FSB FINANCIAL STABILITY BOARD

Press release

Press enquiries:
+41 76 350 8138

Joe.Perry@fsb.org

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FSB reports on reforms to OTC derivatives markets

The Financial Stability Board (FSB) today published three reports setting out progress on reforms to over-the-counter (OTC) derivatives markets.[1]

The three reports look at the effectiveness of the reforms and their broader effects since the crisis; progress in implementation since June 2016; and progress in addressing legal barriers to reporting and accessing OTC derivatives trade data.

The FSB's *Review of OTC derivatives market reforms: Effectiveness and broader effects of the reforms* provides a comprehensive review of the reforms and their effects.

OTC Derivatives Market Reforms: Twelfth Progress Report on Implementation, provides a detailed update on progress since 2016 in implementation of the reforms across FSB member jurisdictions.

The *Progress report on FSB members' plans to address legal barriers to reporting and accessing OTC derivatives trade data* reports on progress since these plans were published in August 2016.

The **review of OTC derivatives market reforms**, which will be delivered to the Hamburg G20 Summit, finds that:

- Implementation of the reforms is now well progressed, although this has taken longer than originally intended due to the scale and complexity of the reforms and other challenges. Implementation is still ongoing and is generally most advanced in the largest OTC derivatives markets. Further effort will be required to finish the job.
- Meaningful progress has been made toward mitigating systemic risk. Specifically, central clearing (which has increased markedly in interest rate derivatives and, to a lesser extent, credit default swaps) is simplifying much of the previously complex and opaque web of derivatives exposures, and the central counterparties supporting that clearing are more resilient. In addition, more collateral is in place to reduce counterparty credit risks within the system.
- Authorities also report progress in improving transparency – with a number of authorities using data from trade repositories (TRs), including to better monitor risk. To the extent implemented, platform trading has also improved transparency to market

[1] These reforms are: trade reporting of OTC derivatives; central clearing and, where appropriate, exchange or electronic platform trading of standardised OTC derivatives; and higher capital and minimum margin requirements for non-centrally cleared derivatives.

participants. However, significant challenges remain and it is important to complete work quickly to improve the quality of, and ability to aggregate, TR data including by removing legal barriers to the full reporting and sharing of such data.

- Further study should be made of the effects of the reforms in protecting against market abuse. There is limited evidence on this at present, although some authorities report using TR data for market surveillance purposes.
- A range of views have been expressed on the impact of market reforms on spreads and liquidity in OTC derivatives markets. There is some evidence that the reforms have improved liquidity in some OTC derivatives markets, although some authorities have concerns that the interaction of the broader set of post-crisis reforms may have contributed to a reduction in the depth of liquidity.
- In addition, cross-border cooperation, including over the timing of implementation, is important to help reduce market fragmentation.

Mark Carney, Chair of the FSB, said: “Reforms to OTC derivative markets are replacing a complex and dangerous web of exposures with a more transparent and robust system that better serves the real economy. Global banks now hold over $800bn more collateral against their OTC derivative counterparty exposures, and the coverage of exposures by collateral has doubled to nearly two-thirds. More resilient central counterparties are reducing the risk of contagion to the banking sector from the failure of individual institutions. FSB jurisdictions need to do more, however, to address remaining legal barriers which are preventing authorities from fully realising the benefits of trade reporting.”

The progress report on **plans by FSB member jurisdictions to address legal barriers to reporting and accessing trade data** sets out the steps jurisdictions have taken to meet the agreed deadlines (end-June 2018 for the key commitments) for removing these barriers, following the publication of jurisdictions’ plans in August 2016.

The progress report describes a number of significant actions taken by authorities of the EU, France, Singapore and the US in the last year to address barriers. However, major gaps and issues remain to be addressed across the FSB membership. It is essential that FSB member jurisdictions address the remaining issues by the committed deadlines in 2018. The FSB will continue to monitor progress and will publish, ahead of the G20 Leaders’ Summit in Argentina in 2018, a report on the extent to which member jurisdictions have met their commitments to remove barriers.

Among the latest steps by jurisdictions reported in the **Twelfth Progress Report on OTC Derivatives Reform Implementation**:

- Since the last progress report, the number of FSB member jurisdictions with comprehensive margining requirements for non-centrally cleared derivatives (NCCDs) increased by 11 to a total of 14. However, 10 jurisdictions still do not have margin requirements in force in accordance with the internationally agreed implementation schedule for these reforms, and these jurisdictions should urgently take steps to implement these reforms.
- Comprehensive trade reporting requirements for OTC derivatives and higher interim capital requirements for NCCDs are now mostly in force across member jurisdictions. Since June 2016, progress continued, albeit at a slower pace, in implementing central clearing frameworks, final capital requirements for NCCDs, and platform trading

requirements. The number of CCPs available to clear OTC derivatives increased to 32, and cross-border availability of CCPs has also increased. Authorisation of new trade repositories also continued.

The FSB, working with standard-setting bodies, will use its new post-implementation evaluation framework (to be published ahead of the July G20 Summit) to assess the interaction of the reforms on incentives to centrally clear OTC derivatives and will publish the results from this work in late-2018.

Notes to editors

The FSB, together with the International Organization of Securities Commissions, the Committee on Payments and Market Infrastructures and the Basel Committee on Banking Supervision will next week publish several documents that are deliverables under their joint workplan on the resilience, recovery and resolvability of CCPs. The FSB will also publish its overall 3rd Annual Report to the G20 on the Implementation and Effects of G20 Financial Reforms.

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. Through its six Regional Consultative Groups, the FSB conducts outreach with and receives input from an additional approximately 65 jurisdictions.

The FSB is chaired by Mark Carney, Governor of the Bank of England. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.fsb.org.