Inter-Agency Work

IOSCO work with the Bank for International Settlements

BCBS-IOSCO Working Group on Margin 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, in September 2013, the BCBS and IOSCO released 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 are 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 - the Working Group on Margin Requirements (WGMR) -- to evaluate the margin requirements and determine whether elements of the margin standards should be reconsidered. Recognizing the complexity and 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 the 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 2019. On the basis of the WGMR monitoring, in March 2019, IOSCO and the BCBS provided guidance to support the timely and smooth implementation of the framework and to clarify its requirements. In addition, in July 2019, the BCBS and IOSCO revised the margin requirements framework to extend by one year the final implementation phases of the margin requirements.

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 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 2019, CPMI-IOSCO published a report on *Responsibility E of the Principles for Financial Markets Infrastructures (PFMI)*, which specifies that central banks, market regulators and other relevant authorities should cooperate with each other, both domestically and internationally, to ensure the safety and efficiency of FMIs. The report outlines the ways in which financial authorities cooperate to accomplish these important goals. It also shares the lessons learned from this cooperation.

In June 2019, CPMI-IOSCO published a consultative paper on CCP default management auctions. A CCP's ability to effectively manage the default of a member is essential to its resilience and can help reduce systemic risk. A default management auction is one of the tools that a CCP may use to transfer a defaulting participant's positions to a non-defaulting participant, thereby restoring the CCP to a matched book.

In addition, the FSB consulted with CPMI-IOSCO on a consultative document on guidance on financial resources to support CCP resolution and the treatment of CCP equity in resolution.

Other CPMI-IOSCO Work

Data harmonization

In 2014, CPMI-IOSCO created the Harmonisation Working Group of Key Over-the-counter Derivatives (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). The harmonization of key OTCD data elements seeks to facilitate a more consistent presentation of those data elements across jurisdictions. In addition, it should help authorities aggregate OTCD data received from trade repositories. To assist in this endeavor, CPMI-IOSCO published 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.

In October 2019, CPMI-IOSCO published its recommendations for *Governance Arrangements for critical OTC derivatives data elements (other than UTI and UPI)* in close coordination with the FSB, which had developed governance arrangements for the UPI (published in October 2019) and for the UTI (published in December 2017).

CPMI-IOSCO Working Group on Digital Innovations (JWGDI)

The CPMI-IOSCO JWGDI´s objective is to identify and assess the implications of blockchain, distributed ledgers and related technologies for clearing and settlement arrangements. The work focuses primarily on the technical and infrastructure aspects (such as security, scalability and efficiency) of emerging business models, products and services based on these technologies. To fulfill its mandate, in 2019, the JWGDI monitored use cases related to DLT, clearing and settlement and stablecoins.

Implementation Monitoring of the Principles for Financial Market Infrastructure (PFMI)

During 2019, 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 essential part of the G20 mandate stipulating that all standardized OTC derivatives should be centrally cleared and all OTC derivative contracts reported to trade repositories.

The IMSG implementation monitoring program includes 28 participating jurisdictions from a diverse group of regions and from both developed and emerging market economies.[1] The PFMI implementation monitoring work is conducted at three levels:

> Level 1;
> Level 2; and
> Level 3.

Level 1 assessments are based on self-assessments by individual jurisdictions on their progress in adopting the legislation, regulations and other policies (together referred to as "implementation measures") that will enable them to implement the PFMI. Following the initial Level 1 assessment report, published in August 2013, the 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).

Following the release of the Fifth update in July 2018, the IMSG discontinued publication of Level 1 reports and moved to a Level 1 online tracker, now available on the IOSCO and the CPMI websites. According to the information provided by the participating jurisdictions as of January 2019, Korea and South Africa had adopted measures that would enable them to implement the PFMI for all FMI types. By January 2020, Indonesia and

[1] Argentina, Australia, Belgium, Brazil, Canada, Chile, China, the European Union, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

Saudi Arabia had also completed the process of adopting measures to facilitate implementation of the Principles. Thus, 25 of the 28 jurisdictions participating in the implementation monitoring program adopted measures during 2019 that would enable them to implement the PFMI for all FMI types.

Level 2 assessments 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. These Level 2 assessments allow the IMSG to identify gaps or shortcomings in the implementation measures against the respective Principles in the PFMI.

The CPMI-IOSCO published the Level 2 report for Switzerland (covering all FMI types) in January 2019 and the Level 2 report for the United States (covering PSs and CSDs/SSSs) in May 2019.

In July 2018, the IMSG began the Level 2 assessment of Brazil, covering all FMI types. This assessment continued in 2019. In May 2019, the IMSG also commenced a Level 2 assessment of Turkey, covering all FMI types and, in October 2019, the IMSG launched the Level 2 assessment of the EU, covering PSs and CSDs/SSSs. The IMSG will assess other jurisdictions at Level 2 over time.

Level 3 assessments are peer reviews to examine the consistency in the outcomes arising from the implementation of the Principles, noting any variation in outcomes across FMIs in various jurisdictions. They are thematic in nature and the output from the Level 3 assessments are narrative-based reports.

