



IOSCO's INITIATIVES ON OTC DERIVATIVES AND FINANCIAL MARKET INFRASTRUCTURE ISSUES

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INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS

IOSCO- A BRIEF INTRODUCTION

- IOSCO is recognized as the International Standard setter for Securities Regulation
- 100 + jurisdictions, more than 95% of world capital markets;
- IOSCO Principles are one of the 12 key standards and codes recognised by FSB as key to sound financial systems
- IOSCO MMOU recognized as a benchmark for international cooperation and enforcement



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OTC Derivatives

Taking forward G20/ FSB recommendations:

- Report on trading
- Report on data reporting and aggregation requirements
- Report on mandatory clearing
- Margin Requirements



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G20 commitments

- Sep 09 G-20 Leaders Statement:
'all standardised OTC derivatives should be traded on exchange or electronic platforms where appropriate and cleared through central counterparties by end-2012 at the latest. OTC derivative contracts should be reported to trade repositories. Non-centrally cleared contracts should be subject to higher capital requirements.'
- Reiterated in subsequent G20 statements



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Report on Trading

“ IOSCO with appropriate authorities to conduct an analysis of:

- i) Characteristics of trading platforms
- ii) Market characteristics that make platform trading practicable
- iii) Costs and benefits including those incremental to other regulatory initiatives
- iv) Advisable Regulatory actions to shift trading to exchanges/trading platforms”



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Platform Characteristics

- Registration with competent authority
- Fair and objective access criteria applied in non-discriminatory basis
- Pre and post-trade transparency arrangements
- Operational efficiency and resilience
- Market surveillance capabilities
- Transparent rules governing operation of platform
- Non-discriminatory rules between participants in relation to interaction of buying and selling interest
- Question regarding Opportunity for platform participants to seek liquidity and trade with multiple liquidity providers within a centralised system (single dealer vs multiple dealer)



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Data reporting and aggregation

- “ CPSS and IOSCO, in consultation with other authorities, and with the ODRF, should develop:
- i) Minimum data reporting requirements and standardised formats and
 - ii) Methodology for data aggregation on a global basis “



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Report on Data reporting and aggregation requirements

Recommendations :

- *Minimum data reporting requirements* –at a minimum transaction level data be reported to TRs, and notes particular types of data to be included.
- *Methodology and mechanism for aggregation of data* –an LEI system and a standard product classification system would be essential tools for aggregation of OTC derivatives data.
- *Development of an LEI and International Consultation on LEI Implementation*
- *Development of an international product classification system*



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Central Clearing

“To minimise the potential for regulatory arbitrage, IOSCO, working with other authorities as appropriate, should coordinate the application of central clearing requirements on a product and participant level, and any exemptions from them”



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Report on Mandatory Clearing

Recommendations for establishing a mandatory clearing regime:

- Determination of whether a mandatory clearing obligation should apply to a product or set of products
- Consideration of potential exemptions to the mandatory clearing obligation
- Establishment of appropriate communication among authorities and with the public
- Consideration of relevant cross-border issues in the application of a mandatory clearing obligation
- Monitoring and reviewing on an ongoing basis of the overall process and application of the mandatory clearing obligation



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Report on Mandatory Clearing

