FSB FINANCIAL STABILITY BOARD

OTC Derivatives Market Reforms

Third Progress Report on Implementation

15 June 2012

Foreword

This is the third progress report by the FSB on OTC derivatives markets reform implementation.

In September 2009, G20 Leaders agreed in Pittsburgh that:

All standardised OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by end-2012 at the latest. OTC derivative contracts should be reported to trade repositories. Non-centrally cleared contracts should be subject to higher capital requirements. We ask the FSB and its relevant members to assess regularly implementation and whether it is sufficient to improve transparency in the derivatives markets, mitigate systemic risk, and protect against market abuse.

In June 2010, G20 Leaders reaffirmed their commitment to achieve these goals. In its October 2010 report on *Implementing OTC Derivatives Market Reforms* (the October 2010 Report), the FSB made 21 recommendations addressing practical issues that authorities may encounter in implementing the G20 Leaders' commitments.

The FSB's first two implementation progress reports were published in April 2011 and October 2011. The October 2011 progress report cautioned that, with only just over one year until the end-2012 deadline for implementing the G20 commitments, few FSB members had the legislation or regulations in place to provide the framework for operationalising the commitments. While recognising the implementation challenges and the complexity of the needed laws and regulations, the report concluded that jurisdictions should aggressively push forward to meet the G20 end-2012 deadline in as many reform areas as possible.

The G20 Leaders reaffirmed their commitments at the November 2011 Summit, including the end-2012 deadline. They agreed to cooperate further to avoid loopholes and overlapping regulations and called on the FSB to continue to report on progress towards meeting those commitments.

This current progress report, being published with just over six months to go to the end-2012 deadline, provides an update on progress in international policy development, national and regional legislation and regulations and a more detailed assessment of progress in practical implementation measures to meet the G20 commitments relating to central clearing, exchange and electronic platform trading, reporting to trade repositories, capital requirements, and standardisation.

The FSB's OTC Derivatives Working Group will continue to monitor implementation of OTC derivatives reforms. With the end-2012 deadline rapidly approaching, the FSB is committed to maintaining its intense focus on monitoring and assessing the adequacy of progress being made to fully and consistently implement the G20 commitments through the development of international standards, the adoption of legislative and regulatory frameworks, and actual changes in market structures and activities.

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Executive summary

Since the FSB's previous progress report in October 2011, encouraging progress has been made in setting international standards, the advancement of national legislation and regulation by a number of jurisdictions and practical implementation of reforms to market infrastructures and activities. But much remains to be completed by the end-2012 deadline to achieve the G20 commitments.

Broadly speaking, the jurisdictions currently with the largest markets in OTC derivatives – the EU, Japan and the US – are the most advanced in structuring their legislative and regulatory frameworks. They expect to have regulatory frameworks in place by end-2012 and practical implementation within their markets is well underway. Other jurisdictions are generally less advanced although, as this report indicates, progress has been made by many of them, particularly with respect to central clearing and reporting to trade repositories (TRs). (The summary table following the Executive Summary provides a simplified overview of legislative and regulatory progress across the membership of the FSB, with the main text and appendices of this document providing further details.)

One reason for the slower timetables in some jurisdictions has been that authorities had been waiting for the key elements of the regulatory frameworks in the EU, Japan and the US to be finalised before putting their own legislation in place, in an effort to be consistent with these frameworks. Additionally, some jurisdictions have sought greater certainty about the application of international principles and safeguards to cross-border financial market infrastructure, including central counterparties (CCPs) and TRs, so as to make an informed decision about the appropriate form of market infrastructure for their jurisdiction.

Since the October 2011 progress report, standard setting bodies have made significant progress in developing the international policies that facilitate the advancement of OTC derivatives reforms across jurisdictions, notably:

- CPSS and IOSCO issued in April 2012 Principles for Financial Market Infrastructures (PFMIs), which are an important milestone in the global development of a sound basis for central clearing of all standardised OTC derivatives.
- IOSCO published in February 2012 recommendations on requirements for mandatory central clearing.
- CPSS and IOSCO in January 2012 outlined OTC derivatives data reporting and aggregation requirements, recommending that TRs implement measures to provide authorities with effective and practical access.
- IOSCO in June 2012 published standards for the regulation of OTC derivatives market intermediaries.

Additionally, the Committee on the Global Financial System (CGFS) reported in November 2011 on the macro-financial implications of alternative arrangements for access to CCPs. IOSCO published in January 2012 further analysis of the types of organised trading platforms (*i.e.* exchanges and electronic trading platforms) available for OTC derivatives transactions. These reports provide further insight to national authorities deciding on the form of financial market infrastructures needed in their jurisdictions. International workstreams are also progressing rapidly to develop frameworks for a global legal entity identifier (LEI); guidance

on resolution of CCPs; international principles on margin requirements for non-centrally cleared derivatives; capital adequacy rules for exposures to CCPs; and work on regulatory access to data from TRs.

With international standard setting and policy guidance now largely complete, jurisdictions need to promptly develop and implement legislative and regulatory frameworks. These frameworks should be comprehensive, consistent, and also flexible enough to facilitate continued cooperation on issues as they arise because not all potential issues can be identified and solved in advance of legislative and regulatory implementation. Extensive cross-border cooperation is needed on an ongoing basis to promote the safety and efficiency of market infrastructures, including CCPs and TRs.

Full and consistent implementation by all FSB members is important to reduce systemic risk and the risk of regulatory arbitrage that could arise if there are significant gaps in implementation. The OTC derivatives markets are already global markets, in which market participants can easily redirect their activities to other jurisdictions to take advantage of regulatory arbitrage if jurisdictions have not fully and consistently implemented the measures.

But legislation and regulation are not by themselves enough. Market participants need to take practical steps to ensure that the necessary market infrastructure is available by further expanding the number and scope of OTC derivatives transactions that are standardised, centrally cleared, traded on organised platforms and reported to TRs. Failure to implement the commitments by the agreed deadline risks a loss of momentum for reform, in addition to failing to deliver the benefits of improved transparency, mitigation of systemic risk and protection against market abuse.

Under the guidance of the OTC Derivatives Supervisors Group (ODSG), market participants made some strides towards increased central clearing and trade reporting even before agreement on the G20 commitments. For example, among the fourteen largest derivatives dealers (the "G-14"), a significant proportion of OTC interest rates and credit derivatives trades are being reported to TRs. This proportion continues to increase, albeit recently at a slower pace in anticipation of the adoption of regulatory frameworks. TRs are or will soon be in place to support trade reporting in all the major OTC derivatives asset classes. Similarly, standardisation by the largest global dealers and other major market participants has advanced, so that a higher proportion of derivatives can be electronically processed.

With respect to centrally clearing OTC derivatives, although some data exists to measure this progress, data sources continue to be incomplete and not directly comparable. In the population of outstanding trades where products are already offered for clearing by a CCP and one counterparty is a G-14 dealer, rough estimates indicate half of the notional outstanding of interest rate derivatives and credit default swaps were centrally cleared as of end-2011. In contrast, looking instead at the total population of outstanding trades (including non-standardised products and all counterparties), rough estimates indicate one-eight of credit default swaps and one-third of interest rate derivatives were centrally cleared as of end-2011. Further progress is still needed to increase central clearing.

This report concludes that good progress has been made from an international policy perspective and from a practical perspective in those jurisdictions with the largest OTC derivatives markets. However all jurisdictions and markets need to aggressively push ahead to achieve full implementation of market changes by end-2012 to meet the G20

commitments in as many reform areas as possible. Jurisdictions have sufficient information about international standards and policies to put in place the needed legislation and regulation. They should do so promptly, and in a form flexible enough to respond to cross-border consistency and other issues that may arise.

Central clearing

By harmonising and strengthening international principles for different types of financial infrastructure and providing guidance for regulatory cooperation, CPSS and IOSCO's Principles for Financial Market Infrastructures (PFMIs), published in April 2012, achieve an important milestone in the global development of a sound basis for central clearing of all standardised OTC derivatives. The IOSCO Report on Requirements for Mandatory Clearing provides important guidance for jurisdictions on the process for setting the scope of central clearing requirements.

In January 2012, the FSB also responded to the request from some jurisdictions for guidance to help them make informed decisions about the form of CCPs to use in order to meet the G20 commitment on central clearing by identifying four safeguards for a resilient and efficient global framework for central clearing and monitoring the steps taken by international workstreams to address them. The four safeguards are: (i) fair and open access by market participants to CCPs, based on transparent and objective criteria; (ii) cooperative oversight arrangements between all relevant authorities, both domestically and internationally, that result in robust and consistently applied regulation and oversight of global CCPs; (iii) resolution and recovery regimes that ensure the core functions of CCPs are maintained during times of crises and that consider the interests of all jurisdictions where the CCP is systemically important; and (iv) appropriate liquidity arrangements for CCPs in the currencies they clear. The first two safeguards are addressed by the recently published PFMIs and substantial progress has been made with respect to third and fourth safeguards, as described in this report.

Although the legislative process is underway in a number of jurisdictions to achieve central clearing of all standardised OTC derivatives contracts, only Japan and the United States have adopted the necessary legislation, while the European Union has reached political agreement regarding legislation in this area. The US CFTC has finalised regulations regarding central clearing and the SEC, Japan and the EU plan to have a full set of implementing regulations in place by end-2012. Most other jurisdictions are at varying stages of preparation of legislative frameworks. Some are still considering whether to introduce legislation. At this point, although most authorities estimate that a significant proportion of interest rate derivatives will be centrally cleared by end-2012, they are less confident of progress for other asset classes and find it hard to make firm estimates in any asset class.

A number of outstanding issues relate to concerns about cross-border consistency, the risk of overlaps and gaps in implementation, and access for market participants to cross-border CCPs. At the time of the October 2011 progress report, a number of jurisdictions indicated that they were waiting for international standards for CCPs and mandatory clearing to be further developed and for the regulatory frameworks of the US and EU to be finalised before developing their own frameworks. Jurisdictions now have much of the information they requested in order to make informed decisions on the appropriate legislation and regulations

to achieve the end-2012 commitment to centrally clear all standardised OTC derivatives and should adopt the necessary legislation and implementing regulations. The financial industry should continue working with authorities on practical steps to implement central clearing, such as broadening the scope of products cleared as well as the range of entities with access to clearing arrangements.

Exchange and electronic platform trading and market transparency

Jurisdictions continue to be markedly behind in implementing the G20 commitment that standardised contracts should be traded on exchange or electronic trading platforms, where appropriate. Increasing the proportion of the market traded on organised platforms is important so as to improve transparency, mitigate systemic risk and protect against market abuse. The agreed work on international guidance for organised trading has been completed and no further international work is planned. Countries that have not yet developed legislation and regulation should accelerate their work to meet the commitment in this area by end-2012.

Authorities need to take action to explore the benefits and costs of public price and volume transparency, as recommended by the FSB in its October 2010 Report, including the potential impacts on wider market efficiency, such as on concentration, competition and liquidity. To date, the US is the only jurisdiction that has passed legislation with requirements for pre- and post-trade transparency and proposed detailed regulations; the EU has made legislative proposals to introduce pre- and post-trade transparency requirements; and Japan has submitted draft legislation that includes provisions to improve the transparency of derivatives markets.

Reporting to trade repositories (TRs)

Most countries have made progress in developing their legislative frameworks to meet the G20 commitment that all OTC derivatives contracts be reported to TRs. Although few countries have adopted legislation, the majority have at least published consultative documents regarding the establishment of TRs and the related reporting requirements. Additionally, TRs are developing to accept reporting of contracts in each of the five major asset classes. With legislation still under development, however, comprehensive reporting of transactions to TRs will not be fully in place by end-2012. Authorities need to put regulatory regimes in place rapidly, while authorities together with market participants need to continue to take practical steps to achieve as wide a coverage of the market by TRs as possible by the end of this year.

For the data collected by TRs to be useful to authorities, ongoing work needs to be completed on the scope of data needed by authorities and on technical issues, such as reporting formats, the LEI and data aggregation. Moreover, issues remain regarding authorities' effective and practical access to data in foreign (and domestic) TRs, although progress is being made. TRs should work with the financial industry to ensure that the data reported by market participants to TRs is in a useable format so that it can be aggregated and meets the requirements of authorities in terms of content. The FSB encourages continued multilateral and bilateral dialogues among jurisdictions and with industry in order to discuss these issues, since access by authorities to TR data is critical for assessing systemic risk and financial stability; conducting market surveillance and enforcement; supervising market participants; conducting

resolution activities; as well as for monitoring progress toward meeting the G20 commitments on OTC derivatives.

Capital, margining and bilateral risk management requirements

The commitment to impose higher capital requirements to reflect the relatively higher counterparty credit risk of non-centrally cleared derivatives contracts is expected to be met internationally in the case of banks through the Basel III standards to be adopted at the start of 2013. The new standards have already set out the requirements with respect to non-centrally cleared transactions. International standards for the capital treatment of banks' exposures to CCPs should be provided soon and will allow jurisdictions to implement this element of Basel III with effect from the 1 January 2013 deadline.

A few jurisdictions are also planning to implement capital requirements for non-banks that incentivise central clearing. It is important that other jurisdictions ensure that their implementation of the G20 commitments provides banks and other market participants with the right incentives to centrally clear.

With regard to margining for non-centrally cleared derivatives, most jurisdictions state that they are waiting to follow the guidance to be given by the international principles currently being developed for consultation by mid-2012 and are monitoring international developments before they decide whether to implement stronger counterparty risk management requirements.

Higher capital and margining requirements for non-centrally cleared contracts relative to centrally cleared contracts are expected to provide incentives for standardisation and central clearing of contracts. Once international standards are more fully developed, it should be possible to better estimate the overall impact of these regulatory and supervisory actions on market incentives to centrally clear transactions.

Standardisation

Increased standardisation of contracts is a core element of meeting the G20 commitments relating to central clearing, organised trading and reporting to TRs and to increase the benefits in terms of improved transparency, reduced systemic risk, and greater protection against market abuse. Countries have committed to trade on organised platforms, where appropriate, and centrally clear all standardised derivatives. Therefore cross-border consistency in how standardisation is defined is important to avoid regulatory arbitrage and thereby enhance financial stability. The ODSG works with the largest global dealers and other major market participants to promote collective industry action to increase product and process standardisation. Additionally, a number of jurisdictions report further progress at the national level in developing, publicising and standardising product documentation.

Nevertheless, incomplete currently available data mean that the level of standardisation in the market, and the extent to which it is increasing, can only be roughly estimated. The financial industry should continue to improve the quality of data on existing standardisation levels through the standardisation matrices provided to the ODSG. As data availability improves, through these matrices and later through TRs and other sources, regulators will be able to better monitor and assess the extent of standardisation.

Issues raised in implementation

Concerns exist about the pace of adoption of national frameworks and sequencing of regulatory reforms. A number of jurisdictions state that they are waiting to formulate legislative and regulatory frameworks until they have further details of the implementing regulations in the EU and the US, in order to understand the cross-border impact of those regulations and to avoid inconsistencies.

It is important that jurisdictions that have not yet developed their national legislative and regulatory frameworks do so quickly, without waiting for the final elements of regulatory frameworks in major derivatives markets, in order to meet the end-2012 deadline. Indeed, it is difficult to identify and address potential inconsistencies between jurisdictions and to find workable solutions for problematic cross-border impacts until a jurisdiction has developed its own national framework. Delays in regulatory efforts could also risk a loss of momentum more widely for completing reforms in a timely manner. The EU and US frameworks are now either finalised or well advanced in many of the key areas. Ongoing bilateral and multilateral discussions between jurisdictions are helping to address potential inconsistencies in regulatory frameworks, and the FSB encourages these discussions to continue.

Next steps

The FSB will focus increasingly on monitoring not only the legislative and regulatory steps that have been achieved but also the concrete implementation that has taken place. To assist in doing so, the FSB will seek to further improve data and other survey information on the extent to which OTC derivatives are in practice standardised, centrally cleared, traded on organised platforms and reported to TRs. In addition, once jurisdictions complete their legislation and regulation, further analysis will be needed to identify any new risks that become apparent in the implementation process and to address them. For the next progress report, the FSB intends to put additional focus on the readiness of infrastructures to provide central clearing, platform trading and reporting of OTC derivatives, the practical ability of industry to meet the requirements and the remaining steps for industry to take. As part of this focus, the FSB intends to present information on the availability of infrastructure in summary tabular form.

As the implementation deadline is reached and reforms take effect, and indeed as the G20 originally requested in 2009, the FSB and its members should not only assess whether detailed individual reforms have been fully implemented, but also whether – looked at in total – the steps taken are sufficient to meet the G20's underlying goals of improving transparency in the derivatives markets, mitigating systemic risk, and protecting against market abuse.

Summary Progress of OTC derivatives market reforms[1]

Government framework												
Status of applicable legislation							**Status of implementing regulation**					
	Central Clearing	**Exchange/ Platform trading**	**Reporting to TRs**	**Capital**	**Margin[2]**	**Standardisation[3]**	**Central clearing**	**Exchange/ Platform trading**	**Reporting to TRs**	**Capital**	**Margin**	**Standardisation**
Argentina[4]	Adopted	Adopted					Adopted	Adopted				
Australia	Consultation	Consultation	Consultation	Proposed		Proposed						
Brazil[5]			Adopted	Adopted					Adopted			
Canada[6]	Adopted		Adopted	N/A						Consultation		
China	Proposed	Adopted	Adopted			Adopted	Proposed	Adopted	Adopted			
European Union	Agreement	Proposed	Agreement			Agreement	Consultation		Consultation			
Hong Kong SAR	Proposed	Proposed	Proposed	Adopted	Proposed	Proposed				Consultation		
India			Adopted			Adopted			Adopted			Adopted
Indonesia[7]		Adopted	Adopted			Adopted		Adopted	Adopted			Adopted
Japan	Adopted	Proposed	Adopted			Adopted	Proposed		Proposed			Proposed
Mexico												
Republic of Korea	Proposed		Adopted			Proposed						
Russia	Adopted	Adopted	Adopted			Adopted						
Saudi Arabia[8]	N/A	N/A	N/A	N/A	N/A	N/A						Adopted
Singapore	Consultation	Consultation	Consultation	Proposed		Consultation						
South Africa	Proposed		Proposed			Proposed						
Switzerland	Consultation	Consultation	Partially Adopted[9]	Adopted		Consultation						
Turkey												
United States	Adopted	Adopted	Adopted	Adopted	Adopted	Adopted	Adopted[10]	Proposed	Adopted[10]	Proposed[10]	Proposed[10]	

Key:	
	No action has been taken to date
N/A	Not applicable in jurisdiction (*i.e.* implementing rules may not be needed in certain jurisdictions)
Consultation	Official documents have been published for public consultation
Proposed	Draft legislation or regulations have been submitted through the appropriate process
Agreement	Political agreement reached, awaiting a date for final adoption
Adopted	Final legislation or rules have been adopted by the appropriate bodies and are enforceable

[1] This summary table provides a simple overview of progress in implementing the OTC derivatives reforms; for more detailed responses, please see Annex VIII, Tables 1-7.
[2] Jurisdictions have noted that they are implementing Basel III capital requirements and are monitoring the progress of the Working Group on Margining Requirements (WGMR) for guidance on developing margining requirements.
[3] Progress on standardisation here generally refers to having taken legislative steps to increase the use of standardised products.

[4] In Argentina, central clearing and trading organised platforms are not requirements. However, Argentina issued regulations in 2007 to provide incentives for trading derivatives on organised platforms that offer central clearing. Argentina reports that a significant portion of derivatives trading is currently centrally cleared and traded on organised platforms as a result of existing regulation. Argentina reports that it will continue to consider whether additional legislation is needed.

[5] In Brazil, banks incur a capital surcharge when entering into a non-centrally cleared OTC derivative transaction.

[6] In Canada, authorising legislation for central clearing and reporting to TRs is in place in the provinces where OTC derivatives are primarily traded.

[7] Indonesia, certain types of equity derivatives products are required to be traded on exchange; Indonesia requires banks to report interest rate derivatives and FX derivatives transactions to the central bank.

[8] In Saudi Arabia, OTC derivatives reforms are going to be implemented through regulation issued by SAMA and the CMA. The authorities reported that a draft self assessment and a validation process has been completed. Saudi Arabia is currently reviewing the results of the draft self assessment prior to formally finalising and approving any recommendations. The self assessment will be finalised once the review process is complete and will assist in deciding any regulatory steps required.

[9] In Switzerland, there is existing legislation to require dealers to report information on derivatives needed for a transparent market. This legislation does not cover the entire scope of the G20 commitments and Switzerland is planning to publish additional legislation for public consultation in Q3 2012, along with other OTC derivatives reform initiatives.

[10] In the US, the CFTC has adopted several of the necessary rules for CCPs, mandatory clearing, and TRs; the SEC has yet to adopt its final rules. The CFTC and prudential supervisors have proposed regulations for capital and margining; the SEC has not yet made a proposal.

1. Detailed assessment of progress in meeting and issues relating to specific commitments

Set out in the main text below is an updated assessment of progress in the development of international standards and policies, the adoption of legislative and regulatory frameworks and implementation through changes in market practices and infrastructures for each of the G20 commitments, as well as a discussion of issues that have arisen in implementation. Progress in increasing the extent of standardisation of OTC derivatives is also discussed, as it is a core element for meeting the G20 commitments.

In the case of issues that were raised in the October 2011 progress report, this third progress report focuses on measures that have been, or are being taken to mitigate or address them. Where issues are raised for the first time in this progress report, the issues are described more fully together with potential steps, if any, that might be appropriate to address them.

This report also attaches a number of appendices and tables providing greater detail to the points addressed in the body of the report.

Appendix I to this report sets out a list of the international standard-setting and other workstreams relating to OTC derivatives reforms, identifying the responsible organisation and date of completion or expected completion date.

Appendix II sets out some information on international measures taken with respect to the four safeguards.

Appendices III to VII set out information from metrics and other indicators that have been developed for measuring progress in actual implementation of the commitments, and were first described in the October 2011 progress report. There continue to be significant challenges in collecting complete data necessary for assessing actual implementation of the G20 commitments. Solutions such as the metrics presented here are thus being used until centralised infrastructure provides access to data that can be readily aggregated across jurisdictions. Information will continue to be imperfect until centralised infrastructure is fully in place and reporting requirements are in force to ensure that comprehensive, reliable and accurate data are available from TRs.

For this third progress report (and as had been done for previous progress reports), the FSB surveyed its national and regional members and received progress reports from each of the standard setters and other international groups involved in OTC derivatives market reforms. In the survey for this report, the FSB focused particularly on obtaining information about the progress in legislation and regulation since the October 2011 progress report and on the degree to which progress has been made in actual implementation of changes to market practices and to systems. **Appendix VIII - Tables 1 to 7** summarises jurisdictions' responses to the survey.

1.1. Central clearing

By harmonising and strengthening international principles for different types of financial infrastructure and providing guidance for regulatory cooperation, CPSS and IOSCO's Principles for Financial Market Infrastructures (PFMIs), published in April 2012, achieve an important milestone in the global development of a sound basis for central clearing of

all standardised OTC derivatives. The IOSCO Report on Requirements for Mandatory Clearing provides important guidance for jurisdictions on the process for setting the scope of central clearing requirements.

In January 2012, the FSB also responded to the request from some jurisdictions for guidance to help them make informed decisions about the form of CCPs to use in order to meet the G20 commitment on central clearing by identifying four safeguards for a resilient and efficient global framework for central clearing and monitoring the steps taken by international workstreams to address them. The four safeguards are: (i) fair and open access by market participants to CCPs, based on transparent and objective criteria; (ii) cooperative oversight arrangements between all relevant authorities, both domestically and internationally, that result in robust and consistently applied regulation and oversight of global CCPs; (iii) resolution and recovery regimes that ensure the core functions of CCPs are maintained during times of crises and that consider the interests of all jurisdictions where the CCP is systemically important; and (iv) appropriate liquidity arrangements for CCPs in the currencies they clear. The first two safeguards are addressed by the recently published PFMIs and substantial progress has been made with respect to third and fourth safeguards, as described in this report.

