Inter-Agency Work

The Joint Forum

The Joint Forum was established in 1996 under the aegis of IOSCO, the Basel Committee on Banking Supervision (BCBS) and the International Association of Insurance Supervisors (IAIS) to address issues common to the banking, securities and insurance sectors. Its membership was comprised of an equal number of senior bank, insurance and securities supervisors. The International Monetary Fund, the European Commission and the Financial Stability Institute were given observer status.

In 2015, the Joint Forum published *Developments in credit risk management across sectors*: *current practices and recommendations.* The report provides insight into the current supervisory framework around credit risk, the state of credit risk management at firms and implications for the supervisory and regulatory treatments of credit risk.

The report is based on a survey that the Joint Forum conducted with supervisors and firms in the banking, securities and insurance sectors globally. The aim was to understand the current state of credit risk management in light of the significant market and regulatory changes since the 2008 financial crisis.

The Joint Forum was discontinued in 2015, after it was superseded by bilateral and other arrangements for cooperation.

IOSCO Work with the Basel Committee on Banking Supervision (BCBS)

BCBS-IOSCO Working Group on Margining Requirements

In 2011, the G20 Leaders called upon the BCBS and IOSCO to develop consistent global standards for margin requirements for non-centrally cleared derivatives, as part of the global financial reform agenda. In response, the BCBS and IOSCO released, in September 2013, the final framework for margin requirements for non-centrally cleared derivatives. Under the globally agreed standards, financial firms and systemically important non-financial entities that engage in non-centrally cleared derivatives would be required to exchange initial and variation margin commensurate with the counterparty risks arising from such transactions. The framework was designed to reduce systemic risks related to OTC derivatives markets, as well as to provide firms with appropriate incentives for central clearing and managing the overall liquidity impact of the requirements.

In February 2014, the BCBS and IOSCO approved the creation of a monitoring group to evaluate the margin requirements and to determine whether elements of the margin standards should be reconsidered. Recognizing the complexity and impediments in implementing the framework, the BCBS and IOSCO agreed in March 2015 to:

- delay the implementation of requirements to exchange both initial margin and variation margin by nine months; and
- adopt a phase-in arrangement for the requirement to exchange variation margin.

The BCBS and IOSCO also asked the Working Group on Margining Requirements (WGMR) to continue monitoring progress in implementation to ensure consistent implementation across products, jurisdictions and market participants. At the end of 2015, the working group submitted a progress report on implementation based on its monitoring work during the year.

Task Force on Securitization Markets- Cross Sectorial Task Force with the BCBS

IOSCO and the BCBS established the Task Force on Securitization Markets in April 2014 in order to:

- undertake a wide ranging review of securitization markets so as to understand how they are evolving in different parts of the world;
- identify factors from across different sectors that may be hindering the development of sustainable securitization markets; and
- develop criteria to identify and assist the financial industry in the development of simple and transparent securitization structures.

In mid- 2015, the Task Force published the final report on the criteria for simple, transparent and comparable securitization. It also set up two work streams: one led by the BCBS to develop specific criteria for simple, transparent and comparable short-term securitizations; and the other led by IOSCO to engage with market participants and encourage industry initiatives relating to the standardization of documentation.

IOSCO Work with the Committee on Payments and Market Infrastructures (CPMI)

The Committee on Payments and Market Infrastructures (CPMI) promotes the safety and efficiency of payment, clearing, settlement and related arrangements, thereby supporting financial stability and the wider economy. The CPMI monitors and analyzes developments in these arrangements, both within and across jurisdictions. It also serves as a forum for central bank cooperation in related oversight, policy and operational matters, including the provision of central bank services.

CPMI and IOSCO work together to enhance coordination of standard and policy development and implementation, regarding clearing, settlement and reporting arrangements, including financial market infrastructures (FMIs) worldwide. FMIs, which include central counterparties (CCPs), trade repositories, central securities depositories, securities settlement systems, and payment systems, play an essential role in the global financial system. The disorderly failure of an FMI could lead to severe systemic disruption if it caused markets to cease to operate effectively.

Policy work on CCP risk

In April 2015, the BCBS, the CPMI, the FSB and IOSCO agreed a CCP workplan to coordinate their respective international policy work aimed at enhancing the resilience, recovery planning and resolvability of CCPs, and to work in close collaboration.

