

A Resolution on Coordination Between Cash and Derivative Markets

**Passed by the Presidents' Committee
October 1993**

CONSIDERING that with the liberalization and internationalization of the capital markets, including the cross-listing of securities, the development of derivative products based on securities, and the fungible nature of derivative products which facilitate their replication in other markets, securities and derivative markets have become increasingly linked and accordingly coordination between cash and derivative markets has become increasingly important, not only at the domestic level, but also at the international level;

CONSIDERING that in view of this linkage the Technical Committee reviewed issues relevant to the relationship between cash and related derivative markets for equities which IOSCO members should consider in their supervision of such markets and products and approved three Reports:

"Contract Design of Derivative Products on Stock Indices"

which identifies issues which market authorities should consider in designing and approving a derivative product on a stock index - Approved January 29, 1992 in Geneva, Switzerland;

"Measures to Minimize Market Disruption"

which examines the various regulatory measures implemented by certain jurisdictions to minimize the adverse effects of market disruptions defined as the effects of large, rapid market declines that threaten to create panic conditions or disorderly market conditions - Approved July 7, 1992 in Quebec City, Canada;

"Mechanisms to Enhance Open and Timely Communication Between Market Authorities of Related Cash and Derivative Markets During Periods of Market Disruption"

which, among other things, addresses issues relevant to how to foster communication between relevant market authorities during periods of market disruption - Approved June 22, 1993 in Amsterdam, The Netherlands;

CONSIDERING that these Reports identify important issues to enhance the effective oversight of related cash and derivative markets;

ACCORDINGLY upon the recommendation of the Executive Committee the Presidents Committee **RESOLVES** that in order to enhance the effective oversight of related cash

and derivative markets IOSCO members should refer to the Reports; and
With respect to the contract design of derivative products based on stock indices RESOLVES that:

It is important that the design of such derivative products - that is, the composition of the index and the other contract specifications - does not impair orderly pricing in either the cash or derivative market and is appropriate to limit the risk of disruption, including manipulation, in both the markets;

Consistent with the foregoing authorities should consider the following aspects of the underlying index:

- the method of calculation;
- the number of component stocks;
- the liquidity of component stocks;
- the dispersion of component stocks;
- the replacement of component stocks;
- the selection of component stocks;
- clearance and settlement;

When the cash and related derivative products are subject to the supervision of different market authorities, information exchange, discussion and cooperation between and / or among the regulatory authorities, the exchange(s) on which the derivative product trades and the underlying cash markets are valuable, not only at the domestic but also at the international level.

With respect to measures to minimize market disruption RESOLVES that:

In recognition that in implementing the various regulatory measures to minimize the adverse effects of market disruption, for example, circuit breakers (including shock absorbers) and price limits, market authorities take into consideration their unique market circumstances, mechanisms of trading, and legal and market customs and practices;

Regulatory authorities should continue to pursue desirable, coordinated measures between cash and derivative markets to minimize the effects of potential market disruption based on recognition that cash and derivative markets are one market from an economic point of view;

In pursuing such measures market authorities should review the experiences of other jurisdictions which already have coordination measures in place between cash and related derivative markets; and

When considering measures to minimize disruption, regulatory authorities and markets should be mindful of the interdependence of the world's

securities markets and make efforts to achieve international consultation and coordination of policy measures in anticipation of occasional large, rapid price movements.

With respect to mechanisms to enhance open and timely communication between market authorities of related cash and derivative markets during periods of market disruption RESOLVES that market authorities consider the following POINTS OF CONSENSUS:

- To ensure effective oversight of related cash and derivative markets during periods of market disruption, market authorities may need information about any related market that is subject to another authority's supervision.
- Market authorities for related cash and derivative markets should consult with each other on a timely basis with a view toward minimizing the adverse effects of market disruption, especially during such a disruption.
- Although the points of consensus set forth in this paper were reached with respect to the oversight of related cash and derivative products, there may be analogous concerns as to the oversight of derivative markets whose products are correlated as to price and cross-listed cash products.
- Information concerning the related cash or derivative market is useful for the purpose of developing approaches to minimize the adverse effects of market disruption. Such approaches range from unilateral actions to cooperative or coordinated responses. The information which may be needed to develop approaches to minimize the adverse effects of market disruptions include:
 - contingency plans, contact persons and structural measures to address market disruption;
 - market conditions:
 - actions taken under contingency plans, market interventions and implementation of structural measures;
 - prices;
 - trading activities such as trading volume, state of program trading, including arbitrage transactions;
 - aggregate market data, such as open interests of related products and clearing data.
- Market authorities for related cash and derivative markets should be encouraged to develop mechanisms to share the aforesaid information.
- Market participant information specifically related to the market disruption, including the positions of firms, also may be relevant. However, the sensitivity of such information and confidentiality and other legal constraints may restrict how or whether it is

provided and who is a competent authority to provide, receive and use it.