Although the legislative process is underway in a number of jurisdictions to achieve central clearing of all standardised OTC derivatives contracts, only Japan and the United States have adopted the necessary legislation, while the European Union has reached political agreement regarding legislation in this area. The US CFTC has finalised regulations regarding central clearing and the SEC, Japan and the EU plan to have a full set of implementing regulations in place by end-2012. Most other jurisdictions are at varying stages of preparation of legislative frameworks. Some are still considering whether to introduce legislation. At this point, although most authorities estimate that a significant proportion of interest rate derivatives will be centrally cleared by end-2012, they are less confident of progress for other asset classes and find it hard to make firm estimates in any asset class.

A number of outstanding issues relate to concerns about cross-border consistency, the risk of overlaps and gaps in implementation, and access for market participants to cross-border CCPs. At the time of the October 2011 progress report, a number of jurisdictions indicated that they were waiting for international standards for CCPs and mandatory clearing to be further developed and for the regulatory frameworks of the US and EU to be finalised before developing their own frameworks. Jurisdictions now have much of the information they requested in order to make informed decisions on the appropriate legislation and regulations to achieve the end-2012 commitment to centrally clear all standardised OTC derivatives and should adopt the necessary legislation and implementing regulations. The financial industry should continue working with authorities on practical steps to implement central clearing, such as broadening the scope of products cleared as well as the range of entities with access to clearing arrangements.

The FSB's October 2010 Report sets out eight recommendations[1] for implementing the G20 commitment to clear all standardised OTC derivative contracts through central counterparties.

Table 2 in **Appendix VIII** sets out in detail the steps being taken in each jurisdiction to implement central clearing of all standardised derivatives.

1.1.1 Development of international standards and policy for central clearing

A number of international workstreams are focused on supporting, or are relevant to, implementation of the G20 commitment to central clearing. **Appendix 1** summarises the international workstreams that are being undertaken or have been completed by standard-setting or coordinating bodies.

(i) CPSS-IOSCO Principles for Financial Market Infrastructures

CPSS and IOSCO published the PFMIs in April 2012 [2] which harmonise, strengthen and replace the previously separate sets of international principles for financial market infrastructures. They seek to enhance safety and efficiency in payment, clearing, settlement and recording arrangements and, more broadly, to limit systemic risk and foster transparency and financial stability. The PFMIs incorporate additional detailed guidance for OTC derivatives CCPs and TRs.[3] They set out 24 principles addressing the general organisation (including governance), credit and liquidity risk management, settlement, default management, general business and operational risk management, access, efficiency, and transparency of FMIs. In addition, they set out five responsibilities for regulators designed to enhance the supervision of FMIs, including coordinated oversight, both domestically and internationally. CPSS and IOSCO have called on member authorities to strive to incorporate the principles and the responsibilities in the PFMIs into their legal and regulatory framework by end-2012.

Some of the individual principles within the PFMIs are of specific relevance in implementing particular recommendations in the October 2010 Report. The principles on access and on segregation and portability assist in achieving Recommendation 7 of that report.[4] The elements of the five responsibilities set out in the PFMIs for central banks, market regulators and other relevant authorities concerning cooperation with other authorities assist in achieving Recommendation 9 of the report.[5]

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1 Progress relating to Recommendations 5-9 and 12 of the October 2010 Report are covered in this section of the report. Recommendations 10 and 11, relating to appropriate treatment of those contracts that remain non-centrally cleared, are addressed in Section 1.4.

2 The PFMIs together with drafts, available for comment until 15 June 2012, of the assessment methodology and disclosure framework are available at http://www.bis.org/publ/cpss101.htm and at http://www.iosco.org/library/pubdocs/pdf/IOSCOPD377.pdf.

3 In May 2010, CPSS and IOSCO published two consultative reports *Guidance on the application of 2004 CPSS-IOSCO recommendations for central counterparties to OTC derivatives* and *Recommendations for trade repositories in OTC derivatives markets.*

4 Recommendation 7 addresses both direct and indirect access to CCPs. It also states that CCPs and direct participants should be required to have effective arrangements in place that provide for the segregation and portability of customer positions and assets.

5 Recommendation 9 states that CCPs should be subject to robust and consistently applied supervision and oversight on the basis of regulatory standards that, at a minimum, must meet evolving international standards developed jointly by CPSS and IOSCO.

(ii) Four safeguards for global CCPs

Within the FSB, four safeguards for a global framework for CCPs have been identified to help authorities to make informed decisions on the appropriate form of CCPs to meet the G20 commitment. The FSB OTC Derivatives Coordination Group (ODCG), which is composed of the Chairs of the Basel Committee on Banking Supervision (BCBS), Committee on the Global Financial System (CGFS), CPSS, IOSCO and FSB, agreed to coordinate the work of these international bodies to achieve substantial progress on the safeguards by mid-2012.[6] This will help to create a resilient and efficient environment for central clearing globally and will support national authorities in meeting the G20 commitment by the end of 2012 to centrally clear all standardised OTC derivatives.

These safeguards, and the international measures taken to achieve them, are as follows:

(1) fair and open access by market participants to CCPs, based on transparent and objective criteria (addressed within the PFMIs);

(2) cooperative oversight arrangements between relevant authorities, both domestically and internationally and on either a bilateral or multilateral basis, that result in robust and consistently applied regulation and oversight of global CCPs (addressed through the responsibilities for authorities under the PFMIs and individual cooperative agreements in place or in development for CCPs);

(3) resolution and recovery regimes that aim to ensure the core functions of CCPs are maintained during times of crisis and that consider the interests of all jurisdictions where the CCP is systemically important (CPSS and IOSCO plan to issue in July a consultation paper on the application of the Key Attributes of Effective Resolution Regimes to CCPs and other FMIs);[7] and

(4) appropriate liquidity arrangements for CCPs in the currencies in which they clear (addressed within the PFMIs and also through conclusions by the Economic Consultative Committee (ECC) of the Bank for International Settlements (BIS), attached at Appendix II).

Given the steps that have now been taken internationally to provide these safeguards, jurisdictions should rapidly finalise their decision-making and push forward on legislation and regulations to achieve by end-2012 the commitment to centrally clear all standardised OTC derivatives.

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[6] See the FSB Chair's letter to G20 Finance Ministers and Central Bank Governors on Progress of Financial Regulatory Reforms, 16 April 2012, available at http://www.financialstabilityboard.org/publications/r_120420a.pdf

[7] The FSB Key Attributes of Effective Resolution Regimes for Financial Institutions – an international standard which sets out the core elements of resolution regimes with the aim of ensuring financial institutions that could be systemically significant in the event of failure can be resolved with minimum systemic impact and without the commitment of public funds - apply to FMIs, including CCPs. The Key Attributes are available at: http://www.financialstabilityboard.org/publications/r_111104cc.pdf.
CPSS and IOSCO are undertaking joint work on resolution issues for FMIs. This includes a review of whether specific resolution arrangements for FMIs are needed. If, based on their findings, the FSB concludes that special resolution arrangements for FMIs are required, it will, with the involvement of CPSS and IOSCO, review which key attributes specifically apply to FMIs and whether further specific powers need to be incorporated in the Key Attributes to address their resolution.

(iii) CGFS report on CCP access configurations

The October 2011 progress report noted that some markets were looking for a global consensus on appropriate oversight and infrastructure necessary for CCPs before deciding whether to rely on that global infrastructure or to promote local clearing infrastructure in order to meet central clearing commitments. Since then, international workstreams have provided additional information for national authorities on the issue.

The Committee on the Global Financial System (CGFS) published a report on the macro-financial implications of alternative CCP access configurations in November 2011.[8] The report analyses the implications for financial stability of the alternative access arrangements (such as through large global or smaller regional or domestic CCPs) and assesses the potential trade-offs involved. For example, expanding direct access to clearing by existing CCPs may reduce the concentration of risk within the largest global dealers, but it would be important that CCPs' risk management procedures are appropriately adapted. It notes that both large global and smaller regional or domestic CCPs will probably play a role in meeting G20 commitments, and that links among CCPs have the potential to preserve the network advantages of increased multilateral netting but can create new operational, credit and liquidity risks. It also notes that links are untested and must be designed appropriately to avoid creating new channels for risk propagation.

(iv) IOSCO's report on requirements for mandatory clearing

In February 2012, IOSCO published its Report on Requirements for Mandatory Clearing[9] setting out recommendations for authorities in establishing a mandatory clearing regime for standardised OTC derivatives.[10] The recommendations in the report concern, among other topics, the process for determining whether particular products should be subject to a mandatory clearing obligation and consideration of potential exemptions. Although the report does not make recommendations on specific products that should be subject to mandatory clearing or appropriate exemptions, it does recommend measures to promote international consistency and to minimise the risk of regulatory arbitrage. With the goal of minimising the risk for regulatory arbitrage, the FSB encourages members to implement the recommendations set forth in the mandatory clearing report.

1.1.2 Legislative and regulatory frameworks for central clearing

At the time of the October 2011 progress report the only jurisdictions to have adopted legislation mandating central clearing of standardised OTC derivatives were Japan and the US.[11] Since then, significant progress has also been made within the EU, with political agreement in March 2012 on the European Market Infrastructure Regulation (EMIR), which

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8 http://www.bis.org/publ/cgfs46.pdf

9 https://www.iosco.org/library/pubdocs/pdf/IOSCOPD374.pdf

10 The report responds to the request made by the FSB in Recommendation 12 of its October 2010 Report to IOSCO, working with other authorities as appropriate, to coordinate the application of central clearing requirements as to products and participants, and any exemption from them, to minimise the potential for regulatory arbitrage.

11 In a few jurisdictions, markets are already dominated by standardised derivatives that are already exchange-traded and centrally cleared, and those jurisdictions do not plan to implement additional measures for mandatory central clearing of OTC derivatives.

includes requirements for central clearing .EMIR will apply directly in all EU Member States without the need for national legislation

The EU, Japan and US remain well in the vanguard of reforms to achieve central clearing, as the CFTC has finalised regulations. Japan and SEC are in the phase of considering and adopting implementing regulations and the EU has started its consultation on implementing regulations. Many other jurisdictions, while still intending to have a legislative and regulatory framework for mandatory central clearing in place by end-2012, have taken only the first steps in this regard. The Canadian provinces in which the majority of OTC derivatives trading occurs have in place some of the authorising legislation to support central clearing. Authorities from Hong Kong, Korea and South Africa have initiated legislative proposals and Australia, Mexico, Singapore and Switzerland are preparing proposals for public consultation. Indonesia is considering implementing the central clearing commitment primarily through recognition of foreign CCPs. In Brazil, on the other hand, around 90% of the derivatives market is already exchange-traded and centrally cleared, even though OTC derivatives are not currently required to be centrally cleared. Brazil does not currently plan to adopt additional measures for mandatory central clearing of OTC derivatives, although regulators there continue to assess any changes in the markets, particularly those that may result from divergences with regulations that other jurisdictions develop. Some other jurisdictions are still considering whether legislation is needed. They indicate that one reason for the delay is a desire to first see the final regulations in the EU and US and the way in which potential inconsistencies between those regimes have been addressed. **Table 2** provides further information on jurisdictions' legislative and regulatory steps taken to date and the steps that remain to be taken.

At the time of the October 2011 progress report, it seemed that some jurisdictions might require transactions in certain derivatives to be cleared through a CCP located within their domestic jurisdiction. Although many jurisdictions are still considering their legislative frameworks, currently few seem to be considering domestic location requirements (see **Table 7**). Japanese law requires local clearing in the limited case of certain CDS index trades in order to align with the domestic bankruptcy regime. China is considering local CCP clearing requirements and Australia has indicated that it may impose domestic location requirements on foreign CCPs to the extent needed for adequate oversight or effective provision of clearing services for systemically important markets.

1.1.3 Implementation of central clearing

The latest survey requested detailed information on the proportions of the major asset classes of OTC derivatives – interest rate, credit, equity, commodity and foreign exchange – that were expected to be centrally cleared by end-2012. Many jurisdictions are not yet able to make such an estimate. Of those that did, most estimated that a significant proportion of interest rate derivatives would be centrally cleared.[12] Few jurisdictions other than the US were confident that significant proportions of credit or commodity derivatives would be centrally cleared by

[12] Given the difficulty of precise measurement at this time, the survey asked jurisdictions to estimate by order of magnitude (e.g., all, majority, significant portion, small portion or none), the proportion for each of the major asset classes.

the end of this year, and no jurisdictions reported that large proportions of equity or foreign exchange derivatives were likely to be.

Some authorities are in discussions with industry about how to establish appropriate infrastructures and whether existing global CCPs would accept products from their jurisdiction. It is important to note that even in the absence of specific legislation, infrastructure to clear OTC derivatives already exists in a number of jurisdictions. **Appendices V.a** and **V.b** provide recent data on the extent of central clearing of OTC derivatives. Regulators are working with CCPs and market participants to broaden the scope of products cleared. In addition, it is also necessary for CCPs, market participants and regulators to work together to broaden the range of entities with access to client and indirect clearing arrangements with appropriate protections. Work in this area is still at an early stage and more needs to be done to facilitate appropriate access.

A minority of jurisdictions, however, do not seem to have infrastructure for clearing OTC derivatives or to have taken any steps towards ensuring appropriate clearing services are available (in any form) to their market participants. Jurisdictions that have yet to take such steps should do so urgently, ensuring that their plans to achieve mandatory clearing use CCPs that observe the standards in the PFMIs. Looking beyond 2012, ongoing international monitoring and assessment of observance of the PFMIs will be important to help ensure that CCPs play their intended role in reducing systemic risk.

1.1.4 Issues raised regarding implementation of central clearing

A number of the key outstanding issues in implementation of central clearing relate to cross-border consistency in implementation, differences in scope of national regimes and the need for sufficiently robust oversight of CCPs (which is particularly important given the critical role of CCPs in reducing systemic risk). These issues were identified in the October 2011 progress report. The PFMIs have now been published, addressing a number of these issues, and these international standards need to be followed up by consistent and comprehensive national implementation.

(i) Gaps in implementation

As noted earlier, only two jurisdictions have adopted legislation and one jurisdiction has agreed on legislation to achieve the mandatory clearing commitment. Gaps in the global coverage of regulation create opportunities for regulatory arbitrage and may prove detrimental to the G20 reform objectives of increasing transparency, mitigating systemic risk, and protecting against market abuse. The uncertainties over the global landscape for central clearing noted by several jurisdictions in the October 2011 progress report have been lessened by the introduction of international standards and the closer coordination of regulators in major jurisdictions. Although differences between the major regimes and uncertainties over the detail of their implementing regulations remain, there is also a significant amount of consistency. Jurisdictions that are still at an early stage of developing their regulatory regimes for central clearing should act urgently.

(ii) Consistency of implementation and interaction of national regimes

Many authorities remain concerned about the risk of potential overlaps and conflicts among national frameworks for central clearing, an issue the October 2011 progress report reviewed in detail. Authorities, including those in the major jurisdictions, have been bilaterally and

multilaterally discussing solutions to address these potential inconsistencies including through multilateral meetings of a group of regulators, most recently in Toronto on 1 May. The FSB will keep closely monitoring developments in these dialogues to highlight progress towards consistency and any risk caused by differences in regulatory regimes.

(iii) Scope of application of clearing requirements

Differences persist between authorities in the major jurisdictions in the scope of proposed exemptions: **Appendix VIII, Table 6** sets out the responses in this area and the exemptions adopted, proposed or being considered. Authorities are continuing to work to address these. Jurisdictions are urged to introduce flexibility in their legislative and regulatory frameworks to enable conflicts or inconsistencies in this area that risk creating arbitrage opportunities to be addressed, and to implement the recommendations of the IOSCO Report on Mandatory Clearing which will aid in identifying, and providing analytical tools to resolve, issues regarding scope.

Product exemptions

Following the US proposal last year to exempt foreign exchange swaps and forwards, given their assessment that there are limited risks under the existing well-functioning settlement process,[13] several other jurisdictions are considering whether to incorporate a similar exemption in their domestic regimes and whether it should apply to all or only a subset (for example, those below one-year maturity) of such instruments. While EMIR does not include such an exemption, it contains the flexibility to allow the European Commission to achieve a similar outcome, after an assessment by the European Securities and Markets Authority (ESMA).

Counterparty exemptions

In the EU, EMIR contains an exemption for intra-group transactions and a number of other jurisdictions are also considering such an exemption.[14] The rationale for the EU exemption is that the clearing of intra-group transactions could substantially increase the capital and liquidity required for centralised risk management by firms, as well as increase operational complexity. However, to ensure that the exemption does not increase systemic risk, EMIR will require that intra-group exempted transactions be subject to bilateral collateralisation unless two conditions are met: (i) there is no current or foreseeable practical or legal impediment to the prompt transfer of own funds and repayment of liabilities between the counterparties; and (ii) the risk management procedures of the counterparties are consistent with the level of complexity of the derivatives transactions. Criteria are being developed within the EU for evaluating whether these conditions are met. Hong Kong has also included an intra-group exemption in its draft legislation, subject to the condition that the transactions are risk-mitigating; the activity would still be subject to collateralisation and a reporting requirement to TRs.

The EU's EMIR also includes a temporary exemption for pension funds of three years, extendible to a maximum of six years. This exemption has been created so that pension funds, which currently have only limited cash holdings, do not incur disproportionate costs (which

[13] The October 2011 report provides a more detailed explanation of the US Treasury arguments in favour of this exemption.

[14] Australia, Canada, Hong Kong, Japan, Saudi Arabia, Switzerland and Turkey.

could ultimately be borne by pensioners as beneficiaries) because CCPs accept only cash collateral as variation margin. Once the industry has developed technical solutions allowing pension funds to provide non-cash collateral as variation margin, pension funds will be subject to central clearing. In the interim pension funds will still be required to exchange (non-cash) collateral for their non-centrally cleared derivatives.

In the US, the CFTC and SEC have proposed an exemption from central clearing for swap counterparties that are not financial entities, if the swap is to hedge or mitigate commercial risk and information is provided to the CFTC or SEC, as applicable, regarding how the counterparty meets its financial obligations arising from non-centrally cleared swaps. In the EU, EMIR contains an exemption for non-financial counterparties whose positions fall below a threshold to be set by ESMA (with hedging transactions being excluded from the threshold calculation).

In the US, the Dodd-Frank Act provides that the CFTC and SEC should consider including small financial institutions (*i.e.* small banks, savings associations, farm credit system institutions and credit unions) within the end-user exemption for central clearing requirements. The CFTC has requested comments from the public on the matter and is considering the responses received. The SEC has proposed rules on this potential exemption but has not yet finalized them.

A number of other jurisdictions are still considering the scope of the central clearing regime, including potential exemptions for end-users and smaller financial entities. For example, Hong Kong is consulting on a regime which would require central clearing only for financial institutions holding positions above a specified threshold (yet to be determined). In order to capture systemic risk, this would cover all major dealers while alleviating the compliance burden of smaller entities. Hong Kong also intends to have an end-user exemption for hedging activities, using the US and EU rules as a reference point for the definition.[15] Canada is also consulting whether to include an exemption for smaller non-financial institutions and smaller end-users that use derivatives for hedging risk and are not in the business of trading or advising others in the trading of OTC derivatives. Australia is consulting on whether there should be an exemption for smaller financial institutions and smaller end-users.

Complete harmonisation of intra-group exemptions and exemptions for smaller and non-financial firms is not feasible, given differences between jurisdictions in company law and in sectoral definitions. However, jurisdictions should coordinate the scope of product and participant exemptions, in particular for the activities of cross-border firms, sufficiently to avoid the risk of regulatory arbitrage. The IOSCO Report on Mandatory Clearing makes recommendations for approaches for authorities to take in determining whether a mandatory clearing obligation should apply to products and when considering potential exemptions. The FSB encourages further discussions between authorities to develop common approaches to definitions of exemptions and consistency of thresholds.

[15] In Hong Kong, the methodology for calculating a clearing threshold will take into account amounts of OTC derivatives outstanding over the previous six months, with the goal of capturing over 99% of the aggregate positions of banks who are active participants in the OTC derivatives market.

(iv) Supervisory and oversight challenges

As noted in the October 2011 progress report, as CCPs broaden their services to more complex products and a wider range of participants, the complexity of governance and risk management challenges, and hence the challenges for supervisors, increase. Responsibility B of the PFMIs stresses that central banks, market regulators and other relevant authorities should have the powers and resources to effectively carry out their responsibilities in regulating, supervising, and overseeing FMIs.

Cross-border cooperation is needed, not only to develop and implement regulatory frameworks that are flexible enough to facilitate a coordinated response to issues as they arise, but also on an ongoing basis to oversee the new market infrastructures, including CCPs and TRs. Bilateral and multilateral cooperation is also needed to implement effective resolution and recovery regimes.

Practical implementation of mandatory central clearing for standardised contracts depends on the availability of infrastructure that offers appropriate access and clearing services for relevant products. For jurisdictions that are intending to rely or considering reliance on global CCPs located in other jurisdictions, concerns fell broadly into two categories: cooperative oversight arrangements and fair and open access for market participants.

Cooperative oversight

Some jurisdictions have raised concerns about permitting or relying on foreign CCPs to clear transactions in products that are of systemic importance to the local jurisdiction. Those concerns may be alleviated by using bilateral or multilateral cooperative oversight arrangements and appropriate flow of information to and engagement of the authority in that local jurisdiction. Cooperative oversight arrangements are one of the four safeguards to support a global framework for CCPs. The PFMIs support this by setting the expectation that authorities have the necessary powers and resources to carry out their supervisory responsibilities and that they cooperate with each other, both domestically and internationally. As financial markets continue to become more global and interconnected in nature, cooperative oversight of CCPs may take on heightened importance if jurisdictions choose, for example, to recognise entities registered with another country rather than require multiple registrations in each jurisdiction the CCP serves. Such a regime has been incorporated in EMIR. The US regime provides for the granting of conditional or unconditional exemption from registration with the SEC or CFTC for a CCP that is subject to "comparable, comprehensive supervision and regulation" by government authorities in its home country.[16] An assessment methodology, which provides guidance on assessing implementation of the PFMIs, including the five responsibilities for supervisors and regulators, was published by CPSS and IOSCO for consultation [17] and will support rigorous monitoring of the implementation of these responsibilities, which should give jurisdictions continued assurance in this area.

Authorities have begun negotiating information sharing and cooperation frameworks for particular OTC derivatives CCPs and TRs and have entered into one oversight arrangement. Frameworks are being developed in connection with the OTC Derivatives Regulators Forum

[16] *See* Securities Exchange Act, Section 17A(k) and Commodity Exchange Act, Section 5b(h).

[17] The Assessment Methodology is expected to be operational, in an initial form, in the latter half of 2012.

(ODRF). Information sharing and cooperation frameworks can help assure authorities that a cross-border CCP is robust and that regulation and oversight are consistently applied. Such frameworks may also reduce the impact of overlapping requirements by different jurisdictions in which a CCP operates. The FSB encourages authorities to develop information sharing and cooperation frameworks for other OTC derivatives CCPs and TRs, as appropriate.

Fair and open access

Some jurisdictions also have raised concerns about whether there would be sufficient access, including indirect access, in cross-border CCPs for market participants from their jurisdiction. The safeguard regarding fair and open access to central clearing is designed to provide assurance in this area. The PFMIs, which authorities are committed to implement, address this safeguard through standards for access requirements, including those for indirect access, and for risk mitigation.

The CGFS report on alternative CCP access configurations discussed in section [1.1] addresses issues related to direct and indirect access and provides guidance to jurisdictions in managing risks of concentration that might arise where there is significant reliance on indirect participation through major participants who have direct access to clearing. The FSB encourages jurisdictions to monitor any increase in risks resulting from increased indirect participation in CCPs.

