “The impact of climate change on the insurance sector” (PRA 2015)
 - “The Bank of England’s response to climate change” (QB2017)
 - “Transition in Thinking: The impact of climate change on the UK banking sector” (PRA 2018)
 - “The 2021 biennial exploratory scenario on the financial risks from climate change (PRA 2019)
 - “Enhancing banks’ and insurers’ approaches to managing the financial risks from climate change” (PRA 2019)
 - “A framework for assessing financial impacts of physical climate change: A practitioner's aide for the general insurance sector” (PRA 2019)
 - “Insurance Stress test” (PRA 2019)

Physical

Transition

Legal (Liability)

<http://www.bankofengland.co.uk/prudential-regulation/publication/2018/transition-in-thinking-the-impact-of-climate-change-on-the-uk-banking-sector>

<https://www.bankofengland.co.uk/Pages/reader/index.aspx?pub=qb17q2article2&page=1>

<https://www.bankofengland.co.uk/paper/2019/biennial-exploratory-scenario-climate-change-discussion-paper>

<https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2019/ss319.pdf?la=en&hash=7BA9824BAC5FB313F42C00889D4E3A6104881C44>

<https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/publication/2019/a-framework-for-assessing-financial-impacts-of-physical-climate-change.pdf?la=en&hash=7DE2A5E0442752ED910CF01F36BC15AA661AD1D9>

<https://www.bankofengland.co.uk/prudential-regulation/letter/2019/insurance-stress-test-2019>

Macroprudential policy issues (financial stability)

- Asymmetric information means that sudden crystallization of risks - physical, structural change & policy transition, legal – could cause:
 - Widespread, large changes in asset values – could impact banks and insurers systemically eg RWE, EON, Peabody energy.
 - Assets becoming uninsurable eg houses built on flood plains
 - Unexpected increase in insurers' liabilities eg super-storm Sandy in NY in 2012;
 - Wrong-way collateral risks for banks
eg property destruction affecting credit of borrower and value of collateral.
 - Sovereign risks for countries that have concentrated climate-related assets
eg agricultural producers, fossil fuel producers, tourist centres (water).
 - Need to ensure appropriate risk management by financial firms (Basel Pillar II)

How might bank regulators address environmental sustainability risks – Chap 13, pp 363-370. see questions on p. 371

“The Basel Committee should **acknowledge certain environmental risks** as material risks for banks in their pillar 2 assessments with a view to understanding the impact of systemic environmental risks on banking stability. ***A capital assessment***

On this basis it should encourage and support bank regulators to work with banks to adopt current best practice in the management of environmental issues, and to collect the necessary data and conduct analysis to refine the banking sectors' understanding of, and ability to address, systemic environmental risk in the future. ***A governance assessment***

Bank supervisors should then explore the feasibility of incorporating forward-looking scenarios that estimate the potential financial stability impact of supplying credit to environmentally unsustainable or sustainable activities over time into their **Pillar 2 – Supervisory Review** stress tests.

Bank supervisors should also examine **Pillar 3 – Market Discipline** to assess the feasibility of banks disclosing information about their exposure to, and management of, systemic environmental risks in a standardised manner across countries.”

What other financial policy options are available?

1. **Monetary policy** could play a role in supporting liquidity provision for finance to support environmentally sustainable economic activities?
 - Using cost of central bank funding to promote 'green' lending
 - Eg Lebanon, Decree no. 7835
 - Green asset-backed securities, eg bonds, as collateral for liquidity support?
2. **Innovation to facilitate long-term investors**
 - Regulators are looking at 'simple and transparent' financial instruments to facilitate long-term investment...
 - Encourage more investment in 'green' assets at the same time?
3. Ensure that **financial and environmental policies and regulations are coordinated** across government agencies and departments in their promulgation, implementation and enforcement.

Basel Committee on Banking Supervision - Task Force on Climate-related Financial Risks (TCFR) (2019)

- Stocktake members' existing regulatory and supervisory initiatives.
- Produce a set of analytical reports on climate-related risks and the transmission channels of such risks to the banking system as well as on measurement methodologies.
- Develop effective supervisory practices in order to mitigate climate-related financial risks

TFCR Report on Climate-related financial risks: a survey on current initiatives (April 2020)

- Majority agrees that climate-related financial risks can have impact on stability of financial system and safety of individual institutions.
- **Majority have not yet considered factoring climate-related risks into prudential capital framework.**
- Supervisors are in process of issuing guidance, best practices etc.



Report on Climate-related financial risks: a survey on current initiatives, April 2020, p. 2 <<https://www.bis.org/bcbs/publ/d502.pdf>>; Basel Committee calculations and machchart.net

Network for Greening the Financial System (NGFS)

A call for action (April 2019)

- Impossible to draw general conclusion on potential risk differentials regarding green and non-green assets.
- Exploratory data collection from selected banks to be able to assess whether there is a risk differential.
- Adopting Pillar 2 framework is an additional possibility to integrate sustainability to prudential regulation framework



Network for Greening the Financial System, Logo, <https://www.ngfs.net/en>

NGFS - Guide for supervisors: integrating climate-related and environmental risks into prudential supervision (27 May 2020)

Key Recommendations:

Determine how climate-related financial risks transmits to economies and financial sector and identify how these risks will be material.