In June 2019, the IMSG initiated a Level 3 assessment on Business Continuity Planning. The focus of the assessment is on three of the seven key considerations

for Principle 17 on operational risk management. Thirty-eight FMIs (covering all FMI types) from 29 jurisdictions are participating in this L3 assessment (one jurisdiction volunteered to participate in this assessment in addition to the group of 28 jurisdictions that participate in the CPMI-IOSCO monitoring program).

Other Key Points

The IMSG produced a Level 2 Handbook in September 2019, which is designed to facilitate a consistent approach to conducting Level 2 assessments in a way that is sufficiently general to accommodate differences in institutional factors and implementation measures across jurisdictions. It is also intended to be flexible in incorporating lessons learned and evolving practices from past and future jurisdictional assessments, which may result in future revisions or elaborations to the handbook.

The IMSG also produced a Level 2 database (available on the CPMI and IOSCO websites since May 2019). It is a repository of all assessments completed to date and contains relevant implementation measures, ratings, gaps and recommendations and complements the assessment reports. This database will be updated as new Level 2 assessments are completed.

Finally, since January 2019, the IOSCO website has a dedicated CPMI-IOSCO page[2] with updated information on the PFMI implementation monitoring work.

[2] The site includes the PFMI, the PFMI Disclosure Framework and Assessment Methodology, assessment reports (Level 1, Level 2 and Level 3), the Level 1 online tracker and the L2 database.

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.

The Cyber Guidance was issued 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.

Recently, the focus of the WGCR has shifted from policy development to promoting progress (e.g., by engaging with industry to advance the cyber resilience of FMIs), coordinating with other relevant international cyber groups or standard-setting bodies and collaborating with the IMSG to monitor the implementation by FMIs of the PFMI regarding cyber resilience.

In 2019, the WGCR interacted with the IMSG on the assessment of business continuity plans at FMIs and will do the same with other cyber-related matters in 2020 and 2021.

IOSCO Work with the Financial Stability Board

The Financial Stability Board (FSB) is an international body that monitors and makes recommendations about the global financial system. The FSB's prime objective is to promote international financial stability, particularly by coordinating efforts of national financial authorities and international standard-setting bodies.

To improve its engagement with the FSB and enhance its financial stability work, in 2019, IOSCO established a Board-level Financial Stability Engagement Group (FSEG). This group has improved the coordination with the FSB, enabling IOSCO to engage more proactively on financial stability issues from a capital markets perspective. Moreover, its formation proved particularly timely given that the subsequent COVID-19 pandemic has given rise to financial stability risks.

Also, during the year, the FSB formed a Steering Committee on Non-bank Financial Intermediation (SCN) to provide strategic direction on NBFI-related initiatives and ensure more effective coordination with standard-setting bodies such as IOSCO. The group brings together market regulators, macroprudential authorities and international organizations. IOSCO encouraged the development of this group, which has helped cement senior level collaboration between IOSCO and the FSB.

