Task Force on Commodity Futures Markets

Report to the Financial Stability Board

TECHNICAL COMMITTEE
OF THE
INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS

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Executive Summary

The Task Force on Commodity Futures Markets (Task Force) was formed in September 2008 by the Technical Committee of IOSCO responding to calls for an examination of the functioning of certain commodity futures markets from the G8 Finance Ministers in 2008. In the intervening period the Task Force has undertaken several streams of work on the functioning of commodity derivatives markets, particularly in relation to oil, and made recommendations to improve market transparency and overall functioning for consideration by the G20.

The Task Force is currently undertaking work relating to the areas set out in the G-20 Seoul Communiqué in November 2010. It is now anticipated that a broader scope is necessary for the work of the Task Force, in particular going beyond oil to include other commodity derivatives such as agricultural-based contracts.

Task Force Rationale

Requests from the G8 and G20 have originated from observed activity in commodity markets, notably price volatility and price increases, particularly in relation to oil. The report published by the Task Force in March 2009[1] (March 2009 Report) assessed contemporary research into the causes of observed price volatility, and did not find any conclusive evidence of systematic influence from speculative activity. Limitations of available data were noted, requiring continued monitoring to improve understanding of futures market price formation and the interaction between derivatives markets and related commodity markets. Recommendations made by the Task Force in that report and subsequently have focused primarily on improving transparency, to the market as a whole and to regulators, across futures, over-the-counter (OTC) and physical markets, as well as ensuring appropriate oversight.

Previous Work

The initial recommendations made in the March 2009 report focused on a number of key areas within the scope of market transparency and oversight.

Regarding transparency, this includes: publication of more detailed data for underlying markets; publication of appropriate aggregate futures market data by regulators; and enhancing the detail of, and access to, data on OTC commodity derivatives market activity.

For market oversight this includes: ensuring better understanding of overall market composition; power to collect information on related OTC derivative or physical market positions; improved information sharing between futures market regulators; and sufficient resources to detect and deter incidences of market abuse. The Task Force, in June 2010, made public a survey detailing progress against recommendations on market oversight, information sharing and enforcement challenges for individual members, which demonstrated a high degree of overall compliance.

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1 IOSCO Technical Committee Task Force on Commodity Futures Markets: Final Report (March 2009) http://www.iosco.org/library/pubdocs/pdf/IOSCOPD285.pdf

More recently the Task Force has worked with participants and stakeholders in OTC financial oil derivative markets, undertaking a preliminary survey to inform the creation of a trade repository for commodities. This work has been mainly conducted with ISDA's Commodities Steering Committee (COSC). Survey data provided was useful in assessing the composition of the market, showing that the approximately seventy-five per cent of trades in financial oil derivatives, within the sample, were already either exchange traded or OTC transactions which had been cleared through a regulated clearing house.

Current Work

The most recent Task Force report in November 2010 made a number of recommendations for consideration by the G20 and these have framed the current catalogue of work, relating to: supervision of commodity derivative markets; physical market transparency; and ongoing monitoring of developments in OTC financial oil markets.

The first workstream is to update and review existing guidance on contract design and market surveillance for commodity contracts set out in the 1997 *Tokyo Communiqué*, which incorporates the collective experience and expertise of the members of the Task Force. For its second workstream, the Task Force is engaging with representatives from the International Energy Forum (IEF), International Energy Agency (IEA), and the Organisation of Petroleum Exporting Countries (OPEC) to assess the impact of oil price reporting agencies on overall market functioning and on financial markets in particular, in line with previous recommendations made on the need for improved physical market transparency. Finally, with the aim of improving oversight, understanding and transparency of OTC financial oil derivative markets, work continues with COSC on creating a trade repository for these products by Q1 2012, as an initial step which will branch out into other commodities at a later date.

Future Work

While in the near term, the focus of the Task Force is towards financial oil, it is clear that there are other types of commodities that are significant and warrant attention, including agricultural markets. This approach recognises the varied nature of each different type of commodity, while appreciating that in some areas, notably on-exchange trading, there are similarities which can lead to comprehensive recommendations. In this regard, the revised recommendations for the supervision of commodity derivative markets will apply broadly, rather than targeting any particular subset of commodities.