(v) Systemic importance of global CCPs

The likely use of global CCPs across large parts of the market carries the potential, by centralising exposures, to concentrate credit and liquidity risk, including liquidity risks arising from clearing multiple currencies, in entities that are purpose-built to manage such risk, but which are fewer than the number of dealers that currently provide market-making in non-centrally cleared OTC derivatives. Each global CCP would likely be systemically important in multiple jurisdictions, and the increased systemic role of CCPs underlines the need for the rapid adoption of robust resolution regimes that would allow authorities to preserve critical services and mitigate systemic impact in the event of the failure of a CCP. The PFMIs, the safeguards, and the work being carried out by CPSS and IOSCO on recovery and resolution regimes for CCPs, seek to address resolvability of CCPs. The PFMIs provide standards for assessing and managing risk.[18] Supervisors and regulators should work cooperatively to share information regarding global CCPs, and take action where needed to ensure that global CCPs monitor and address all risks they face.

1.2. Exchange and electronic platform trading and market transparency

Jurisdictions continue to be markedly behind in implementing the G20 commitment that standardised contracts should be traded on exchange or electronic trading platforms, where appropriate. Increasing the proportion of the market traded on organised platforms is important so as to improve transparency, mitigate systemic risk and protect against market

[18] For example, principles 4 through 7 of the PFMIs address the management of the credit and liquidity risks that arise from an FMI's payment, clearing and settlement processes. These principles provide standards for credit, collateral, margining and liquidity and are designed to provide a high degree of confidence that an FMI will be able to operate stably during times of stress. One example is the guidance that a CCP should maintain the financial resources to withstand the default of its two largest members and their affiliates in order to maintain stability.

abuse. The agreed work on international guidance for organised trading has been completed and no further international work is planned. Countries that have not yet developed legislation and regulation should accelerate their work to meet the commitment in this area by end-2012.

Authorities need to take action to explore the benefits and costs of public price and volume transparency, as recommended by the FSB in its October 2010 Report, including the potential impacts on wider market efficiency, such as on concentration, competition and liquidity. To date, the US is the only jurisdiction that has passed legislation with requirements for pre- and post-trade transparency and proposed detailed regulations; the EU has made legislative proposals to introduce pre- and post-trade transparency requirements; and Japan has submitted draft legislation that includes provisions to improve the transparency of derivatives markets.

The October 2010 Report sets out two recommendations[19] for implementing the G20 commitment relating to exchange and electronic platform trading and public price and volume transparency.

1.2.1 Development of international standards and policy for organised platform trading and market transparency

In January 2012, IOSCO published a follow-on analysis[20] to its February 2011 report on trading. The follow-on analysis describes the characteristics of the different types of organised trading platforms currently available for the execution of OTC derivatives transactions in IOSCO member jurisdictions. It is not anticipated that any further international guidance on the characteristics of organised trading platforms will be issued. Therefore national authorities should not delay putting in place their own legislation and regulation.

1.2.2 Legislative and regulatory framework for organised platform trading and market transparency

Since the October 2011 progress report there has been some progress in the establishment of legislative and regulatory frameworks to implement the G20 commitment to trade standardised derivatives on exchanges or electronic platforms, where appropriate. However, the US is still the only jurisdiction to have enacted legislation to meet the commitment (although not all regulations have been finalised), and less than half of survey respondents have proposed legislation in this area. **Table 3** summarises the responses regarding organised platform trading.

In October 2011 the European Commission issued a legislative proposal (MiFID II and MiFIR) to revise the current MiFID I, which (among other things) requires standardised derivatives to be traded on multilateral trading platforms and extends certain pre- and post-trade transparency requirements to them in a calibrated way. Political agreement is expected by end-2012 and the rules will apply eighteen months after that, following the development of implementing rules. Japan submitted draft legislation in March 2012 with the objective of improving the transparency of OTC derivatives transactions. Once adopted, its implementation will be phased in to allow providers and users of systems to prepare.

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[19] Recommendations 13 and 14 of the October 2010 Report.

[20] The January 2012 report can be found at http://www.iosco.org/library/pubdocs/pdf/IOSCOPD368.pdf.

Other jurisdictions are still at the stage of consultation and analysis. Hong Kong has completed a public consultation and submitted a proposal to a panel committee of the Legislative Council that would give the regulator the power to impose a trading requirement. In exercising that power, the regulator would be required to take account of international developments and the availability of suitable trading venues and levels of liquidity in its domestic markets. Several jurisdictions report concerns about sequencing issues in the development of a legislative framework for exchange or electronic platform trading of derivatives. Specifically, Australia, Canada, Korea, Singapore, South Africa and Switzerland all indicate that more analysis of the liquidity of the markets and instruments is needed before regulation can be put in place. These countries note that the nature of the requirement for exchange or electronic platform trading of derivatives should first be informed by an analysis of TR data which will assist jurisdictions in assessing market liquidity and trading volumes. There are still FSB member jurisdictions that have taken no significant steps towards proposing a legislative and regulatory framework for implementing this commitment, as noted in **Appendix VIII**, tables 1-7.

The European Commission, Japan and the US have indicated that they propose to take into account factors such as liquidity and availability of trading platforms in deciding which OTC derivatives contracts will be required to be traded on an exchange or electronic platform.

Progress on trading is still markedly behind the progress made towards the other G20 commitments. Some jurisdictions have not yet made basic decisions about how to design a legislative and regulatory framework, or indeed whether they will take any legislative or regulatory action. The FSB continues to urge those that have not taken such action to do so immediately.

Market transparency

Recommendation 14 of the October 2010 Report called on authorities to explore the benefits and costs of requiring public price and volume transparency for all trades, including non-standardised or non-centrally cleared products that continue to be traded OTC. Market transparency enhances investor protection, promotes market efficiency by reducing information asymmetries between dealers and buy-side participants, and may assist in the valuation of financial instruments and risk assessment. At the same time, some jurisdictions are concerned that increased transparency may reduce liquidity in some circumstances, such as for large trades unless there are provisions allowing for appropriate delays, or when markets are illiquid.

Table 4 summarises FSB member survey responses regarding pre- and post-trade transparency in OTC derivatives markets. These responses indicate that most jurisdictions have not yet determined whether they will require post-trade transparency. Some markets state that an assessment of market liquidity and volumes of trading activity in particular products is needed before post-trade transparency requirements can be developed. That task will be assisted by the availability of TR data, although in the absence of TR data countries should be able to conduct assessments on the basis of data collected by other means.

Only Brazil and the US require that all OTC derivatives transactions be subject to post-trade public price and volume transparency. Additionally, in China, OTC renminbi interest rate derivatives are subject to a certain degree of post-trade public price and volume transparency through the publication of daily and monthly bulletins.

In the US, pre-trade price transparency is required under US law for certain categories of OTC derivatives. Regulations have been finalised by the CFTC for designated contract markets and proposed for swap execution facilities, creating a framework for the trading venues that could provide pre-trade transparency. The CFTC and SEC have proposed requirements for swap execution facilities to enable their participants to display executable bids or offers accessible to all other participants on the facility. They have also proposed requirements for request-for-quote platforms to provide an indicative composite quote for all products traded on the platform visible to all participants on the platform. The SEC also has proposed to allow participants on security-based swap execution facilities to choose to send a request for quote either to all or to some participants on a platform.

The European Commission proposal for MiFID II and MiFIR includes pre- and post-trade transparency requirements for derivatives. Pre-trade transparency requirements will apply to all derivatives traded on regulated trading venues and derivatives that are eligible for clearing, subject to certain waivers, notably for large orders. Post-trade transparency will apply to all derivatives, with appropriate delays for large transactions.

Of those jurisdictions that will or may set transparency requirements, the scope and application of such requirements may differ. For example, there is a risk that different transparency regimes will create opportunities for regulatory arbitrage, and the FSB will continue to monitor requirements in this area.

1.2.3 Implementation of organised platform trading and market transparency

Given the lack of progress toward legislative and regulatory frameworks, implementation of organised platform trading and transparency is not as advanced as progress toward the other commitments. It is clear that the G20 commitment to exchange or electronic platform trading, where appropriate, of all standardised OTC derivatives by end-2012 will not be fully achieved in practice in any FSB member jurisdiction. As noted, the US is the only country that has enacted legislation on the trading of OTC derivatives on organised platforms. In most countries it is not yet clear when the commitment will be achieved. There are still FSB member jurisdictions that have taken no significant steps towards proposing a legislative and regulatory framework for implementing this commitment. Moreover, having such a framework is not on its own sufficient to meet the trading commitment. It is of concern that lack of implementation by some jurisdictions in this area could create material inconsistencies that might potentially lead to regulatory arbitrage.

Regarding market transparency, the FSB urges those authorities that have not yet taken steps to explore the benefits and costs of public post-trade price and volume transparency for all trades, including non-standardised or non-centrally cleared products that continue to be traded OTC, to do so. As part of this work, authorities and other researchers are encouraged to examine how post-trade transparency requirements might affect liquidity, concentration and competition in derivatives markets.

1.2.4 Issues raised regarding implementation of organised platform trading and market transparency

Consistency and effectiveness of implementation

Because the US is the only jurisdiction which has enacted law on organised platform trading and market transparency, it is not possible at this time to address consistency in implementation. The FSB recognises continuing concerns in relation to consistency, but notes the work already done by IOSCO to describe characteristics of organised platforms for trading, and that no further international guidance is anticipated. Information on the regimes that are further developed, such as those of the EU and US, may also provide useful guidance to other jurisdictions that have not yet proposed legislation.

Jurisdictions need to formulate plans now to implement the trading and market transparency commitments, based on available information. Requirements for trading and market transparency should be developed so as to be flexible and able to be adjusted in future. Trading and market transparency regimes should be monitored and adjusted as necessary as practical experience is gained or as liquidity in products changes over time.

1.3. Reporting to trade repositories

Most countries have made progress in developing their legislative frameworks to meet the G20 commitment that all OTC derivatives contracts be reported to TRs. Although few countries have adopted legislation, the majority have at least published consultative documents regarding the establishment of TRs and the related reporting requirements. Additionally, TRs are developing to accept reporting of contracts in each of the five major asset classes. With legislation still under development, however, comprehensive reporting of transactions to TRs will not be fully in place by end-2012. Authorities need to put regulatory regimes in place rapidly, while authorities together with market participants need to continue to take practical steps to achieve as wide a coverage of the market by TRs as possible by the end of this year.

For the data collected by TRs to be useful to authorities, ongoing work needs to be completed on the scope of data needed by authorities and on technical issues, such as reporting formats, the LEI and data aggregation. Moreover, issues remain regarding authorities' effective and practical access to data in foreign (and domestic) TRs, although progress is being made. TRs should work with the financial industry to ensure that the data reported by market participants to TRs is in a useable format so that it can be aggregated and meets the requirements of authorities in terms of content. The FSB encourages continued multilateral and bilateral dialogues among jurisdictions and with industry in order to discuss these issues, since access by authorities to TR data is critical for assessing systemic risk and financial stability; conducting market surveillance and enforcement; supervising market participants; conducting resolution activities; as well as for monitoring progress toward meeting the G20 commitments on OTC derivatives.

The October 2010 Report sets out five recommendations[21] for implementing the G20 commitment that all OTC derivatives contracts should be reported to TRs.

[21] Recommendations 15 to 19 of the October 2010 Report.

1.3.1 Development of international standards and policy for TR reporting

The October 2011 progress report advocated that: (i) the FSB organise an *ad hoc* experts group to define what additional OTC derivatives data are needed by authorities, including what data could efficiently be provided by TRs, for assessing systemic risk, supervising market participants, and conducting resolution activities; (ii) CPSS and IOSCO coordinate with relevant authorities to take forward work on authorities' access to TR data; and (iii) strong support be given for further work on the development of a global LEI and the industry development of a standard product classification system in consultation with relevant regulatory authorities. Progress has been made in each of these areas, though significant challenges remain.

(i) Analysis of authorities' data needs

Following the recommendation in the October 2011 progress report, the FSB set up the OTC Derivatives Data Experts Group (ODEG) to outline the types of OTC derivatives-related data that would assist the official sector in assessing systemic risk, supervising market participants, and conducting resolution activities, taking into consideration but not limiting the analysis to what data might be provided by TRs. In its work ODEG has identified four broad categories of such data: (i) transaction-level information on both historical and open transactions; (ii) portfolio-level information, including portfolio valuations and associated measures of risk exposure; (iii) information on the legal agreements governing netting and collateralisation, including bilateral agreements between market participants and prime brokerage and central clearing agreements; and (iv) information on the assets used to collateralise OTC derivatives transactions, including information about the location and treatment of the assets as well as information about the assets themselves.

ODEG notes that while transaction-level data could be provided by TRs or other centralised sources of information such as CCPs, a number of applications of such data would require significant changes to the design and implementation of existing TRs. Furthermore, ODEG suggests that other identified data needs may be provided by centralised data sources other than TRs. For example, increased use of CCPs is likely also to address some of the data gaps but, as with TRs, issues of authorities' access to data will need to be clarified.

(ii) Work to promote access to data

In January 2012, CPSS and IOSCO published their report on OTC derivatives data reporting and aggregation requirements.[22] It recommends that TRs implement measures to provide effective and practical access to authorities both for routine data to help them fulfil their responsibilities, and ad hoc requests for the purposes of specific issues.

CPSS and IOSCO have launched new work that will focus on facilitating effective and practical access to data for authorities, while taking into account confidentiality and security of data and building on work already undertaken by the ODRF. CPSS and IOSCO aim to substantially complete this project in the end 2012.

[22] http://www.iosco.org/library/pubdocs/pdf/IOSCOPD366.pdf

(iii) Development of a framework for a global LEI

Work coordinated by the FSB to prepare recommendations for the appropriate governance framework for a global LEI by June 2012 is on-track. The FSB has set up an expert group from the official sector, supported by a private sector advisory panel, to deliver recommendations for implementation of a global LEI for review by the FSB and delivery to the June 2012 G20 Summit. The first use of the LEI in a number of jurisdictions will be for the reporting of data on OTC derivatives, but the LEI is being designed for use with all types of financial transactions. The CFTC will introduce a transitional identifier system for legal entities as part of its regulation that will support early reporting to TRs, to be implemented from the third quarter of 2012. That transitional system will be integrated into the global LEI system once in place. Other jurisdictions are considering whether to undertake a similar process in order to facilitate implementation of the reporting obligation in their jurisdictions.

The CPSS-IOSCO report on data reporting and aggregation requirements sets out recommendations for those jurisdictions that had been awaiting international guidance on minimum standards in this area. In addition, the PFMIs provide standards to support robust supervision and oversight of TRs, which provides necessary information for jurisdictions considering the use of cross-border TRs.

1.3.2 Legislative and regulatory framework for TR reporting

A number of jurisdictions have made progress towards developing a framework for reporting OTC derivatives transactions to TRs. At the time of the October 2011 progress report, only Brazil, Japan and the US had legislation requiring reporting of OTC derivatives to a TR, and China had regulations requiring data reporting to an authorised entity. Since then, the EU Council and European Parliament have reached political agreement on EMIR, which requires counterparties and CCPs to report the details of their derivatives contracts and any modification or termination of them to a TR**.** Additionally, Australia, Hong Kong, Indonesia, Korea, Singapore and South Africa report that they will adopt legislation on trade reporting by end-2012. Some Canadian provinces have authorising legislation in place, and Mexico will introduce regulation for financial intermediaries on trade reporting by end-2012. In most jurisdictions, implementing regulations will also be required in order to achieve mandatory reporting to TRs.

FSB survey results indicate that the majority of jurisdictions will not impose a location requirement for the TRs to which trades are reported, although some jurisdictions indicate that this decision is contingent on national authorities being able to obtain full and timely access to data relating to domestic entities or transactions that are stored in foreign TRs. EU market participants may use foreign TRs that are recognised under EMIR. On the other hand, China and Hong Kong intend to require reporting of certain transactions to domestic TRs. Some jurisdictions are in discussions with foreign TRs to better understand the conditions under which market participants from those jurisdictions could use the TRs, and the type of data that the TRs could accept and produce, in order to finalise their policies.

It should be noted, however, that even among those countries that will have legislation in place by end-2012, there are some significant gaps and inconsistencies. For example, the Japanese framework does not require commodity derivatives to be reported and Hong Kong will phase in their requirements by asset class.

Similarly, there are inconsistencies in the legislative approaches to exemptions to the reporting requirement and where reporting must occur. In the EU, Members of the European System of Central Banks, public bodies that manage public debt, and the Bank for International Settlements will not be subject to the reporting (or clearing and bilateral risk mitigation) obligations under EMIR, so as not to risk limiting their powers to stabilise markets. Some countries (including Australia, Hong Kong, and Singapore) are considering a similar exemption from the reporting requirement; Japan is likely to introduce an exemption for central banks and is considering an exemption for intra-group transactions; and several jurisdictions have or are considering exemptions for non-financial entities for transactions below a certain threshold or for smaller entities. Others are still considering whether to have exemptions at all.

Argentina and Saudi Arabia noted that they were still deciding whether to require reporting to TRs, because derivatives trading was not significant in their market and they were still in the process of assessing their needs.

TRs will provide a reasonably comprehensive source of data on what were previously largely opaque markets. Among the uses for this information, it will help authorities to assess which products are standardised and whether they should be centrally cleared and traded on organised platforms. Accordingly, urgent action by all jurisdictions is needed to adopt the necessary legislation and implementing regulations by end-2012, to meet the G20 commitments to trade reporting and to support the OTC derivatives markets reform process generally.

1.3.3 Implementation of TR reporting

Work to implement TR reporting in practice is underway, but will not be fully achieved by end-2012 in most jurisdictions. At the same time, official sector efforts alone are insufficient, and the FSB calls on industry to work with TRs to ensure that data is reported in the form required by authorities.

Appendix VII.a provides recent data on reporting of OTC derivatives to TRs. Only three jurisdictions (Brazil, China, and South Africa) expect all transactions in the five major asset classes – interest rate, credit, equity, commodity and foreign exchange – to be subject to a reporting obligation and reported by end-2012. Mexico currently enforces reporting of OTC derivatives traded by local financial intermediaries to authorities and it estimates that all transactions by local intermediaries will be reported to a TR as well by end-2012. The US estimates that a large majority of standardised interest rate, credit, commodity and foreign exchange swaps will be reported by then, but only a small portion of equity derivatives because the reporting structure for that asset class is less developed. Within the EU, it is anticipated that the majority of interest rate, credit and equity derivatives transactions will be reported,[23] but reporting of commodity and foreign exchange is likely to take slightly longer even though TRs in those asset classes should be operational by end-2012.

Cross-border TR initiatives are also underway. The equity derivatives TR continues to be developed and began to receive transaction-level reporting in April 2012. The DTCC interest

[23] These trades are currently being reported on a voluntary basis by firms. The reporting obligation is likely to enter into force by 2013.

rates derivatives TR began reporting to regulators in April 2012.[24] The G-14 dealers that are signatories to the March 2011 Strategic Roadmap process are reporting to both TRs. Some classes of commodity derivatives are currently being reported to the DTCC/EFETnet Global Trade Repository for OTC Commodities Derivatives, although information about these trades is currently not available to authorities. Early reports from authorities note that there is likely to be a TR for each major asset class in Hong Kong, London and Luxembourg (with coverage of all asset classes phased-in in Hong Kong).[25] The Netherlands also expects to have a TR for commodities by end-2012 and a credit and two commodities TRs are expected to begin operating in the US by end-2012. The following table provides information on the status of some TRs that are currently operating or are planned for the five asset classes. It reflects the situation in May 2012, and is only indicative as the TR landscape is evolving quickly.

[24] The TriOptima TR, to which interest rate derivatives were being reported, ceased operations in May 2012 as the DTCC TR became fully operational.

[25] The G-14 dealers can include additional firms, depending on those who become signatories to particular initiatives. Understanding that in some contexts the group may expand, the term G-14 will be used throughout. .

TRs by Asset Class

Asset Class	Trade Repositories	Location	Status[26]
Interest rate	DTCC- DDRL	United Kingdom	Operating
	Regis-TR	Luxembourg	Operating
	HKMA	Hong Kong	Expected Q2 2013
	DTCC-DDR	United States	Expected Q2 2012
	Ice Trade Vault	United States	Expected Q3 2012
	Reval	United States	Expected Q3 2012
Credit	DTCC-WT	United States	Operating
	Regis-TR	Luxembourg	Expected Q4 2012
	DTCC-DDR	United States	Expected Q2 2012
	Ice Trade Vault	United States	Expected Q3 2012
Equity	DTCC-DDRL	United Kingdom	Operating
	Regis-TR	Luxembourg	Expected Q3 2012
	DTCC-DDR	United States	Expected Q3 2012
Commodities	DTCC-EFETnet[27]	Netherlands	Expected Q3 2012
	Regis-TR	Luxembourg	Operating
	Ice Trade Vault	United States	Expected Q3 2012
	DTCC-GTR	United States	Expected Q3 2012
	Reval	United States	Expected Q3 2012
Foreign Exchange Derivatives	DTCC-Swift - DDRL	United Kingdom	Expected Q2 2012
	Regis-TR	Luxembourg	Operating
	HKMA (initially NDF)	Hong Kong	Expected Q2 2013
	DTCC-DDR	United States	Expected Q3 2012
	Ice Trade Vault	United States	Expected Q3 2012
	Reval	United States	Expected Q3 2012

[26] For the purposes of this table, 'operating' means cases where a TR is both accepting reports and making them available to regulators. Other TRs (e.g. DTCC-EFETnet) may currently be accepting trade reports from market participants, but are not marked as 'operating' because those data reported are not yet available to regulators.

[27] DTCC-EFETnet is limited to financial oil.

1.3.4 Issues raised regarding reporting to TRs

The October 2011 progress report discussed issues relating to effective implementation of the G20 commitments to trade reporting. These included legal barriers to the collection of data, restrictions on access to data held by TRs and the need to ensure that data from TRs can be adequately aggregated and analysed on a global basis. If not addressed, those issues would mean that the usefulness of TRs as a centralised source of data for financial stability and systemic risk analysis would be severely limited.

Since the October 2011 progress report, progress has been made by authorities in beginning to address these problems, including through the international workstreams described above. Concerns remain in particular about authorities' access to data held by TRs established in other jurisdictions. This may affect authorities' choice between domestic and cross-border solutions to TR reporting. With a greater number of TRs, there is greater potential for differences in data formats. This could create difficulties in aggregating data in a form that is able to be effectively and efficiently used, which is a key goal of requiring all trades to be reported to TRs.

Data reporting formats and aggregation

In order to meet authorities' needs, TR data need to be able to be aggregated, and this requires the alignment, or at least compatibility, of reporting formats. The ODEG report on official sector data needs makes it clear that the facility to aggregate data in different configurations – for example, portfolio information so as to capture accurately counterparty exposures net of collateral – is key for systemic risk monitoring, and ODEG notes particular challenges in this area. Work is just beginning to be considered at the international level. Within the EU, ESMA is required to develop technical standards to ensure that data reported to different TRs in the EU can be aggregated and compared. More work and coordination is required at international level to facilitate aggregation and comparability of data submitted to different TRs operating across asset classes and across jurisdictions. At the same time, work on a global LEI is moving forward rapidly, as described earlier.

Access to data reported to TRs

Authorities' effective and practical access to data is being addressed in the new CPSS-IOSCO workstream described earlier, which aims to be substantially complete by end-2012. The objective of this initiative is to facilitate authorities' effective and practical access to data, while taking into account confidentiality and security of data. The work will support the implementation of Principle 24 (Disclosure of market data by trade repositories) of the PFMIs, as well as the responsibilities of authorities outlined in the PFMI report. This will facilitate enhanced market transparency for authorities and support other public policy goals. The group is expected to deliver general principles and guidance that would help both authorities and TRs regarding authorities' routine and non-routine access to data stored in TRs.