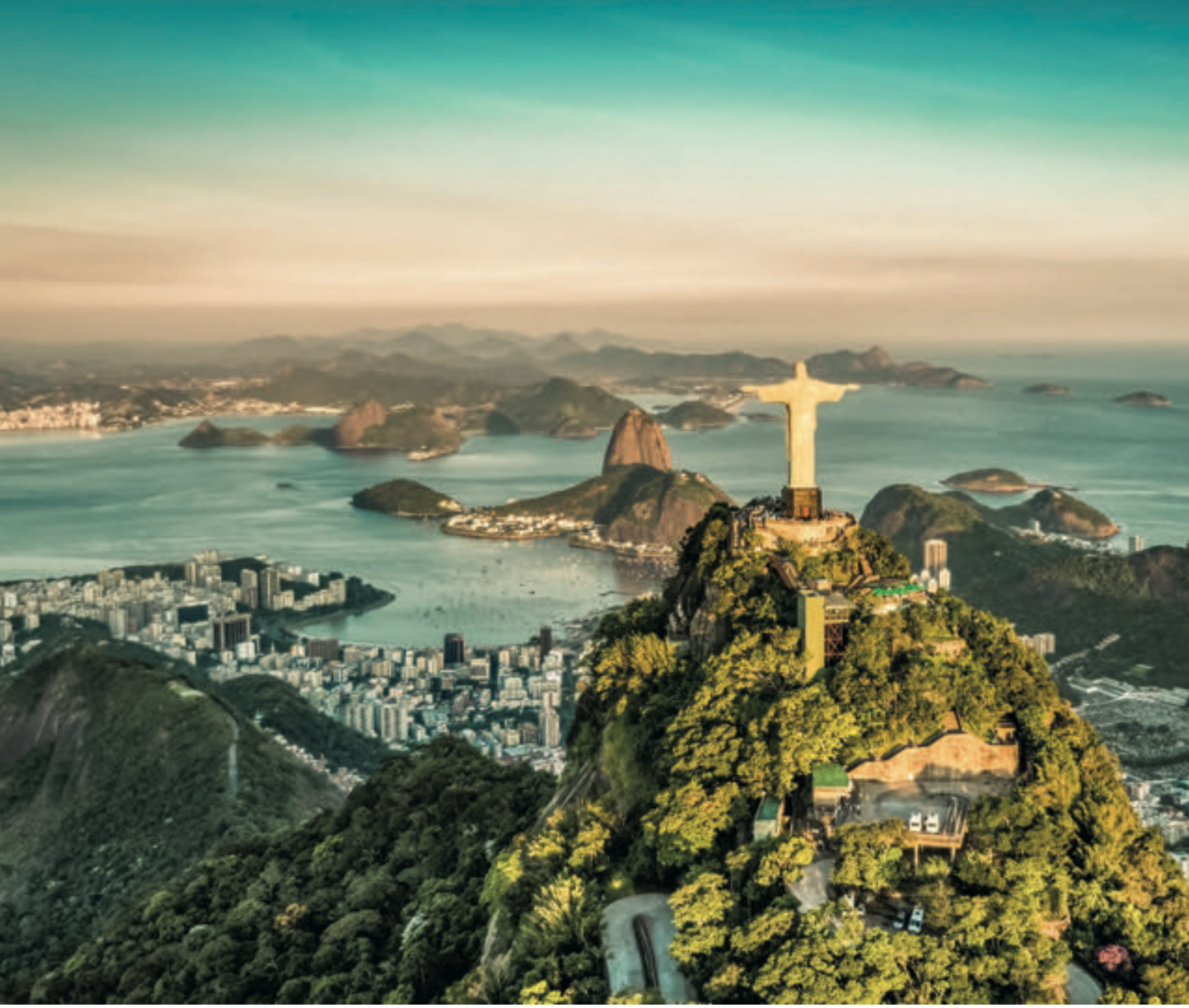
The FSB's governance comprises a Plenary and a Steering committee as the decision-making bodies under which there are three standing committees:

- The Standing Committee on Assessment of Vulnerabilities (SCAV);
- The Standing Committee on Supervisory and Regulatory Cooperation (SRC);
- The Standing Committee on Standards Implementation (SCSI).

IOSCO is an active member of all these committees and is represented in the FSB discussions by the IOSCO Chair, Vice Chair, Secretary General and Deputy Secretary General. Asset management issues, in particular open-ended funds' liquidity mismatch, as well as issues around credit rating agencies and margin have been significant areas of engagement for IOSCO in the SCAV and SRC. IOSCO has also contributed to the FSB's work on vulnerabilities in leveraged loan and CLO markets, third-party dependencies, artificial intelligence and machine learning, too-big-to-fail evaluation, external audit and accounting for financial instruments, FSB Procedural Guidelines and the effects of reforms on small and medium-sized enterprise (SME) financing. In the SCSI, IOSCO has contributed to the work on lessons learned on evaluations, the implementation of the FSB Policy Framework on NBFI, the launch of the MMFs evaluation and the non-bank financial intermediation (NBFI) peer review and the G20 annual report on the implementation and effects of G20 financial regulatory reforms.

Some of the more important FSB working groups that IOSCO has participated in include:

- Market Fragmentation: IOSCO is a member of the FSB working group on Market Fragmentation. IOSCO and the FSB each delivered a report on market fragmentation to G20 Finance Ministers and Central Bank Governors ahead of their meetings in Fukuoka in June 2019. IOSCO continues to coordinate with the FSB to strengthen international cooperation among authorities and address the adverse effects on the financial system of market fragmentation and other developments in non-bank financial intermediation.



- FSB Official Sector Steering Group (OSSG). IOSCO is an active member the OSSG, which is working to monitor and support progress on implementing interest rate benchmark reforms and facilitate the transition away from LIBOR (and other IBORs where appropriate). The FSB coordinates with IOSCO's Board Level Task Force on Financial Benchmarks to address barriers to transition and, where appropriate, to take action to remove them. In July 2019, IOSCO issued a Statement on Benchmarks Transition.

- Regulatory Issues of Stablecoins (RIS). IOSCO is an active member of the FSB RIS working group. While the FSB worked on a consultation report on Regulatory Issues of Stablecoins , the IOSCO Fintech Network drafted the Global Stablecoin Initiatives Final Report, which was published in March 2020.

- Cyber Incident Response and Recovery (CIRR): IOSCO is an active member of the FSB CIRR working group, established to develop a toolkit of effective practices to assist financial institutions before, during and after a cyber incident. The final toolkit of effective practices will be submitted to the G20 Finance Ministers and Central Bank Governors meeting in October 2020.

- Working Group on UTI and UPI Governance (GUUG): IOSCO has worked on the GUUG project to propose to the Plenary a recommended governance arrangement for the Unique Transaction Identifier (UTI) and Unique Product Identifier (UPI), two data elements of OTC derivatives transactions that are important for aggregation of data reported to trade repositories.