Develop a clear strategy, establish an internal organisation and allocate adequate resources to address climate-related risks.

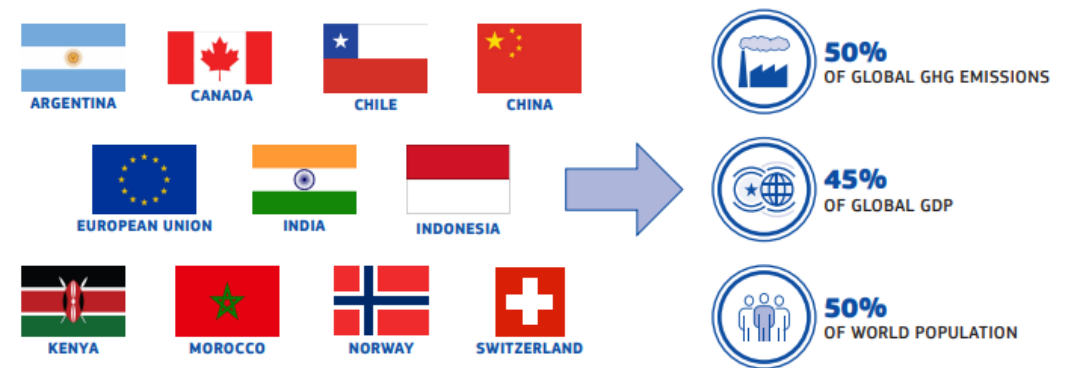
Identify exposures of supervised institutions.

Set supervisory expectation to create transparency.

Ensure adequate management of climate-related risks by supervised institutions and take mitigating actions where appropriate.

International Platform for Sustainable Finance

- IPSF launched on 18 October 2019 by EU and Argentina, Canada, Chile, China, India, Kenya and Morocco.
- Aim is to scale up the mobilization of private capital towards environmentally sustainable investments.
- IPSF should strengthen international cooperation and, where appropriate, coordination on approaches and initiatives for the capital markets.



International Platform on Sustainable Finance,
https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200325-international-platform-sustainable-finance-factsheet_en.pdf

European System Risk Board

- June 2020, Positively Green: Measuring climate change risks to financial stability.
- Report asks:
 - What magnitude of climate related shocks can be expected?
 - Are financial markets pricing the prospect of such shocks?
 - What are the exposures of banks and insurers to potential repricing of climate-related risks?
 - What can we learn from forward-looking scenario analysis to determine where further investment is needed.

EU Capital Requirements Directive and Capital Requirements Regulation: Incorporating sustainability in EU prudential regulation

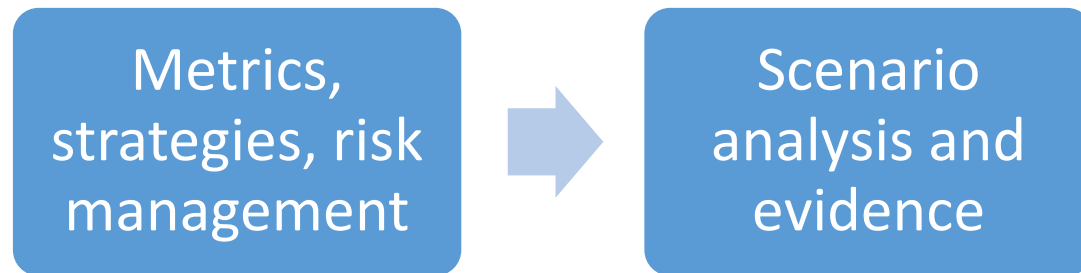
- Uncertainty regarding risks of green assets compared to non-green assets.
- Supervisory Authorities and legislative bodies hesitant to include sustainability in prudential regulation amidst uncertain risk assessment.
 - ECB: “For the integrity of financial institutions and financial stability, it is important that prudential frameworks remain risk-based.” (ECB, Financial Stability Report, May 2019, available at <https://www.ecb.europa.eu/pub/financial-stability/fsr/special/html/ecb.fsrart201905_1~47cf778cc1.en.html#toc2>).

Regulation (EU) 2019/876 (CRR II)

- Art. 449a CRR II
 - Obligation for large banks to disclose information regarding ESG risks and related physical transitional risks from late June 2022 onwards.
- Art. 501a (1)(o) CRR II
 - Banks can reduce their own fund (capital) requirements when financing infrastructure for essential public services, amongst others, if an assessment has been completed on whether the borrower has contributed to environmentally sustainable economic objectives.
- Art. 501c CRR II
 - European Banking Authority and EU bank member state regulators should assess whether a dedicated prudential treatment of exposures related to assets or activities associated substantially with environmental and/or social objectives would be justified.