- To the extent possible, information should be available to the market authority or authorities with supervisory responsibility for acting on the information shared.
- The design of mechanisms for sharing information on related cash and derivative markets to minimize the adverse effects of market disruptions should take into account the following:
 - which market authority, whether governmental, quasi-governmental or private, has access to and is able to provide the information;
 - how such access can be obtained under applicable law;
 - confidentiality and use restrictions under applicable law;
 - the for and timing of the sharing;
 - the applicability of other arrangements, including MOUs, between such authorities for sharing investigative and financial information; and
 - the advisability of expressly limiting liability.

RESOLUTION ON COORDINATION BETWEEN CASH AND DERIVATIVE MARKETS

Presidents' Committee October 1993

Jurisdiction	Name of the Organization	Signed
REGULAR MEMBERS		
1 – ALGERIA	Commission d'Organisation et de Surveillance des Opérations de Bourse	
2 – ARGENTINA	Comisión Nacional de Valores	
3 – AUSTRALIA	Australian Securities and Investments Commission	Yes (95-03-23)
4 – AUSTRIA	Austrian Securities Authority	Yes (94-04-26)
5 – BAHAMAS	Securities Board (The Commonwealth of The Bahamas)	
6 – BAHRAIN (State of)	Bahrain Stock Exchange	
7 – BANGLADESH	Securities and Exchange Commission	
8 – BARBADOS	Securities Exchange of Barbados	
9 – BELGIUM	Commission bancaire et financière	Yes (N-9) (95-05-22)
10 – BERMUDA	The Bermuda Monetary Authority	Yes (N-10) (94-03-03)
11 – BOLIVIA	Superintendencia de Valores	
12 – BRAZIL	Comissão de Valores Mobiliários	Yes (N-12) (98-07-31)
13 – BULGARIA	Securities and Stock Exchanges Commission	
14 – CHILE	Superintendencia de Valores y Seguros	
15 – CHINA (People's Republic of)	China Securities Regulatory Commission	
16 – COLOMBIA	Superintendencia de Valores	Yes (N-16) (94-04-11)
17 – COSTA RICA	Superintendencia General de Valores	
18 – CROATIA (Republic of)	Securities and Exchange Commission	
19 – CYPRUS (Republic of)	Central Bank of Cyprus	No (N-19)

		(94-02-25)
20 – DENMARK	Finanstilsynet	Yes (N-20) (95-01-30)
21 – DOMINICAN REPUBLIC	Banco Central de la República Dominicana	
22 – ECUADOR	Superintendencia de Compañías	
23 – EGYPT	Capital Market Authority	
24 – EL SALVADOR	Superintendencia de Valores	
25 – FINLAND	Financial Supervision Authority	Yes (N-25) (94-09-02)
26 – FORMER YUGOSLAV REPUBLIC OF MACEDONIA	Securities and Exchange Commission	
27 – FRANCE	Commission des Opérations de Bourse	Yes (N-27) (94-04-05)
28 – GERMANY	Bundesaufsichtsamt für den Wertpapierhandel (BAWe)	Yes (N-28) (94-04-18)
29 – GREECE	Capital Market Commission	
30 – GUERNSEY	Guernsey Financial Services Commission	No (N-30) (96-06-24)
31 – HONG KONG	Securities and Futures Commission	Yes (94-02-23)
32 – HUNGARY	Hungarian Banking and Capital Market Supervision	Yes (94-04-22)
33 – INDIA	Securities and Exchange Board of India (SEBI)	Yes (N-33) (98-08-17)
34 – INDONESIA	Indonesian Capital Market Supervisory Agency	
35 – IRELAND	Central Bank of Ireland	Yes (N-35) (94-03-15)
36 – ISLE OF MAN	Financial Supervision Commission	No (N-36) (94-02-21)
37 – ISRAEL	Israel Securities Authority	
38 – ITALY	Commissione Nazionale per le Società e la Borsa	Yes (N-38) (94-09-22)
39 – JAMAICA	Securities Commission	
40 – JAPAN	Financial System Planning Bureau of the Ministry of Finance	Yes (N-40) (94-06-20)
41 – JERSEY	Jersey Financial Services Commission	No (N-41)