Legislative and regulatory conditions for access to TR data

As a condition for obtaining data from a TR, the US Dodd-Frank Act requires domestic and foreign authorities, in certain circumstances, to agree in writing to indemnify a US-registered TR, and the SEC and CFTC as applicable, for any expenses arising from litigation relating to the data. The Dodd-Frank Act also requires a TR to notify the CFTC or SEC upon receipt of a

request for information from a domestic or foreign authority. The US authorities are aware of the concerns of other authorities on this requirement and are working to ensure that both domestic and international regulators have access to data to support their regulatory mandates. The CFTC recently proposed interpretative guidance stating that foreign regulators seeking access to TRs registered with the CFTC will not be subject to the indemnification provisions if the TR is registered, recognised or otherwise authorised in a foreign jurisdiction's regulatory regime, where the data to be accessed is reported pursuant to that regulatory regime. The CFTC has requested public comment on the interpretative guidance and will consider whether to issue the guidance in final form.[28]

The October 2011 progress report noted that the EU's proposal for EMIR would eliminate barriers to full reporting by overriding privacy and confidentiality law. Political agreement has now been reached on EMIR, but concerns remain about the conditions under which access by non-EU authorities to data held in EU TRs would be possible. EMIR provides for two main mechanisms for access. The first – available to non-EU countries that have a TR established in their jurisdiction - would require the signing of an international agreement regarding mutual access to TR data and the exchange of information. The second – applicable to non-EU countries without a TR – would require a cooperation agreement with ESMA. The details of such agreements, including the terms on which they would be made and the process for concluding them, are not yet clear, and a number of non-EU countries are concerned that the first mechanism may be excessively time-consuming and formal to negotiate, and would risk delaying data access for several years.

As noted in the October 2010 Report, market regulators, central banks, prudential supervisors and resolution authorities must have effective and practical access to the data collected by trade repositories. Access to trade repository information by official international financial institutions also should be permitted in appropriate form where consistent with their mandates. The FSB urges national and regional authorities to find solutions so that TR data are accessible to all authorities that have a legitimate need to access it, while protecting confidentiality by appropriately restricting onward transmission of sensitive data by receiving authorities.

1.4. Capital, margining and bilateral risk management requirements

The commitment to impose higher capital requirements to reflect the relatively higher counterparty credit risk of non-centrally cleared derivatives contracts is expected to be met internationally in the case of banks through the Basel III standards to be adopted at the start of 2013. The new standards have already set out the requirements with respect to non-centrally cleared transactions. International standards for the capital treatment of banks' exposures to CCPs should be provided soon and will allow jurisdictions to implement this element of Basel III with effect from the 1 January 2013 deadline.

A few jurisdictions are also planning to implement capital requirements for non-banks that incentivise central clearing. It is important that other jurisdictions ensure that their

[28] The CFTC's proposed interpretive guidance and request for comment can be found at: http://www.cftc.gov/ucm/groups/public/@lrfederalregister/documents/file/2012-10918a.pdf.

implementation of the G20 commitments provides banks and other market participants with the right incentives to centrally clear.

With regard to margining for non-centrally cleared derivatives, most jurisdictions state that they are waiting to follow the guidance to be given by the international principles currently being developed for consultation by mid-2012 and are monitoring international developments before they decide whether to implement stronger counterparty risk management requirements.

Higher capital and margining requirements for non-centrally cleared contracts relative to centrally cleared contracts are expected to provide incentives for standardisation and central clearing of contracts. Once international standards are more fully developed, it should be possible to better estimate the overall impact of these regulatory and supervisory actions on market incentives to centrally clear transactions.

Recommendation 10 of the FSB October 2010 Report addresses prudential requirements for non-centrally cleared OTC derivatives.

1.4.1 Development of international standards and policy for capital, margining and risk management requirements

Capital requirements

The Basel III capital framework will take effect from 1 January 2013 and includes a number of reforms to achieve appropriate risk coverage of banks' counterparty credit risk (CCR) exposures arising from non-centrally cleared derivatives. At this point, the Basel III rules for banks' exposures to CCPs and for banks' exposures to clients for whom they perform clearing services in CCPs have not been finalised.

BCBS published [29] a second consultative document on banks' exposures to CCPs in November 2011, taking account of comments on the first consultative document in December 2010. The proposal would (i) set a 2% risk weight for a bank's trade exposures to a CCP, rather than the previous zero weight under Basel II; and (ii) set a capital requirement for exposures to the default fund of a CCP based on the risk associated with the default fund. Given the interaction of these rules with the standards for CCPs set out in the PFMIs, a high-level task force involving members of BCBS, CPSS and IOSCO has been set up to make proposals for the rules to take effect at the beginning 2013 with the rest of Basel III framework.

Margin

Margin requirements for non-centrally cleared OTC derivatives transactions are an important element of the reforms necessary for achieving the overall objective of mitigating systemic risk in the derivatives markets. Such requirements would ensure that minimum levels of collateral are collected to insulate against losses caused by the default of a counterparty to an OTC derivatives transaction. Margin requirements would also help align incentives between central and non-central clearing and, in particular, help to suppress incentives that might otherwise exist for market participants to customise contracts in order to avoid central

[29] http://www.bis.org/publl/bcbs206.pdf.

clearing requirements. In this regard, they can also encourage increased standardisation and central clearing of derivatives.

A Working Group on Margining Requirements (WGMR) established by the BCBS, IOSCO, CGFS and CPSS as requested by G20 Leaders, is developing a report outlining the key principles to promote internationally consistent minimum standards for margin requirements for non-centrally cleared derivatives transactions which is expected to be issued for public consultation around the middle of 2012. The WGMR aims to achieve as much international consistency with regard to margin requirements as possible to support robust risk management and protect against regulatory arbitrage. The group will also consider the potential impact of margin requirements on financial markets and the broader financial system.

Additional work on standards for bilateral risk management of OTC derivatives more generally may be considered at a later stage. International work, such as the IOSCO report on derivatives market intermediaries, will include additional information regarding capital requirements for non-banks that may provide additional guidance in this area.[30]

1.4.2 Legislative and regulatory framework for capital, margining and bilateral risk management requirements

Jurisdictions are committed to implement the BCBS standards for capital requirements for non-centrally cleared transactions as part of overall implementation of Basel III, and to implement the standards for exposures relating to CCPs, once issued. It is anticipated that this will result in higher overall capital requirements for non-centrally cleared than for centrally cleared transactions, reflecting their higher risk posed by non-centrally cleared transactions. The European Commission has noted that credit institutions that indirectly access a CCP will be able to benefit from the same capital treatment as those that directly access it.[31]

Steps are being taken in a few jurisdictions to implement capital requirements to incentivise central clearing by non-banks. In the US, the CFTC has proposed capital rules for swap dealers and major swap participants, while the SEC anticipates proposing capital rules in the near future for security-based swap dealers, major swap participants and broker-dealers. The European Commission intends to implement higher capital requirements for non-centrally cleared transactions, to the extent that there is a greater probability of default, as part of its Solvency II regime for insurance companies. In addition the EU implementation of the Basel III regime, including higher capital requirements in this area, will apply to investment firms as well as to banks.

However, few other jurisdictions have publicised plans to impose higher capital requirements on non-banks for non-centrally cleared derivatives transactions. Singapore already applies higher capital requirements to non-centrally cleared transactions for capital market intermediaries and insurers. Other jurisdictions are also considering higher requirements, for example, Korea in relation to securities companies.

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[30] IOSCO published its report, *International Standards for Derivatives Market Intermediary Regulation*, in June 2012. It is available at https://www.iosco.org/library/pubdocs/pdf/IOSCOPD381.pdf.

[31] EMIR provides for conditions for indirect access designed to ensure that it does not increase counterparty risk, and that counterparty assets and positions are protected.

Most jurisdictions say that they are monitoring international developments before deciding whether to impose higher risk management requirements on non-centrally cleared transactions. The European Commission expects to adopt rules under EMIR strengthening risk management standards for non-centrally cleared transactions, including rules for timely confirmation and robust reconciliation processes, by end-2012. Hong Kong also intends to strengthen risk management requirements for banks, but will monitor international developments before determining whether to further strengthen requirements for non-banks.

Jurisdictions indicate that they are likely to act on margining requirements once the WGMR has published principles. The US banking supervisors and CFTC have already proposed risk-based margining rules, and the SEC anticipates doing so in the near future, intending to be as consistent as possible with international principles, once developed by the WGMR.

1.4.3 Implementation of capital, margining and bilateral risk management requirements

Jurisdictions indicate that they intend to implement higher capital requirements for non-centrally cleared transactions by the start of 2013, as this is the implementation deadline for Basel III. However, the implementation of capital requirements for exposures to CCPs and margining requirements for non-centrally cleared transactions will depend on the timing of finalisation of the international standards under development and the associated implementation deadlines.

The date of application for the new capital requirements for EU insurance companies under Solvency II is not specified yet, but is expected to be 1 January 2014.

Major market participants, including the G-14 dealers, are working to enhance risk management practices for bilateral trades as part of their March 2011 Strategic Roadmap to the ODSG.[32] As part of this, in November 2011 market participants published updated Best Practices for collateral in non-centrally cleared transactions. They have also completed a series of portfolio compression cycles for interest rate and credit derivatives during 2011 and 2012 Q1.

1.4.4 Issues raised regarding capital, margining and bilateral risk management requirements

Incentives for central clearing of OTC derivatives

The October 2011 progress report noted that some aspects of the Basel III framework for counterparty credit risk exposures, in particular as it relates to banks' exposures to CCPs, remained to be finalised by end-2011. Since then, finalisation has been postponed in order to address issues raised by CPSS and IOSCO concerning the impact of such capital requirements on CCP risk management and business models. In order for jurisdictions to incorporate capital requirements in their regulations to meet the January 2013 Basel III deadline, and thereby also provide appropriate incentives for central clearing by end-2012, international guidance on capital treatment for banks' exposures to CCPs should be provided soon.

International standards and national rules for margin requirements and risk management requirements for non-centrally cleared trades remain to be defined in many cases. The various standards and requirements under development are all intended to recognise the additional

[32] http://www.newyorkfed.org/newsevents/news/markets/2010/100301_letter.pdf

risks associated with non-central clearing relative to central clearing, and to appropriately incentivise central clearing.

1.5. Standardisation

Increased standardisation of contracts is a core element of meeting the G20 commitments relating to central clearing, organised trading and reporting to TRs and to increase the benefits in terms of improved transparency, reduced systemic risk, and greater protection against market abuse. Countries have committed to trade on organised platforms, where appropriate, and centrally clear all standardised derivatives. Therefore cross-border consistency in how standardisation is defined is important to avoid regulatory arbitrage and thereby enhance financial stability. The ODSG works with the largest global dealers and other major market participants to promote collective industry action to increase product and process standardisation. Additionally, a number of jurisdictions report further progress at the national level in developing, publicising and standardising product documentation.

Nevertheless, incomplete currently available data mean that the level of standardisation in the market, and the extent to which it is increasing, can only be roughly estimated. The financial industry should continue to improve the quality of data on existing standardisation levels through the standardisation matrices provided to the ODSG. As data availability improves, through these matrices and later through TRs and other sources, regulators will be able to better monitor and assess the extent of standardisation.

The October 2010 Report set out four recommendations for implementing the G20 commitment to increase standardisation.[33]

1.5.1 Developments in international coordination related to standardisation

As noted in the October 2011 progress report, coordinated industry action led by the ODSG continues to be the main driver of increased standardisation. The March 2011 Strategic Roadmap by the G-14 dealers and other major market participants to the ODSG serves as the framework for managing continued improvements in both product and process standardisation.[34]

Since the October 2011 progress report, the ODSG, industry and, in some jurisdictions, national workstreams have developed to specifically target standardisation in two areas – products and process. With respect to standardisation of products, the work is narrowly focused on the development, publication and use of standardised product documentation. With respect to standardisation of processes in each asset class, the focus is on the design, implementation and adoption of automated processes and electronic platforms for key business functions including: matching and confirmation; affirmation; managing lifecycle events; and the calculation and effecting of settlements. Many of these commitments to achieve greater standardisation take the form of operational efficiency targets, which signatories are largely meeting across all asset classes, with few exceptions.

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[33] Recommendations 1 to 4 in the October 2010 Report.

[34] The Strategic Roadmap is available at: http://www.newyorkfed.org/newsevents/news/markets/2011/SCL0331.pdf.

Just as increasing standardisation will support increasing central clearing, trading on organised platforms and reporting to trade repositories, so too will initiatives to achieve these latter goals support increasing standardisation in products and processes. Capital incentives for central clearing also will likely lead to greater standardisation of products and processes to facilitate the use of central clearing.

1.5.2 Legislative and regulatory framework for standardisation

Authorities report that they have taken, or are taking, a variety of legislative and regulatory steps to promote standardisation, either directly or indirectly through such measures as the implementation of Basel III or through mandating central clearing or trade reporting. Authorities expect that progress in implementing legislative and regulatory frameworks will be informed by international standards and industry consensus and the ongoing work by the International Swaps and Derivatives Association (ISDA) to develop a standard taxonomy for OTC derivatives classes.

Meanwhile, several jurisdictions report that there is already a high level of standardisation in their markets or that standardisation is increasing as a result of private sector efforts and that they are not considering further legislative or regulatory steps to increase standardisation (including Argentina, Brazil, Indonesia and Saudi Arabia).

1.5.3 Implementation and measurement of standardisation progress

Authorities in a number of jurisdictions, such as Hong Kong, Korea and Singapore report having had dialogues with industry to promote standardisation and that they await additional guidance and proposals on standardisation expected from industry.

Although survey responses indicate that most jurisdictions continue to expect that the proportion of OTC derivatives that are standardised will have substantially increased from pre-2009 levels by end-2012, there is no clear data to confirm that view. **Table 1** shows the updated responses of jurisdictions with regard to the level of standardisation anticipated by end-2012 and legislative or regulatory steps to increase the use of standardised products that are completed or planned. **Appendices II-III** provide data available on the current degree of standardisation.

Across the five asset classes (commodities, credit, equity, foreign exchange, and interest rates derivatives), standardisation, as measured by Metrics 1, 2 and 3 (see Appendix III.a), has generally been constant since October 2009.[35] In some cases, such as with the credit derivatives asset class, standardisation has been, and continues to remain high. Other asset classes, such as interest rates, have experienced minor increases, and remain relatively high. Foreign exchange derivatives, in particular, have experienced significant amounts of growth in standardisation since October 2009 due to the efforts under the auspices of the ODSG.

While the dataset reflected in Metrics 1, 2 and 3 is limited to the 15 largest derivatives dealers, the trends indicate that standardisation may not have increased significantly since early 2011. It will be critical for metrics to continue to be developed and progress measured

[35] October 2009 was selected as a point of reference for evaluating standardisation for Metrics 1, 2 and 3 as it was the most relevant date to begin in relation to the G20 Pittsburgh statement.

during this reform period. Authorities should also consider similar measurements in their own jurisdictions to benchmark progress in standardisation.

1.5.4 Issues raised regarding standardisation

The pace of standardisation and ability to measure implementation of standardised products and processes remain issues. The FSB encourages continued practical progress in the ongoing industry-led work on standardisation. Appropriate regulatory incentives created by capital and margining requirements and national implementation of the package of OTC derivatives reforms are also expected to increase standardisation. As implementation of regulatory reforms progresses, authorities should take stock of the level and characteristics of product standardisation, and consider whether further international coordination is needed or feasible.

The October 2011 progress report noted no simple metrics or other straightforward means had so far been developed to measure overall standardisation on a product-by-product basis. This remains the case. The standardisation matrices that are being developed for each asset class by the signatories to the March 2011 Roadmap [36] are expected to improve the available qualitative and quantitative indicators of progress in standardisation over time.

2. Overarching issues raised in implementation

Many of the implementation issues that jurisdictions have raised are similar to those discussed in the October 2011 progress report. The issues frequently involved potential inconsistencies in national legislative or regulatory frameworks or implementation and, in some cases, the cross-border impact of certain national requirements. The FSB seeks to bring any overlaps, gaps or conflicts in national frameworks or implementation that might compromise the achievement of the G20 objectives to the attention of the FSB, particularly where there may be a risk that such issues will not be satisfactorily resolved through existing bilateral or multilateral channels since the October 2011 progress report. Additionally, the FSB has established the ODCG, comprising the chairs of the BCBS, CGFS, CPSS, IOSCO and the FSB, to discuss on a regular basis to the coordination issues of international workstreams on OTC derivatives reforms. The ODCG has coordinated work on a roadmap for achieving the four safeguards relating to central clearing.

2.1. Sequencing, pace and flexibility of implementation

Concerns exist about the pace of adoption of national frameworks and sequencing of regulatory reforms. A number of jurisdictions state that they are waiting to formulate legislative and regulatory frameworks until they have further details of the implementing regulations in the EU and the US, in order to understand the cross-border impact of those regulations and to avoid inconsistencies.

It is important that jurisdictions that have not yet developed their national legislative and regulatory frameworks do so quickly, without waiting for the final elements of regulatory frameworks in major derivatives markets, in order to meet the end-2012 deadline. Indeed, it is difficult to identify and address potential inconsistencies between jurisdictions and to find

[36] http://www.newyorkfed.org/newsevents/news/markets/2010/100301_letter.pdf

workable solutions for problematic cross-border impacts until a jurisdiction has developed its own national framework. Delays in regulatory efforts could also risk a loss of momentum more widely for completing reforms in a timely manner. The EU and US frameworks are now either finalised or well advanced in many of the key areas. Ongoing bilateral and multilateral discussions between jurisdictions are helping to address potential inconsistencies in regulatory frameworks, and the FSB encourages these discussions to continue.

2.2. Inconsistencies in national implementation and cross-border impact

Many jurisdictions have concerns about potential inconsistencies between national approaches to implementation of the G20 commitments, and the possibility of conflicting regulatory requirements which could arise where individual transactions or market participants are subject to regulatory requirements under more than one national regime. Specific concerns also relate to the possibility of unnecessarily duplicative requirements imposed by overlapping national regimes (for example, in reporting or registration requirements).

Because the OTC derivatives market is global in scope, any comprehensive regulatory framework will have cross-border impacts. Both the EU and US OTC derivatives regulatory frameworks have cross-border impacts. The key challenge in this area is balancing legitimate regulatory interests in a global market in a way that does not give rise to gaps; if regulatory frameworks do not extend to cross-border transactions and infrastructures, this would create a regulatory gap. Frameworks should be comprehensive but flexible enough to provide the ability to develop practical solutions to conflicts between frameworks.

For example, the obligations under EMIR placed on EU counterparties for risk management of non-centrally cleared transactions with a non-EU counterparty may, in effect, extend the EU requirements to that non-EU counterparty. Similarly, the obligation on EU counterparties to adopt risk mitigation measures, including margin, for transactions with counterparties, may give rise to conflict if a non-EU counterparty is subject to different rules from another jurisdiction, or may have the effect of applying EU margin requirements even if the counterparty is exempt from margin requirements in its own jurisdiction. In order to address this problem, EMIR requirements allow for recognition of another jurisdiction's regime if rules equivalent to those in EMIR apply to the non-EU counterparty.

Similarly, a number of requirements under the US Dodd-Frank Act are capable of applying to non-US counterparties that enter into transactions with US entities. Jurisdictions have noted concerns regarding potential requirements on non-US firms to register with US regulators and are seeking further information on the likely scope and content of the substantive conditions once the rules are finalised (*e.g.* in terms of conduct of business requirements). The CFTC intends to provide guidance on this matter through a cross-border release, which will include interpretive guidance on the scope of the Dodd-Frank Act as well as on when substituted compliance may be appropriate for non-US counterparties. The SEC also intends to address the international implications of the rules arising under the Dodd-Frank Act in order to give interested parties, including investors, market participants, and foreign regulators, an opportunity to consider as an integrated whole its approach to the registration and regulation of foreign entities engaged in cross-border security-based swap transactions involving US parties.

Intensive work is ongoing, both bilaterally between and multilaterally among jurisdictions, to identify and eliminate or mitigate the impact of potential material conflicts and inconsistencies between frameworks that may prove detrimental to OTC derivative market reforms. The CFTC, SEC, ESMA and the EC have been engaged in ongoing dialogue on regulatory coordination on OTC derivatives issues including, for example, CCP registration and exemption from registration, margining requirements, exemptions, access to data in trade repositories, registration of swap dealers, overlaps and gaps. Similar dialogues are underway between the CFTC, SEC and EC with regulators from Australia, Canada, Hong Kong, Japan, and Singapore. A meeting of heads of OTC market regulators from Australia, Brazil, Canada, the EU, Hong Kong, Japan, Singapore, Switzerland and the US took place in Toronto in May 2012, where they exchanged views on market transparency, margins for non-centrally cleared derivatives, coordination of clearing mandates, access to data in TRs, and crisis management of cross-border CCPs. Although that work has been productive, it is recognised that it will not be possible to resolve all potential gaps, overlaps or conflicts in advance of putting frameworks in place. Further progress by jurisdictions that are currently less advanced in implementation would assist that bilateral and multilateral work.

It should be noted, however, that not all conflicts and inconsistencies would necessarily be problematic, and a full assessment should be made in due course to identify those inconsistencies that need to be addressed. Such an assessment of the impact of any such inconsistencies in regulation is currently premature as legislative and regulatory implementation is continuing to progress and the details of the requirements remain unclear in a significant number of jurisdictions.

The FSB will continue to monitor progress in resolving issues of cross-border impact, including bilateral and multilateral work to address inconsistent or unnecessarily duplicative rules that may prove detrimental to the G20 reform objectives.

2.3. Application of requirements to central banks

Jurisdictions are continuing to consider the extent to which the requirements of the new regulatory framework for OTC derivatives should apply to transactions by central banks. In particular, some jurisdictions are considering whether legal constraints or policy responsibilities of central banks mean that they should be exempted from some of the proposed requirements relating to central or non-central clearing, trading on organised platforms and reporting to TRs.

Jurisdictions have proposed different approaches to the potential exemption of central banks from at least some requirements. In the proposed EU legislation, EU central banks will be exempt from reporting requirements, and a decision will be made shortly after EMIR comes into effect on whether non-EU central banks should also be exempted. The US Dodd-Frank Act provides a statutory exemption for its own central bank from Dodd-Frank requirements for central clearing and reporting to TRs, and through regulations has exempted foreign central banks from certain registration requirements. Japan plans to exempt central banks from central clearing and TR reporting, while Hong Kong and Singapore are also proposing exemptions from central clearing. Another area that some countries are considering for exemptions is two-way collateralisation, given the high creditworthiness of central banks.

Jurisdictions will continue to consider their approaches to the treatment of central banks, including the potential for promoting greater cross-border consistency in the application of requirements to central banks.

2.4. Overall impact of various OTC derivatives markets reforms

The FSB progress reports to date have monitored implementation in individual jurisdictions but have not considered in any detail whether the cumulative impact of the steps being taken to implement the G20 commitments is sufficient to achieve the overall objectives of these commitments. Given the stage of development of international standards, particularly those for capital and margin, as well as legislative frameworks and implementing regulations, such an assessment is premature, but the FSB will continue to monitor this and will report when a full assessment can be made. In particular, going forward, the FSB will seek to assess the extent to which implementation is achieving the G20 objectives of increased transparency, mitigation of systemic risk and protection against market abuse.

3. Conclusion

Since the FSB's previous progress report in October 2011, encouraging progress has been made in setting international standards, the advancement of national legislation and regulation by a number of jurisdictions and practical implementation of reforms to market infrastructures and activities. But much remains to be completed by the end-2012 deadline to achieve the G20 commitments.

