Press release

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Ref No 36/2012

15 June 2012

Financial Stability Board publishes third progress report on implementation of OTC derivatives market reforms

The Financial Stability Board (FSB) published today its third six-monthly *progress report on the implementation of over-the-counter (OTC) derivatives market reforms*. The report reviews progress made by international standard-setting bodies, national and regional authorities and market participants towards meeting the commitments made by G20 Leaders at the Pittsburgh 2009 Summit that, by end-2012, all standardised OTC derivative contracts be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties (CCPs); that OTC derivative contracts be reported to trade repositories; and that non-centrally cleared contracts be subject to higher capital requirements.

The report notes that, since the previous FSB 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.

Broadly speaking, the jurisdictions 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 progress has been made by many of them, particularly with respect to central clearing and reporting to trade repositories.

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. Some jurisdictions have also sought greater certainty about the application of international principles and safeguards to cross-border financial market infrastructure, so as to make an informed decision about the appropriate form of market infrastructure for their jurisdiction to meet the G20 commitments.

Since the October 2011 progress report, standard setting bodies have made significant progress in developing the international policies that are key to advancing OTC derivatives reform implementation 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 trade repositories implement measures to provide authorities with effective and practical access.
- IOSCO in June 2012 published standards for the regulation of OTC derivatives market intermediaries.

In January 2012, the FSB 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. Substantial progress has now been made, through international workstreams and otherwise, to provide these safeguards and thus allow authorities to make their decisions.

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. 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.

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 trade repositories. Under the guidance of the OTC Derivatives Supervisors Group, market participants made some strides towards increased central clearing and trade reporting even before agreement on the G20 commitments. Nevertheless, further progress is still needed both by the largest dealers and by other market participants.

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 push aggressively 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.

Given the importance of practical implementation, 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. In the next progress report, to be published before the November G20 Finance Ministers and Central Bank Governors meeting, 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.

The FSB welcomes feedback from the public on this report. Feedback should be submitted by 31 July 2012 by e-mail (fsb@bis.org) or post (Secretariat of the Financial Stability Board, c/o Bank for International Settlements, CH-4002, Basel, Switzerland). Feedback will be posted on the FSB website unless respondents request otherwise.

Notes to editors

In October 2010 the FSB published 21 recommendations for implementing the G20 commitments. The first FSB progress report on implementation was published in April 2011, and the second FSB progress report in October 2011.

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.

The FSB is chaired by Mark Carney, Governor of the Bank of Canada. 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.financialstabilityboard.org.