		(96-02-12)
42 – JORDAN	Jordan Securities Commission	No (N-42) (94-03-09)
43 – KAZAKHSTAN (Republic of)	National Securities Commission	
44 – KENYA	Capital Markets Authority	No (N-44) (94-03-23)
45 – KOREA	Financial Supervisory Commission	
46 – KYRGYZ REPUBLIC	National Commission on Securities Market	
47 – LITHUANIA	Lithuanian Securities Commission	
48 – LUXEMBOURG (Grand Duchy of)	Commissariat aux Bourses	
49 – MALAYSIA	Securities Commission	
50 – MALTA	Malta Stock Exchange	
51 – MAURITIUS (Republic of)	Stock Exchange Commission	
52 – MEXICO	Comisión Nacional Bancaria y de Valores	Yes (N-52) (94-03-28)
53 – MOROCCO	Conseil Déontologique des Valeurs Mobilières	No (N-53) (97-07-15)
54 – NETHERLANDS (The)	Stichting Toezicht Effectenverkeer	
55 – NEW ZEALAND	Securities Commission	
56 – NIGERIA	Securities and Exchange Commission	Yes (N-56) (96-06-27)
57 – NORWAY	Kredit Tilsynet	Yes (N-57) (96-06-27)
58 – OMAN (Sultanate of)	Muscat Securities Market	
59 – ONTARIO	Ontario Securities Commission	Yes (94-05-25)
60 – PAKISTAN	Corporate Law Authority / Government of Pakistan	
61 – PANAMA	Comisión Nacional de Valores	Yes (N-61) (94-05-18)
62 – PAPUA NEW GUINEA	Securities Commission	
63 – PARAGUAY	Comisión Nacional de Valores	
64 – PERU	Comisión Nacional Supervisora de Empresas y Valores	Yes (N-64) (94-05-11)

65 – PHILIPPINES	Securities and Exchange Commission	Yes (N-65) (94-03-07)
66 – POLAND	Polish Securities and Exchange Commission	
67 – PORTUGAL	Comissão do Mercado de Valores Mobiliários	Yes (N-67) (94-03-10)
68 – QUEBEC	Commission des valeurs mobilières du Québec	Yes (N-68) (94-06-02)
69 – ROMANIA	Romanian National Securities Commission	
70 – RUSSIA	Federal Commission for the Securities Market of the Russian Federation	
71 – SINGAPORE	The Monetary Authority of Singapore	
72 – SLOVENIA	Securities Market Agency	
73 – SOUTH AFRICA	Financial Services Board	Yes (N-73) (97-07-24)
74 – SPAIN	Comisión Nacional del Mercado de Valores	Yes (N-74) (95-05-22)
75 – SRI LANKA	Securities and Exchange Commission of Sri Lanka	No (N-75) (94-03-17)
76 – SWEDEN	Finansinspektionen	Yes (N-76) (94-04-21)
77 – SWITZERLAND	Commission Fédérale des Banques	Yes (94-03-24)
78 – CHINESE TAIPEI	Securities and Futures Commission	
79 – TANZANIA	Capital Markets and Securities Authority	
80 – THAILAND	Office of the Securities and Exchange Commission	No (N-80) (94-04-22)
81 – TRINIDAD AND TOBAGO	Trinidad and Tobago Securities and Exchange Commission	No (N-81) (94-03-01)
82 – TUNISIA	Conseil du Marché Financier	Yes (N-82) (94-03-18)
83 – TURKEY	Capital Market Board	Yes (N-83) (94-04-08)
84 – UKRAINE	Ukrainian Securities and Stock Market State Commission	Yes (N-84) (96-06-18)
85 – UNITED KINGDOM	Financial Services Authority	
86 – UNITED STATES OF AMERICA	United States Securities and Exchange Commission	Yes (N-86) (94-03-08)

87 – URUGUAY	Banco Central del Uruguay
88 – VENEZUELA	Comisión Nacional de Valores
89 – ZAMBIA	Securities and Exchange Commission

ASSOCIATE MEMBERS

90 – ALBERTA	Alberta Securities Commission	
91 – BRITISH COLUMBIA	British Columbia Securities Commission	Yes (N-91) (97-10-03)
92 – JAPAN	Ministry of Agriculture, Forestry and Fisheries	
93 – JAPAN	Ministry of International Trade and Industry (MITI)	
94 – JAPAN	Securities and Exchange Surveillance Commission	
95 – LEBANON	Banque du Liban	
96 – LUXEMBOURG (Grand Duchy of)	Institut Monétaire Luxembourgeois	
97 – UNITED STATES OF AMERICA	Commodity Futures Trading Commission	
98 – UNITED STATES OF AMERICA	North American Securities Administrators Association, Inc. (NASAA)	