EBA action Plan on sustainable finance

Outlining approach and timeline for delivering mandates related to ESG risks:



- Assess whether dedicated prudential treatment of exposures related to assets or activities associated substantially with environmental and/or social objectives would be justified.

EBA report on Pillar 3 disclosures (02 March 2020)

Findings regarding ESG disclosure

- Disclosure is scarce and not uniform.
- Institutions recognise ESG risk are increasingly important.
- Institutions recognise sustainability is taking on a leading role on the regulatory agenda.

Findings regarding inclusion of ESG risk

- credit risk policies
- reputational risk management
- IRB approaches
- operational risk management

EBA expectation

- Provide comprehensive and meaningful picture of risk profile that includes ESG and climate-related risks.
- Elaborate on potential impacts of these risks in Pillar 3 reports.
- Demonstrate how they are integrating these risks in their risk management framework.

ESMA reports report on inclusion of sustainability factors in MiFID II, UCITS and AIFMD (investment regulation)

- 06 February 2020 ESMA published its Strategy on sustainable finance focusing on:
 - A single rule book
 - Supervisory Convergence
 - Direct Supervision
 - Risk assessment

European Insurance Occupational Authority (EIOPA) reports on the inclusion of sustainability in Solvency II (insurance capital requirements)

- EIOPA (2021) has adopted technical standards to address environmental sustainability risks:
 - Undertakings should assess exposure to sustainability risk
 - Complementary tools (scenario analysis and stress testing) appear appropriate to capture impacts of climate change.
 - Assessment of the impact of climate change will depend both on the materiality of climate change-related risks and be subject to Solvency II's proportionality principle.
 - Scenarios can be used as a first step to explore the potential range of climate change related risks.
 - Further work is needed to define a consistent set of quantitative parameters that could be used in climate change-related scenarios that undertakings can then adopt
 - Regarding Pillar III in the near future further consideration should be given to mandatory requirements for public disclosure on sustainability risks.

Covid-19 and Dividends

- Covid-19 can be qualified as sustainability risk

(see <https://www.who.int/globalchange/summary/en/index5.html>).

- Covid-19 Impact on capital requirements

(see Jean-Philippe Svoronos/Rastko Vrbaski, *Banks' dividends in Covid-19 times*, FSI Brief No 6, May 2020, p. 4 et seq.).

- Covid-19 crisis requires banks to have sufficient resources to support real economy.
- To ensure sufficient resources capital requirements have been relaxed.
- However, relief does not ensure that resources are directed to support real economy.
- Some supervisors have imposed restrictions on capital distributions.
- Need for a coordinated effort?