Nevertheless, the Task Force appreciates that work on specific commodities is also necessary, and has agreed to recommend, for the consideration of the Technical Committee, that work on commodities markets be placed on a permanent basis within IOSCO. This will include making new recommendations for further work which is likely to lead to proposals to improve market transparency, oversight and anti-market abuse treatment for other commodities markets, where necessary. When finalised and published, the recommendations for supervision of commodity derivative markets – building on the existing *Tokyo Communiqué* – are likely to necessitate a survey of Task Force members to assess current states of compliance. Further detail on possible future work is elaborated on in Chapter 5 of the report.

Chapter 1 Introduction

The International Organization of Securities Commissions (IOSCO)[2] formed the Task Force on Commodity Futures Markets (Task Force) in September 2008. The Task Force was created to examine the behaviour of certain commodity futures markets during 2008 and to respond to political leaders' calls for attention to be given to market functioning and regulation. In this regard, IOSCO took particular note of the G8 Finance Ministers' 2008 Osaka statement,[3] which expressed concern over the functioning of commodity futures markets. Subsequently, the G-20 Leaders expressed concern over commodity price volatility, especially on energy and oil markets, in their Pittsburgh 2009 and Seoul 2010 Communiqués[4], leading the Task Force to focus particularly on oil.

In its Seoul Communiqué, the G20 directed that IOSCO should report to the Financial Stability Board (FSB) by April 2011 regarding its ongoing work and that the FSB should give consideration to appropriate next steps. This report is intended to satisfy the G20's direction. The report summarises the Task Force's work to date, gives an account of current workstreams and describes future plans and possible additional new areas of focus.

IOSCO's work should be placed in the context of the 2009 Pittsburgh G20 Communiqué calling for all standardised OTC derivative contracts to be centrally cleared, and to be traded on exchanges or electronic trading platforms where appropriate. This statement applies to all commodity derivatives, as noted in the October 2010 FSB report *Implementing OTC Derivatives Market Reforms*.

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2 The IOSCO Task Force on Commodity Futures Markets is co-chaired by the Commodity Futures Trading Commission (United States) and the Financial Services Authority (United Kingdom) and the following IOSCO members participated in the Task Force: Australian Securities and Investments Commission (Australia); Comissão de Valores Mobiliários (Brazil); Alberta Securities Commission (Canada, Alberta); Ontario Securities Commission (Canada, Ontario); Autorité des marchés financiers (Canada, Quebec); China Securities Regulatory Commission (China); Dubai Financial Services Authority (Dubai); Autorité des marchés financiers (France), Bundesanstalt für Finanzdienstleistungsaufsicht (Germany), Securities and Futures Commission (Hong Kong), Forward Markets Commission (India); Commissione Nazionale per le Società e la Borsa (Italy), Financial Services Agency (Japan); Ministry of Agriculture Forestry and Fisheries (Japan); Ministry of Economy, Trade and Industry (Japan); Kredittilsynet (Norway), Monetary Authority of Singapore (Singapore); Capital Market Authority (Saudi Arabia); and Swiss Financial Market Supervisory Authority FINMA (Switzerland).

3 Statement of the G8 Finance Ministers Meeting, June 14, 2008, Osaka, Japan: http://www.mof.go.jp/english/if/su080614.pdf.

4 The G20 Pittsburgh Communiqué:
http://www.g20.org/Documents/pittsburgh_summit_leaders_statement_250909.pdf,
Seoul Communiqué: http://www.g20.org/Documents2010/11/seoulsummit_declaration.pdf

Chapter 2 Task Force Rationale

The statements of the G8 and G20, referred to above, focused on exhibited market behaviour, particularly on "excessive volatility" in commodity futures markets, and the impact of financial participants in commodity derivatives markets. Further, the G20 called on IOSCO to collect data on OTC financial oil markets and to advance measures which would improve transparency of oil futures markets. This report sets out how the Task Force has answered the G20's calls and is, with its future workstreams, planning to exceed the scope of those calls.