Broadly speaking, the jurisdictions currently with the largest markets in OTC derivatives – the EU, Japan and the US – are the most advanced in structuring their legislative and regulatory frameworks. They expect to have regulatory frameworks in place by end-2012 and practical implementation within their markets is well underway. Other jurisdictions are generally less advanced although, as this report indicates, progress has been made by many of them, particularly with respect to central clearing and reporting to TRs.

One reason for the slower timetables in some jurisdictions has been that authorities had been waiting for the key elements of the regulatory frameworks in the EU, Japan and the US to be finalised before putting their own legislation in place, in an effort to be consistent with these frameworks. Additionally, some jurisdictions have sought greater certainty about the application of international principles and safeguards to cross-border financial market infrastructure, including CCPs and TRs, so as to make an informed decision about the appropriate form of market infrastructure for their jurisdiction.

Since the October 2011 progress report, standard setting bodies have made significant progress in developing the international policies that facilitate the advancement of OTC derivatives reforms across jurisdictions, notably:

- CPSS and IOSCO issued in April 2012 PFMIs, which are an important milestone in the global development of a sound basis for central clearing of all standardised OTC derivatives.
- IOSCO published in February 2012 recommendations on requirements for mandatory central clearing.

- CPSS and IOSCO in January 2012 outlined OTC derivatives data reporting and aggregation requirements, recommending that TRs implement measures to provide authorities with effective and practical access.
- IOSCO in June 2012 published standards for the regulation of OTC derivatives market intermediaries.

Additionally, the CGFS reported in November 2011 on the macro-financial implications of alternative arrangements for access to CCPs. IOSCO published in January 2012 further analysis of the types of organised trading platforms (*i.e.* exchanges and electronic trading platforms) available for OTC derivatives transactions. These reports provide further insight to national authorities deciding on the form of financial market infrastructures needed in their jurisdictions. International workstreams are also progressing rapidly to develop frameworks for a global LEI; guidance on resolution of CCPs; international principles on margin requirements for non-centrally cleared derivatives; capital adequacy rules for exposures to CCPs; and work on regulatory access to data from TRs.

With international standard setting and policy guidance now largely complete, jurisdictions need to promptly develop and implement legislative and regulatory frameworks. These frameworks should be comprehensive, consistent, and also flexible enough to facilitate continued cooperation on issues as they arise because not all potential issues can be identified and solved in advance of legislative and regulatory implementation. Extensive cross-border cooperation is needed on an ongoing basis to promote the safety and efficiency of market infrastructures, including CCPs and TRs.

Full and consistent implementation by all FSB members is important to reduce systemic risk and the risk of regulatory arbitrage that could arise if there are significant gaps in implementation. The OTC derivatives markets are already global markets, in which market participants can easily redirect their activities to other jurisdictions to take advantage of regulatory arbitrage if jurisdictions have not fully and consistently implemented the measures.

But legislation and regulation are not by themselves enough. Market participants need to take practical steps to ensure that the necessary market infrastructure is available by further expanding the number and scope of OTC derivatives transactions that are standardised, centrally cleared, traded on organised platforms and reported to TRs. Failure to implement the commitments by the agreed deadline risks a loss of momentum for reform, in addition to failing to deliver the benefits of improved transparency, mitigation of systemic risk and protection against market abuse.

Under the guidance of the OTC Derivatives Supervisors Group (ODSG), market participants made some strides towards increased central clearing and trade reporting even before agreement on the G20 commitments. For example, among the G-14, a significant proportion of OTC interest rates and credit derivatives trades are being reported to TRs. This proportion continues to increase, albeit recently at a slower pace in anticipation of the adoption of regulatory frameworks. TRs are or will soon be in place to support trade reporting in all the major OTC derivatives asset classes. Similarly, standardisation by the largest global dealers and other major market participants has advanced, so that a higher proportion of derivatives can be electronically processed.

With respect to centrally clearing OTC derivatives, although some data exists to measure this progress, data sources continue to be incomplete and not directly comparable. In the population of outstanding trades where products are already offered for clearing by a CCP and one counterparty is a G-14 dealer, rough estimates indicate half of the notional outstanding of interest rate derivatives and credit default swaps were centrally cleared as of end-2011. In contrast, looking instead at the total population of outstanding trades (including non-standardised products and all counterparties), rough estimates indicate one-eight of credit default swaps and one-third of interest rate derivatives were centrally cleared as of end-2011. Further progress is still needed to increase central clearing.

This report concludes that good progress has been made from an international policy perspective and from a practical perspective in those jurisdictions with the largest OTC derivatives markets. However all jurisdictions and markets need to aggressively push ahead to achieve full implementation of market changes by end-2012 to meet the G20 commitments in as many reform areas as possible. Jurisdictions have sufficient information about international standards and policies to put in place the needed legislation and regulation. They should do so promptly, and in a form flexible enough to respond to cross-border consistency and other issues that may arise.

The FSB will focus increasingly on monitoring not only the legislative and regulatory steps that have been achieved but also the concrete implementation that has taken place. To assist in doing so, the FSB will seek to further improve data and other survey information on the extent to which OTC derivatives are in practice standardised, centrally cleared, traded on organised platforms and reported to TRs. In addition, once jurisdictions complete their legislation and regulation, further analysis will be needed to identify any new risks that become apparent in the implementation process and to address them. For the next progress report, the FSB intends to put additional focus on the readiness of infrastructures to provide central clearing, platform trading and reporting of OTC derivatives, the practical ability of industry to meet the requirements and the remaining steps for industry to take. As part of this focus, the FSB intends to present information on the availability of infrastructure in summary tabular form.

As the implementation deadline is reached and reforms take effect, and indeed as the G20 originally requested in 2009, the FSB and its members should not only assess whether detailed individual reforms have been fully implemented, but also whether – looked at in total – the steps taken are sufficient to meet the G20's underlying goals of improving transparency in the derivatives markets, mitigating systemic risk, and protecting against market abuse.

Appendix I
International policy development

WORK COMPLETED SINCE 2ND FSB PROGRESS REPORT			
Commitment(s)	**Action**	**Responsible**	**Status**
Standardisation	Signatories to the March 2011 roadmap[37] submitted second and third sets of populated Standardisation Matrices for credit, equity and interest rate asset classes	**ODSG**	**Second set of data submitted September 2011 and third set submitted March 2012**
Standardisation	Product standardisation by signatories to March 2011 roadmap	**ODSG**	**Draft standardisation legend for commodities asset class published September 2011**
Central clearing	Report on the macro-financial implications of alternative configurations for access to CCP in OTC derivatives markets	**CGFS**	**Published in November 2011**
Central clearing	Report on Requirements for Mandatory Clearing[38] setting out recommendations for the establishment of mandatory clearing regimes in relation to: - determination of whether a product should be subject to mandatory clearing; - potential exemptions; - appropriate communication among authorities and with the public; - cross-border issues in the application of mandatory clearing requirements; - ongoing monitoring and review of the process and application of a requirement for mandatory clearing.	**IOSCO**	**Published in February 2012**

[37] Roadmap, published in March 2011 of industry initiatives and commitments relating to four thematic objectives: increasing standardisation; expanding central clearing; enhancing bilateral risk management; and increasing transparency, available at: http://www.newyorkfed.org/newsevents/news/markets/2011/SCL0331.pdf (See October 2011 progress report).

[38] *Requirements for Mandatory Clearing*, Report of the Technical Committee of IOSCO, February 2012, available at https://www.iosco.org/library/pubdocs/pdf/IOSCOPD374.pdf. The report was drafted by the IOSCO Task Force on OTC Derivatives Regulation, which includes, as observers, representatives of CPSS, the European Commission, the European Securities Markets Authority (ESMA) and the ODSG.

WORK COMPLETED SINCE 2ND FSB PROGRESS REPORT			
Commitment(s)	**Action**	**Responsible**	**Status**
Central clearing, Reporting to trade repositories	Principles for Financial Market Infrastructures (FMIs)[39] including derivatives CCPs and trade repositories, consisting of principles for FMIs and responsibilities for Central Banks, market regulators and other relevant authorities. Draft Assessment Methodology for Principles for FMIs and Responsibilities for Authorities.[40] Draft Disclosure Framework for FMIs, providing a template to assist FMIs in providing comprehensive disclosure.[41]	**CPSS and IOSCO**	**Published in April 2012** **Assessment Methodology and Disclosure Framework each published for consultation, April 2012**
Exchange and electronic platform trading	Report on Follow-on Analysis to the Report on Trading[42] describing the types of (multi-dealer and single-dealer) trading platforms currently available for the execution of OTC derivatives transactions.	**IOSCO**	**Published in January 2012**
Exchange and electronic platform trading	Report on International Standards for Derivatives Market intermediary Regulation.[43]	**IOSCO**	**Published in June 2012**
Reporting to trade repositories	Report on OTC derivatives data reporting and aggregation requirements, outlining the OTC derivatives data that should be collected, stored and	**CPSS and IOSCO**	**Published in January 2012**

[39] The Principles for FMIs were published in April 2012 on the websites of CPSS and IOSCO: http://www.bis.org/publ/cpss101a.pdf and http://www.iosco.org/library/pubdocs/pdf/IOSCOPD377.pdf.

[40] The draft assessment methodology for the PFMIs was published for consultation in April 2012 on the websites of CPSS and IOSCO: http://www.bis.org/publ/cpss101b.pdf and http://www.iosco.org/library/pubdocs/pdf/IOSCOPD377.pdf.

[41] The Draft Disclosure Framework for FMIs was published for consultation in April 2012 on the websites of CPSS and IOSCO: http://www.bis.org/publ/cpss101c.pdf and http://www.iosco.org/library/pubdocs/pdf/IOSCOPD377.pdf.

[42] IOSCO's follow on report on trading, published in January 2012, can be found on the IOSCO website at: http://www.iosco.org/library/pubdocs/pdf/IOSCOPD368.pdf.

[43] Report on International Standards for Derivatives Market intermediary Regulation was published in June 2012 and is available on the IOSCO website at https://www.iosco.org/library/pubdocs/pdf/IOSCOPD381.pdf.

[44] Report on OTC derivatives data reporting and aggregation requirements, report of CPSS and IOSCO, January 2012, available at http://www.bis.org/publ/cpss100.pdf and http://www.iosco.org/library/pubdocs/pdf/IOSCOPD366.pdf.

WORK COMPLETED SINCE 2ND FSB PROGRESS REPORT			
Commitment(s)	**Action**	**Responsible**	**Status**
	disseminated by TRs.[44]		
Capital requirements	Regulatory capital adequacy rules for capitalisation of both trade and default fund exposures to CCPs.[45]	**BCBS**	**Consultation paper on proposed rules published November 2011**

[45] http://www.bis.org/publ/bcbs206.pdf. The second consultation follows the previous consultation of December 2010 on proposed rules on capital requirements for bank exposures to CCPs: http://www.bis.org/publ/bcbs190.pdf

ONGOING WORK			
Commitment(s)	**Action**	**Responsible**	**Status**
Standardisation (benchmarking)	Ongoing submission of agreed improved standardisation matrices: - matrices for credit, equity and interest rate classes to include provision of absolute numbers of contracts; - matrix to expand to include asset class data for commodities and foreign exchange; - matrices for all asset classes to be submitted semi-annually.	**ODSG**	**Next sets of populated standardisation matrices for credit, equity and interest rates due 30 September2012.** **First set of matrices for foreign exchange derivatives to be delivered 30 June 2012**
Standardisation (product)	Ongoing work on product standardisation by signatories to March 2011 roadmap,[46] including development, publication and use of standardised product documentation	**ODSG**	**No timetable set; work ongoing**
Standardisation (process)	Ongoing work on process standardisation by signatories to March 2011 roadmap, including the design, implementation and take-up of automated processes and electronic platforms for key business functions	**ODSG**	**No timetable set; work ongoing**
Central clearing	Revision of the BCBS Supervisory guidance for managing settlement risk in foreign exchange transactions (2000)	**BCBS and CPSS**	**Updated guidance to be published for consultation by July 2012**
Central clearing	International standards on margin requirements for non-centrally cleared derivatives	**BCBS, IOSCO, CPSS, CGFS Working Group**	**Consultative report by middle of 2012**
Reporting to trade repositories	Work on access by authorities to data reported to trade repositories	**CPSS and IOSCO**	**End-2012**
Reporting to trade repositories, central clearing	Fostering development and implementation of frameworks for effective cooperation and coordination on oversight arrangements and information sharing among the relevant authorities for individual trade	**ODRF**	**No timetable set; work ongoing**

[46] Roadmap, published in March 2011 of industry initiatives and commitments relating to four thematic objectives: increasing standardisation; expanding central clearing; enhancing bilateral risk management; and increasing transparency. Available at: http://www.newyorkfed.org/newsevents/news/markets/2011/SCL0331.pdf (See October 2011 progress report).

ONGOING WORK			
Commitment(s)	**Action**	**Responsible**	**Status**
	repositories and systemically important OTC derivatives CCPs		
Capital requirements	Regulatory capital adequacy rules for capitalisation of both trade and default fund exposures to CCPs, including: - capitalisation of trade exposures to CCPs; - capitalisation of default fund contributions; - capitalisation of transactions between a clearing member and that member's clients. - In conjunction with second consultation (paper published November 2011), quantitative impact studies involving banks and CCPs are being undertaken, with a view to comparing the capital requirements for non-centrally and centrally cleared trades, and refining the rules.	**BCBS**	**Final rules to be published during 2012**
Legal Entity Identifier	Work to develop a global LEI (which would, among other things, facilitate reporting of OTC derivatives transactions to TRs and aggregation of information.)	**FSB**	**Report to be finalised by June 2012**
FMI Resolution	Draft report on Recovery and Resolution of Financial Market Infrastructures, analysing the application of the FSB Key Attributes for Effective Resolution Regimes to FMIs.	**CPSS-IOSCO**	**To be published for consultation in July 2012**

Appendix II
International measures taken with respect to the four safeguards

Information on the international measures taken to achieve the four safeguards is available from the following sources:

(i) *Fair and open access by market participants to CCPs, based on transparent and objective criteria.* This safeguard is addressed within the PFMIs, which were published in April 2012 and which members of CPSS and IOSCO have agreed to strive to incorporate in their legal and regulatory framework by the end of 2012. The PFMIs are published on the websites of both CPSS and IOSCO at the following links:

http://www.bis.org/publ/cpss101.htm
http://www.iosco.org/library/pubdocs/pdf/IOSCOPD377.pdf

(ii) *Cooperative oversight arrangements between relevant authorities, both domestically and internationally and on either a bilateral or multilateral basis, that result in robust and consistently applied regulation and oversight of global CCPs.* This safeguard is addressed as a minimum standard through the responsibilities for authorities under the PFMIs (see links above) and in practice through individual cooperative agreements in place or in development for OTC derivatives CCPs.

(iii) *Resolution and recovery regimes that aim to ensure the core functions of CCPs are maintained during times of crisis and that consider the interests of all jurisdictions where the CCP is systemically important.* The FSB Key Attributes of Effective Resolution Regimes for Financial Institutions apply to FMIs, including CCPs. CPSS and IOSCO plan to issue a detailed consultation paper on the application of the Key Attributes to CCPs and other FMIs for publication in mid-2012.

The Key Attributes are available at:
http://www.financialstabilityboard.org/publications/r_111104cc.pdf.

The CPSS-IOSCO consultation paper on recovery and resolution of FMIs will be available on the websites of both CPSS and IOSCO.

(iv) *Appropriate liquidity arrangements for CCPs in the currencies in which they clear.* This safeguard is addressed within the PFMIs (see links above) and also through conclusions of the ECC, which follows:

Statement by the Economic Consultative Committee

Appropriate liquidity arrangements

One of the "four safeguards" for global CCPs is "appropriate liquidity arrangements". CCPs must hold adequate liquid assets or have adequate lines of credit in all of the currencies of the products cleared by the CCP.

Further, central banks are working towards a regime that ensures there are no technical obstacles for the timely provision of emergency liquidity assistance by central banks to solvent and viable CCPs, without pre-committing to the provision of this liquidity.

CCPs do not offer maturity transformation services, and so, absent a default by a clearing member, do not typically face significant overnight liquidity risks. Under normal circumstances, a CCP's liquidity needs are typically confined to intraday liquidity to facilitate settlement of routine transactions, such as payments of variation margin or purchases of securities against cash. In general, these liquidity needs can be met from the CCP's holdings of cash, other liquid assets or lines of credit. In the event of the default of one or more major participants, however, and in a period of significant market stress, the liquidity needs of a CCP could be very large. Depending on how quickly the CCP could liquidate the positions of its defaulting member(s), the liquidity gap could extend overnight and beyond.

Private sector liquidity must constitute the first line of defence for CCPs against liquidity shortfalls. In conjunction with appropriate prearranged funding arrangements, a portfolio of liquid assets can provide a backstop against potential liquidity shortfalls.

Compliance with the standards and requirements under the CPSS-IOSCO Principles for Financial Market Infrastructures (PFMIs) is intended to ensure that a CCP has adequate liquidity self-insurance. For CCPs that are systemically important in multiple jurisdictions, the PFMIs call for the CCP to consider covering the two defaults that would give rise to the largest aggregate liquidity need.

The PFMIs also require a CCP to establish explicit rules and contingency procedures that would enable it to address potentially uncovered liquidity shortfalls and continue to operate safely and soundly. There could, nevertheless, be extreme circumstances in which a CCP's liquid resources turn out to be insufficient or unavailable, and yet its continued operation might be vital to sustaining financial stability.

With such a scenario in mind, central banks are accordingly working on how they could ensure that there are no technical obstacles impeding them from providing liquidity assistance to a CCP that is fundamentally sound but faces a shortage of liquidity at very short notice. A CCP should not assume the availability of emergency central bank credit as part of its liquidity plan.

Central banks will place great weight on CCPs' compliance with the PFMIs. But central banks also need to be confident that there are mechanisms in place to resolve distressed CCPs. The resolution regime should provide for close cooperation between the CCP's resolution authority and the domestic central bank. Other central banks may also need to have a good understanding of the resolution mechanism so as to be able to assess the potential impact on markets for which the CCP provides clearing services.

Appendix III
Metrics to measure operational process standardisation[47]

Electronic eligibility and electronic processing metrics: In order to monitor industry progress in meeting operational processing commitments, the ODSG has developed three sets of metrics to track the performance the G-14 dealers[48] in the use and electronic processing of electronically eligible OTC derivatives instruments. These metrics may also be used as a broad indicator of progress in standardising operational processing in the OTC derivatives markets.

Metric 1 ("Electronically processed")	Electronic volume / All volume	Measures the extent to which the entire population of transactions are confirmed electronically on a flow basis
Metric 2 ("Electronically eligible: electronically processed")	Electronic volume / Eligible volume[49]	Measures the extent to which the population of transactions eligible for electronic confirmation is actually processed electronically on a flow basis
Metric 3 ("Electronically eligible")	Eligible volume / All volume	Measures the extent to which the entire population of transactions is eligible to be confirmed electronically on a flow basis

Summary:

The level of standardisation in terms of electronic eligibility and electronic processing has remained relatively constant for the credit, interest rates and equities asset classes since October 2009 (see tables and graphs that follow in Appendix III.a.). Corresponding levels for the foreign exchange and commodities asset classes have shown some degree of variability since 2009 but levels remained constant during 2011 with a few exceptions.

Observations from these metrics include the following:

- For credit derivatives, levels of operational process standardisation continue to remain high, at near 100%, across all three sets of electronic eligibility metrics.
- Levels of operational process standardisation in interest rates derivatives experienced minor increases in 2011 across all three sets of metrics.
- Metrics for the equities asset class indicated that levels of operational process standardisation, as shown in all three metrics, remained relatively stable throughout 2011.

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[47] The terms "electronic processing," "confirmation," and "matching" are used interchangeably through out the appendices.

[48] The G-14 dealers are the largest derivatives dealers and signatories to the March 2011 Strategic Roadmap process and can include additional firms, depending on those who have become signatories to particular initiatives. Understanding that in some contexts the group may be larger than 14, the term "G-14 dealers" will be used throughout the appendices.

[49] The indicator of "eligible" trade population must be interpreted with care due to the high degree of variation between asset classes. Eligible generally indicates that it is available for electronic processing and the definitions vary between asset classes and in complexity. The term is does not mean "eligible" for purposes of clearing.

- The equities asset class remained relatively stable throughout 2011.
- Operational process standardisation in foreign exchange derivatives has increased significantly since October 2009.
- Commodities[50]:
    - In energy derivatives, levels of operational process standardisation eligibility remained high and relatively constant throughout the period with the exception of a slight decline in December 2011.
    - Levels of operational process standardisation electronic processing in metals derivatives have shown slight variation since October 2009, ending in a decrease at year-end 2011 for Metrics 1 and 2; however the results for electronically eligible volumes (Metric 3) showed a slight increase by the end of 2011.
    - Levels of operational process standardisation in the other commodities derivatives showed no clear trends.

While the dataset reflected in Metrics 1, 2 and 3 is limited to the G-14 dealers, the more recent trends indicate that operational process standardisation may not be increasing significantly. While legislative and regulatory reforms are established, it will be critical for these metrics to continue to be measured. Authorities should also consider similar measurements in their own jurisdictions to benchmark progress in operational process standardisation.

[50] Care must be taken in interpreting this statistic due to the cyclical nature of commodities. Market participants have indicated that the decline in the "Commodities – Other" since 2009 may at least be partially attributed to the movement of electronically eligible OTC products to exchange-traded.

Appendix III.a
Recent data on operational process standardisation

Tables III.a.1-3 present G-14 dealers' data calculated using Metric 1, Metric 2 and Metric 3, respectively. For each of the three metrics, a higher percentage indicates a greater level of operational process standardisation with respect to electronic confirmation. The results are based on data submitted by the G-14 dealers for interest rates, credit, equity,[51] commodities and foreign exchange classes between October 2009 and December 2011.

[51] The tables below revise the data set forth in the October 2011 progress report in order to include new data items. Volume includes full range of equity products, such as options, swaps, and other products. The change is implemented since November 2009.

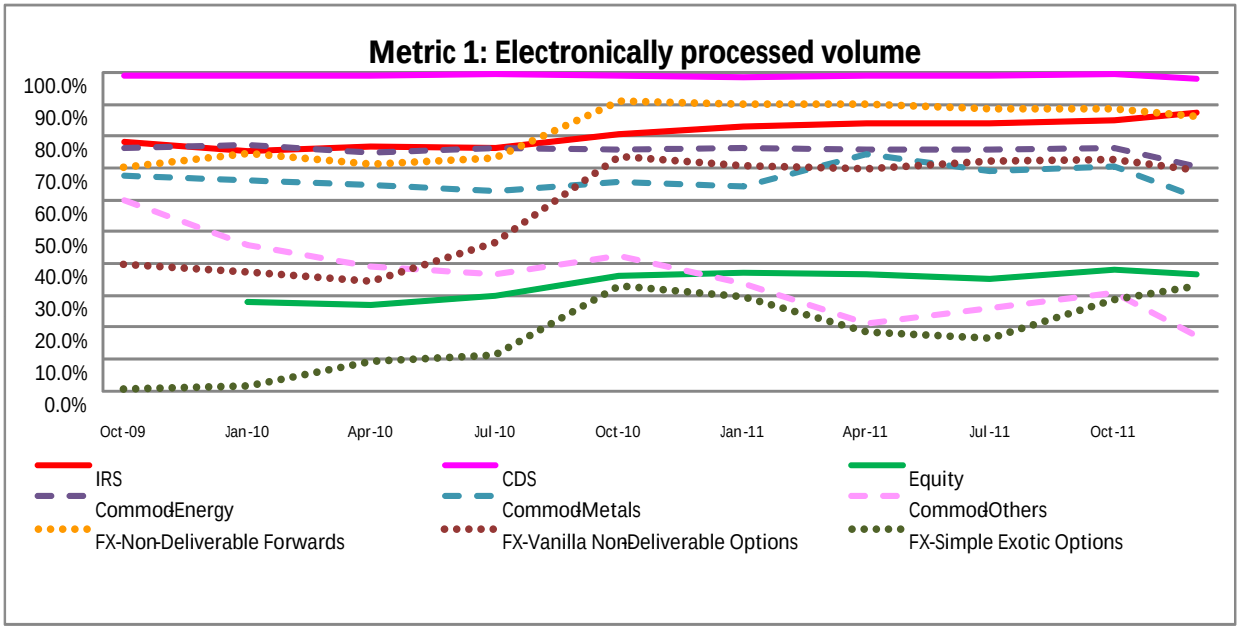
Metric 1.