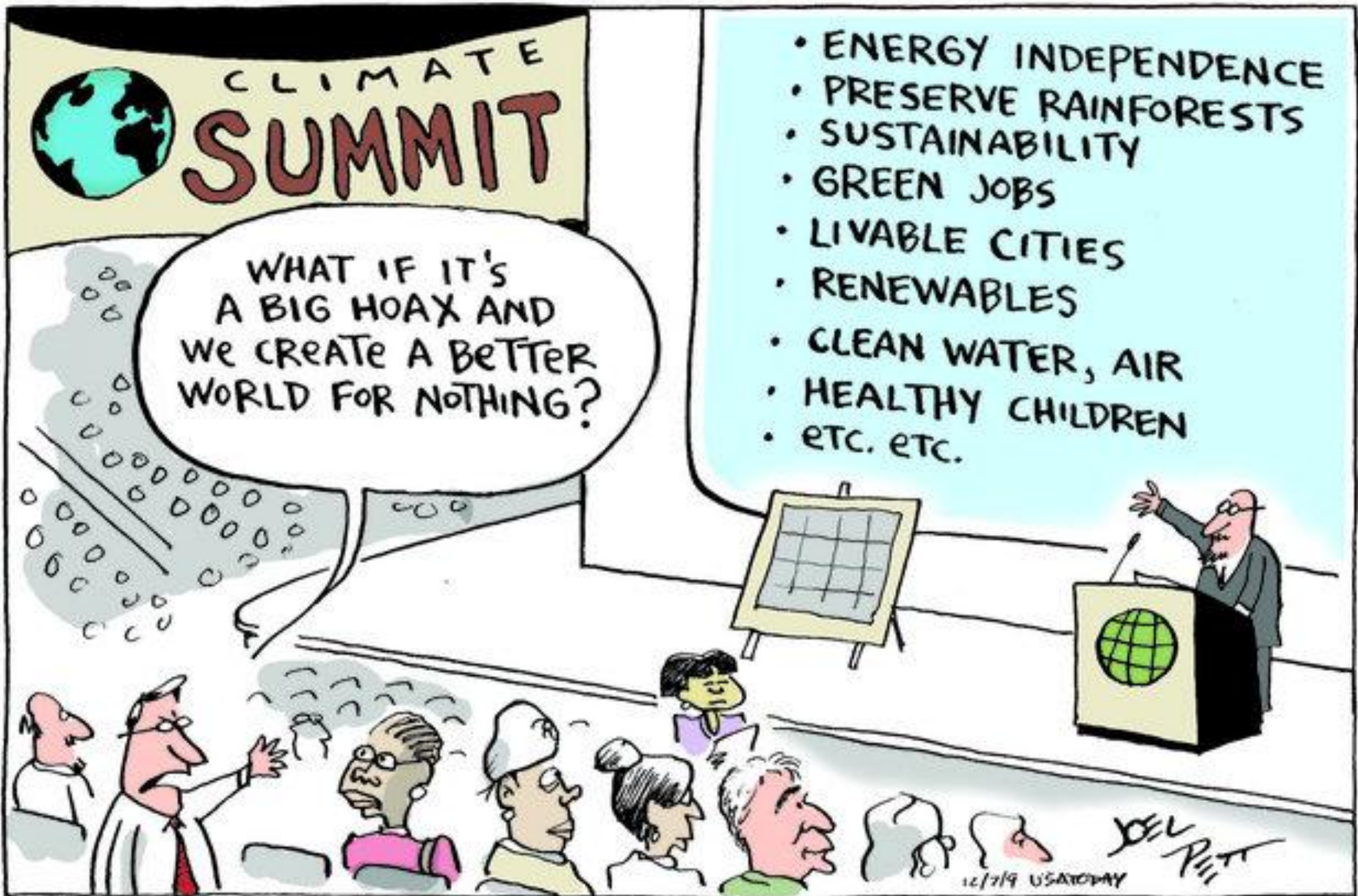
Publicly announced supervisory initiatives			
Jurisdiction	Guidance on capital distributions (dividends and share buybacks)*	Guidance on bonuses*	Source
Australia	All distributions to be suspended until June 2020 or, subject to stress tests, materially reduced	Executive bonuses to be appropriately limited	APRA capital management letter, 7 April 2020
Brazil**	All distributions to be suspended until 30 September 2020 Buybacks to be limited to 5% of stock	Executive bonuses not to be increased	BCB Resolution no 4797, 6 April 2020
Canada	Dividends not to be increased Buybacks to be suspended	Executive and staff bonuses not to be increased	OSFI Press Release, 13 March 2020
China	No additional restrictions	No additional restrictions	n/a
India	Dividends to be suspended until 30 September 2020 No additional restrictions on buybacks	No additional restrictions	RBI Notification, 17 April 2020
Japan	No additional restrictions	No additional restrictions	n/a
Russia***	Dividends to be suspended until 30 September 2020 No additional restrictions on buybacks	Executive bonuses to be partly deferred	CBR Press Release, 9 April 2020
Singapore	No additional restrictions on dividends Buybacks not to be funded by released buffers	No additional restrictions	MAS Media Release, 7 April 2020
South Africa	No dividends to be paid in 2020 No additional restrictions on buybacks	Executive and staff bonuses not to be paid in 2020	SARB Guidance Note 4/2020, 6 April 2020
SSM	Dividends to be suspended until 1 October 2020 Buybacks aimed at remunerating shareholders to be refrained from	No additional restrictions	ECB Recommendation, 27 March 2020
Sweden	No dividends to be paid in 2020 No additional restrictions on buybacks	No additional restrictions	FI Press Release, 26 March 2020
Switzerland	Dividends paid after 25 March 2020 to be deducted from capital relief No additional restrictions on buybacks	No additional restrictions	FINMA Guidance 2/2020, 31 March 2020
United Kingdom	Outstanding 2019 dividends cancelled No distributions to be made in 2020	Executive and staff bonuses not to be paid in 2020	PRA Letter to major UK banks, 31 March 2020
United States****	No additional restrictions	No additional restrictions	Fed Press Release, 1 April 2020

* Beyond restrictions already imposed by supervision and regulation.

** Mandatory minimum dividend applies; distributions include dividends, buybacks and interest on equity ("juros sobre capital proprio").

*** Statutory provisions restricting buybacks have been eased to allow banks to address Covid-19-related corrections in share prices.

**** In the United States, the eight largest banks have voluntarily agreed to postpone all share buybacks until the end of June 2020.



Is it a social, ethical, moral, political issue?

Yes, of course it is.

But I am going to assume it isn't for this talk!