In its March 2009 Report, the Task Force stated that it had given consideration to the impact of financial investors in commodity futures markets and that it saw no evidence to suggest that they or any other particular class of investors' activity alone were responsible for the volatility of commodity futures markets. The March 2009 Report recognized that this conclusion reflected the application of statistical tests to available data, but that market complexities and significant data limitations left a need for better information – with respect to the underlying physical market and with respect to the financial commodity markets (i.e. futures and OTC derivatives).[5] The Task Force notes that there have been a range of further studies in the intervening period and that many of these support the view of the academic literature reviewed in the March 2009 Report.[6] However, the Task Force acknowledges that commodity futures markets can experience periods of significant volatility and that improvements should be made to the functioning of these markets.

The Task Force's efforts are intended to bring about a better set of available information which can be used by the market in its decisions and by regulators and analysts seeking to understand market behaviour, including the type which has given rise to the original concerns underlying our work. The Task Force's work has focused on the financial markets (i.e. futures and OTC derivatives) because the physical markets are beyond the jurisdiction of IOSCO's securities and derivatives regulators. Nonetheless, the Task Force has continued to encourage work being carried forward by other relevant organizations e.g. the International Energy Agency (IEA), the International Energy Forum (IEF) and the Organisation of the Petroleum Exporting Countries (OPEC, to improve transparency in the underlying cash commodity markets. Such work will foster better transparency of fundamental cash market data, which we hope will lead to better understanding of the linkages between the physical and financial oil markets. Moreover, financial regulators need information on the physical markets in order to fulfil their supervisory duties, notably to prevent market abuse and to better understand the relationships between transactions in the financial markets and in the physical markets.

5 Task Force on Commodity Markets: Report to the G-20 (November 2010) p. 19.

6 The restatement of this view takes account of additional research reports in the intervening period, discussed below with example references in footnote 9.

Chapter 3 Previous Work

The initial phase of work by the Task Force culminated in the publication of a Final Report in March 2009[7], making recommendations on improvements to the functioning of commodity markets as well as providing a synthesis of the existing studies and academic work available on the question of price volatility and financial participation in futures markets.

Assessment of the literature undertaken at that time suggested that "economic fundamentals, rather than speculative activity, are a plausible explanation for recent price changes in commodities. However, given the complexity and often opacity of factors that drive price discovery in futures markets, and the critical importance of these issues to world economies, continued monitoring is appropriate to improve understanding of futures market price[s]." The Report also noted that existing economic research "[did] not support the proposition that the activity of speculators has systematically driven commodity market cash or futures prices up or down on a sustained basis".[8] The Task Force notes that further reports and various studies that have been published in the intervening period support its previously stated view.[9]

From this assessment of the current functioning of commodity markets, a number of recommendations were made, intending to improve transparency and oversight of commodity markets, and information sharing between commodity futures market regulators. The recommendations included statements to the following effect:

- *Financial regulators should ensure that they have the powers and resources necessary to detect, investigate and prosecute manipulation, including through legislative action and the development of agreements with authorities responsible for the relevant physical markets.*

- *Financial regulators should require the reporting of large trader positions for the relevant on-exchange contracts and publish aggregate data on these positions similar to the weekly Commitment of Traders (COT) reports published the US CFTC.*

- *It is crucial to improve the transparency of both market fundamentals (supply, demand, inventories, transport capacities, etc.) and physical commodity market transactions. Improvement is necessary both in the availability and the quality of information on all the major physical markets. Regarding oil markets specifically, the International Energy Forum (IEF), the International Energy Agency (IEA) and OPEC*

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7 IOSCO Technical Committee Task Force on Commodity Futures Markets: Final Report (March 2009) http://www.iosco.org/library/pubdocs/pdf/IOSCOPD285.pdf

8 Ibid.

9 See the following: Till, H.(2009), "Has There Been Excessive Speculation in the US Oil Futures Markets?", *EDHEC Risk Institute*, November 2009: http://faculty-research.edhec.com/jsp/fiche_document.jsp?CODE=1258547238985&LANGUE=1;

Thomas, A. et al (2010), "Peaks, Spikes, and Barrels: Modelling Sharp Movements in Oil Prices", *IMF working* paper, August 2010: http://www.imf.org/external/pubs/ft/wp/2010/wp10186.pdf;

Irwin, S. H. and D. R. Sanders (2010), "The Impact of Index and Swap Funds on Commodity Futures Markets: Preliminary Results", *OECD Food, Agriculture and Fisheries Working Papers*, No. 27, OECD Publishing: http://www.oecd.org/dataoecd/16/59/45534528.pdf *should pursue their efforts to improve the reporting by their members with regard to the completeness and timeliness of physical oil data.*

