# Inter-Agency Work

## IOSCO work with the Bank for International Settlements

### 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 Margin Requirements (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 WGMR 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 2017 continued its efforts to engage with market participants and encourage industry initiatives relating to the standardization of documentation. WS 1, 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. IOSCO conducted a public consultation on the draft criteria between July and October 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 2015, the BCBS, the CPMI, the FSB, and IOSCO agreed on a joint 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. 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, acting 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 and was used to compare recovery mechanisms across CCPs. Second, CPMI-IOSCO considered the need for 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. Based on the results of the public consultation, CPMI-IOSCO published in July 2017 a final report on resilience of CCPs and a revised report on recovery of CCPs. The report on resilience provides more granular guidance on several key aspects of the CPMI-IOSCO Principles for Financial Market Infrastructures (PFMI), to further improve the resilience of CCPs, with respect to governance, credit and liquidity stress testing, coverage of financial resources, margin, and a CCP's contributions of its financial resources to losses. CPMI-IOSCO also published in July 2017 a revised report on recovery of FMIs which provides additional clarification in four areas: (i) operationalization of the recovery plan; (ii) replenishment; (iii) non-default losses and (iv) transparency with respect to recovery tools and how they would be applied.

The PSG also provided a list of CCPs that are systemically important in more than one jurisdiction for the purpose of establishing Crisis Management Groups (CMGs) for resolution purposes.

In addition to the further guidance on internal stress tests for CCPs, CPMI-IOSCO have engaged in work on a framework for supervisory stress testing (SST) of CCPs to assess the collective response of a set of CCPs to the same stress event. A draft SST framework was published for consultation in June 2017.

## Other CPMI-IOSCO Work

***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 published 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.

More recently, the WGCR has been looking at mechanisms to engender greater collaboration between regulators and overseers, and improve information sharing relating to cyber resilience. The WGCR has also been exploring mechanisms to foster implementation of the Cyber Guidance and to encourage greater collaboration and coordination among FMIs and their stakeholders in the area of 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 regard to 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 2017 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 to have all standardized OTC derivatives 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 assessment (a report published in August 2013), three updates were conducted over the period 2014-2016 (with the respective reports being published in May 2014, June 2015, and June 2016). The fourth update was conducted in 2017 and the related report *Fourth update to Level 1 assessment report* was published in July 2017.

Overall, the fourth update to the Level 1 assessment shows that participating jurisdictions have continued to make progress since the previous (third) update in completing the process of adopting legislation, regulations, and/or policies that will enable them to implement the PFMI. In particular, 20 of the 28 jurisdictions have now achieved the highest rating, "4", for all FMI types, with one jurisdiction upgraded to rating "4" for all FMI types since the last update.

A fifth update to the Level 1 assessment is planned to take place in 2018.

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 Hong Kong and Singapore (as of 15 July 2016) commenced in June 2016 and the related reports were published in May and July 2017, respectively.

In August 2017, Level 2 assessments covering all FMI types in Canada and Switzerland were launched. The respective reports were expected to be published in the first half of 2018. Other jurisdictions will be assessed at Level 2 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 that 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 credit and liquidity risk management.

In 2017, a follow up targeted review of CCPs' progress in addressing the most serious issues of concern identified in the initial Level 3 report was launched, focusing in the areas of recovery planning, coverage of financial resources, and liquidity stress testing. Moreover, the follow up review covers a wider range of CCPs and product classes than the initial Level 3 assessment: 19 CCPs that provide clearing services to a broad range of product classes, such as clearing services provided in the repo, bond and equity markets, and the derivatives markets. These include a mix of globally active and regionally focused CCPs and span 17 jurisdictions. The CPMI-IOSCO Implementation Monitoring Standing Group will continue with this assessment in 2017 and expects to publish a report in the first half of 2018.

Other Level 3 assessments covering additional themes are expected to be launched over time.

## 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 financial institutions 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 to participants or other stakeholders. Once these key interconnections have been mapped, the potential for contagion effects within this landscape may be explored.

A data collection exercise took place in 2016 and a report was published in July 2017. An additional and more streamlined data collection took place in 2017 in an attempt to quantify changes in central clearing interdependencies. This extension of the SGCCI's work may support authorities' understanding of the dynamics of central clearing interdependencies.

### Derivatives Assessment Team (DAT) – incentives to centrally clear OTC derivatives

Convened by the OTC Derivatives Coordination Group (comprising the Chairs of the FSB, BCBS, CPMI, IOSCO, and the OTC Derivatives Regulators Group), staff members of the FSB, BCBS, CPMI, and IOSCO are undertaking an updated evaluation of the impact of the interaction of reforms on incentives to clear OTC derivatives centrally (DAT study). The work began in July 2017 and is to be finalized by the Argentine G20 Leaders' Summit in late 2018. A previous study was published in 2014.

In particular, the DAT study seeks to deliver a comprehensive assessment of whether the reforms are incentivizing central clearing consistently with the G20 reform objectives across different asset classes/product types and for various classes of counterparties. Findings will help inform further consideration by the FSB and the relevant standard-setting bodies of possible policy responses or further studies. In addition, the BCBS is reviewing the impact of the Basel III leverage ratio on the provision of bank clearing services and any resultant impact on the resilience of central clearing.

To support their work, the DAT and BCBS in late 2017 conducted qualitative surveys of different participants in central clearing on the effects of G20 reforms on derivatives markets and other market structure issues.