Securities Regulation & Investor Protection

Professor Kern Alexander

University of Zurich

International Financial Law

23 April 2026

Main areas

- Scope of securities regulation
- Financial Crisis
- Types of securities
- Regulatory Dimensions
 - Policy goals
 - Regulatory Strategies
- Exchanges
- Regulation
 - International (IOSCO)
 - US Law
 - EU Law

Scope

- Investor protection
- Disclosure, prospectuses, market abuse
- Financial intermediaries & Exchanges
- Financial stability & Financial innovation
- Minimum capital requirements
- Recovery and resolution
- Clearing of OTC derivatives
- Regulation of credit rating agencies

The starting point



Bank-Based vs. Market-Based Financial System

- Bank-based system
 - reliance on the banking industry to allocate funds
 - Indirect finance – commercial banks as financial intermediaries
 - E.g. Germany, Japan
- Market-based system
 - reliance on the capital markets to allocate funds
 - Direct finance – securities issued directly to investors; role of securities firms (broker-dealers, investment banks) as financial intermediaries
 - E.g. US, England
- Banking Regulation versus Securities Regulation

Capital Raising – Types of securities

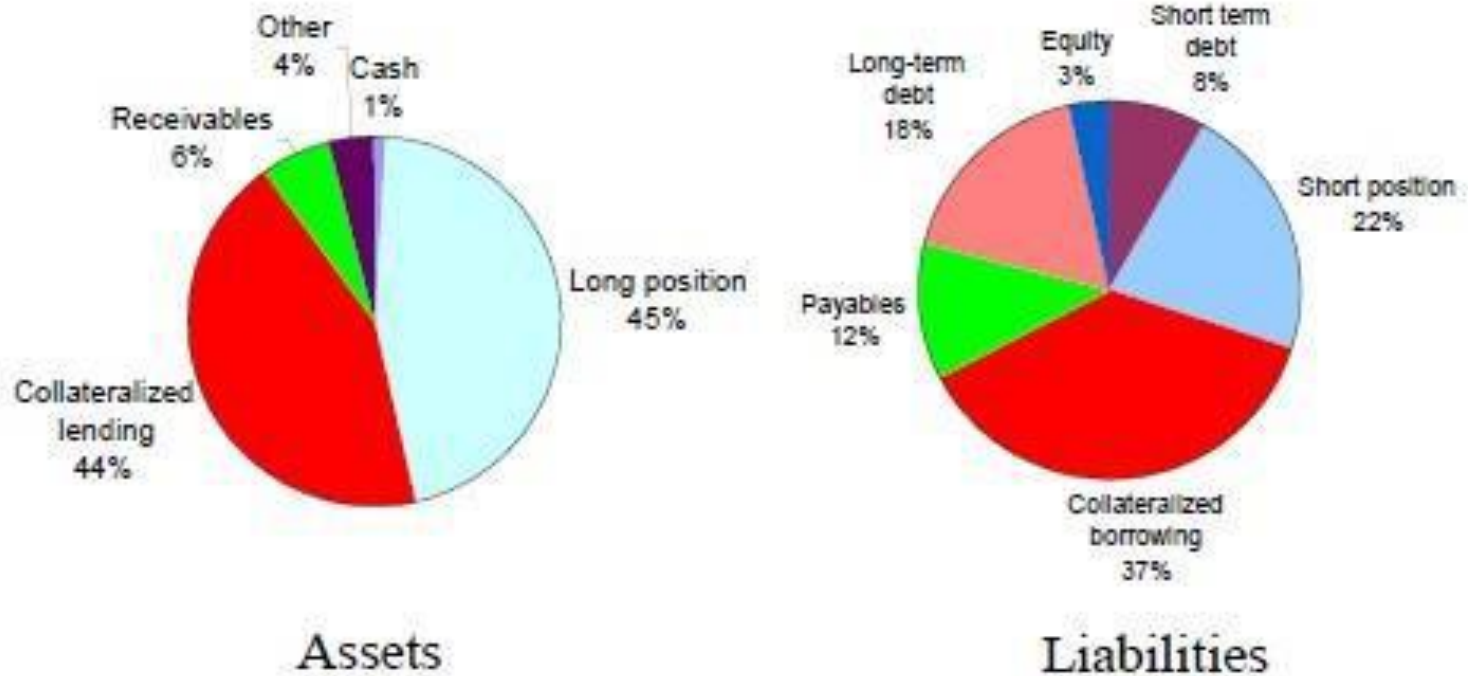
- Equity
 - Common shares
 - Tracking stocks (typically has limited or no voting rights)
- Debt
 - Corporate bonds
 - Fixed-income securities *versus* floating-rate notes
 - Short-term debt securities
- Hybrids
 - Preference shares without voting rights
 - Convertible bonds



The financial crisis of 2008

- Extremely low interest rates favored mortgage originators, who provided large amounts of money to subprime borrowers to purchase real-estate assets, and with the assistance of investment banks, arranged the necessary securitizations.
- These securitizations allowed the loan originators to sell the mortgages to “special purpose vehicles”, that in turn sold the resulting residential mortgage-backed securities to pension funds, hedge funds, and banks.
- In addition to mortgage-backed securities, investment banks also created separate tranches of collateralized debt obligation (CDOs) securities, resulting from combinations of mortgage-backed securities.
- The result of this chain was an increased interconnection between different financial institutions, which ultimately increased the levels of systemic risk. The fragility of the system was clear when the number of defaults on mortgages increased, simultaneously causing a decrease in the value of mortgage-backed securities.
- The massive exit of investors left financial institutions with an increased need for collateral to avoid insolvency. Sovereign states chose to rescue some, while letting others fail, including giant investment banks, such as Lehmann Brothers.
- The public intervention was probably necessary to avoid even more catastrophic consequences relating to spreading liquidity risk.