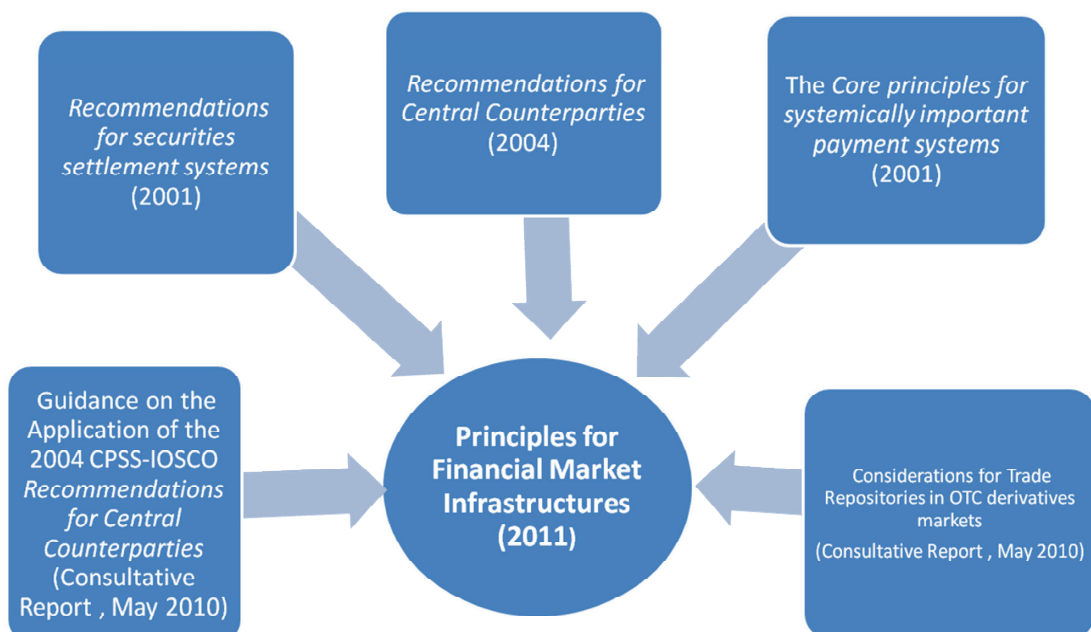
- Bottom-up and top-down approach
- Some types of exemptions that may be granted (such as on a particular class of participants or on a particular class of products); steps for communication and coordination of exemptions.
- Framework for communication among authorities as well as between authorities and other stakeholders.
- Coordination by identifying overlaps, conflicts and gaps between mandatory clearing regimes with respect to cross-border application of the clearing obligation; due consideration to allowing the use of third-country CCPs.
- Establishment of effective mechanisms for monitoring compliance with mandatory clearing requirements; continued assessment of ongoing appropriateness of the relevant regimes



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CPSS-IOSCO REVIEW OF STANDARDS FOR FMIs



Current Set of International Standards for FMIs

– Core Principles (January 2001)

- Universal guidelines to govern the design and operation of systemically important payment systems in all countries
- Responsibilities for central banks in applying the core principles

– RSSS (November 2001)

- Minimum standards for securities settlement systems defined to include the full set of institutional arrangements for confirmation, clearance, and settlement of securities trades and safekeeping of securities (including CSDs and SSSs)

– RCCP (November 2004)

