LSEG Response to the IOSCO Consultation Report on Principles for Financial Benchmarks (CR04/2013)

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INTRODUCTION

The London Stock Exchange Group plc (LSEG) responded to the IOSCO paper "*Consultation Report on Financial Benchmarks CR01/13*", we are now pleased to provide our views on the consultation report on principles for financial benchmarks.

The LSEG includes FTSE International Ltd (FTSE International) and MTS Next Ltd (MTS Next) (a company 100% owned by MTS Spa), which both operate and disseminate indices, and has a long experience of providing neutral market services. For this reason we are well qualified to respond to a consultation on financial benchmarks and to provide key input to help to inform IOSCO's final principles on the issues.

FTSE International calculates over 120,000 end-of-day and real-time indices covering more than 80 countries and all major asset classes, which serve the needs of the wide range of markets and market participants and investors.

MTS Next runs a number of indices that are independent total-return indices measuring the performance of the largest and most widely-traded securities in the Eurozone government bond market. These include the EuroMTS Index Range (ex-CNO Etrix), EuroMTS Inflation-Linked Indices, MTS Italy and ex-Bank of Italy index families.

Both FTSE International and MTS Next have established a reputation for transparent, robust, rules-driven index construction, overseen by an appropriate system of independent committees and/or industry experts.

The regulated subsidiaries of LSEG are experienced in operating in a regulatory environment and having regulatory responsibilities in that context. We undertake regulatory interaction with a number of market regulators and central banks around the world. We also engage regularly with supranational regulatory bodies such as the European Supervisory Authorities (ESAs).

This response represents the views and experience of London Stock Exchange plc, FTSE International, MTS Spa and other market operators and investment firms within LSEG.

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RESPONSE TO CONSULTATION QUESTIONS

Q1 **Equity indices:** Indices may be used to measure a wide range of underlying Interests, using a variety of calculation methodologies and inputs. In the specific case of equity indices, inputs are typically based on transactions concluded on Regulated Markets. In light of this: are there any principles or parts of the principles that cannot, or should not, be applied to equity indices? If so, please identify these principles and explain why their application is inappropriate.

1. The LSEG supports the principles in this report. We welcome the fact that IOSCO acknowledges that a *one-size-fits-all* method of implementation would be counterproductive, and that Administrators will be able to apply the principles depending on the type of index and prevailing market conditions.

2. We welcome the recognition that IOSCO has given to the potential inappropriateness of applying the same requirements to equity indices as will be applied to other types of indices (e.g. based on estimates or quotations) that are more vulnerable to manipulation.

3. We endorse IOSCO's aspiration for an appropriately tailored regime, as it is our view that a disproportionate regime risks increasing user costs and stifling innovation.

4. As stated in our response to the consultation report, FTSE International and MTS Indices adhere to the principles set out in the consultation paper when creating and maintaining our equity indices. In addition, we ensure that, among other qualities, our indices are:

   Tradable: All stocks are screened for liquidity, to ensure availability and ease of trading, responding to user requirements; and

   Cost Efficient: Low turnover of the underlying constituents is a key aim of index design.

5. However, we would suggest that those indices that are calculated based on (i) end-of-day transactions and/or (ii) real-time traded quotes/prices taken from relevant exchanges, or regulated venues, should not be required to sign up to a **Submitter Code of Conduct** (Principle 13). This is because regulated market venues and their members are subject to regulation of the trading activities that produce the trade or quote data.

6. The Market Abuse Directive already requires regulated markets to prevent and identify potential market abuses. MiFID requires venues to have rules in place to ensure that any financial instrument admitted to trading on a regulated market is traded in a fair, orderly and efficient manner. Indeed, market rules in relevant LSEG markets already contain specific requirements and safeguards in the case of indices that are benchmarks for financial instruments.

Q2 **Additional measures to address risks resulting from Submission-based Benchmarks or ownership or control structures:** Additional measures have been specified within certain principles to address specific risks arising from a reliance on Submissions (principles 4, 10, 13 and 17) and/or from ownership or control structures (Principles 2, 5 and 16).

a. Should these additional requirements apply to Submitters and Administrators of all submission-based Benchmarks or Benchmarks with the specified ownership/control structures?

b. If not, please explain why all or some submission-based Benchmarks or Benchmarks with the specified ownership/control structures should be exempt.

7. Yes, we agree that these additional requirements should apply to submission-based indices; these are already a legal requirement under the UK government's new regime for the regulation of LIBOR setting.

8. As stated in our response to Q1, where submitted data comes from a regulated exchange, the additional measures should not be required. Submitters should (and through their own authorisation and regulatory responsibilities they will have to) take responsibility for the quality of the data provided, their governance and supervision requirements.

Q3 **Notice Concerning Use of Expert Judgment:** Should Administrators be required to briefly describe and publish with each benchmark assessment:

a. a concise explanation, sufficient to facilitate a User's or Market Authority's ability to understand how the assessment was developed, terms referring to the pricing methodology should be included (e.g., *spread-based*, *interpolated/extrapolated* or *estimate-based*); and

b. a concise explanation of the extent to which and the basis upon which judgment (i.e. exclusions of data which otherwise conformed to the requirements of the relevant methodology for that assessment, basing assessments on spreads, interpolation/extrapolation or estimates, or weighting bids or offers higher than concluded transactions etc.), if any, was used in establishing an assessment.

9. We agree with both a) and b).

10. However, we note that the precise form or nature of the way in which "expert judgement" (or direction) is exercised will vary according to the circumstances; sometimes it may have to use of external expert advice. The approach to how such decisions will be made should be agreed with any independent oversight committee and published to the market in advance.

11. A good example of an "independent external third party" fulfilling an expert status is CNO, the French Bond Association (Comité de Normalisation Obligataire). This is an independent body, representative of the fixed-income market in France, whose opinion is taken by MTS in special cases. Whilst MTS fully preserves its independence, such advice acts as independent input to guide strategic/policy issues relating to the composition of indices.

Q4 **Revisions to the principles:** Please provide any suggested changes to specific principles or definitions of key terms set out in Annex A, including drafting proposals and rationale.

Are any other principles needed: Should principles to address any additional issues, risks or conflicts of interest be developed? Please provide a summary of the issue and drafting for the proposed principle. Characteristics of a Credible Benchmark

12. With regard to administrators' responsibilities in the case of transition, we agree that stakeholders should be urged to make fall back arrangements to provide for any change in, or cessation of the provision of an index, but we suggest that administrators should not have any further liability in relation to the end user of an index beyond the terms of its contract.