Balance Sheet Composition of Lehman Brothers – End 2007



Why and How to regulate

Why - Dual Dimension

- **Market Efficiency, Financial Stability, Investor Protection**

- National:

- Protect investors, Maintain fair and orderly markets, Facilitate capital formation

- International (G20, Financial Stability Forum, IOSCO, BIS, European Authorities)

- Protect from Systemic Risk, Avoid regulatory arbitrage

- **How - Different types of regulation**

- Public regulation: A central regulator elaborates and provides the rules

- Self-regulation: industry rep. develop and implement regulatory proposals

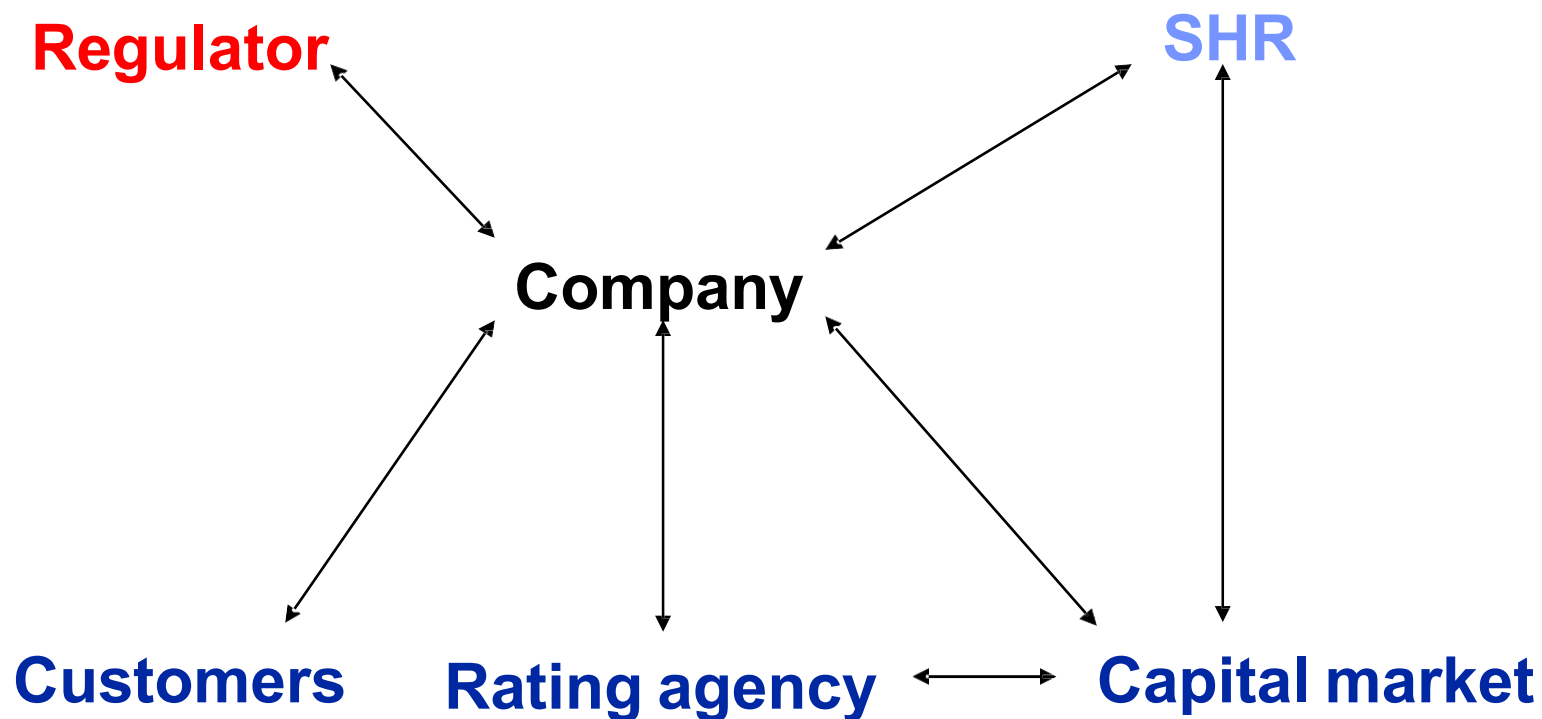
- Principle-based regulation vs. Rule based regulation

The Goals

- Market efficiency
 - low transaction costs
 - High liquidity
 - Market Integrity
 - Price formation
 - Efficient Capital Market Hypothesis
- Financial Stability
- Investor Protection
 - Who to protect
 - Users
- Problems:
 - Information asymmetries
 - Principle – agent problem



