Inter-Agency Work

The Joint Forum

The Joint Forum was established under the aegis of IOSCO, the Basel Committee on Banking Supervision (BCBS) and the International Association of Insurance Supervisors (IAIS) to deal with issues common to the banking, securities and insurance sectors. Its membership is comprised of an equal number of senior bank, insurance and securities regulators and supervisors. The International Monetary Fund, the European Commission and the Financial Stability Institute have observer status.

In 2014, the Joint Forum published two reports:

- *Report on supervisory colleges for financial conglomerate*, published in September 2014. The report is based on a recent self-assessment survey of Joint Forum members. It presents findings on how far cross-sectoral issues, and specific questions related to financial conglomerates, are effectively addressed within supervisory colleges. This stocktaking exercise also provides information on the implementation of the *Joint Forum Principles for the Supervision of Financial Conglomerates* and, in particular, Principle 6 relating to supervisory cooperation, coordination and information-sharing.

- The report on *point of sale disclosure in the insurance, banking and securities sectors*, published in April 2014. The report identifies and assesses differences and gaps in regulatory approaches to point of sale disclosure (POS) for investment and savings products across the insurance, banking and securities sectors, and considers whether the approaches need to be further aligned across sectors. It sets out eight recommendations for use mainly by policymakers and supervisors to assist them in considering, developing or modifying their POS disclosure regulations.

IOSCO work with the Bank for International Settlements

The Basel Committee on Banking Supervision

BCBS-IOSCO Working Group on Margining Requirements

In 2011, the G20 Leaders called upon the BCBS and IOSCO to develop, as part of the global financial reform agenda, consistent global standards for margin requirements for non-centrally cleared derivatives. In response, the BCBS and IOSCO released in September 2013 the final framework for margin requirements for non-centrally cleared derivatives. Under the globally agreed standards, financial firms and systemically important non-financial entities that engage in non-centrally cleared derivatives would be required to exchange initial and variation margin commensurate with the counterparty risks arising from such transactions. The framework was designed to reduce systemic risks related to OTC derivatives markets, as well as to provide firms with appropriate incentives for central clearing and managing the overall liquidity impact of the requirements.

In February 2014, the BCBS and IOSCO approved the creation of a monitoring group to evaluate the margin requirements and to determine whether elements of the margin standards should be reconsidered. Recognizing the complexity and impediments in implementing the framework, the BCBS and IOSCO agreed in March 2015 to:

> delay the implementation of requirements to exchange both initial margin and variation margin by nine months; and

> adopt a phase-in arrangement for the requirement to exchange variation margin.

The BCBS and IOSCO also asked WGMR to continue to monitor progress in implementation to ensure consistent implementation across products, jurisdictions and market participants. This will include monitoring domestic rule-making as well as engaging with industry on their work to develop initial margin models that will be required to comply with WGMR requirements.

Task Force on Securitization Markets – Cross Sectorial Task Force with the BCBS

Following the recommendations of the 2012 IOSCO Report on *Global Developments in Securitisation Regulation,* IOSCO and the BCBS established in April 2014 the cross-sectorial Task Force on Securitization Markets. Its objectives are to:

> undertake a wide ranging review of securitization markets so as to understand how they are evolving in different parts of the world;

> identify factors from across different sectors that may be hindering the development of sustainable securitization markets; and

> develop criteria to identify and assist the financial industry in the development of simple and transparent securitization structures.

The task force published a report for public consultation in December 2014 on the 14 criteria for identifying simple, transparent and comparable securitization structures. The report was based largely on information from a survey of market participants and regulators, a roundtable with stakeholders, and a data gathering exercise.

The Committee on Payments and Market Infrastructures (CPMI, formerly the Committee on Payment and Settlement Systems (CPSS))

The Committee on Payments and Market Infrastructures (CPMI) promotes the safety and efficiency of payment, clearing, settlement and related arrangements, thereby supporting financial stability and the wider economy. The CPMI monitors and analyzes developments in these arrangements, both within and across jurisdictions. It also serves as a forum for central bank cooperation in related oversight, policy and operational matters, including the provision of central bank services.

