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 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 and 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 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 its consistency across products, jurisdictions and market participants. At the end of 2015 and again in early 2017, the WGMR submitted a progress report on implementation based on its monitoring work during 2015 and 2016. The WGMR continued monitoring the global standards in 2018 and in July 2019 it published a revised version of the requirements, after the BCBS and IOSCO agreed to extend by one year the final implementation phase of the margin requirements. With this extension, the final implementation phase will take place on 1 September 2021.

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 the coordination of standard and policy development and implementation related to clearing, settlement and reporting arrangements, including financial market infrastructures (FMIs) worldwide. FMIs, which include central counterparties (CCPs), trade repositories (TRs), central securities depositories (CSDs), securities settlement systems (SSSs) and systemically important payment systems (PSs), 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 2018, CPMI-IOSCO adopted a framework for supervisory stress testing (SST) of CCPs to assess the collective response of a set of CCPs to the same stress event, Moreover, the FSB consulted with CPMI-IOSCO on a discussion paper that sets out considerations that may help authorities evaluate whether existing financial resources and tools are adequate to implement resolution strategies for individual CCPs; and considerations that could guide authorities in developing possible approaches to the treatment of CCP equity in resolution.

Other CPMI-IOSCO Work

Data harmonisation

In 2014, CPMI-IOSCO created the Harmonisation Working Group of Key OTCD Data Elements (HG) to develop detailed guidance on harmonization of data elements that are reported to trade repositories, including the Unique Product Identifier (UPI), the Unique Transaction Identifier (UTI) and other Critical Data Elements (CDE).

Harmonisation of key OTCD data elements will facilitate a more consistent presentation of those data elements across jurisdictions. In addition, it should help authorities aggregate OTCD data received from trade repositories.

CPMI-IOSCO published the final technical guidance on:

- the Harmonisation of the Unique Transaction Identifier (UTI) in February 2017;
- the Harmonisation of the Unique Product Identifier (UPI) in September 2017; and
- the Harmonisation of critical OTC derivatives data elements (other than UTI and UPI) (CDE) in April 2018.

During 2018, the CPMI-IOSCO HG also worked on the development of governance arrangements for CDE. In August 2018, it published a consultation report on *Governance arrangements for critical OTC derivatives data elements (other than UTI and UPI)*. The FSB is developing the governance arrangements for UTI and UPI.

CPMI-IOSCO Working Group on Digital Innovations (JWGDI)

The JWGDI´s aim is to identify and assess the implications of blockchain, distributed ledgers and related technologies for clearing and settlement arrangements. It has a key focus on the technical and infrastructure aspects (such as security, scalability and efficiency) of emerging business models, products and services based on these technologies. To fulfil its mandate, in 2018, the JWGDI monitored use cases related to Digital Ledger Technology (DLT) and clearing and settlement and some compliance issues related to the Principles for Financial Market Infrastructures (PFMI)

Implementation Monitoring

During 2018, the CPMI-IOSCO Implementation Monitoring Standing Group (IMSG) continued the process of monitoring implementation of the PFMI. Consistent 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.

CPMI-IOSCO conducts its reviews in three stages:

Level 1 assessments are based on self-assessments by individual jurisdictions on how they have adopted measures that will enable them to implement the PFMI. Following the initial Level 1 assessment report, published in August 2013, IMSG conducted five updates from 2014 to 2018 (with the respective reports published in May 2014, June 2015, June 2016, July 2017 and July 2018).

The Fifth update (published in July 2018) shows that further progress was made among some participating jurisdictions that had not completed the adoption of their implementation measures at the time of the 2017 update. Twenty-one out of 28 jurisdictions completed the adoption of measures for all FMI types, compared to 20 jurisdictions in the previous update. Despite this progress, some jurisdictions continued to lag in adopting measures for trade repositories and central counterparties.

Following the publication of the Fifth update, the IMSG discontinued the publication of Level 1 reports and moved to a Level 1 online tracker now available on the IOSCO and the CPMI websites.

In parallel with the Level 1 assessments, CPMI-IOSCO conducts Level 2 assessments. These are peer reviews that seek to determine the extent to which the content of the jurisdiction's implementation measures, as reported at Level 1, is complete and consistent with the PFMI.

In August 2017, the IMSG launched Level 2 assessments covering all FMI types in Canada and Switzerland. The CPMI-IOSCO published the report for Canada in August 2018 and the report for Switzerland in January 2019.