Modern Securities Markets – Complexity of the Principal-Agent Problem



Regulatory Strategies

Table 3.1 Strategies of Financial Regulation

Scope of obligations: Regulatory strategy	User	Firm	Sectoral
<i>Ex ante strategies</i>			
Entry regulation	Participation Profiling	Licensing Qualification requirements Product regulation Structural restrictions	Market power
Conduct regulation	Trading rules	Trading restrictions Conduct of business	
Information regulation	Education	Disclosure	
Prudential regulation		Balance sheet	Macroprudential
Governance regulation		Board structure Compensation regulation Risk management Ownership restrictions	
<i>Ex post strategies</i>			
Insurance	Insurance	Lender of last resort Bail-outs	Lender of last resort Bail-outs
Resolution		Resolution procedures	

Meaning of the term “*self-regulation*”

- Three sources of confusion:
- What is meant by “*self*”
 - Self as individual: Discipline of one’s own conduct by oneself, tailored to the
 - circumstances of particular firms
 - Self as a collective group: of the conduct of its members or others.
- What is meant by “*regulation*”:
 - “*command and control*” model of regulation
 - regulation by the market
 - voluntary decisions of each individual to control their own behavior.
- What is the nature of the state’s involvement
 - no relationship with the state at all
 - A particular, corporatist arrangement.

Self-Regulatory Organizations (SROs)

- Examples:
 - National Association of Securities Dealers (NASD)
 - New York Stock Exchange (NYSE), Swiss Exchange (SIX)
 - Chicago Board Options Exchange
 - EFAMA, SFAMA
- SROs design rules governing their members' practices
- “Self-regulatory associations (SRAs) combine the governmental function of regulation with the institutional and often legal structure and interests of a private body. They impose conditions of membership and expulsion, they formulate their own rules and impose their own discipline”.

IOSCO Principles

- Principle N. 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 and to the extent appropriate to the size and complexity of the markets”
- Principle N. 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”.
- Specific characteristics of SROs
 - have the capacity to carry out the purposes of governing laws, regulations and SRO rules, and to enforce compliance by its members and associated persons with those laws, regulations, and rules;
 - treat all members of the SRO and applicants for membership in a fair and consistent manner;
 - develop rules that are designed to set standards of behavior for its members and to promote investor’ protection.

PROs and CONs of Self-Regulation

PROs

- Achieve regulatory objectives at the lowest cost
- Faster bureaucratic and administrative processes for regulating (more rapid and flexible changes)
- Establishment of a public debate between companies belonging to a certain industry, which have an incentive to compete with each other in the determination of the better policies. (increased efficiency and effectiveness).

CONs

- Private regulators
 - Accountability and conflicts of interests
- More uncertain enforcement



Public Regulation

- Centralized control entirely in the hands and under the exclusive purview of government entities.
- No problems related to legitimacy of regulators
- More clear enforcement actions
- Risks
 - More complex bureaucratic process
 - Insufficient involvement of the best expertise
 - Excessive regulation (Over-Regulation)
 - The aim of protecting the public interest may have catastrophic effects (The best industry expertise)

Self-Regulation vs Public Regulation

- XVIII – XIX century: Regulatory issues in the hands of market organizations (London Stock Exchange, Lloyds Corporation, NYSE)
- XX – XXI century
 - World War I – Wall Street Crash 1929 (Securities Laws)
 - Enron, Parmalat, Worldcom scandals (Sarbanes Oxley Act and similar reforms)
 - Financial crisis (2008):
 - **“An unprecedented series of reforms to restore financial stability and public confidence in the financial system”**
 - European Market Infrastructure Regulation (EMIR) Markets in Financial Instruments Regulation (MIFIR) Alternative Investment Fund Manager Directive (AIFMD) Short Selling Regulation (SSR), Dodd-Frank Act

Rule-based vs. Principle-based regulation

- Principle based regulation:
 - broad-based standards in preference to detailed rules; outcomes-based regulation; increasing senior management responsibility
- Benefits:
 - Flexibility; production of behaviours fulfilling the regulatory objectives; easier to comply with.
- Risks
 - legal obstacles
 - lack of certainty, proliferation of guidance
 - uncertainty in the distinction between minimum standards and best practice
 - an increasing gap between internal guidance and published principles, rules and guidance
 - accountability issues
 - unpredictability and the risk of over-zealous/hindsight-driven enforcement
 - inappropriate skills and mindset of regulators and regulated.
- FCA (UK); MAS (Singapore); SEC (Hong Kong); FINMA (Switzerland)

How to Regulate Trading venues

- Strategies
 - Institutionalization
 - Private vs Public Exchanges
 - Business Conduct Rules
 - Intermediaries
 - Transparency Requirements
 - Mandatory Disclosure
 - Traders: Pre-trade and post-trade data
 - Trading Strategy Bans
- Problems
 - Algorithmic trading & High Frequency Trading
 - Short Selling
 - Market Fragmentation

