Press release

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

The Financial Stability Board (FSB) published today its second six-monthly *progress report on implementation of over-the-counter (OTC) derivatives market reforms*. The report provides a detailed review of progress toward meeting the commitment of 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; that OTC derivative contracts be reported to trade repositories; and that non-centrally cleared contracts be subject to higher capital requirements. For each of the G20 commitments, the report provides an assessment of progress in the three key steps that need to be taken: the development of international standards and policy; the adoption of legislative and regulatory frameworks; and actual implementation through changes in market practices.

The report notes that, as of now, with only just over one year until the end-2012 deadline for implementing the G20 commitments, few FSB members have the legislation or regulations in place to provide the framework for operationalising the commitments. While recognising the implementation challenges and the complexity of the needed laws and regulations, the report concludes that jurisdictions should aggressively push forward to meet the G-20 end-2012 deadline in as many reform areas as possible.

Consistency in implementation across jurisdictions is critical, and it is understandable that smaller markets want to see what frameworks the United States and European Union put in place when developing their own frameworks. Nevertheless, it is important that all jurisdictions advance development of their legislative and regulatory frameworks as far as they are able even before finalisation of the US and EU regimes, to be in a position to act expeditiously once rules are finalised in these two largest OTC derivatives markets.

The FSB has been aware from the outset that there is a risk that overlaps, gaps or conflicts in legislative and regulatory frameworks, if not addressed, could compromise achievement of the G20 objectives. The report describes a number of these issues. One such potential gap which the FSB has identified concerns the applicability of the G20 commitments to standardised derivatives that are moved onto exchanges or electronic trading platforms (and therefore no longer traded "OTC"). The report clarifies that in order to achieve the G20 objective of mitigating systemic risk, full implementation of the G20 commitments needs to cover these derivatives, irrespective of whether they continue to trade OTC or are moved onto organised platforms.

As a key element of its work going forward, the FSB's OTC Derivatives Working Group will continue to actively monitor the consistency of implementation across jurisdictions and bring to the attention of the FSB any overlaps, gaps or conflicts that may prove detrimental to G20 reform objectives, particularly if there seems to be a risk that they will not be satisfactorily resolved through existing bilateral or multilateral channels. FSB members have also agreed more generally to strengthen their coordination to address such issues and to provide senior-level steering on OTC derivatives reforms.

As the end-2012 deadline is rapidly approaching, the FSB will publish a further progress report in spring 2012, maintaining its intense focus on monitoring and assessing all dimensions of OTC derivatives reforms implementation. Collecting comprehensive qualitative and quantitative data on progress will be an important element of the FSB's monitoring function but poses significant challenges. Data from market participants, particularly from financial market infrastructures, will be critical to understanding changes in the marketplace.

The FSB welcomes feedback from the public on this report. Feedback should be submitted by 30 November 2011 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 in an internationally consistent and non-discriminatory fashion. The first FSB progress report on implementation was published in April 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 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.