- *Financial regulators should determine whether any physical commodity reference prices used in their markets are reliable. If not, such reference prices may facilitate manipulation.*

The overall intention of all the recommendations was to gain a more comprehensive understanding of the interaction between financial and non-financial participation in commodity derivatives and related physical commodity markets that affect price formation. This recommendation for improved transparency and information was supplemented by a call for regulators to have the ability and necessary legal framework to act on this information to "detect, prosecute, and deter manipulation and other trading abuses in commodity futures markets, which may involve related commodity markets".[10]

Following this initial phase of work, the G20 met in Pittsburgh in September 2009 and resolved to endorse the recommendations of the Task Force, requesting a further report on implementation, and further analysis into excessive volatility. A survey published in June 2010[11] demonstrated a high degree of compliance from Task Force members with the March 2009 Report recommendations. This was supplemented by an update report[12] outlining progress on work to collect data on OTC financial oil markets, improvements to transparency of commodity futures markets, and a call for further work on the transparency of underlying physical commodity markets including the information published by oil price reporting agencies.

This work culminated in a further report to the G20 in November[13] for consideration at their meeting in Seoul, which outlined ongoing work and further recommendations. Survey data on trading activities of ISDA Commodities Steering Committee (COSC) members in financial derivatives on crude oil and refined products showed that a very high proportion (approximately 75%) of the market was already either exchange traded or OTC cleared. This survey served as a precursor to future work to create a trade repository for financial oil contracts. A request was also made for a study to be undertaken by an international energy markets agency to assess the impact of published cash market price assessments on related commodity futures. Additional recommendations in the November report included encouragement of the ISDA initiative to build an OTC derivative trade repository, advancement of disclosure of aggregated open interest information from exchange trading; and calling for improvements in data available from physical markets, specifically recommending a more detailed study on the impact of oil price reporting agencies.

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10 IOSCO Technical Committee Task Force on Commodity Futures Markets: Final Report (March 2009) http://www.iosco.org/library/pubdocs/pdf/IOSCOPD285.pdf

11 Task Force on Commodity Futures Market, Survey, Report of the Technical Committee of IOSCO http://iosco.org/library/pubdocs/pdf/IOSCOPD325.pdf.

12 Task Force on Commodity Futures Market, Report to G-20, Report of the Technical Committee of IOSCO http://iosco.org/library/pubdocs/pdf/IOSCOPD324.pdf.

13 Task Force on Commodity Futures Markets Report to the G-20, Report of the Technical Committee of IOSCO http://iosco.org/library/pubdocs/pdf/IOSCOPD340.pdf.

The Task Force continues to support the previous recommendations made and work to date, under the overall aim that increased transparency to regulators and market participants of activities in exchange-traded, OTC derivative and physical markets serves to enhance the functioning of the market, particularly the process of price discovery.

Chapter 4 Current Work

The Task Force is taking forward the requests made by the G20 in its Communiqué issued at the November meeting in Seoul in a number of areas, encompassing improvements and investigation into the supervision and transparency of exchange-traded, OTC derivative and physical commodity markets – focusing on oil in part as well as commodities more widely. These are detailed below.

A. Supervision of Commodity Derivative Markets: Review of the Tokyo Communiqué

The November 2010 Task Force report highlighted a number of considerations, necessary for appropriate design of commodity futures contracts. This report referenced the content of the Tokyo Communiqué on Supervision of Commodity Futures Markets G*uidance on Standards of Best Practice for the Design and/or Review of Commodity Contracts*[14] which sets out a number of criteria including: Accountability; Economic Utility; Correlation with Cash Market; Settlement and Delivery Reliability; Responsiveness; and Transparency. The Tokyo Communiqué also included important *Guidance on Components of Market Surveillance and Information Sharing*.