Stock Exchanges

- Public offers
 - Initial public offerings (IPOs) versus secondary offerings
 - Primary markets versus secondary markets
- Stock exchanges
 - Providing trading venues where buyers and sellers meet
 - Enhancing the liquidity of an issue
 - Providing an efficient price-formation process
 - Improving the allocation of capital
- Regulation versus self-regulation of stock exchanges
- [Securities trading outside exchanges]

Mandatory Disclosure

- **Goals**

- Investor Protection
 - Information needed to decide on how to invest the savings
 - Investors not exploited by traders with superior information
 - Discourage of fraud, self-dealing and opportunistic behaviours
- Agency Cost Reduction
 - Corporate governance & securities
 - Disclosure increases managerial consciousness
- Price accuracy Enhancement

- **Rationale**

- Information as a public good
- Externalities
- Agency Problems

Investor Protection via Mandatory Disclosure

- Mandatory disclosure requirements on issuers
 - Primary markets:
focus on addressing information asymmetry
 - Prospectus
 - Secondary markets:
focus on promoting efficient pricing mechanisms and remedying agency problems
 - Periodic disclosure: e.g. annual information
 - Event-driven disclosure: material changes in issuer's fortune
- Sophisticated versus unsophisticated investors
- Exemptions:
 - On the basis of the characteristics of the offering: Smalls offerings (less than 150 persons)
 - On the basis of the characteristics of the issuer:
 - Foreign issuers
 - Small or high growth issuers

Initial Public Offering (IPO)

- File a registration statement
 - prospectus,
 - Info on business operations, financial health, management and risk factors.
 - Audited financial statements.
- Stock exchange standards
 - stock price, number of shares, number of shareholders, total market value.
- Underwriter
- Application to the exchange
- Listing

International Organization of Securities Commission (IOSCO)

- **General Characteristics**

- **Private association of securities supervisors**
- „Objectives and Principles of Securities Regulation” (2010)
- Main objectives of securities regulation
 - Investor protection
 - Ensure markets are fair, efficient and transparent
 - Reduce systemic risk

- **International standards**

- Investor protection
- Disclosure & reporting standards for IPOs & secondary listings
- Market abuse and insider dealing
- Financial reporting and accounting (cross-reference work of International Accounting Standards Board)

IOSCO – The Challenge: Supervising Global Activities of Securities Firms

- The challenge: Supervising Global Activities of Securities Firms
 - Surveillance – information collection and assessment
 - Cooperation & coordination – bilateral exchange of information and investigations
 - IOSCO MMoU – cooperation and exchange of information (105 signatories as of February 2015)
 - Assessing home authorities of foreign firms
- The Home-host country rules to determine which regulator's rules will apply
 - Principle of consolidated supervision
 - The role of the host country regulator
 - How can the corporate group comply with both the home and host country rules for its global operations – what if reporting or capital requirements conflict?
 - IOSCO ambiguous about how to resolve conflicts between home-host except to encourage regulators to work together and cooperate

US Securities Regulation

- Federal laws
 - Securities Act of 1933
 - Securities Exchange Act of 1934
 - Dodd-Frank Act of 2010
- Regulatory authorities
 - Securities and Exchange Commission (SEC)
 - Commodity Futures Trading Commission (CFTC)
 - Financial Industry Regulatory Authority (FINRA) (self- regulatory authority)

EU Securities Regulation

- General characteristics
 - Regional implementation and enforcement
 - Extensive harmonization
 - Facilitating market access and improving capital flows
 - Creating a single EU financial market
 - Reducing the costs of raising capital
- Passport Mechanism
 - Regulation of prospectuses (Prospectus Directive)
 - Provision of investment services (MiFID II)
 - Management and marketing of collective investment schemes (UCITS)
 - Management and marketing of alternative investment funds (AIFMD)
 - Activities of central counterparties

EU – Investor Protection through Disclosure Requirements

- Prospectus Directive
 - Prior approval of the prospectus by the issuer's home Member State
- Transparency Directive
 - Ongoing disclosure
 - Regulated information filed in the issuer's home Member State
- Market Abuse Directive
 - Ad hoc disclosure
 - Misuse of inside information
 - Inside information
 - "... information of a precise nature which has not been made public, relating, directly or indirectly, to one or more issuers of financial instruments or to one or more financial instruments and which, if it were made public, would be likely to have a significant effect on the prices of those financial instruments or on the price of related derivative financial instruments."
 - Dissemination of false or misleading impressions
 - Market Distortion
 - price manipulation

MiFID II – Main Objectives

Main objectives

- Capture additional trading activities and systems
- Broaden scope of pre-trade and post-trade transparency
- Interventionist powers for regulators
- OTC Derivatives Market
- New trading strategies and technologies
- Improving investor protection
- Level playing field
- Improved Data Collection and Consolidation
- Address adverse effects of market fragmentation