

## Press release

Press enquiries:  
+41 61 280 8956

Press.service@bis.org

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### **Financial Stability Board releases report on improving OTC derivatives markets**

The Financial Stability Board (FSB) published today a report on *Implementing OTC Derivatives Market Reforms*. The report responds to calls by G20 Leaders at the Pittsburgh and Toronto Summits to improve the functioning, transparency and regulatory oversight of over-the-counter (OTC) derivatives markets.

The recent financial crisis exposed weaknesses in the structure of these markets that contributed to the build-up of systemic risk. While markets in certain OTC derivatives asset classes continued to function well throughout the crisis, the crisis demonstrated the potential for contagion arising from the interconnectedness of OTC derivatives market participants and the limited transparency of counterparty relationships.

The report sets out common approaches to implementing reforms to OTC derivatives markets in an internationally consistent and non-discriminatory way. It was produced by a working group comprising international standard setters and authorities responsible for translating the G20 commitments into standards and implementing regulations.

The report sets out 21 recommendations addressing implementation of the G20 commitments concerning standardisation, central clearing, organised platform trading, and reporting to trade repositories:

- **Standardisation:** The proportion of the market that is standardised should be substantially increased. Authorities should work with market participants to increase standardisation, including through introducing incentives and, where appropriate, regulation.
- **Central clearing:** All standardised derivatives should be centrally cleared in order to mitigate systemic risk. The report sets out the factors that should be taken into account when determining whether a derivative contract is standardised and should be centrally cleared. The recommendations also address mandatory clearing requirements; robust risk management requirements for the remaining non-centrally cleared markets; and supervision, oversight and regulation of central counterparties (CCPs).
- **Exchange or electronic platform trading:** IOSCO will complete an analysis by end-January 2011 identifying the actions that may be needed to fully achieve the G20

commitment that all standardised products be traded on exchanges or electronic trading platforms, where appropriate.

- **Reporting to trade repositories:** Authorities must have a global view of the OTC derivatives markets, through full and timely access to the data needed to carry out their respective mandates. All OTC derivatives transactions must be reported to trade repositories. Trade repository data must be comprehensive, uniform and reliable and, if from more than one source, provided in a form that facilitates aggregation on a global scale.

A key message of the report is the need to improve the availability of data on the OTC derivatives market as an input to policymaking to promote financial stability, as well as for monitoring whether targets to bring all standardised derivatives into central clearing are being met. Trade repositories will help to fill this gap, but a high level of coordination is necessary to ensure accessibility and usefulness of data on a global scale.

This report is only the first step toward consistent implementation of the G20 commitments, and highlights the amount of work that remains going forward. Authorities will need to coordinate closely to minimise the potential for regulatory arbitrage. The working group will make regular reports on progress in implementing the necessary reforms to the FSB, with the first report to be given in March 2011.

### **Notes to editors**

The report issued today was endorsed by G20 Finance Ministers and Central Bank Governors at their meeting in Gyeongju, Korea, on 22-23 October.

The communiqué of the G20 Summit in Pittsburgh in September 2009 included the following text on the OTC derivatives markets:

“Improving over-the-counter derivatives markets: All standardized 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.”

The subsequent June 2010 G20 Toronto communiqué stated:

“We pledged to work in a coordinated manner to accelerate the implementation of over-the-counter (OTC) derivatives regulation and supervision and to increase transparency and standardization. We reaffirm our commitment to trade all standardized OTC derivatives contracts on exchanges or electronic trading platforms, where appropriate, and clear through central counterparties (CCPs) by end-2012 at the latest. OTC derivative contracts should be reported to trade repositories (TRs). We will work towards the establishment of CCPs and TRs in line with global standards and ensure that national regulators and supervisors have access to all relevant information. In addition we agreed to pursue policy measures with respect to haircut-setting and margining practices for securities financing and OTC derivatives transactions that will reduce procyclicality and enhance financial market resilience. We recognized that

much work has been done in this area. We will continue to support further progress in implementing these measures.”

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 Mario Draghi, Governor of the Bank of Italy. 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](http://www.financialstabilityboard.org).