The Tokyo Communiqué has endured as a fundamental reference document for regulators and market supervisors. The content of both of its sections remains largely relevant today, despite the time elapsed since the initial publication of the Communiqué in 1997. However, the Task Force has undertaken work to update the content of the Communiqué in light of market developments over the intervening period. These new recommendations will set out a number of proposed sections, which renew old sections and incorporate new ones that reflect the collective experience of all members of the Task Force. The areas to be covered in the reviewed document will include:

- **Recommendations for the Design and/or Review of Physical Commodity Futures Contracts**

  Accountability: The competent market authority should establish a clear framework as to design and review criteria or procedures. Market authorities should be accountable for compliance with statutory and/or self-regulatory standards and should retain powers to address and where necessary to vary the provisions of existing contracts which produce manipulative or disorderly conditions.

  Economic Utility: Contracts should meet the risk management needs of potential users and promote price discovery of the underlying commodity.

  Correlation with Cash Market:[15] Contract terms and conditions generally should reflect the operation of (i.e., the trading in) the underlying cash market and avoid impediments to delivery.

14 Tokyo Communiqué is available at: http://www.cftc.gov/ucm/groups/public/@internationalaffairs/documents/file/oia_tokyorpt.pdf, http://www.meti.go.jp/policy/commerce/intl/tkyc.pdf

15 The term "cash market" refers to the market for trading of the product underlying the commodity contract.

Promotion of Price Convergence through Settlement Reliability: Settlement and delivery procedures should reflect the underlying cash market and promote reliable pricing relationships and price convergence. Settlement and delivery terms should be regularly evaluated to ensure that they meet this standard.

Responsiveness: The views of potential contract users should be taken into account in designing commodity contracts.

Transparency: Information concerning the contract's terms and conditions, as well as other relevant information concerning delivery and pricing, should be readily available to market authorities and to market users.

- **Recommendations for Market Surveillance, Transparency and Information Sharing**

Framework for undertaking market surveillance: Each commodity futures market and other market authority should have a clear framework for conducting market surveillance, compliance and enforcement activities and there should be oversight of these activities. A market surveillance program should take account of a trader's related financial and underlying market positions. The overall framework should be structured to detect and take action against manipulative or abusive schemes that might implicate trading on multiple exchange and OTC markets. Market surveillance programs should be supported by sufficient resources, access to cash market data and analytical capabilities.

Access to information: Market authorities should have the ability to access information on a routine and non-routine basis for on-exchange and over-the-counter markets as well as the ability to get information on related cash markets as needed. In particular, market authorities should have the authority to access and reconstruct a full audit trail of transactions; access information on large positions; access information on the size and beneficial ownership of positions in order to aggregate positions held under common ownership and control; and to take appropriate action where a market user does not make information available when requested.

Collection of Information: Market authorities should collect information on a routine and non-routine *as needed* basis regarding on-exchange and related cash and over-the-counter markets. The scope of data collection should be designed to assess whether the market is functioning properly. Futures market regulators should monitor information that permits them to identify large positions and the overall composition of the market. Market authorities should establish predetermined trigger levels appropriate to their markets for this purpose and continuously monitor the size of positions on their markets. Effective surveillance of electronic markets requires real-time monitoring.

Analysis of Information: Analysis of information conducted by market authorities should be appropriate for and tailored to the type of information collected and both collection and analysis of information should occur quickly. The speed of analysis should be commensurate with the trading dynamics of the supervised market. Some analysis should occur on a real-time basis, particularly to detect intra-day trading abuses.

Powers and capacity to respond to market abuse: market authorities should have adequate powers and capacity to investigate actual or suspected market abuse, including attempted manipulation and cross-market manipulation (i.e. involving futures, OTC derivatives and cash markets).

Intervention Powers in the Market: Market authorities should have, and use, effective powers to intervene in the markets to prevent or to address market abuse or a disorderly market. There should be clarity as to the types of intervention which could occur. Powers of intervention should include formalised position management powers, including the authority to set ex ante position limits where appropriate, to take action over positions which may potentially prejudice orderly market functioning at any stage of the contract; powers to impose price movement limits for given time periods (e.g. intra-day); or impose trading halts or *cool down* periods, all of which should be carefully designed and applied in the context of each specific commodity futures market.

Disciplinary Sanctions against Members of the Market: Market authorities should have and use effective powers to discipline their members if an abusive practice (or other non-compliant behaviour) has occurred in the market. There should be clarity as to the types of disciplinary actions which can be taken including among other things: warnings; reprimands; re-training; restitution or fines; conditions on trading; prohibitions; suspension or expulsion from membership; or – where appropriate – a criminal referral.