Table III.a.1 presents G-14 dealer data calculated using Metric 1. The percentage has been calculated by dividing the electronically processed volume (representing transactions executed bilaterally and processed on electronic confirmation platforms (*i.e.* confirmed)) by the total volume (representing the total transaction volume reported by the G-14 dealers with their respective counterparties). The electronically processed volume as a percentage of the total volume provides an indication of the population of electronically confirmed trades as compared with all transactions.

Table III.a.1 Metric 1: % (G-14 Volume:Electronic / G-14 Volume:All)

	Electronically processed volume		
Asset class - product type	as of June 2010	as of June 2011	as of December 2011
Interest Rates	78.0%	84.1%	87.6%
Credit	98.8%	98.8%	97.8%
Equity	27.0%	35.7%	36.8%
Commodities-Energy	79.1%	76.5%	70.3%
Commodities-Metals	64.2%	69.1%	60.8%
Commodities-Others	37.1%	25.4%	17.1%
FX-Non-Deliverable Forwards	75.6%	89.2%	86.0%
FX-Vanilla Non-Deliverable Options	46.5%	69.6%	69.4%
FX-Simple Exotic Options	8.9%	22.6%	32.9%

Chart 1. Metric 1: % (G-14 Volume:Electronic / G-14 Volume:All), By Quarter, October 2009-December 2011



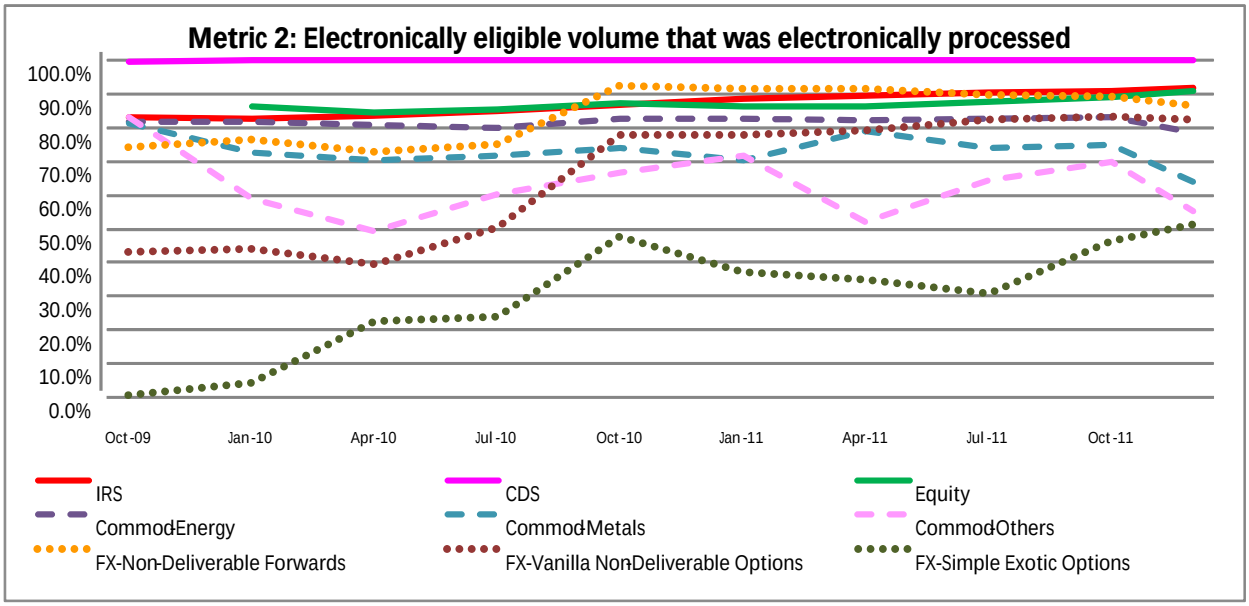
Metric 2.

Table III.a.2 presents G-14 dealer data calculated using Metric 2. The percentage has been calculated by dividing the electronically processed volume (representing transactions executed bilaterally and processed on electronic confirmation platforms (*i.e.* confirmed)) by transactions included within the G-14 definition of "eligible" which varies according to asset class. ("Eligible" generally indicates that it is available for electronic processing and the definitions vary between asset classes and in complexity. The term is does not mean "eligible" for purposes of clearing). Data in both the table and chart provide an indication of the overall level of automation and is one metric used to consider the level of operational process standardisation in each of the asset classes.

Table IIIa.2- Metric 2: %(G-14 Volume:Electronic/G-14 Volume Eligible)

	Electronically eligible volume that was electronically processed		
Asset class - product type	as of June 2010	as of June 2011	as of December 2011
Interest Rates	86.0%	89.8%	92.0%
Credit	100.0%	99.8%	99.9%
Equity	86.4%	87.9%	90.8%
Commodities-Energy	83.8%	83.5%	78.7%
Commodities-Metals	69.4%	75.8%	63.9%
Commodities-Others	50.1%	59.5%	55.2%
FX-Non-Deliverable Forwards	77.2%	90.4%	86.8%
FX-Vanilla Non-Deliverable Options	52.6%	79.5%	82.5%
FX-Simple Exotic Options	22.2%	39.6%	51.4%

Chart 2.Metric 2: % (G-14 Volume:Electronic/G-14 Volume:Eligible)
By Quarter, October 2009-December 2011



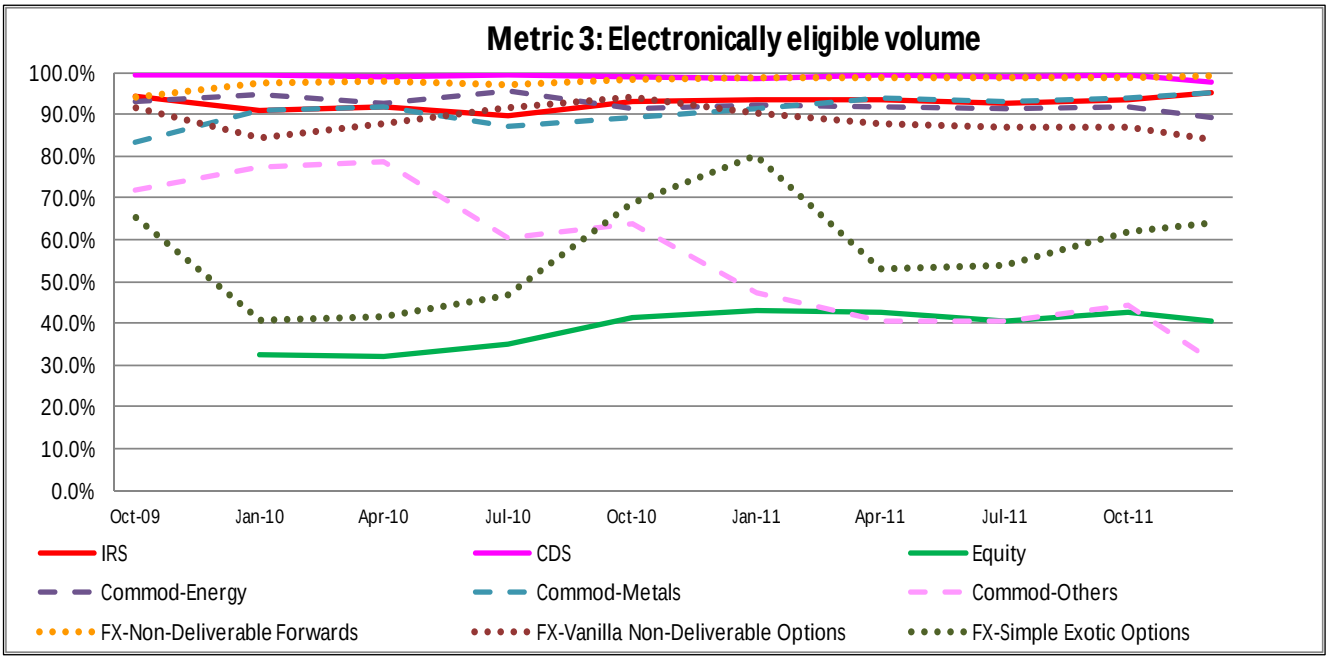
Metric 3.

Table III.a.3 presents G-14 dealer data calculated using Metric 3, which measures electronic eligibility, *i.e.*, the availability of third-party mechanisms (*e.g.*, electronic confirmation platforms) to automate operational processes. The percentage has been calculated by dividing the transactions included within the G-14 definition of "eligible" (generally indicates that it is available for electronic processing and the definitions vary between asset classes and in complexity; the term is does not mean "eligible" for purposes of clearing) which varies according to asset class, by total volume (representing the total transaction volume reported by the G-14 dealers with their respective counterparties).

Table III.a.3 – Metric 3: % (G-14 Volume: Eligible / G-14 Volume: All)

	Electronically eligible volume		
Asset class - product type	as of June 2010	as of June 2011	as of December 2011
Interest Rates	90.7%	93.6%	95.3%
Credit	98.9%	99.0%	97.9%
Equity	31.3%	40.6%	40.5%
Commodities-Energy	94.4%	91.6%	89.4%
Commodities-Metals	92.6%	91.2%	95.2%
Commodities-Others	74.1%	42.7%	31.0%
FX-Non-Deliverable Forwards	97.9%	98.7%	99.1%
FX-Vanilla Non-Deliverable Options	88.4%	87.6%	84.1%
FX-Simple Exotic Options	39.9%	57.1%	63.9%

Chart 3. Metric 3: %(G-14 Volume Eligible/G-14 Volume: All)
By Quarter, October 2009-December 2011



Appendix IV
Standardisation matrix

The Standardisation Matrix is a tool developed by the ODSG and the G-14 to benchmark existing levels of product and process standardisation for OTC derivatives by asset class, identify areas for further progress, and monitor how levels of standardisation evolve over time using quantitative and qualitative information. Three derivatives asset classes (credit, equity, and interest rates) have developed Standardisation Matrices in accordance with a 2010 industry commitment to the ODSG. Standardisation Matrices for two other asset classes (commodities and foreign exchange) are currently under development. In the interest of providing greater transparency around levels of standardisation to the public and private sector, market participants released the 2010 and 2011 Standardisation Matrices for credit, interest rates and equity derivatives.[52]

The G-14 dealers have populated the three Standardisation Matrices with a combination of absolute numbers (*e.g.* for transaction count and notional amounts) and percentage ranges (*e.g.* for trading venue and electronic confirmation) which provide indicative levels of standardisation by product and process. Each Standardisation Matrix is accompanied by a narrative that documents relevant terms and concepts. Enhanced versions of the Standardisation Matrices populated with data as of 30 June 2011 were delivered on 30 September 2011 to the ODSG in accordance with the Strategic Roadmap.

The Standardisation Matrix comprises *rows* for categorizing groups of products in each asset class. The Standardisation Matrix also comprises *columns* for categorizing key functional areas pertinent to product and process standardisation, such as the availability and use of standardised documentation, electronic processing platforms, and trading venues. For each product grouping, the Standardisation Matrix includes information on the availability of standard processes (*e.g.*, electronic confirmation platforms) and the take-up and use of such standard processes.

The Standardisation Matrix also provides information on the usage of different types of trading platforms by product. Appendix VI sets out how this information can be analysed in relation to measuring the usage of organised trading platforms. It should be noted, however, that the Standardisation Matrix construct is only intended to provide an approximation of standardisation at a point in time, rather than a representation of eligibility for the central clearing or organised platform trading of a product. Liquidity and availability of pricing (two critical criteria recognised by the FSB) are not captured in the Standardisation Matrices.

[52] The Standardisation Matrices are available on ISDA's website: http://www2.isda.org/functional-areas/market-infrastructure/G20-objectives/g20-standardisation-documents/.

Appendix V
Metrics to measure central clearing of standardised derivatives

The ODSG has developed three sets of metrics that may be used to measure and monitor the take-up of central clearing in standardised OTC derivatives instruments:

Metric 4 ("Eligible cleared")	$\frac{\text{Volume of transactions in clearable instruments cleared}[53]}{\text{Volume of transactions in clearable instruments}}$	Measures the number of transactions cleared over some time period as a proportion of the number of transactions in "clearable" instruments (numerator and denominator each defined by asset class) over the same time period, expressed in percentage terms.
Metric 5 ("Cleared")	$\frac{\text{Volume of transactions in clearable instruments cleared}}{\text{Volume of transactions in all instruments}}$	Measures the number of transactions cleared over some time period as a proportion of the number of transactions in "all" instruments (numerator and denominator each defined by asset class) over the same time period, expressed in percentage terms.
Metric 5b ("Clearing Eligible ")	$\frac{\text{Volume of transactions in clearable instruments}}{\text{Volume of transactions in all instruments}}$	Measures the number of transactions in instruments that are "clearable" over some time period as a proportion of transactions in "all" instruments (numerator and denominator each defined by asset class) over the same time period, expressed in percentage terms.

In order to utilise these metrics, however, several data challenges need to be addressed, the keys to which are sourcing needed data and resolving definitional issues.

The further development of centralised infrastructures (CCPs and TRs), including requiring reporting to TRs and minimum content standards, will facilitate the ability to calculate these metrics. There are some challenges however with using data from such infrastructures. These include definitional challenges, such as establishing a universally applicable definition of "clearable" or "all" instruments. For example, the definition of "clearable" used by the industry in its credit clearing commitments to the ODSG depends on both counterparties being members of such CCP. Currently, CCPs offer certain products for clearing but only to a limited set of market participants that meet certain criteria. Further difficulties arise when considering how to aggregate across jurisdictions whose definitions of "clearable" may differ. Furthermore, because there are currently multiple infrastructures that serve as data sources in most asset classes, it is difficult to determine the full population of "clearable" transactions for the denominator in Metric 4. Calculating the numerator of these metrics is less challenging, since each individual CCP can reasonably be expected to provide comprehensive and relevant data.

[53] For purposes of these metrics, clearable instruments indicates the instruments are offered for clearing by a CCP.

The currently voluntary nature of reporting transactions to TRs in each asset class results in available data being reflective only of a subset of the market. This impacts, for example, the ability to accurately identify the full population of transactions for the denominator in Metric 5. Currently, the BIS conducts a triennial survey which provides an indication of the size of the overall market. While this data could be used as a proxy given that it covers reporting from major market participants in each of 47 jurisdictions (in the 2010 report), without obtaining the data for the metric from the same sources for the numerator and denominator, it is difficult to know if the metric is ultimately measuring the correct dataset.

While already serving as useful sources of data to both the public and private sectors, TRs are expected to become more valuable sources of data as they develop, so they should contain more comprehensive data by end-2012.

With respect to Metric 4, the clearing process in some asset classes (such as credit) nets down or "compresses" transactions when they are submitted to the CCP for clearing. This process distorts the calculation intended by the ratio of "cleared" to "clearable" volume, because the notional amounts of the transactions submitted (which make up part of "clearable" volume) are reduced before clearing occurs, so that "cleared" volume does not precisely measure how much of "clearable" volume is being subject to the clearing process. To obtain such an accurate picture it may be necessary to supplement Metric 4 with numbers that account for the volumes of transactions that get compressed before being cleared. Developing a uniform method to collect data may sufficiently address these particular challenges.

Until reporting to TRs is mandated and TRs themselves are more fully developed, data to calculate these metrics also might be sourced from individual market participants. Another source of interim high-level information on clearing eligibility may be found in the credit and interest rates Standardisation Matrices which identify where at least one transaction in any sub-product or region combination is available for clearing. Once market participants are required to centrally clear transactions, it can reasonably be expected that individual market participants will capture data that indicates their compliance with clearing requirements, in order to ensure they are meeting the requirements set forth in law or regulation. Their internal data could therefore be leveraged to calculate the overall percentages of the market, by asset class, which are cleared for individual jurisdictions.

Appendix V.a
Recent data on central clearing of OTC derivatives

Table V.a.1 sets out a snapshot of estimated percentages of transactions that have been cleared of those that are offered for clearing by a CCP, as of 31 December 2011 for the G-14 dealers. The percentages are calculated for credit and interest rate derivatives asset classes and reflects Metric 4 for the G-14 dealers.

Estimated percentages of interest rate and credit derivatives cleared by the G-14 dealers as a percentage of those offered for clearing by a CCP

	Eligible cleared
Interest rate derivatives[1]	56%
Credit default swaps[2]	44%

[1] The results based on data from G-14 dealers and notional amounts outstanding are defined as the gross notional amount of all deals concluded that are live on the reporting date, 31 December 2011. Products included: interest rate options include caps, floors, collars, and swaptions (both long and short options), cross-currency swaps (one side of each cross-currency swap transaction), FRAs (reported until maturity), swaptions (notional amount of underlying swap, not the exposure), and structured products. The data for the numerator is based on point-in-time snapshot data as of 31 December 2011, adjusted for double-counting, based on snapshot data facing any CCPs (for the purposes of our analysis classified as "cleared") for the G-14 dealers. The data for the denominator refers to transactions by G-14 dealers in products offered for clearing by a CCP, is adjusted for double-counting.

[2] The results are based on data from the G-14 dealers for credit derivatives as of 31 December 2011 and DTCC. The estimates of the clearing levels for credit derivatives based on stock (point-in-time snapshot) data as of 31 December 2011 and notional amounts outstanding are defined as the gross notional amount of all deals concluded that are live on the reporting date, 31 December 2011. The data for the numerator is based on point in time snapshot data as of 31 December 2011, adjusted for double-counting, based on snapshot data volumes facing any CCPs for the G-14 dealers (for the purposes of our analysis classified as "cleared"). The data for the denominator is based on DTCC's clearing eligible report as of 31 December 2011 and represents trades in products offered for clearing by a CCP.

Appendix V.b
Recent data on central clearing of OTC derivatives

Table V.b.1 sets out estimated percentages of current outstanding notional of major OTC derivatives asset classes cleared on a CCP. The analysis is not limited to standardised derivatives and accordingly the statistics for Total Notional Outstanding includes data for non-standardised products and is a point-in-time snapshot.

Estimated percentages of major OTC derivatives asset classes and products on CCPs

	Total notional outstanding (USD equivalents in billions)	**Notional outstanding on a CCP** (USD equivalents in billions)	**Percentage of total on a CCP**
Interest rate derivatives[1]	**362,323**	**125,601**	**35%**
– Interest rate swaps	205,581	102,692	50%
– Basis swaps	20,692	3,985	19%
– Overnight index swaps	33,081	17,649	53%
– Forward rate agreements	49,338	1,276	3%
– Other	53,632	NA	NA
Credit default swaps[2]	**23,719**	**2,872**	**12%**
– Multi name	9,526	1,746	18%
– Single name	14,193	1,126	8%
Equity[3]	**5,982**	**NA**	**NA**
Commodity[3]	**3,091**	**NA**	**NA**
Foreign exchange[3]	**63,349**	**NA**	**NA**

[1] To ensure that the total notional outstanding amounts are comparable with outstanding volumes for other non-centrally cleared derivatives, the presented numbers have been adjusted to include only one contract for every two contracts booked with a CCP. The adjusted notional outstanding on a CCP has been calculated by dividing in half the gross notional outstanding on a CCP (as reported by TriOptima in its Table II b). The adjusted total notional outstanding has been calculated by deducting the adjusted notional outstanding on a CCP from the gross notional outstanding, as reported by TriOptima in its Table II a, to arrive at a single-sided equivalent adjusted total outstanding. This data is from TriOptima as of 30 December 2011 and is available at: http://www.trioptima.com/repository/historical-reports.html.

[2] For credit default swaps (CDS), "Total notional outstanding" has been adjusted to capture only one side of each position for all live Confirmed Certain trades in the Trade Information Warehouse as of specified date minus the double counting of positions for each dealer to dealer cleared trade and triple counting for each dealer to client trade. Similarly, "Notional outstanding on a CCP" for CDS has been adjusted to eliminate the double and triple counting for trades novated to the CCP. DTCC's Trade Information Warehouse is the source of the CDS data presented. CDS data reflects only transactions with "gold records" at the Trade Information Warehouse and does not include transactions with "copper records" kept by the Warehouse. A "gold record" of a contract is the official, legally binding record that is electronically confirmed by both counterparties via DTCC and stored in the Warehouse. For "gold records," DTCC performs automated record-keeping to maintain the current state of the contract terms, taking into account post-trade events. "Copper records" are single-sided records and are non-legally binding, but are stored in the Warehouse for the purpose of regulatory transparency. Copper records are generally non-standardised transactions.

[3] Total notional outstanding as of 31 December 2011 from BIS statistics available here: http://www.bis.org/publ/otc_hy1205.pdf.

Table V.b.2 presents counterparty clearing information for current outstanding credit derivatives, as well as information on the clearing of new trades for 26 weeks ended 27 April 2012.

Credit default swaps

Position (stock) data (as of 27 April 2012)
In billions of US dollars

Participant	Product	Adjusted gross notional[1]	Adjusted gross notional on a CCP[2]	Percentage on a CCP
Dealer to dealer	Single names	9,617	1,126	12%
	Index	4,256	1,745	41%
Dealer to non-dealer	Single names	4,576	-	0%
	Index	5,270	1[3]	0%
Total		23,719	2,872	12%

[1] "Adjusted gross notional" represents one side of each position for all live Confirmed Certain trades in the Trade Information Warehouse as of specified date minus the double counting of positions for each dealer to dealer cleared trade and triple counting for each dealer to client trade.

[2] "Adjusted gross notional on a CCP" represents one side of each position facing a CCP for all live Confirmed Certain trades in the Trade Information Warehouse as of specified date minus the double counting of positions for each dealer to dealer cleared trade and triple counting for each dealer to client trade.

[3] There was an error in the adjusted gross notional on a CCP for dealer-to-non-dealer index in the October 2011 progress report. That number should have been 2 billion, not 2,181 billion.

Credit default swaps (cont)

Volume (flow) data (28 October 2011 through 27 April 2012)
In billions of US dollars

Participant	Product	Gross notional all market risk activity[1]	Adjusted "new" cleared trades on CCP[2]	Percentage on a CCP
Dealer to dealer	Single names	2,088	594	28%
	Index	6,690	3,860	58%
Dealer to non-dealer	Single names	1,026	-	0%
	Index	4,212	<1	0%
Total		14,014	4,454	32%

[1] "Gross notional all market risk activity" refers to all transactions that change the risk position between two parties. This includes New trades, Same Day cleared trades, Terminations of existing transactions, and assignments of existing transactions to a third party. This excludes transactions which did not result in a change in the market risk position of the market participants, and are not market activity. For example, central counterparty clearing of existing bilateral trades and portfolio compression both terminate existing transactions and re-book new transactions or amend existing transactions. These transactions still maintain the same risk profile and consequently are not included as "market risk transfer activity" transactions. Additionally, this analysis excludes transactions such as amendments, intra-family trades and double counting of prime brokerage activity.

[2] Adjusted "new" cleared trades on CCP" refers to All New Confirmed Certain Trades submitted by a CCP. This includes Same Day Trades, Backloaded Trades (previously bilaterally executed) and Replacement Cleared Trades. Replacement trades are those which replace the terminations from Clearing Compression. This number is then adjusted to remove double counting of positions for each dealer-to-dealer cleared trade and triple counting for each dealer to client trade.

