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COMMITTEE ON PAYMENT AND SETTLEMENT SYSTEMS

BANK FOR INTERNATIONAL SETTLEMENTS

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IOSCO and CPSS consult on policy guidance for central counterparties and trade repositories in the OTC derivatives market

The Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO) have today issued two consultative reports containing proposals aimed at strengthening the OTC derivatives market.

The first report, [*Guidance on the application of the 2004 CPSS-IOSCO Recommendations for Central Counterparties \(RCCP\) to OTC derivatives CCPs*](#), presents guidance for central counterparties (CCPs) that clear over-the-counter (OTC) derivatives products.

The second report, [*Considerations for trade repositories in OTC derivatives markets*](#), presents a set of considerations for trade repositories (TRs) in OTC derivatives markets and for relevant authorities over TRs.

William C Dudley, CPSS Chairman, and Kathleen Casey, Chairman of the Technical Committee of IOSCO, said:

“These two complementary sets of high-level guidance constitute an important response of the CPSS and IOSCO to the recent financial crisis. They also reflect the G20’s recommendations for the strengthening of the OTC derivatives market.”

Guidance on the application of the 2004 CPSS-IOSCO Recommendations for Central Counterparties to OTC derivatives CCPs

In response to the recent financial crisis, authorities in many jurisdictions have set out important policy initiatives encouraging greater use of CCPs for OTC derivatives markets. Recently, several CCPs have begun to provide clearing and settlement services for OTC credit default swaps. A CCP interposes itself

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between counterparties to financial transactions, acting as the buyer to every seller and the seller to every buyer.

Mr Dudley and Ms Casey said:

“This is a positive development because a well designed CCP can reduce the risks and uncertainties faced by market participants and contribute to financial stability. As the greater use of CCPs for OTC derivatives will increase their systemic importance, it is critical that their risk management should be robust and comprehensive. Moreover, because of the complex risk characteristics and market design of OTC derivatives products, clearing them safely and efficiently through a CCP raises more complex issues than the clearing of exchange-traded or cash products does.”

These issues were not fully discussed in the 2004 report of the existing RCCP. Consequently, the CPSS and the Technical Committee of IOSCO have identified such issues and developed international guidance tailored to the unique characteristics of OTC derivatives products and markets. The aim is to promote consistent interpretation, understanding and implementation of the RCCP across CCPs that handle OTC derivatives.

Considerations for trade repositories in OTC derivatives markets

The financial crisis highlighted a severe lack of market transparency in OTC derivatives markets. As an important step in addressing this issue, OTC derivatives market participants, with the support of the regulatory community, are committed to establishing and making use of trade repositories. A TR in OTC derivatives markets is a centralised registry that maintains an electronic database of open OTC derivative transaction records.

Mr Dudley and Ms Casey said:

“The CPSS and the Technical Committee of IOSCO welcome various ongoing industry initiatives and associated close regulatory cooperation in this relatively new area of the

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financial market infrastructure, which will play a key role in identifying signs of systemic risk and threats to market integrity in the future financial system”.

Recognising the growing importance of TRs in enhancing market transparency and supporting clearing and settlement arrangements for OTC derivatives transactions, the CPSS and the Technical Committee of IOSCO have developed a set of factors that should be considered by TRs in designing and operating their services and by relevant authorities in regulating and overseeing TRs.

Consultation process

The two reports are being issued as consultation documents. Comments are invited from any interested parties by 25 June 2010 (for contact details, see Note 1). There will be an outreach event with the industry as part of the consultation process.

The CPSS and the Technical Committee of IOSCO do not plan to issue finalised reports after the consultation period. Instead, the guidance presented in the reports, as well as the feedback received in the consultation process, will be incorporated in the general review of the international standards for financial market infrastructures that was launched by the CPSS and the Technical Committee of IOSCO in February this year.

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NOTES FOR EDITORS

1. Comments on *Guidance on the application of 2004 CPSS-IOSCO Recommendations for Central Counterparties to OTC derivatives CCPs* should be sent to both the CPSS Secretariat (cpss@bis.org) and the IOSCO secretariat (CCP-OTC-Recommendations@iosco.org).

Comments on *Considerations for trade repositories in OTC derivatives markets* should be sent to both the CPSS Secretariat (cpss@bis.org) and the IOSCO secretariat (OTC-Trade-Repositories@iosco.org).

The comments will be published on the websites of the Bank for International Settlements and IOSCO unless commentators have requested otherwise.

2. The start of the general review of the international standards for financial market infrastructures was announced by the CPSS and the Technical Committee of IOSCO in their press release of 2 February 2010 (available on the websites of the BIS and IOSCO).
3. The reports have been prepared for the CPSS and the Technical Committee of IOSCO by a joint CPSS-IOSCO working group co-chaired by Daniela Russo at the European Central Bank and Jeffrey Mooney at the US Securities and Exchange Commission.
4. The Committee on Payment and Settlement Systems (CPSS) serves as a forum for central banks to monitor and analyse developments in payment and settlement arrangements as well as in cross-border and multicurrency settlement schemes. The chairman of the CPSS is William C Dudley, President of the Federal Reserve Bank of New York. The CPSS secretariat is hosted by the BIS. More information about the CPSS and all its publications can be found on the BIS website at www.bis.org/cpss.
5. IOSCO is recognised as the leading international policy forum for securities regulators. The organisation's membership regulates more than 95% of the world's securities markets in over 100 jurisdictions, and its membership is steadily growing.
6. The [Technical Committee](#), a specialised working group established by IOSCO's Executive Committee, is made up of 18 agencies that regulate some of the world's larger, more developed and internationalised markets. Its objective is to review major regulatory issues related to international securities and futures transactions and to coordinate practical responses to these concerns. Ms Kathleen Casey, a Commissioner of the US Securities and Exchange Commission, is the Chairman of the Technical Committee. The members of the Technical Committee are Australia, Brazil, China, France, Germany, Hong Kong SAR, India, Italy, Japan, Mexico, the Netherlands, Ontario, Quebec, Spain, Switzerland, the United Kingdom and the United States.

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