- Minimum standards covering the major types of risks that CCPs face

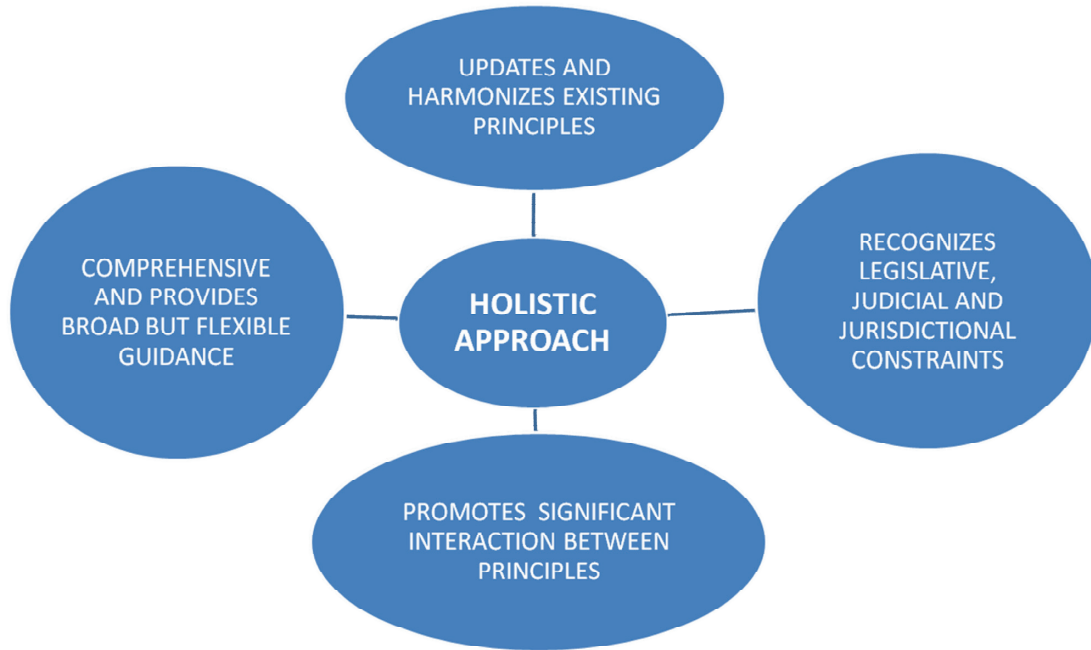


CPSS-IOSCO FMI Consultative Report

- **24 principles for FMIs:** systemically important payment systems, central counterparties, central securities depositories, securities settlement systems and trade repositories
- **5 responsibilities for relevant authorities**
 - Regulation and oversight of FMIs
 - Regulatory and oversight powers
 - Disclosure of policies for FMIs
 - Application of principles for FMIs
 - Cooperation with other authorities
- **8 annexes:** mapping of standards, select RSSS recommendations, matrix of key considerations to specific FMIs, guidance for CCPs for OTC derivatives, and oversight for critical service providers.



SCOPE OF THE PRINCIPLES



List of Revised Principles and Applicability to FMIs

Principle	Payment systems	CSDs and SSSs*	CCPs	TRs
1. Legal basis	•	•	•	•
2. Governance	•	•	•	•
3. Framework for the comprehensive management of risks	•	•	•	•
4. Credit risk	•	•	•	
5. Collateral	•	•	•	
6. Margin			•	
7. Liquidity risk	•	•	•	
8. Settlement finality	•	•	•	
9. Money settlements	•	•	•	
10. Physical deliveries		•	•	
11. Central securities depositories		•		
12. Exchange-of-value settlement systems	•	•	•	
13. Participant-default procedures	•	•	•	
14. Segregation and portability			•	
15. General business risk	•	•	•	•
16. Custody and investment risk	•	•	•	
17. Operational risk	•	•	•	•
18. Access and participation requirements	•	•	•	•
19. Tiered participation arrangements	•	•	•	•
20. FMI links	•	•	•	•
21. Efficiency and effectiveness	•	•	•	•
22. Communication procedures and standards	•	•	•	•
23. Disclosure of rules and key procedures	•	•	•	•
24. Disclosure of market data				•

* The applicability of certain principles for CSDs and SSSs will vary with the design of the FMI.

Principles for Financial Market Infrastructures

- The consultative report was published in March 2011
 - 24 Principles + 5 Responsibilities replace the three current set of standards (see appendix for full list)
 - CPSS and IOSCO members, the World Bank, and the IMF conducted outreach sessions with industry to discuss the proposed international standards
 - Consultative period closed on July 29, 2011
- Overview of Comments
 - Respondents advocated strongly for consistency among the different regulatory frameworks, including ESCB/CESR, EMIR, and Dodd-Frank.
 - Respondents also expressed concerns about the cumulative impact of the raised standards, particularly with regard to collateral requirements.
 - Respondents also noted their inability to comment effectively on the document without reviewing the assessment methodology.

Upcoming documents for publication

- Principles for Financial Market Infrastructure
 - final document
- Disclosure Framework
 - for public consultation
- Assessment Methodology
 - for public consultation

Further work streams

- Stress testing
- Resolution
- Disclosure of quantitative data
- Market Recommendations
- TR access



THANK YOU