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International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
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IOSCO announces commodity derivatives markets supervisory principles

The Technical Committee of the International Organization of Securities Commissions (IOSCO) has today published its report on *Principles for the Regulation and Supervision of Commodity Derivatives Markets*. The Report, prepared by the Task Force on Commodity Futures Markets, addresses the G20's November 2010 request for further work on regulation and supervision of physical commodity derivatives markets.

The *Principles* are aimed at ensuring a globally consistent approach to the oversight of commodity derivatives markets which will deliver effective supervision, combats market manipulation and improves price transparency. They are aimed at contributing to enhanced price discovery in commodity derivative markets as opposed in themselves to addressing absolute price levels or price volatility in an underlying physical commodity.

The *Principles* update and add to the guidance in the 1997 *Tokyo Communiqué* which set benchmarks for contract design, market surveillance and information sharing for physical commodity derivatives markets. They are primarily intended to apply to exchange-traded futures contracts, futures contracts options and options referenced to a physical commodity, index or price series which may settle in cash or by physical delivery, although many of the principles will also be applicable to OTC markets.

Masamichi Kono, Chairman of IOSCO's Technical Committee, said:

> "The Principles set out in this Report help to ensure that the physical commodity derivatives markets serve their fundamental price discovery and hedging functions, while operating free

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from manipulation and abusive trading schemes.

"Market authorities play a key role in ensuring that commodity derivatives operate transparently, efficiently, and fairly, and these Principles, which include specific recommendations on information gathering and intervention powers, will help them achieve these objectives. We urge all relevant market authorities to review their policies to put these Principles into effect.

"We firmly believe that these Principles represent a valuable contribution to addressing the G20's legitimate concerns regarding the efficiency and integrity of commodity derivative markets by presenting concrete recommendations for market authorities that will support better functioning, better policed and more transparent commodity derivatives markets."

Principles for the Regulation and Supervision of Commodity Derivatives Markets

In developing these *Principles* the Task Force have added to the areas of guidance in the *Tokyo Communiqué* to take account of their experiences and to respond to contemporary trends in commodity derivatives markets. These trends include: the scale, speed and cross-border nature of trading on markets; novel forms of market abuse; investors focus on commodities as an asset class and the impact of new investor classes and futures trading on physical commodity prices; the rapidly evolving regulation of OTC derivatives markets; and regulation of market participants.

The *Principles* themselves are high level standards, supported by detailed explanatory background information on how regulators can apply them in their respective jurisdictions. They address the following areas:

- **Design of Physical Commodity Derivatives Contracts** – focused on establishing design concepts for futures contracts;

- **Surveillance of Commodity Derivatives Markets** - including the basic framework for surveillance, powers needed to access information for both on-exchange, OTC, and cash market transactions, emphasises the importance of monitoring large positions and ;
- **Disorderly Markets** –sets out the powers needed by market authorities to intervene in the markets to address disorderly conditions;
- **Enforcement and Information Sharing** – addresses the basic framework for a successful enforcement program, including required powers; and
- **Enhancing Price Discovery and Transparency** – how to improve this to the public and regulators through the publication of open interest according to certain categories of traders, the establishment of formalised systems to allow regulators to impose position limits and the promotion of the reporting of OTC derivatives to trade repositories.

The Task Force continues to work with the International Energy Agency, International Energy Forum and the Organisation of the Petroleum Exporting Countries on a report on how oil spot markets are assessed by Price Reporting Agencies and how this affects the transparency and functioning of oil markets, which was requested by the G20 in its Seoul Summit Leaders Declaration of November 2010.

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NOTES FOR EDITORS

1. FR07/11 *Principles for the Regulation and Supervision of Commodity Derivatives Markets*;

2. *Task Force on Commodity Market Futures – Report to the Financial Stability Board* – April 2011;

3. *Task Force on Commodity Market Futures – Report to the G20* – November 2010;

4. *Tokyo Communiqué*;

5. IOSCO is the leading international policy forum for securities regulators. The organization's membership regulates more than 95% of the world's securities markets in over 100 jurisdictions and its membership is steadily growing.

6. The Technical Committee, a specialised working group established by IOSCO's Executive Committee, is made up of 18 agencies that regulate some of the world's larger, more developed and internationalized markets. Its objective is to review major regulatory issues related to international securities and futures transactions and to coordinate practical responses to these concerns. Mr. Masamichi Kono, Vice Commissioner for International Affairs at the Financial Services Agency of Japan (JFSA), is the Chairman of the Technical Committee. The members of the Technical Committee are the securities regulatory authorities of Australia, Brazil, China, France, Germany, Hong Kong, India, Italy, Japan, Mexico, the Netherlands, Ontario, Quebec, Spain, Switzerland, United Kingdom and the United States.

7. IOSCO aims through its permanent structures:

    - to cooperate in developing, implementing and promoting adherence to internationally recognised and consistent standards of regulation, oversight and enforcement in order to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks;

    - to enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in enforcement against misconduct and in supervision of markets and market intermediaries; and

    - to exchange information at both global and regional levels on their respective experiences in order to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

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