CCP resilience

A number of substantive priorities with respect to CCP resilience were identified. These priorities included reviewing existing stress testing policies and practices of CCPs and considering the need for, and developing, as appropriate, a framework for consistent and comparable stress tests of the adequacy of CCPs’ financial resources (including capital) and liquidity arrangements. This framework could involve supervisory stress tests. Further, the adequacy of existing standards with respect to CCP loss absorption capacity and liquidity is being evaluated, taking into account the implementation of the CPMI-IOSCO Principles for Financial Market Infrastructures (PFMI). This evaluation assesses whether the standards contained in the PFMI for initial margin methodologies are sufficiently granular and robust. The evaluation also considers the adequacy of CCP coverage, given the possibility that multiple clearing members could come under stress during periods of extreme market turbulence.

The CPMI-IOSCO Policy Standing Group (PSG) serves as the primary forum for this work, regularly interacting with the FSB Standing Committee on Supervisory and Regulatory Cooperation (SRC). To the extent that certain relevant activities were already initiated before the workplan was agreed, the respective focus was adjusted to fully capture the issues identified in the CCP workplan.

CCP recovery planning

The PFMI requires all systemically important FMIs to have a comprehensive and effective recovery plan as the disorderly failure of such an FMI could lead to severe systemic disruptions.

The workplan includes two substantive priorities with respect to CCP recovery planning, and the PSG is serving as the primary forum for this work, cooperating closely with the FSB Resolution Steering Group (ReSG). First, a stock-take of existing CCP recovery mechanisms, including loss allocation tools, will be conducted as part of the surveys described above. The stock take is being used to compare recovery mechanisms across CCPs. Second, CPMI-IOSCO will consider the need for, and develop, as appropriate, more granular standards or guidance for CCP recovery planning, taking into account the implementation of the requirements for recovery planning in the CPMI-IOSCO PFMI and the complementing guidance on the recovery of FMIs.

A CPMI-IOSCO report for public consultation on all CCP resilience and recovery issues is expected to be published by mid-2016.

Other CPMI-IOSCO Work

Market-wide recommendations:

In 2014, CPMI-IOSCO agreed to do further work on the so-called *market-wide recommendations,* i.e., recommendations targeted at payment, securities or derivatives markets more widely than at individual FMIs.This work, to be conducted by CPMI-IOSCO PSG, would include:

- a review of a number of the recommendations included in the CPSS -IOSCO Recommendations for Securities Settlement Systems (2001); and
- a gap analysis aimed at determining whether there are other market[4]-wide topics where some form of guidance from CPMI-IOSCO might be helpful.

The PSG will review by mid-2016 when they can allocate resources to the market-wide recommendations.

Data harmonization:

In 2014, CPMI-IOSCO created the Harmonization Working Group to develop detailed guidance on harmonization of data elements that are reported to trade repositories and are important for data aggregation by authorities. The guidance should also serve for the development of the uniform global Unique Product Identifier (UPI) and the Unique Transaction Identifier (UTI), which are used to uniquely identify a product or transaction, to be used for reporting to global financial regulators. The sub-streams for the Harmonization Working Group continue to work on the harmonization aspects of their work, which includes workshops and consultations with industry, before final guidance is published.

The work of the Harmonization Group is making good progress. To fulfil the mandate, the Harmonization Group has launched several public consultations:

- A public consultation on the UTI was published on 19 August 2015 with the aim to publish a final UTI guidance by mid-2016.
- A public consultation on harmonization of a first batch of 14 key data elements other than UTI and UPI was published on 2 September 2015.
- A public consultation on UPI was published on 17 December 2015 with the aim to publish final guidance in 2016, following the timeline indicated by the FSB Chair letter to the G20.
- Other public consultations on harmonization of the remainder set of data elements other than UTI and UPI (around 65 data elements, split into two batches) would take place later in 2016. Publication of guidance on all the data elements other than UTI and UPI would take place later, possibly by the end of 2017.

This workplan may need to be modified in line with the outcomes of the public consultations.