In July 2018, the IMSG started the Level 2 assessment of Brazil, covering all FMI types. In June 2018, the IMSG launched the Level 2 assessment for the US focusing on systemically important payment systems, central securities depositories and securities settlement systems in the US. The IMSG will assess other jurisdictions 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 and are thematic in nature. The output from the Level 3 assessments are narrative-based reports, drawing out key issues related to the consistency of FMIs' outcomes with the Principles and noting any variations in outcomes across FMIs in various jurisdictions.

The IMSG conducted the first Level 3 assessment on the financial risk management and recovery practices of 10 derivatives CCPs started in July 2015 and published the report, *Implementation monitoring of PFMI: Level 3 assessment – Report on the financial risk management and recovery practices of 10 derivatives CCPs*, on 16 August 2016.

The review identified several gaps and shortcomings, notably in the areas of recovery planning and credit and liquidity risk management.

In 2017, the CPMI-IOSCO launched a follow up targeted review of CCP´s progress in addressing the concerns identified in the initial Level 3 report. The work focused on recovery planning, coverage of financial resources and liquidity stress testing at 19 CCPs. The CPMI-IOSCO published the report of this assessment in May 2018.

Overall, while the report found that participating CCPs have made progress in implementing arrangements consistent with the key international standards on financial risk management and recovery practices (PFMI), some CCPs are still failing to implement various measures in the areas of risk management and recovery planning. IOSCO and the CPMI have encouraged the relevant CCPs to address these deficiencies as a matter of priority.

CPMI - IOSCO Working Group on Cyber Resilience (WGCR)

The CPMI - IOSCO Working Group on Cyber Resilience (WGCR) was established in 2014 and explores ways to help both authorities (regulators, overseers) and FMIs to enhance cyber resilience. The WGCR

encourages information sharing among FMI regulators and promotes swift adoption of the WGCR *Guidance on cyber resilience for financial market infrastructures* (Cyber Guidance), published in June 2016.

Th Cyber 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. This guidance represents the first set of internationally agreed principles in financial markets to support oversight and supervision in the area of cyber resilience.

In June 2018, the WGCR held a joint workshop with the IMSG on operational and cyber risks, attended by chief risk, security and technology officers of FMIs, exchanges, banks, consultants with related expertise and representatives from member authorities. The workshop explored the challenges in implementing Principle 17 of the PFMI on operational risk management, including the Cyber Guidance.

In September 2018, the Working Group held a roundtable discussion with relevant CEOs in Paris on enhancing cyber resilience to share their views and discuss potential actions related to strengthening the cyber-resilience of payment, clearing and settlement arrangements globally.

The WGCR is interacting with the IMSG in 2019 on the assessment of business continuity and will do the same with other cyber-related matters in 2020 and 2021.

Joint work by BCBS, CPMI, FSB and IOSCO

Study Group on Central Clearing Interdependencies (SGCCI)

BCBS, CPMI, FSB and IOSCO established a joint study group in July 2015 to identify, quantify and analyze interdependencies among CCPs, their clearing members and other financial services providers. 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, among others;
- 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 and settlement agents.

The SGCCI carried out a data collection exercise in 2016 and published a report in July 2017.

The SGCCI concluded an additional and more streamlined data collection in 2017 to quantify changes in central clearing interdependencies.

In August 2018, the SGCCI published the report *Analysis of Central Clearing Interdependencies* which analyzes the network of relationships among 26 CCPs. This work may prove useful for designing supervisory stress tests.

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

In 2017, the FSB, IOSCO, the BCBS and the CPMI reconvened the Derivatives Assessment Team (DAT), to *"re-examine whether adequate incentives to clear centrally over-the-counter (OTC) derivatives are in place."* The DAT began this work in July 2017 and finalized its report *Incentives to centrally clear over-the-counter (OTC) derivatives: A post-implementation evaluation of the effects of the G20 financial regulatory reforms*, by the Argentine G20 Leaders' Summit in November 2018.

The DAT study sought 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 counterparty.

The 2018 report suggested that, overall, the reforms are promoting central clearing, especially for the most systemic market participants, such as dealers and larger and more active clients. This development is consistent with the G20 goal of reducing complexity and improving transparency and standardization in the OTC derivatives markets. In contrast, the incentives for central clearing seem to be weaker for small or less active clients. The DAT's work also suggested that the treatment of initial margin in the leverage ratio can be a disincentive for banks to offer or expand client clearing services.

These findings should help inform further consideration by the FSB and the relevant standard-setting bodies of possible policy responses or further studies.

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

Financial Stability Board, Cyber Incident Response and Recovery

IOSCO is a member of the working group on Cyber Incident Response and Recovery (CIRR), established by the FSB in October 2018. The CIRR´s mandate is to develop a toolkit of effective practices to assist financial institutions-- supervisors and other relevant authorities-- before, during and after a cyber incident.