CPMI and IOSCO work together to enhance coordination of standard and policy development and implementation, regarding clearing, settlement and reporting arrangements, including financial market infrastructures (FMIs) worldwide. FMIs, which include central counterparties (CCPs), trade repositories (TRs), central securities depositories (CSDs), securities settlement systems (SSSs), and payment systems (PSs), play an essential role in the global financial system. The disorderly failure of an FMI could lead to severe systemic disruption if it caused markets to cease to operate effectively.

Recovery:

In October 2014, CPMI-IOSCO published *Recovery of financial market infrastructures.* The report provides guidance to FMIs on how to develop plans to enable them to recover from threats to their viability and financial strength that might prevent them from continuing to provide critical services to their participants and the markets they serve. It also provides guidance to relevant authorities in carrying out their responsibilities associated with the development and implementation of recovery plans. The report supplements the *Principles for financial market infrastructures* (PFMI), the international standards for FMIs published by the CPSS[1] and IOSCO in April 2012. It does not create additional standards for FMIs but does provide guidance on how FMIs can observe the requirements laid down in the PFMI that they have effective recovery plans.

Critical service providers:

CPMI-IOSCO also published in December 2014 *Assessment methodology for the oversight expectations applicable to critical service providers.* The report establishes an assessment methodology and provides guidance for authorities in assessing an FMI´s critical service providers against the oversight expectations set out in an annex on the oversight expectations applicable to critical service providers (Annex F) of the PFMI. The operational reliability of an FMI may be dependent on the continuous and adequate functioning of third-party service providers that are critical to an FMI's operations, such as information technology and messaging providers. This assessment methodology also provides guidance to critical service providers on complying with the oversight expectations.

Market-wide recommendations:

In 2014, CPMI-IOSCO agreed to do further work on the so-called *market-wide recommendations,* ie., recommendations targeted at payment, securities or derivatives markets more widely than at individual FMIs. This work would include:

> a review of a number of the recommendations included in the *CPSS-IOSCO Recommendations for Securities Settlement Systems* (2001); and

> a gap analysis aimed at determining whether there are other market-wide topics where some form of guidance from CPMI-IOSCO might be helpful.

This work will be done by the CPMI-IOSCO's Policy Standing Group (PSG).

1 The Committee on Payment and Settlement Systems (CPSS) changed its name to the Committee on Payments and Market Infrastructures (CPMI) on 1 September 2014. Please note that references to reports published before that date use the committee's old name.

CCP stress testing:

Stress testing is an essential component of risk management by CCPs. The PFMI require CCPs to carry out rigorous stress testing to determine the financial resources they need to manage both credit and liquidity risk, including a wide range of stress scenarios covering a variety of extreme but plausible market conditions.

CPMI-IOSCO mandated the PSG to conduct a stocktake of CCPs' current practices concerning stress testing and organize an industry workshop to identify how the relevant PFMI standards are being implemented and whether additional guidance in this area is needed.

Data harmonization:

In 2014, CPMI-IOSCO created the Harmonization Working Group to develop detailed guidance on harmonization of data elements that are reported to trade repositories and are important to aggregation by authorities. The guidance should also serve for the development of the uniform global Unique Product Identifier (UPI) and the Unique Transaction Identifier (UTI), which are used to uniquely identify a product or transaction, to be used for reporting to global financial regulators. The sub-streams for the Harmonization Working Group continue to work on the harmonization aspects of their work, which includes workshops and consultations with industry before final guidance is published.

Cyber resilience:

A CPMI-IOSCO working group on cyber resilience in FMIs was established in 2014 to look into ways to help both FMIs and authorities (regulators, overseers) to enhance cyber resilience.