Cyber resilience in FMIs:

A CPMI-IOSCO Working Group on Cyber Resilience in FMIs (WGCR) was established in September 2014

4 The CPMI was formerly known as the Committee on Payment and Settlement Systems (CPSS).

to examine ways to help both authorities (regulators, overseers) and FMIs to enhance cyber resilience.

Both CPMI and IOSCO had been active separately in investigating certain aspects of cyber risks and how they relate to financial market participants, services and infrastructures. As many issues are of interest to both committees, they agreed to undertake joint work with a specific focus on improving the cyber resilience of FMIs.

On 24 November 2015, CPMI-IOSCO published a consultative report *Guidance on cyber resilience for financial market infrastructures* ("Guidance") for a three month consultation period. Finalization of the Guidance is anticipated for later in 2016. The Guidance aims to add momentum and international consistency to the industry's ongoing efforts to enhance FMIs' ability to pre-empt cyber-attacks, respond rapidly and effectively to them, and achieve faster and safer target recovery objectives.

Once finalized, the Guidance will represent the first set of internationally agreed principles in the financial markets to support oversight and supervision in the area of cyber resilience.

In addition to finalizing the Guidance, the WGCR is looking at mechanisms to engender greater collaboration between regulators and overseers, in order to improve information sharing relating to cyber resilience.

Quantitative disclosure standards for CCPs

On 26 February 2015, CPMI-IOSCO published *Public quantitative disclosure standards for central counterparties*. To help ensure that the risks of using CCPs are properly understood, CCPs need to make relevant information publicly available, as stated in the PFMI. CPMI-IOSCO published a *Disclosure framework* in December 2012 to improve the overall transparency of FMIs. That framework primarily covers qualitative data that need relatively infrequent updating (for example, when there is a change to a CCP's risk management framework). To complement that disclosure framework, the report published in February 2015 sets out the quantitative data that a CCP should disclose more frequently.

Taken together with the *Disclosure framework*, the proposed disclosures in this report are intended to help stakeholders, including authorities, participants (direct, indirect and prospective) and the public, to:

- compare CCP risk controls, including financial resources to withstand potential losses;
- have a clear and accurate understanding of the risks associated with a CCP;
- understand and assess a CCP's systemic importance and its impact on systemic risk; and
- understand and assess the risks of participating in a CCP (directly and, to the extent relevant, indirectly).

This report was revised in light of the comments received during the consultation process.

Application of the Principles for financial market infrastructures to central bank FMIs

On 19 August 2015, CPMI-IOSCO published *Application of the Principles for financial market infrastructures to central bank FMIs*. This note provides guidance on how the PFMI apply to FMIs that are owned and operated by central banks, and develops and further clarifies what is stated in the PFMI on the interaction between the PFMI and central bank policies.

Implementation Monitoring:

The CPMI-IOSCO Implementation Monitoring Standing Group continued in 2015 the process of monitoring implementation of the PFMI. In line with the G20's expectations, CPMI and IOSCO members have committed to adopting the 24 Principles (the Principles) and the five responsibilities for authorities (the Responsibilities) included in the PFMI. Full, timely and consistent implementation of the PFMI is fundamental to ensuring the safety and soundness of key FMIs and to supporting the resilience of the global financial system. In addition, the PFMI are an important part of the G20's mandate that all standardized OTC derivatives should be centrally cleared, and all OTC derivative contracts reported to trade repositories.

Reviews are being carried out in three stages:

Level 1 assessments are based on self-assessments by individual jurisdictions on how they have adopted the 24 Principles for FMIs and four of the five Responsibilities for authorities within the regulatory and oversight framework that applies to FMIs. The initial Level 1 assessments (covering 27 jurisdictions) were conducted in mid-2013 and[5] the results of the assessments were published in August 2013. The first update (covering 28 jurisdictions) was conducted

5 Indonesia was added to the initial 27 jurisdictions.

in 2014 and the report was published in May 2014. Following this, the second update was conducted in 2015 and the report *Implementation monitoring of PFMIs: Second update to Level 1 assessment report* was published on 11 June 2015.

The second update report shows that participating jurisdictions have made progress since the previous update in completing the process of adopting legislation, regulations and/or policies to support implementation of the PFMI. The second update also reveals that the current state of progress on PFMI implementation is now quite similar for the different types of FMI. Previous Level 1 assessments had indicated that progress on implementation measures for Principles applicable to central securities depositories and securities settlement systems was lagging behind that of other FMI types. The updated assessments show that this gap has now closed: central securities depositories and securities settlement systems have shown the most progress in this update, followed by payment systems.