Appendix V.c
Recent data on central clearing of OTC derivatives

Table V.c.1 sets out estimated percentages of the transactions that are offered for clearing on a CCP (*i.e.*, clearable) out of the total stock of trades reported by the G-14 dealers. The data represented below provides an estimate for the calculation of Metric 5b for the G-14 dealers and is a point-in-time snapshot as of 31 December 2011.

Metric 5b ("Clearing Eligible ")	$\frac{\text{Volume of transactions in clearable instruments}}{\text{Volume of transactions in all instruments}}$	Measures the number of transactions in instruments that are "clearable" over some time period as a proportion of transactions in "all" instruments (numerator and denominator each defined by asset class) over the same time period, expressed in percentage terms.

Estimated percentages of interest rate and credit derivatives products offered for clearing as a percentage of outstanding transactions for the G-14 dealers

	Offered for clearing
Interest rate derivatives[1]	61%
Credit default swaps[2]	29%

[1] The results based on data from G-14 dealers and notional amounts outstanding are defined as the gross notional value of all deals concluded that are live on the reporting date. Products included: interest rate options include caps, floors, collars, and swaptions (both long and short options), cross-currency swaps (one side of each cross-currency swap transaction), FRAs (reported until maturity), swaptions (notional amount of underlying swap, not the exposure), and structured products. The data for the numerator refers to any product which is eligible to be cleared on any CCP, is adjusted for double-counting, total clearing eligible volume is calculated as sum of adjusted G-14 and non-G-14 volume. The data for the denominator is the outstanding total for G-14 dealers, adjusted for double counting.

[2] The results are based on data from the G-14 dealers for credit derivatives as of 31 December 2011 and DTCC. The estimates of the clearing levels for credit derivatives based on stock (point in time snapshot) data as of 31 December 2011 and notional amounts outstanding are defined as the gross notional value of all transactions concluded that are live on the reporting date. The data for the numerator is based on DTCC's clearing eligible report as of 31 December 2011 and represents trades in products that are offered for clearing by a CCP. The data for the denominator is the outstanding total for G-14 dealers, adjusted for double counting.

Appendix VI
Metrics to measure organised platform trading of standardised derivatives

The ODSG has developed the following metric that may be used to measure trades that are traded on exchanges and electronic trading platforms (together, "organised platforms"):

Metric 6 ("Organised platform traded")	Standardised volume traded on organised platforms / All standardised volume	This metric would be calculated by OTC derivatives product, such that the volume numbers would be for a specific product (defined individually by product on a flow basis).

As with metrics for central clearing, in order to utilise these metrics several data challenges need to be addressed, the key to which is sourcing needed data.

Currently, there is not comprehensive data indicating how transactions are executed (*e.g.*, electronically or voice trading). The further development of TRs, combined with requiring reporting to TRs and minimum content standards, may facilitate the ability to calculate Metric 6 if market participants are required to indicate the venue of execution for transactions reported to TRs.

The Standardization Matrix was the source of data, as provided to the ODSG based on data submitted by the G-14 dealers for the credit, rates and equity asset classes for 4Q 2011. These numbers represented approximations of the volume traded on organised platforms and estimates of the volume of the G-14 activity (used as the denominator).

It should be noted that the Standardisation Matrix construct is based solely on information provided by the G-14 dealers and is only intended to provide an approximation of standardisation at a point in time, rather than a representation of eligibility for the central clearing or electronic trading of a product. Liquidity and availability of pricing (two critical criteria recognised by the FSB) are not captured in the Standardisation Matrices.

Estimated percentages of interest rate, credit and equity derivatives products executed on organised platforms by the G-14 dealers

	Traded on organised platforms[1]
Interest rate derivatives	12%
Credit default swaps	39%
Equity derivatives	51%

[1] Volume on organised platforms is approximated by data on trades executed on electronic execution venues, including single dealer[54] and multi-dealer.[55] It does not include trades executed over email, phone, or messaging platforms.

[54] Platforms sponsored by a single market maker and available to one or more counterparties for trade execution. Transaction details are recorded by a system or platform sponsored/owned by one of the two parties to the trade and there is no third party involved in execution.

Appendix VII
Reporting to trade repositories of OTC derivatives transactions

The ODSG has developed the following metric that may be used to measure the percentage of transactions that are reported to TRs:

Metric 7 ("TR reported")	$\frac{\text{Transactions reported to TRs}}{\text{All transactions}}$	Measures the percentage of trades reported to TRs (snapshot)

The ideal metric for measuring progress to the G20 commitment of reporting to TRs is measuring the transactions reported to TRs versus all transactions. Achievement of the G20 commitment would be reflected by a figure of 100%. This metric could be calculated either on an asset class basis or in aggregate by jurisdictions.

The further development of TRs, combined with requiring reporting to TRs, will facilitate providing authorities with more precise data for the numerator. Although data for the numerator would be sourced directly from the TRs themselves, the inherent challenge in calculating this metric is ascertaining the number of all transactions for the denominator. In addition, data reported to other entities (e.g., central banks), rather than to entities specifically designated as TRs would need to be aggregated with data in the TRs.

Since market participants would be unlikely to report to authorities that they are not reporting transaction data to TRs (particularly in jurisdictions where market participants would be required to report to TRs), it may be more efficient to rely on some of the OTC derivatives surveys such as those conducted by the BIS or ISDA (although these surveys have their own limitations).

Given the difficulties in relying on incomplete reporting data for a metric on data reporting, the following measurements may provide additional information regarding progress:

- The number of jurisdictions that have requirements in place for reporting to TRs to achieve the G20 commitment and those which are in effect.
- The market participants that are in compliance with the requirements and the percentage of trades that they represent in the market.

In conjunction with these measurements, it would be important to understand how frequently market participants are examined for compliance with trade reporting requirements.

In certain jurisdictions, it may be easier to measure the above metric as authorities may be able to examine their own market participants to evaluate whether they have submitted all of their trades to the TRs.

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[55] Multiparty platforms that contain bids/offers of multiple market-makers that are classified as multilateral trading platforms (Inter Dealer Broker "click to trade" screens, Request-For-Quote platforms, etc). In all cases, there is a third party that captures transaction details at the point of execution.

Appendix VII.a
Recent data on reporting to trade repositories of OTC derivatives transactions

The table below provides an indicator of the comprehensiveness of reporting to TRs by asset class and product. This indicator compares the notional amounts outstanding of derivatives reported to the BIS with the notional amounts of derivatives that have been reported to TriOptima (in the case of interest rate derivatives and currency swaps) and the Trade Information Warehouse (TIW) (in the case of credit derivatives).

The Equity Derivatives Reporting Repository (EDRR), operated by DTCC, has been operational since August 2010 but does not publish statistics on the notional outstanding amounts of equity derivatives reported to it. EDRR public reporting is expected to be available by end-2012.

The TIW, also operated by DTCC, regularly publishes the notional amount of electronically confirmed credit default swaps reported to it (so-called "gold" records). Non-electronically confirmed transactions, generally understood to be non-standardised transactions, also are reported to the TIW within firms' position data (so-called "copper" records). As of 1 July 2011, the notional outstanding represented by copper records reported to the TIW was US$3,352 billion.

Global OTC derivatives market

Estimated notional amounts outstanding, in billions of US dollars

30 June 2011

	BIS	Trade repository	%
Grand total	**707,569**		
Foreign exchange contracts	64,698	…	…
Currency swaps	22,228	10,363[1]	47%
Interest rate contracts	553,880	529,417	96%
FRAs	55,842	53,924	97%
Swaps	441,615	425,416[2]	96%
Options	56,443	50,077[3]	89%
Equity-linked contracts	6,841	…	…
Commodity contracts	3,197	…	…
Credit default swaps	32,409	32,240[4]	99%
Single-name instruments	18,105	15,650[5]	86%
Multi-name instruments	14,305	13,237[5]	93%
Unallocated	46,534[6]	…	…

[1] Includes exotic swaps.

[2] Includes exotic swaps, OIS, inflation swaps and basis swaps.

[3] Includes exotic options, swaptions, caps / floors and debt options.

[4] Includes USD 3,352 billion for the copper population.

[5] Electronically confirmed trades only (gold population).

[6] Includes foreign exchange, interest rate, equity, commodity and credit derivatives of non-reporting institutions, based on the latest Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity, in 2010.

Sources for trade repository data: DTCC for credit default swaps and TriOptima for currency swaps and interest rate contracts.

Note: the reporting populations for the BIS semi-annual survey and the TriOptima trade repository are not the same. In addition, the way products have been categorized may differ between the BIS data and the TriOptima data (in particular, this may be the case with regard to exotic interest rate swaps). Furthermore, positions included in the "unallocated" category represent an estimate of positions in interest rate derivatives, as well as foreign exchange, equity-linked, commodity and credit default swaps contracts as reported by "non-regular reporters" not represented in the BIS semi-annual survey data.

Appendix VIII
Tables summarising responses to FSB survey on implementation of OTC derivatives market reforms

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Table 1 Standardisation			
	Proportion of OTC derivatives composed of standardised derivatives substantially increased by end-2012 **(June 2011 Survey question 1.1)**	**Legislative and/or regulatory steps completed toward increasing the use of standardised products and processes** **(June 2011 Survey question 1.1.a)**	**Additional legislative and/or regulatory steps planned toward increasing the use of standardised products and processes** **(June 2011 Survey question 1.1.b)**
Argentina	As from 1993, derivatives are traded through Mercado Abierto Electronico (MAE), a market regulated by the CNV. MAE together with ROFEX and MATBA (other regulated markets) have a share of 75% of all derivative contracts traded in Argentina.	Yes. Central Bank regulation Com. "A" 4725 provides a regulatory stimulus for the use of guarantees and CCPs to all financial institutions supervised by the Central Bank.	As markets do exist for standardized derivatives, there is no need to develop new regulation but of expanding the variety of contracts offered in these markets.
Australia	NA (main OTC derivatives instruments traded in Australian markets are interest rate and FX products, which are already fairly standardised). Regulators are also continuing to monitor the work undertaken by G-14 dealers under the steering of the ODSG and continuing dialogue with industry to track further proposed changes to standard documentation.	Yes. APRA is intending to undertake a public consultation in 2012 on draft provisions to implement Basel III capital requirements, for implementation by January 2013 in accordance with the timetable of the Basel Committee on Banking Supervision.	Yes. APRA intends to incorporate Basel III capital requirements into its prudential standards to meet the BCBS timetable.
Brazil	No (market already highly standardised)	No	No
Canada	Yes	No	Yes, indirectly through the implementation of Basel III capital standards and trade reporting.
China	Yes	To be determined.	No
European Union	Yes	Yes. Political agreement on EMIR in March 2012, MiFID II and MiFIR were proposed in October 2011 Capital Requirements Directive and Regulation ('CRD 4') implementing Basel III were proposed in July 2011.	Yes. Technical standards under EMIR to be developed by ESMA by September 2012 and adopted by the European Commission by end 2012; CRD 4 and MiFID II and MiFIR to be adopted.[1]
Hong Kong SAR	Monitoring development of reference benchmark, in particular the work undertaken by G-14 dealers under the steering of the ODSG. Main products traded in HK are already fairly standardised (interest rate swaps and NDFs)	No	Yes. HKMA has completed the process for primary legislation incorporating Basel III framework in its capital regime for banks. This is expected to increase standardisation.
India	Yes, with respect to terms of coupon payment, maturity dates, and master agreements for recently launched CDS.	Yes (CCIL expected to start guaranteed settlement in IFS/FRA shortly; guidelines to standardise terms of coupon, maturity dates, coupon payment dates, etc. on single name CDS for corporate bonds issued May 2011)	No

Table 1 Standardisation			
	Proportion of OTC derivatives composed of standardised derivatives substantially increased by end-2012 **(June 2011 Survey question 1.1)**	**Legislative and/or regulatory steps completed toward increasing the use of standardised products and processes** **(June 2011 Survey question 1.1.a)**	**Additional legislative and/or regulatory steps planned toward increasing the use of standardised products and processes** **(June 2011 Survey question 1.1.b)**
Indonesia	N/A: under the rules of the capital market regulator, derivatives products may only be traded on exchange.	Yes, Bapepam-LK Rule III.E.1 stipulates use of the Future Contract and Option on Securities or Securities Index, which may only be traded on an exchange.	N/A
Japan	A significant portion of the market is already standardised.	Yes: Financial Instruments and Exchange Act (FIEA) was amended in May 2010; another amendment was proposed in March 2012.	Yes: Cabinet Ordinance to be implemented by November 2012.
Mexico	Most of the OTC derivatives transactions in the Mexican market are plain vanilla interest rate swaps.	No.	Yes. Financial authorities are working on the development of a general framework based on amendments to the secondary regulation, to be concluded in the course of this year. In addition to the regulatory framework, financial authorities are considering specific legislation (new law) to regulate derivatives markets.
Republic of Korea	Yes.	A revision of the Financial Investment Services and Capital Markets Act was submitted to the National Assembly in November 2011.	Yes: revision of the Financial Investment Services and Capital Markets Act to be submitted to the National Assembly in November of 2011; detailed provisions of enforcement ordinances and supervisory regulations required after legislation is adopted
Russia	Classification codes for OTC derivatives introduced as a first step towards standardisation	Yes. Law #7-fz on clearing and clearing services, Law #8-fz , and Law #281-fz were adopted recently creating the legal basis for the Master Agreement and standardised OTC contracts and providing tax preferences for agreements on standardised terms; close-out netting covers only standardised products. FFMS Regulation adopted on registration of OTC derivatives.	Yes. Implementing regulation to be adopted pursuant to the recently adopted laws by end-20121.
Saudi Arabia	No. Banks in Saudi Arabia already use standardised and plain vanilla products (foreign exchange and	Yes: July 2000 SAMA requirement for all counterparties to use a standard Customer Treasury Agreement.	No. No further legislative or regulatory steps envisaged given the nominal size of the OTC

Table 1 Standardisation			
	Proportion of OTC derivatives composed of standardised derivatives substantially increased by end-2012 **(June 2011 Survey question 1.1)**	**Legislative and/or regulatory steps completed toward increasing the use of standardised products and processes** **(June 2011 Survey question 1.1.a)**	**Additional legislative and/or regulatory steps planned toward increasing the use of standardised products and processes** **(June 2011 Survey question 1.1.b)**
	interest rate products).		derivatives market, plain vanilla standardised products and the already implemented requirement for banks to use CTA and ISDA contracts. However, this issue is being further examined in coordination with the Saudi banking industry.
Singapore	Yes; major participants in the domestic market are the G-14 dealers who have committed to increase standardisation.	Public consultation on draft provisions to implement Basel III capital requirements issued on 28 Dec 2011.	Yes, finalised provisions to be issued for implementation by 2013.
South Africa	No. A phased-in approach is anticipated. Although increased use of standardised OTC derivatives is intended, this is not expected to increase substantially by end-2012.)	Yes. The Financial Markets Bill (FMB), which has been submitted for Cabinet and Parliamentary approval, amends the Securities Services Act 36 of 2004 (SSA) to strengthen the regulation of unlisted securities, including OTC derivatives.	Yes: the FMB and its subordinate legislation which is expected to be developed during the course of 2012.
Switzerland	Yes. Recent information collected from market participants shows a tendency towards greater use of standardised derivatives. In addition, the two major Swiss banks are part of the G-14 dealers that have committed to increase standardisation.	Yes: Basel capital requirements.	Yes. A working group was set up in 2011 to propose the legislative and regulatory changes necessary for compliance with the FSB principles in the area of OTC derivatives. Draft legislation is scheduled for public consultation in the second half of 2012.
Turkey	No. Investment firms are prohibited from dealing in OTC derivatives in Turkey; banks use mainly plain vanilla products with standardised features.	No: a draft Capital Markets Law to introduce OTC derivatives as capital market instruments has been prepared and will be introduced into the parliament before the summer, and is expected to be adopted by Q3 2012.	Under review
United States	Yes	Yes: Dodd-Frank Act enacted July 2010; CFTC and SEC have proposed implementing rules under the Dodd-Frank Act that should promote standardisation; CFTC has adopted some of the final rules that should promote standardisation.	Yes: remaining CFTC and SEC final rules to be adopted.

Table 2 Central clearing			
	Law and/or regulation in force by end-2012 requiring all standardised OTC derivatives to be cleared through CCPs **(June 2011 Survey question 1.2.a)**	**Legislative and/or regulatory steps completed toward central clearing of standardised OTC derivatives** **(June 2011 Survey question 1.2.b)**	**Additional legislative and/or regulatory steps needed for a central clearing requirement for standardised OTC derivatives to be effective** **(June 2011 Survey question 1.2.a)**
Argentina	No	Central Bank regulation Com. "A" 4725 provides incentives to trade derivatives on organised platforms that provide for central clearing.	No
Australia	On 18 April 2012, the government announced its intention to introduce a legislative framework to permit imposition of a requirement to trade standardised derivatives on trading platforms or exchanges. It is expected the legislation will be in place by end-2012, but that implementing regulations and rules would be required before any mandatory obligations are actually imposed.	Government announced on 18 April it will introduce legislation to establish a flexible framework for regulators to impose mandatory trade reporting, central clearing and trade execution obligations on participants, and also establish a licensing regime for trade repositories.	Yes. Consultation is currently taking place. Legislation is currently expected to be in place before the end of 2012, but implementing regulations and rules will also be required.
Brazil	No	Pre-existing legislation requires all exchange-traded derivatives to be centrally cleared; non-exchange traded derivatives may either be non-centrally risk managed or centrally cleared, at the option of counterparties	No: mandatory clearing requirement applies only to exchange-traded derivatives.
Canada	Provincial legislation expected to be in place by end-2012, but cannot be guaranteed.	Legislation in place in provinces where the majority of OTC derivatives trades are booked but further work required to harmonise across all provinces	Yes: upcoming consultation on clearing will inform rule making; work has been undertaken to identify legislative changes needed to support clearing.
China	Proposed.	Legislation not yet proposed; PBOC are taking measures to encourage Shanghai Clearing House to establish detailed schemes for central clearing of OTC derivatives. IRS central clearing operation scheme is under discussion.	Proposed.
European Union	Yes (EMIR).	Political agreement on EMIR in March 2012.	Yes; technical standards implementing EMIR to be developed by ESMA by September 2012 and adopted by the European Commission by end-2012.
Hong Kong SAR	Yes, work on legislative drafting has started, with the aim of introducing the required legislative amendments before the legislature in the latter part of 2012. However, much also depends on the	Regulators have jointly issued a consultation paper on the proposed OTC derivatives regulatory regime for Hong Kong, including mandatory clearing requirements. The consultation period ended in November 2011. Regulators are fine tuning the	Yes: legislative amendments must be adopted and further market consultation is also needed before finalising the detailed regulations on the mandatory

Table 2 Central clearing			
	Law and/or regulation in force by end-2012 requiring all standardised OTC derivatives to be cleared through CCPs **(June 2011 Survey question 1.2.a)**	**Legislative and/or regulatory steps completed toward central clearing of standardised OTC derivatives** **(June 2011 Survey question 1.2.b)**	**Additional legislative and/or regulatory steps needed for a central clearing requirement for standardised OTC derivatives to be effective** **(June 2011 Survey question 1.2.a)**
	timing of global consensus on key issues and timely completion of the legislative process. Pending those amendments, an interim legislative proposal has been made to support voluntary clearing of certain derivatives transactions through local CCPs recognised by the SFC.	proposed regulatory regime in the light of comments received.	central clearing requirement.
India	No.	Legislation not yet proposed; CCIL non-guaranteed settlement of interest rate swaps since November 2008.	Yes; CCIL to transition soon to guaranteed settlement of IRS; no immediate timeframe for guaranteed settlement of CDS.
Indonesia	No. Bapepam-LK Rule III.E.1 stipulates use of the Future Contract and Option on Securities or Securities Index, which may only be traded on exchange. Currently, derivatives trading in Indonesia is relatively low volume and takes place only on exchange. Therefore, there is currently no plan to establish CCP for OTC derivatives.	Currently no legislative or regulatory steps are proposed. Please refer to Bapepam-LK Rule III.E.1 concerning the Future Contract and Option on Securities or Securities Index.	N/A
Japan	Yes, but initially the requirements will apply only to Yen interest rate swaps and CDS (iTraxx Japan Index series).	The Financial Instruments and Exchange Act (FIEA) was amended in May 2010.	Yes: Cabinet Ordinance to be implemented by November 2012 includes a requirement for central clearing of trades 'that are significant in volume and would reduce settlement risks in the domestic market'.
Mexico	Authorities plan to enact a law and/or secondary regulation to require all standardised OTC derivatives to be cleared through CCPs.	No.	Yes: MFA to develop the general framework in the course of 2011 and may propose legislation.
Republic of Korea	Yes.	Amendments to the Financial Investment Services and Capital Markets Act were submitted to the National Assembly in November 2011.	Yes: Financial Investment Services and Capital Markets Act amendments to be adopted; once adopted, implementation of the legislation will require detailed provision in enforcement ordinances and

Table 2 Central clearing			
	Law and/or regulation in force by end-2012 requiring all standardised OTC derivatives to be cleared through CCPs **(June 2011 Survey question 1.2.a)**	**Legislative and/or regulatory steps completed toward central clearing of standardised OTC derivatives** **(June 2011 Survey question 1.2.b)**	**Additional legislative and/or regulatory steps needed for a central clearing requirement for standardised OTC derivatives to be effective** **(June 2011 Survey question 1.2.a)**
			supervisory regulations, and the establishment and pilot-testing of domestic CCP.
Russia	No.	Laws #7-fz and #8-fz relating to clearing and clearing services, and Law #281-fz relating to the tax code, create the legal basis for promulgation of regulations dealing with central clearing of standardised OTC derivatives.	Yes: implementing regulations need to be adopted concerning central clearing, covering among other things close-out netting of contracts concluded under Master Agreement and aligning close-out netting rules with the Master Agreement.
Saudi Arabia	No.	Regulation not yet proposed. However, this issue is being further examined in coordination with the Saudi banking industry.	Yes, depending on outcome of self-assessment study.
Singapore	Yes.	Public consultation on proposed policies issued on 13 Feb 2012.	Yes: legislation to be introduced by end-2012.
South Africa	Yes.	Financial Markets Bill (FMB) submitted to the National Treasury for Cabinet and Parliamentary approval.	Yes: FMB and subordinate legislation are expected to be promulgated during 2012.
Switzerland	No, the legislative process is in progress.	A working group was set up in 2011 to propose the legislative and regulatory changes necessary to comply with the FSB principles in the area of OTC derivatives. Draft legislation is scheduled for public consultation in the second half of 2012.	Yes.
Turkey	No: the new Capital Markets Law that is to be introduced to the parliament before July 2012 will allow the CMB to allow clearing agents to centrally clear OTC derivatives transactions or to require the establishment of a CCP in certain markets.	Under review.	Under review.
United States	Yes.	Dodd-Frank Act adopted in July 2010; the CFTC has adopted and the SEC proposed regulations regarding submissions by clearing agencies for mandatory clearing determinations.	Yes: CFTC and SEC implementing regulations to be finalised.

Table 3 Exchange or electronic platform trading			
	Law and/or regulation in force by end-2012 requiring all or any subset of standardised derivatives to be traded on exchanges or electronic trading platforms **(June 2011 Survey question 1.3.a)**	**Legislative and/or regulatory steps completed toward implementing a trading requirement for standardised derivatives** **(June 2011 Survey question 1.3.b)**	**Additional legislative and/or regulatory steps needed for a trading requirement for standardised derivatives to be effective** **(June 2011 Survey question 1.3.c)**
Argentina	No.	Central Bank regulation Com. "A" 4725 provides incentives to trade derivatives on organised platforms that provide for central clearing. From March 2011, CNV has required software for the trading of negotiable securities to have a messenger interface compatible with FIX ("Financial Information eXchange Protocol") to ensure a standard functionality for international interconnection.	No.
Australia	On 18 April 2012, the government announced its intention to introduce a legislative framework to permit imposition of a requirement to trade standardised derivatives on trading platforms or exchanges. It is expected the legislation will be in place by end-2012, but that implementing regulations and rules would be required before any mandatory obligations are actually imposed.	On 18 April 2012, the government announced its intention to introduce a legislative framework to permit imposition of a requirement to trade standardised derivatives on trading platforms or exchanges.	Yes.
Brazil	No.	Capital incentives for use of exchange-traded derivatives.	No.
Canada	Under review.	None.	Yes: consultation paper to be published in 2012.
China	Under review.	Electronic trading platform operated by CFETS has been developed. All standardized OTC interest rate and credit derivatives can be, and certain types are required to be, traded on CFETS platform.	No.