Non-Members of the Market: The relevant authority should have power to take action against non-members of exchange markets if they have engaged in abusive or manipulative practices (or other non-compliant behaviour), or are suspected of doing so.

Market Transparency: Market authorities should publish as much commodity derivative market information as practical and useful. Publication of the aggregate exposures of different classes of traders, especially commercial users versus non-commercial[16] traders, within the bounds of maintaining trader confidence, should be considered a direct obligation. Given that commodity futures markets are price discovery markets, in which the futures price tracks the prices of and signals information and expectations about the direction of the underlying markets information about the underlying physical commodity is key for the satisfactory functioning of the futures market and reliable price discovery.

Information Sharing: Market authorities should cooperate with one another, both domestically and outside the jurisdiction, to share information for surveillance and disciplinary purposes. In particular market authorities should be able to share information on large exposures in linked markets and on supplies relative to these markets.

These recommendations (as summarised above) for market surveillance, information sharing, market transparency and the design of commodity futures contracts outlined here broadly intend to ensure the overall orderly and efficient functioning of derivative markets where the underlying is a physical commodity. The Task Force's potential recommendations on further areas are still being developed. The intention of the Task Force is to finalise and submit a full set of recommendations in time for the G20's October 2011 Finance Ministers meeting.

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16 Non-commercial traders refers to: a trader who does not hedge an underlying physical position, but who trades with the objective of achieving profits through the successful anticipation of price movements

B. Joint Report on Price Reporting Agencies

The Task Force's previous work has highlighted the need for a better understanding of the functioning of the markets underlying commodity derivative contracts (i.e. spot or physical markets), because they form an integral part of the overall price discovery process. Accordingly, the Task Force's November 2010 report highlighted this as an ongoing piece of work, recommending an assessment of the impact of oil market price reporting agencies by an international agency with expertise in the physical markets.

The Task Force's recommendation was taken up. In accordance with the G20 Seoul Communiqué, the Leaders recommended that a joint report be undertaken with the International Energy Forum (IEF), the International Energy Agency (IEA), and the Organisation of Petroleum Exporting Countries (OPEC) on how price assessments of price reporting agencies affect the transparency and functioning of oil markets.

The four international organisations have undertaken work to set out the necessary areas that require further investigation (i.e. have agreed terms of reference to direct the project). These include, *inter alia*: an overview of price reporting agency functioning; assessment of how the physical price assessment process works; a description and critique of the main methodologies; coverage of who is able to participate; assessment of the representativeness of the data provided by price reporting agencies; assessment of the degree of transparency provided by price reporting agencies; their rules and procedures governing their assessments; the range of benchmarks available to the global oil market; governance and conflict of interest management at price reporters; and the impact of price reporting agency benchmarks on financial markets. The report will include an assessment of how proposed regulatory reform in the United States, Europe and other territories may impact the operations of price reporting agencies.

Overall, the report intends to inform the G20 on the influence and impact that price reporting agencies have on price discovery for various types of crude oil and in particular how this feeds into financial markets, since many price reporting agency benchmarks are used in exchange settlement prices. IEA, IEF, OPEC and IOSCO are progressing with this work and intend to make an initial report to the G20's Finance Ministers at their April 2011 meeting, with final conclusions to follow in time for G20's Finance Ministers at their October 2011 meeting.

C. Regulation and Transparency of the Financial Oil Market

The main focus of the Task Force in monitoring OTC oil markets is to encourage ongoing work by the ISDA Commodities Steering Committee (COSC) towards the creation of trade repositories for commodities, initially focusing on financial oil transactions. The efforts of COSC have culminated in the drafting and imminent submission of a request for proposals (RFP) from potential service providers to set up a trade repository. Incorporating the observations and comments, along with those from the OTC Derivatives Supervisors' Group (ODSG), this process is now underway. The aim is for respondents to the RFP to outline their ability to create a trade repository – initially for financial oil – to be functional in early 2012.

This repository is intended to record, as a starting point, all oil financial derivative trade types in a centralised database and to provide a trade report structure in line with applicable regulatory requirements by a target date of Q1 2012. Although the Task Force encourages any effort that provides worthwhile transparency, it does not specifically endorse or oversee ISDA's request for proposal process.