Both CPMI and IOSCO had been separately investigating certain aspects of cyber risks and how they relate to financial market participants, services and infrastructures. As many issues are of common interest, both committees agreed to undertake joint work with a specific focus on improving the cyber resilience of FMIs. The resulting CPMI-IOSCO Working Group on Cyber Resilience (WGCR) has set up various work streams with a view to assess the existing regulatory and supervisory framework promoting cyber resilience, investigate the financial stability implications of cyber-attacks against FMIs, formulate guidance for both authorities and FMIs on cyber resilience and consider mechanisms to facilitate collaboration and information sharing across the industry, both domestically and cross-border.

Implementation Monitoring:

The CPMI-IOSCO Implementation Monitoring Standing Group (formerly the Implementation Monitoring Task Force) continued in 2014 the process of monitoring implementation of the PFMI. In line with the G20's expectations, CPMI and IOSCO members have committed to adopting the 24 principles (the Principles) and the five responsibilities for authorities (the Responsibilities) included in the PFMI. Full, timely and consistent implementation of the PFMI is fundamental to ensuring the safety and soundness of key FMIs and to supporting the resilience of the global financial system. In addition, the PFMI are an important part of the G20's mandate that all standardized OTC derivatives should be centrally cleared, and all OTC derivative contracts reported to TRs.

Reviews are being carried out in three stages. Level 1 self-assessments report on whether a jurisdiction has completed the process of adopting the legislation and other policies that will enable it to implement the Principles and Responsibilities. Level 2 assessments are peer reviews of the extent to which the content of the jurisdiction's implementation measures is complete and consistent with the PFMI. Level 3 peer reviews will examine consistency in the outcomes of implementation of the Principles by FMIs and implementation of the Responsibilities by authorities.

Level 1 assessments are based on self-assessments by individual jurisdictions on how they have adopted the 24 Principles for FMIs and four of the five Responsibilities for authorities within the regulatory and oversight framework that applies to FMIs. The initial Level 1 assessments (covering 27 jurisdictions) were conducted in mid-2013 and the results of the assessments were published in August 2013. The first update (covering 28 jurisdictions[2]) was conducted in 2014 and the report *Implementation monitoring of PFMIs: First update to Level 1 assessment report* was published in May 2014. The first update report shows that significant progress had been made by the 28 participating jurisdictions since the initial Level 1 report. The first update report also reveals that progress in implementing the PFMI continues to vary according to the type of FMI. Additional updates to the Level 1 report are planned on a periodic basis and the second update started in December 2014.

In parallel with the Level 1 assessments, CPMI and IOSCO moved to the Level 2 assessments in 2014. In the initial round of the Level 2 assessments, CPMI and IOSCO conducted a detailed evaluation and a peer-review assessment regarding whether the adopted measures are complete and consistent with the principles for CCPs and TRs in the European Union, Japan and the United States. Other jurisdictions and other categories of FMI will be covered in subsequent rounds. Results from the first round of Level 2 assessments were published in February 2015.

Furthermore, the work of a consolidated Level 2/Level 3 assessment of the Responsibilities also started in November 2014.

CPMI-IOSCO Working Group on Cyber Resilience:

A joint CPMI-IOSCO working group on cyber resilience in financial market infrastructures was established in September 2014 to look into ways to help both authorities (regulators, overseers) and FMIs to enhance cyber resilience.

Both CPMI and IOSCO had been active separately in investigating certain aspects of cyber risks and how they relate to financial market participants, services and infrastructures. As many issues are of interest to both committees, they agreed to undertake joint work with a specific focus on improving the cyber resilience of FMIs. The working group has set up various work streams with a focus to investigate the implications of cyber-attacks against FMIs and the evolving cyber-threat landscape; develop guidance to enhance the cyber resilience of FMIs globally; and consider mechanisms to facilitate collaboration and information sharing.

2 Indonesia was added to the initial 27 jurisdictions.