

# PRESS COMMUNIQUÉ

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## **Supervisory Information Framework for Derivatives and Trading Activities**

The Basle Committee on Banking Supervision and the Technical Committee of the International Organization of Securities Commissions (IOSCO) are today releasing a revision of the supervisory information framework for the derivatives activities of banks and securities firms which was originally published in May 1995. This revision brings the framework up to date with current practice in risk management for trading and derivatives activities, particularly with regard to market risk.

The 1995 framework provided guidance on information that supervisors should collect about trading and derivatives activities, and has been widely implemented by banking and securities supervisors. Since the release of the joint supervisory information framework for derivatives, the Basle Committee amended its Capital Accord in 1996 to address market risk and in 1997 issued risk management guidance for banks with respect to interest rate risk. In addition, IOSCO has been considering options for capturing market risk in the capital adequacy and risk management standards that apply to securities firms.

The supervisory information framework presented in this paper is in two parts. The first is a catalogue of data that the Committees have identified as important for an evaluation of the risks present in trading and derivatives activities, and that supervisors may build upon as they expand their reporting system. The second is a common minimum framework of internationally harmonized baseline information about derivatives activities (a subset of the catalogue) that the two Committees recommend supervisors have available to them. The common minimum framework, while focusing primarily on information useful for assessing institutions' overall involvement in derivatives activities and their credit risk, has been expanded in this revision to illustrate information which is useful for assessing the market risk of trading and derivatives activities.

This initiative is part of the continuing efforts by the Basle Committee and by IOSCO to monitor the trading and derivatives activities of banks and securities firms. The revision also builds upon earlier work of the two Committees, including the 1994 joint release of guidelines for improving risk management of derivatives activities and guidance on risk management. In 1995, the Basle Committee and IOSCO made joint recommendations for

enhancing public disclosure in this important area and these have been re-emphasized in annual joint disclosure survey reports since that year.

Given the continuing expansion of trading and derivatives activities, it is important that supervisors further improve their understanding of how such activities affect the overall risk profile and profitability of banks and securities firms. The framework therefore presents examples of the type of information that the two Committees believe should be available within regulated firms and their material affiliates active in the derivatives markets or with significant exposure to market risks, and that should be accessible to supervisors. While the 1995 supervisory information framework concentrated on derivatives, the 1998 update expands the framework to more comprehensively address the market risk exposure arising from trading in both cash and derivative instruments.

Efficient and flexible regulation is important, and the framework provides for several ways to collect supervisory information, including on-site examinations and external audits, discussions with institutions, special surveys, as well as regular reporting procedures. The framework encourages supervisors to draw from internal information systems that banks and securities firms are developing to monitor their exposure to risks. This reporting framework is also consistent with the risk management standards and capital adequacy requirements that may be applicable to global banks and securities firms.

September 2<sup>nd</sup>, 1998

### **Notes for Editors**

1. The Basle Committee on Banking Supervision is a Committee of banking supervisory authorities which was established by the central bank Governors of the Group of Ten countries in 1975. It consists of senior representatives of bank supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States. Its current Chairman is Mr. W.J. McDonough, President of the Federal Reserve Bank of New York. The Committee usually meets at the Bank for International Settlements (BIS) in Basle, where its permanent Secretariat is located.
2. The Technical Committee of IOSCO is a Committee of supervisory authorities for securities firms in major industrialised countries. It consists of senior representatives of the securities regulators from Australia, France, Germany, Hong Kong, Italy, Japan, Malaysia, Mexico, the Netherlands, Ontario, Quebec, Spain, Sweden, Switzerland, the United Kingdom, and the United States. Its current Chairman is Mr. Anthony Neoh, Chairman of the Securities and Futures Commission of Hong Kong.
3. This revised framework was prepared in a collaboration between the Transparency Sub-group of the Basle Committee and the IOSCO Working Party

on the Regulation of Financial Intermediaries. The Transparency Sub-group is chaired by Ms. Susan Krause of the U.S. Office of the Comptroller of the Currency, and the IOSCO Working Party on the Regulation of Financial Intermediaries is chaired by Mr. Richard Britton of the U.K. Financial Services Authority.

4. The text of this report can be obtained from the BIS Web Site at <http://www.bis.org/> and from the IOSCO Web Site at <http://www.iosco.org/> as from the date of publication.