The scope of the repository includes external facing (i.e. transactions with third parties) financial OTC derivative trades, including any exotic or structured transactions and all OTC transactions which are given up to a clearing house. Cooperation with clearing houses and exchanges will be a pre-requisite. The repository shall provide a structure for market participants to report transaction information both to regulators and to market participants, with flexibility for regulatory data requests and changes in content and functionality.

Chapter 5 Future Work

In respect of the current workstreams, the next steps are detailed below.

- **Supervision of Commodity Derivative Markets**

  The ongoing work to revise and improve the standards of best practice set out in the Tokyo Communiqué is intended to have a broad focus, not just on oil, but to have a bearing on commodity derivative markets as a whole. While commodities have many idiosyncrasies, the futures contracts which provide the function of price discovery for the underlying should be administered and designed with a number of key characteristics in mind that will be outlined in this document. These standards will be available and complete for the meeting of G20 Finance Ministers in October 2011.

- **Joint Report on Price Reporting Agencies**

  The current work on a joint report with IEF, IEA and OPEC to produce a report on the impact of oil price reporting agencies will proceed in two phases as per the work outline agreed between the four international organisations. The first phase is an initial report, for the April meeting of G20 Finance Ministers, detailing background, coverage and methodologies of the agencies, while the second phase will involve further analysis on the information presented in the initial phase and is intended to be available to G20's Finance Ministers for their October 2011 meeting.

- **Regulation and Transparency of the Financial Oil Market**

  The Task Force intends to continue working collaboratively with COSC and ODSG towards the creation of a trade repository for financial oil, with a view to expanding into other commodities on a gradual basis, dealing with the unique characteristics that each different class of commodity involves. In these efforts it will be necessary to have appropriate participation for each individual commodity to ensure the functionality of, and the information which, the trade repository (or trade repositories) holds is as relevant and useful as possible.

To date, the Task Force's focus has been primarily on oil markets, given their prominence as a commodity that impacts nearly all types of economic activity. The Task Force, however, recognises the need to broaden its mandate to other commodities, including agricultural and soft commodities, that have a similar bearing on economic activity. A wider mandate for the Task Force was recently approved by the IOSCO Technical Committee. In addition, the Task Force has agreed to recommend, for the consideration of the Technical Committee, that commodities be considered within IOSCO on a more permanent basis, reflecting the importance of commodity derivatives markets both within both the financial system and the global macroeconomic environment.

Whilst not yet approved by IOSCO's Technical Committee there are a number of areas which the Task Force may recommend as appropriate for its future consideration. These potentially include:

- *A comparative analysis of the scope of financial regulation in the commodities markets (regulated actors and products) in the main jurisdictions, and the development of recommendations if necessary to enhance international convergence.*

- *A comparative analysis of market abuse frameworks and experiences in the main jurisdictions, and the development of recommendations if necessary to enhance international convergence.*

- *Development of detailed recommendations on large trader reporting requirements, approaches to position management (incorporating position limits) and market surveillance practices, as well as other follow-up work which may potentially go beyond the level of consideration given in the revision of the Tokyo Communiqué.*

Chapter 6 Conclusion

The Task Force believes that the above account of its activities to date and of its future intentions demonstrates significant progress in advancing its mandate and responding to the G20's requests. The Task Force remains focused on its goal of advancing recommendations and supporting initiatives which enhance supervisory best practice, improve transparency and which support improved market functioning.

The work of the Task Force has recently focused almost exclusively on oil derivatives, involving recommendations for necessary improvements to transparency and functioning of oil markets. However the Task Force recognises that its focus should broaden to consider other commodity derivative markets, in appreciation that other markets including agricultural markets are crucial for our economies and that each market has individual intricacies specific to each particular underlying commodity.

The Task Force's work to produce effective recommendations by revising and updating the Tokyo Communiqué guidance intends to set out key areas that are required for the orderly functioning of all commodity derivatives markets, while taking into account that they need to be flexible enough to be appropriate for various commodities.

Considering the Task Force's recommendations, these remain relevant and should be considered as significant progress towards an enhanced level of transparency for supervisors of, and participants in, commodities markets to enable their appropriate and orderly functioning.