

CHARACTERISTICS OF EFFECTIVE SELF-REGULATORY ORGANIZATIONS

In an environment where investor trust is low, self-regulatory organizations can play an important role in supporting a more sustainable financial system. For a financial self-regulatory organization to be perceived as credible, investors and the securities market alike must know that it is fair, efficient, and backed by governmental authority. To that end, an effective self-regulatory organization must demonstrate the following characteristics, regardless of its geographic jurisdiction.

AUTHORITY: Legislative or delegated regulatory authority to create and enforce its own policies and rules, subject to formal government oversight.

GOVERNANCE: Strong governance mechanisms, including focus on independent boards (that, among other things, counterbalance the influence of "regulatory capture"), transparency, and adherence to a defined process for obtaining public input on rule-making initiatives.

CONFLICT MANAGEMENT: Effective and consistent management of inherent conflicts of interest, including transparent mechanisms for their resolution.

SUPERVISION: Defined and transparent processes and procedures for overseeing and regulating the activities of its members, including the establishment of clear standards of conduct and correlated and consistent application of consequences for violations.

SURVEILLANCE: Appropriately resourced, technically advanced surveillance programs and procedures that keep pace with market developments, including the ability to oversee increasingly complex products and automated trading systems, fostering the ability to serve as a front-line regulator.

ENFORCEMENT: Adequately funded enforcement program that works to help police the local securities market, in conjunction with governmental authorities, while keeping up with market activities and trends, and that applies the law and its own process in a consistent manner while providing due process protections to those subject to its investigations.

REGULATORY DATABASE: Maintenance of a current database of information about regulated persons that is accessible to investors and that includes all relevant customer complaints, disciplinary history, and legal and regulatory actions taken against such persons.

MARKET DISRUPTION PROCEDURES: Maintenance of effective procedures and systems to detect and take corrective actions in the event of market disruptions or computer failures, with defined goals aimed at disaster recovery and capacity, business continuity, market integrity, and the ability to maintain operations to promote fair and orderly markets.

INNOVATION: Development of policies and rulemakings that draws on the specialized expertise of those within the self-regulatory organization and allows for the ability to regulate "ahead of the curve" while encouraging and supporting fair, efficient, and orderly markets.

DISPUTE RESOLUTION: A customer dispute resolution process that employs consistent use of fair and transparent policies and procedures that balance efficiency with investor protections while also protecting the civil rights of the accused.

For the full report, "Self-Regulation in the Securities Markets: Transitions and New Possibilities," visit www.cfainstitute.org/self-reg

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