Table 3 Exchange or electronic platform trading			
	Law and/or regulation in force by end-2012 requiring all or any subset of standardised derivatives to be traded on exchanges or electronic trading platforms **(June 2011 Survey question 1.3.a)**	**Legislative and/or regulatory steps completed toward implementing a trading requirement for standardised derivatives** **(June 2011 Survey question 1.3.b)**	**Additional legislative and/or regulatory steps needed for a trading requirement for standardised derivatives to be effective** **(June 2011 Survey question 1.3.c)**
European Union	No: final rules on MiFID II and MiFIR expected to be in effect by mid-2014.	Legislation proposed in October 2011, consisting of a proposal for a recast Markets in Financial Instruments Directive (MiFID II) and a new Markets in Financial Instruments Regulation (MiFIR). These proposals require trading of all OTC derivatives subject to an obligation of central clearing (pursuant to EMIR) and which are sufficiently liquid, as determined by ESMA, to take place on one of three regulated venues: regulated markets, multilateral trading facilities, and the future organised trading facilities.	Adoption of the Commission proposals by the European Council and Parliament; transposition of certain provisions into national law; delegated acts and technical standards to be developed and adopted.
Hong Kong SAR	The regulatory proposal which has been reviewed by a panel committee of the Legislative Council is under legislative drafting, which will give regulators the power to impose a trading requirement, although the timing of implementation is subject to further study by regulators on the liquidity level and number of trading venues available in Hong Kong in order to assess how best to implement such a requirement.	Regulators have jointly issued a consultation paper on the proposed OTC derivatives regulatory regime for Hong Kong, including the proposal to give the regulators powers to make rules to implement the mandatory trading requirement after the regulators' study on how best to implement such requirement in Hong Kong. The consultation period ended in November 2011.	Yes: legislative amendments must be adopted and further market consultation is also needed before finalising the detailed regulations of the mandatory trading requirement.
India	No.	None.	Yes. Explicit regulatory powers are needed to approve OTC derivatives trading platforms.
Indonesia	N/A	Currently no legislative or regulatory steps are proposed. Please refer to Bapepam-LK Rule III.E.1 concerning the Future Contract and Option on Securities or Securities Index.	N/A
Japan	Yes - Legislation proposed in March 2012. Once the legislation has been promulgated, Cabinet Ordinance will be drafted.	Legislation proposed in March 2012.	Once the legislation has been promulgated, Cabinet Ordinance will be drafted.
Mexico	Authorities plan to enact a law and/or secondary regulation to require a subset of standardised derivatives to be traded on electronic trading platforms.	No.	Yes. Financial authorities are working on the development of a general framework based on amendments to the secondary regulation to be concluded in the course of this year.

Table 3 Exchange or electronic platform trading			
	Law and/or regulation in force by end-2012 requiring all or any subset of standardised derivatives to be traded on exchanges or electronic trading platforms **(June 2011 Survey question 1.3.a)**	**Legislative and/or regulatory steps completed toward implementing a trading requirement for standardised derivatives** **(June 2011 Survey question 1.3.b)**	**Additional legislative and/or regulatory steps needed for a trading requirement for standardised derivatives to be effective** **(June 2011 Survey question 1.3.c)**
			In addition to the regulatory framework, financial authorities are considering the need for specific legislation (new law) to regulate derivatives markets.
Republic of Korea	No. This is under review.	Legislation not yet proposed; review of policy options underway.	No.
Russia	Yes.	Law regulating electronic platform trading has been adopted.	Yes: need to develop practical experience before proceeding with further regulatory measures; laws already adopted provide authority to adopt implementing regulations.
Saudi Arabia	No: possible measures under consideration; awaiting results of self-assessment study.	None.	This issue is being further examined in coordination with the Saudi banking industry.
Singapore	TBD (under review)	Public consultation issued on 13 Feb 2012 to seek feedback.	TBD (under review)
South Africa	No. We do not currently anticipate that electronic trading of OTC derivatives will be a requirement.	None.	No.
Switzerland	No. The legislative process is in progress.	Law (Art. 5 Abs. 2 BEHG Stock Exchange Act SESTA) requires exchanges to establish a trade repository of trade details and to publish quotes and volumes of on-exchange and off-exchange transactions; for collateralized certificates, the COSI services has been introduced to allow for automated trading, clearing without risk transfer to the infrastructure provided (DVP) and settlement of these instruments; application to OTC derivatives trading is currently under review.	A working group has been set up in 2011 to propose the legislative and regulatory changes necessary to comply with the FSB principles in the area of OTC derivatives. Draft legislation is scheduled for public consultation in the second half of 2012.
Turkey	Under review.	Under review.	Under review.
United States	Yes.	Dodd-Frank Act requires any swap or security-based swap that is subject to a clearing requirement to be traded on a registered trading platform, i.e., a contract market designated by the CFTC or swap execution facility registered with the CFTC or exchange or security-based swap execution facility registered with the SEC, if	Yes: legislative steps completed with adoption of Dodd-Frank Act in July 2010; CFTC and SEC must adopt final implementing rules.

Table 3 Exchange or electronic platform trading			
	Law and/or regulation in force by end-2012 requiring all or any subset of standardised derivatives to be traded on exchanges or electronic trading platforms **(June 2011 Survey question 1.3.a)**	**Legislative and/or regulatory steps completed toward implementing a trading requirement for standardised derivatives** **(June 2011 Survey question 1.3.b)**	**Additional legislative and/or regulatory steps needed for a trading requirement for standardised derivatives to be effective** **(June 2011 Survey question 1.3.c)**
		such swap or security-based swap is made "available to trade" on a trading platform. The CFTC has finalised regulations with regard to designated contract markets. The SEC has proposed rules pertaining to the registration and operation of trading platforms.	

Table 4 Transparency and trading		
	Multi-dealer functionality required to fulfil trading requirement or single-dealer functionality permitted	**Pre-trade price and volume transparency required for all exchange or electronic-platform-traded and OTC derivatives**
Argentina	Single-dealer functionality permitted.	Yes.
Australia	TBD. Under the current market licensing regime – which is under review – a single-dealer platform is not required to be regulated as a market. Consequently, under the current market licensing regime, if mandatory trading is imposed it would initially be on platforms or markets which offer multi-dealer functionality.	TBD: under review, monitoring the development of overseas requirements.
Brazil	Multi-dealer functionality is required.	No: pre-trade price and volume transparency required for the 90% of the market that is exchange-traded; no pre-trade requirements for the 10% of the market that is OTC.
Canada	TBD: will seek to harmonise with international community.	TBD
China	Multi-dealer functionality required.	Yes.
European Union	Multi-dealer functionality (proposed in Commission proposal for MiFID II / MiFIR).	Yes (proposed in Commission proposal for MiFID II / MiFIR).
Hong Kong SAR	Under consideration (with global developments in view).	Under consideration (with global developments in view).
India	N/A	N/A
Indonesia	Multi-dealer functionality required.	Yes.
Japan	Multi-dealer functionality is expected, but single-dealer functionality will also be permitted (details to be determined by regulation).	Yes (details to be determined by regulations).
Mexico	Multi-dealer functionality required.	Yes.
Republic of Korea	Multi-dealer functionality required.	Yes.
Russia	TBD	No (pre-trade transparency required only for exchange-traded).
Saudi Arabia	TBD (Issue is being examined in consultation with the Saudi banking sector.)	TBD (Issue is being examined in consultation with the Saudi banking sector.)
Singapore	N/A	TBD (currently under review).
South Africa	TBD. No decision has yet been taken as to whether electronic trading of OTC derivatives will be required. If it is decided to require electronic trading,	Yes, for exchange traded derivatives.

Table 4 Transparency and trading		
	Multi-dealer functionality required to fulfil trading requirement or single-dealer functionality permitted	**Pre-trade price and volume transparency required for all exchange or electronic-platform-traded and OTC derivatives**
	consideration will then be given to the characteristics of eligible platforms, and developments in other jurisdictions and any guidance from IOSCO will be relevant in this regard.	No, for OTC derivatives until they are traded on an exchange.
Switzerland	Under review.	Under review (exchanges currently required by law to provide pre-trade transparency).
Turkey	Under review.	Under review.
United States	Multi-dealer functionality required.	TBD – The CFTC (and SEC) have proposed rules under the Dodd-Frank Act relating to pre-trade transparency for swaps (and security-based swaps) that are traded on a swap execution facility (and security-based swap execution facility), but the rules have not yet been adopted.

Table 5 Reporting to trade repositories				
	Law and/or regulation in force by end-2012 requiring all OTC derivatives transactions to be reported to trade repositories	**Legislative and/or regulatory steps completed toward implementing a reporting requirement**	**Additional legislative and/or regulatory steps needed for a reporting requirement to be effective**	**Reporting to governmental authority in place of specifically-designated trade repository**
Argentina	No. However, derivatives operations of banks with cross-border counterparties, which are the bulk of OTC transactions, are subject to reporting and monitoring by the Central Bank.	TBD	TBD	TBD
Australia	On 18 April 2012 the government announced its intention to introduce a legislative framework for mandatory trade reporting. It is currently anticipated that this will be in place before the end of 2012.	A government policy decision to introduce a legislative framework to facilitate trade reporting was made on 18 April 2012.	Yes. Legislation needs to be developed, introduced and passed, as well as implementing regulations and rules.	TBD - If no TR available, may limit scope of data reported to a governmental authority.
Brazil	Yes.	Pre-exiting rules enacted by the Central Bank and CVM require all OTC derivatives trades to be reported to a TR.	No.	No.
Canada	Yes (contingent on international reporting standards).	Canadian Securities Administrators published a consultation paper on TRs and most jurisdictions are assessing what legislative changes may be required. Ontario and Quebec have amended legislation to support reporting to TRs and regulatory access to data. Legislation has been proposed in some other provinces.	Yes: Rules for TR reporting and operations to be finalized in 2012.	TBD - anticipated that a very small number of trades may not be accepted by TRs and could be reported to securities regulators.
China	Yes.	Under current rules, all OTC interest rate, FX and credit risk mitigation tools (other than credit risk mitigation agreements) can be traded on the CFETS electronic platform; interest rate trades executed outside the CFETS platform should be reported to CFETS; credit risk	Yes: details including frequency and contents of reporting and which institutions will play the role of TRs.	Yes.

Table 5 Reporting to trade repositories				
	Law and/or regulation in force by end-2012 requiring all OTC derivatives transactions to be reported to trade repositories	**Legislative and/or regulatory steps completed toward implementing a reporting requirement**	**Additional legislative and/or regulatory steps needed for a reporting requirement to be effective**	**Reporting to governmental authority in place of specifically-designated trade repository**
		mitigation trades should be reported to NAFMII.		
European Union	Yes (EMIR).	Political agreement on EMIR in March 2012.	Yes: technical standards to be developed by ESMA by September 2012 and adopted by the European Commission by end 2012.	Yes: reporting to ESMA where a TR is not able to record the details of an OTC derivative.
Hong Kong SAR	The regulatory proposal which has been reviewed by a panel committee of the Legislative Council is under legislative drafting, with the aim of introducing the required legislative amendments before the legislature in the latter part of 2012. However, much also depends on timing of global consensus on key issues and timely completion of the legislative process; the intention is to take a phased approach, beginning with interest rate swaps and non-deliverable forwards.	Regulators have jointly issued a consultation paper on the proposed OTC derivatives regulatory regime for Hong Kong, including the proposed mandatory reporting requirements. The consultation period ended in November 2011. Regulators are fine tuning the proposed regulatory regime taking into consideration comments received.	Yes, legislative amendments must be adopted and further market consultation is also needed before finalising the detailed regulations on the mandatory reporting requirement.	OTC derivatives transactions that have a bearing on the HK's financial market will be required to be reported to the local TR to be developed by HKMA.
India	Yes (per existing regulatory guidelines, banks and PDs should report IRS/FRA transactions to the CCIL reporting platform; in the case of CDS, all market makers must report trades on the centralised reporting platform within 30 minutes of execution; CCIL will extend trade reporting service to FX forwards and considering this service for FX options).	Legislation not yet proposed; existing regulatory guidelines for banks and PDs.	Yes (working group on reporting of OTC derivative transactions has made recommendations for CCIL to serve as an efficient single point reporting platform for all OTC interest rate and FX derivative transactions).	No.
Indonesia	Not applicable, as derivatives products may only be traded on exchange. The current regulation, Bapepam-LK, already requires OTC transactions to be reported to TRs, but that requirement only	None.	N/A	N/A

Table 5 Reporting to trade repositories				
	Law and/or regulation in force by end-2012 requiring all OTC derivatives transactions to be reported to trade repositories	**Legislative and/or regulatory steps completed toward implementing a reporting requirement**	**Additional legislative and/or regulatory steps needed for a reporting requirement to be effective**	**Reporting to governmental authority in place of specifically-designated trade repository**
	covers debt instruments (not derivatives). Banks are required to report interest rate derivatives and FX derivatives transactions to the central bank.			
Japan	Yes, in general, trade data will be reported to a TR and trade data that the TR does not accept will be reported to JFSA.	FIEA amended May 2010 to introduce the legislative framework for reporting of OTC derivatives transactions to TRs.	Yes. Cabinet Ordinance to be completed November 2012.	Yes: trade data reported to JFSA will be limited to information not accepted by a TR, such as exotic OTC derivatives trades.
Mexico	Authorities plan to enact law and/or secondary regulation to require all OTC derivatives transactions to be reported to trade repositories.	No.	Yes. Financial authorities are working on the development of a general framework based on amendments to the secondary regulation to be completed in the course of this year. In addition to the regulatory framework, financial authorities are considering developing specific new legislation to regulate derivatives market.	No: authorities intend that entities should report to specifically-designated trade repositories. Currently, local financial intermediaries are required to report OTC derivatives to local authorities.
Republic of Korea	Yes.	The Financial Investment Services and Capital Markets Act (FSS) and the Foreign Exchange Transactions Act (BoK) require reporting of all OTC derivatives transactions to authorities.	Yes: necessary to improve some parts of the reporting system to meet international standards.	Yes: reporting of OTC transactions to governmental authorities required by the Financial Investment Services and Capital Markets Act and the Foreign Exchange transactions Act.
Russia	No: only transactions conducted by professional market participants and transactions subject to close-out netting and executed under Master Agreements must be reported to TRs.	Laws concerning OTC derivatives adopted recently. FFMS regulation on TRs adopted.	Yes: regulations to require reporting to TRs to be implemented under recently adopted legislation.	Yes.
Saudi Arabia	N/A	None. Financial institution self-assessment study underway.	N/A	TBD

Table 5 Reporting to trade repositories				
	Law and/or regulation in force by end-2012 requiring all OTC derivatives transactions to be reported to trade repositories	**Legislative and/or regulatory steps completed toward implementing a reporting requirement**	**Additional legislative and/or regulatory steps needed for a reporting requirement to be effective**	**Reporting to governmental authority in place of specifically-designated trade repository**
Singapore	Yes: relevant legislation to be introduced by end-2012.	Public consultation on proposed reporting requirements issued on 13 Feb 2012.	Yes: legislation to be introduced by end-2012.	Yes (under review).
South Africa	Yes.	Financial Markets Bill (FMB) submitted to SA National Treasury for Cabinet and Parliamentary approval.	Yes: FMB and subordinate legislation anticipated to be in effect by end-2012.	No.
Switzerland	No. The legislative process is in progress.	Art. 15 (2) SESTA applies to derivatives traded on exchange and requires that securities dealers report all the information necessary to ensure a transparent market.	Yes. A working group has been established to propose the necessary legislative and regulatory changes needed to be compliant with FSB principles; draft legislation scheduled for public consultation in 2nd half of 2012.	Under review.
Turkey	Under review: the new Capital Markets Law that is to be introduced to the parliament before July 2012 will give the CMB the authority to require capital markets transactions (including OTC derivatives) to be reported directly to the CMB or to an authorise TR.	Under review	Under review	Under review: the new Capital Markets Law that is to be introduced to the parliament before July 2012 will give the CMB the authority to require capital markets transactions (including OTC derivatives) to be reported directly to the CMB.
United States	Yes.	Dodd-Frank Act adopted July 2010; the CFTC has finalised and the SEC has proposed implementing regulations.	Yes: CFTC and SEC final rules must be adopted.	Yes: reporting to the CFTC or SEC if there is no TR available; should be limited in scope.

Table 6
Application of central clearing requirements

	Coverage of all asset classes	Coverage of all types of financial entities	Intra-group transactions
Argentina	Yes (for derivatives markets under the jurisdiction of the CNV).	Yes (for derivatives markets under the jurisdiction of the CNV).	No, if not traded through regulated markets.
Australia	No: likely to harmonise with requirements in major jurisdictions (e.g., exemption of some classes of FX derivatives likely); coverage of credit and equity classes under review.	No (likely that smaller financial entities and smaller end users would be exempt).	Under review.
Brazil	No: central clearing requirement applies only to exchange-traded derivatives (not OTC).	No.	No.
Canada	Under review; FX swaps and forwards may be exempted with a view to harmonising rules with other jurisdictions.	Under review; consideration being given to systemic risk concerns and harmonisation with other jurisdictions.	Under review.
China	Under review.	To be determined.	To be determined.
European Union	Yes.	Yes (with temporary exemption of certain pension arrangements from central clearing obligation).	No (intra-group transactions are exempted).
Hong Kong SAR	Yes, in phases. Mandatory clearing expected to cover standardised interest rate swaps and non-deliverable forwards initially, extending this to other types of product will be considered after the initial roll-out.	Yes: scope of coverage of mandatory clearing under review in light of comments received from our market consultation. HK's proposal, as set out in the consultation paper, is to cover financial institutions holding positions above a certain clearing threshold (which is to be determined).	Under review. The regulators are considering comments received from the market consultation, and will also keep in view global developments in this regard.
India	A central clearing facility is available for interest rate swaps; central clearing for CDS will be considered, depending on market development.	Yes.	No.
Indonesia	Under review.	Under review.	N/A.
Japan	Yes: Cabinet Ordinance to be implemented by November 2012.	Yes, applicable to major "Financial Intermediaries Business Operators" and financial institutions.	No: Cabinet Ordinance to be implemented by November 2012.
Mexico	As a first stage, peso-denominated IRS will be subject to mandatory central clearing. (IRS represents more than 90% of the domestic market in OTC derivatives.)	TBD (Scope of central clearing obligation is currently under consideration, and dependent on developments in major financial centres.)	No. Exemptions for intra-group transactions are not planned.

Table 6 (cont)

Application of central clearing requirements

	Coverage of all asset classes	Coverage of all types of financial entities	Intra-group transactions
Republic of Korea	Yes.	Yes.	
Russia	Yes.	Yes.	Yes.
Saudi Arabia	TBD (Issue is being examined in consultation with the Saudi banking sector.)	TBD (Issue is being examined in consultation with the Saudi banking sector.)	TBD (Issue is being examined in consultation with the Saudi banking sector.)
Singapore	Yes (taking into account systemic risk to the local market and degree of standardisation in the local market).	Yes (requirement will apply to all entities licensed and regulated by MAS).	Propose to exempt intra-group transactions, subject to the application of stringent risk mitigation requirements.
South Africa	Yes.	Yes.	Yes.
Switzerland	Under review.	Under review.	Under review.
Turkey	Under review.	Under review.	Under review.
United States	Yes (although US Treasury has proposed exempting foreign exchange swaps and forwards from mandatory clearing requirements).	Yes.	TBD (under consideration by CFTC and SEC).

Table 7 CCP location requirements	
Argentina	No.
Australia	No, but appropriate measures to ensure adequate domestic regulatory oversight will be imposed on foreign CCPs, which could require an Australian presence of some nature.
Brazil	No.
Canada	TBD
China	Yes (Shanghai Clearing House).
European Union	No.
Hong Kong SAR	No.
India	Yes (CCP must be located in India and subject to the jurisdiction of the home country regulator).
Indonesia	Currently, derivatives in Indonesia are relatively very low and only traded on exchange. Hence, there is currently no plan to establish a CCP for OTC derivatives.
Japan	Yes, domestic CCP clearing to be required for those derivatives required "to be aligned with the domestic bankruptcy regime"; iTraxx Japan series of CDS index trades anticipated to be included.
Mexico	Not yet defined. However, authorities are considering whether to recognize CCPs based on their access policy and soundness, not on location.
Republic of Korea	No.
Russia	If clearing takes place in the Russian Federation, the CCP is domestic. If it takes place abroad, no location requirements apply.
Saudi Arabia	No.
Singapore	No.
South Africa	No.
Switzerland	Under review.
Turkey	N/A
United States	No.

Appendix IX
Members of the OTC Derivatives Working Group

Co-Chairs	**Sarah Casey Otte** (representing IOSCO) Assistant Director, Office of Derivatives Policy Division of Trading and Markets Securities and Exchange Commission
	Jeanmarie Davis (representing CPSS) Senior Vice President, Financial Market Infrastructure Function Financial Institution Supervision Group Federal Reserve Bank of New York
	Patrick Pearson Head of Financial Markets Infrastructure Internal Market DG European Commission
Australia	**Damien Scholefield** Senior Manager, Exchange Market Operators Australian Securities and Investments Commission
Brazil	**Otavio Yazbek** Commissioner Comissão de Valores Mobiliários (CVM)
Canada	**Elizabeth Woodman** Principal Researcher, Markets Infrastructure Division Financial Markets Department Bank of Canada
China	**Kong Yan** Director, Bonds Products Supervision Division People's Bank of China
France	**Carole Uzan** Autorité des marchés financiers (AMF)
Germany	**Thomas Schmitz-Lippert** Executive Director International Policy/Affairs Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)
	Martin Ockler Higher Executive Officer, Financial Stability Department Deutsche Bundesbank

Hong Kong	**Daryl Ho** Head of Market Development Division Hong Kong Monetary Authority
Japan	**Jun Mizuguchi** Assistant Commissioner for International Affairs Financial Services Agency
Korea	**Choi Sang Ah** Director Financial Services Commission
Singapore	**Tiak-Peow Phua** Deputy Director, Markets and Clearing Houses Monetary Authority of Singapore
Switzerland	**Michael Manz** Head, International Finance and Financial Stability Swiss Federal Department of Finance FDF State Secretariat for International Finance SIF
UK	**Anne Wetherilt** Senior Manager, Payments and Infrastructure Division Bank of England
	David Bailey Acting Head of Market Infrastructure and Policy Department, Markets Division Financial Services Authority
USA	**Warren Gorlick** Associate Director, Office of International Affairs Commodity Futures Trading Commission
	Kim Allen Senior Special Counsel, Division of Trading and Markets Securities and Exchange Commission
	Erik Heitfield Chief, Risk Analysis Section Federal Reserve Board of Governors
European Central Bank	**Andreas Schönenberger** Principal Market Infrastructure Expert in the Oversight Division Directorate General Payment and Market Infrastructure

BIS	**Jacob Gyntelberg** Senior Economist
BCBS	**Raquel Lago** Member of Secretariat
IMF	**John Kiff** Senior Financial Sector Expert
CPSS	**Robert Lindley** Acting Head of Secretariat
IOSCO	**David Wright** Secretary General
FSB	**Rupert Thorne** Deputy Secretary General
	Uzma Wahhab Member of Secretariat
	Ruth Walters Member of Secretariat