Additional updates to the Level 1 report are planned on a periodic basis and the third update started in December 2015.

In parallel with the Level 1 assessments, CPMI and IOSCO are also conducting *Level 2 assessments,* which are peer reviews of the extent to which the content of the jurisdiction's implementation measures is complete and consistent with the PFMI. In the initial round of the Level 2 assessments, CPMI and IOSCO conducted a detailed evaluation and a peer-review assessment regarding whether the adopted measures are complete and consistent with the Principles for CCPs and trade repositories in the European Union, Japan and the United States. Results from the first round of Level 2 assessments were published on 26 February 2015. Overall, the reports demonstrated that the three jurisdictions have made good progress in implementing the Principles in their legal and regulatory or oversight frameworks. This is especially evident for CCPs, while jurisdictions' progress towards completely and consistently implementing the Principles for trade repositories has been more varied.

The second round of Level 2 assessments commenced in April 2015, starting with an assessment covering all FMI types in Australia (as of 15 May 2015). The report was published on 17 December 2015. Overall, the assessment found that Australia has consistently adopted most of the Principles across FMI types – with the remaining Principles adopted in a broadly consistent way.

Other jurisdictions will be assessed at Level 2 sequentially over time.

Level 3 (Principles) assessments are peer reviews to examine the consistency in the outcomes arising from the implementation of the Principles. Level 3 assessments will be thematic in nature. The output from the Level 3 assessments will be narrative-based reports, which will draw out key issues related to the consistency of FMIs' outcomes with the Principles, noting any variations in outcomes across FMIs in various jurisdictions.

The first Level 3 assessment started in July 2015 with the circulation of surveys to 10 globally- and locally-active derivatives CCPs. The focus of this assessment is on core financial risk management (including governance of risk management, credit risk (including stress testing), margin practices, liquidity, collateral policy and investments, and recovery planning) at the 10 CCPs.

A report on the assessment is planned to be published in mid-2016. The CPMI-IOSCO PSG may draw on findings from the first Level 3 assessment (as appropriate) in conducting its policy mandate/work.

In addition to these three stages, CPMI and IOSCO are also conducting an assessment and review of the Responsibilities. These are peer reviews to assess the completeness of the application of the Responsibilities by authorities and the consistency of implementation outcomes.

The Responsibilities were assessed separately from the Principles. The substance of Level 2 and Level 3 assessments of Responsibilities was combined into a single exercise.

The Responsibilities assessment started in November 2014 and simultaneously covered all 28 jurisdictions that are part of the implementation monitoring exercise. The analytical work related to the assessment took place over March-August 2015 and revealed that a majority of jurisdictions have achieved a high level of observance of the Responsibilities.

With respect to specific FMI types, trade repositories represented the FMI type for which most additional work remains to be done. Several jurisdictions had trade repository regimes that were still in development and therefore determined to be 'not ready for assessment'. Some others lacked clear criteria and/or fully disclosed policies to support their regulation, supervision and oversight of trade repositories.

The report was published on 30 November 2015.

Joint Work by BCBS, CPMI, FSB and IOSCO

Study Group on Central Clearing Interdependencies (SGCCI)

A joint BCBS, CPMI, FSB and IOSCO study group was established in July 2015 to identify, quantify and analyze interdependencies between CCPs and major clearing members and any resulting systemic implications. The group is focusing on interdependencies that may have implications for global financial stability. This includes smaller market participants or CCPs that have interdependencies with larger banks or CCPs. However, the aim of the study group is not to map all of the central clearing interdependencies around the globe.

Interdependencies could include, for instance:

> financial obligations of clearing members, such as default fund contributions, initial and variation margins and assessment rights;

> financial interdependencies with other financial institutions, which can be clearing members, stakeholders, including investment counterparties, liquidity providers and deposit banks; and

> operational interdependencies, such as links with investment counterparties, custodians and settlement agents.

Interdependencies to be explored include those that pose risks to CCPs and/or to participants or other stakeholders. Once these key interconnections have been mapped, the potential for contagion effects within this landscape will be explored.