# Inter-Agency Work

## IOSCO work with the Bank for International Settlements

### BCBS-IOSCO Working Group on Margining Requirements (WGMR)

In 2011, the G20 Leaders called upon the Basel Committee on Banking Supervision (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 the impediments to 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 WGMR to continue monitoring progress in implementation to ensure consistent implementation across products, jurisdictions and market participants. At the end of 2015 and in early 2017, the Working Group submitted a progress report on implementation based on its monitoring work during 2015 and 2016.

## 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 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.

The Task Force in 2016 continued its efforts to engage with market participants and encourage industry initiatives relating to the standardization of documentation. WS1, a Task Force working group led by the BCBS, analyzed the relevance of existing simple, transparent and comparable (STC) criteria for the end-investors of short term securitization, enabling BCBS-IOSCO to issue a consultation report on this subject in July 2017.

## 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 on 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.

> 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 The CPMI-IOSCO Principles for Financial Market Infrastructures (FMIs) 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 work plan includes two substantive priorities with respect to CCP recovery planning, and the PSG is serving as the primary forum for this work, working in close cooperation with the FSB Resolution Steering Group (ReSG). First, a stock-take of existing CCP recovery mechanisms, including loss allocation tools, was conducted as part of the surveys described above. The stock take was 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 consultative report on CCP resilience and recovery was published on 16 August 2016. The report provides more granular guidance on several key aspects of the CPMI-IOSCO CPMI-IOSCO PFMI, with a view to further improving the resilience of CCPs, with respect to governance, credit and liquidity stress testing, coverage of financial resources, margin, a CCP's contributions of its own financial resources to losses and recovery.

## 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 more widely at payment, securities or derivatives markets 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-wide topics where some form of guidance from CPMI-IOSCO might be helpful.

The PSG is considering the work to be done regarding 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 and 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 fulfill the mandate, the Harmonization Group launched several public consultations in 2015 and 2016:

> A public consultation on the UTI was issued on 19 August 2015, and was followed by the publication in February 2017 of a final report providing guidance to authorities for setting rules on assigning uniform UTIs.

> 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. CPMI-IOSCO issued a second public consultation report in 19 October 2016 on a second batch of critical OTC data elements.

> On 17 December 2015, CPMI-IOSCO published a public consultation on the harmonization of the UPI, whose purpose is to uniquely identify OTC derivatives products. It was followed by a second consultation report in August 2016, which set forth proposals on the format of the UPI code and the content and granularity of the UPI data elements that describe the product in a corresponding reference data base.

***Cyber resilience in FMIs:***

A CPMI-IOSCO Working Group on Cyber Resilience in FMIs (WGCR) was established in September 2014 to look into 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. The Guidance was finalized in June 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.

The Guidance represents the first set of internationally agreed principles in the field of financial markets to support oversight and supervision in the area of cyber resilience.

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

***CPMI-IOSCO Working Group on Digital Innovations***

The working group's purpose is to identify and assess the implications of blockchain, distributed ledgers and related technologies for clearing and settlement arrangements, with particular emphasis on the technical and infrastructure aspects (such as security, scalability and efficiency) of emerging business models, products and services based on these technologies.

The group intends to build on previous work conducted by CPMI-IOSCO and its members in the area of digital innovations.

***Clearing deliverable FX instruments:***

The clearing of deliverable FX instruments is special from a liquidity management perspective as it involves the simultaneous settlement of obligations in more than one currency. On 5 February 2016, CPMI and IOSCO issued the statement *Clearing of deliverable FX instruments,* which is on the clearing of deliverable FX instruments by CCPs. This statement clarifies the expectations of CPMI and IOSCO – as originally set out in the PFMI – with respect to CCP clearing of deliverable FX instruments and the associated models for effecting their settlement.

***Implementation Monitoring:***

The CPMI-IOSCO Implementation Monitoring Standing Group continued in 2016 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 contracts 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. Following the initial Level 1 assessments (a report published in August 2013), the first update (a report published in May 2014) and the second update (a report published in June 2015), the third update was conducted in 2016 and the report *Implementation monitoring of PFMI: Third update to Level 1 assessment report* was published on 28 June 2016.

The third update report showed that further progress had been made among those participating jurisdictions that had not completed their implementation measures at the time of the previous update in 2015. In particular, 19 of the 28 jurisdictions had completed their implementation measures for all FMI types (15 jurisdictions in the previous update).

Additional updates to the Level 1 report are planned on a periodic basis and the fourth update started in December 2016.

In parallel with the Level 1 assessments, CPMI and IOSCO are also conducting the Level 2 assessments. *Level 2 assessments* are peer reviews of the extent to which the content of the jurisdiction's implementation measures is complete and consistent with the PFMI.

The first round of these assessments focused on CCPs and trade repositories in the EU, Japan and the US. The associated reports were published in February 2015. The second round of Level 2 assessments covered all FMI types in Australia, and the report was published in December 2015.

Following this, the Level 2 assessments focusing on all FMI types in Singapore and Hong Kong (as of 15 July 2016) commenced in June 2016. 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 are thematic in nature. The output from the Level 3 assessments are 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 on the financial risk management and recovery practices of 10 derivatives CCPs started in July 2015 and a report, *Implementation monitoring of PFMI: Level 3 assessment – Report on the financial risk management and recovery practices of 10 derivatives CCPs*, was published on 16 August 2016. This assessment looked at the implementation of the PFMI, as they relate to financial risk management and recovery practices (i.e., the procedures to follow in case a member defaults).

The report reviewed measures in place at the 10 derivatives CCPs and found CCPs have made important and meaningful progress in implementing arrangements consistent with the standards. Some gaps and shortcomings were nevertheless identified, notably in the areas of recovery planning and liquidity stress

testing. The report also identified a number of other differences in the outcomes of implementation across CCPs. They may reveal differences in interpretation or approach that could materially affect resilience; achieving a level playing field across jurisdictions will be assisted by further guidance on the PFMI outlined in the CPMI-IOSCO consultative report, also published on 16 August 2016.

## 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 primary focus of the group is on interdependencies that may have implications for global financial stability.

Interdependencies could include, for instance:

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

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

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

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