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International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

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IOSCO publishes Principles for Financial Benchmarks

The International Organization of Securities Commissions (IOSCO) published today the final report on *Principles for Financial Benchmarks*, which provides an overarching framework of principles for benchmarks used in financial markets.

The principles form an integral part of IOSCO´s work in leading efforts to enhance the integrity, the reliability and the oversight of benchmarks by establishing guidelines for benchmark administrators and other relevant bodies in the following areas:

- Governance: to protect the integrity of the Benchmark determination process and to address conflicts of interest;
- Benchmark quality: to promote the quality and integrity of Benchmark determinations through the application of design factors;
- Quality of the methodology: to promote the quality and integrity of Methodologies by setting out minimum information that should be addressed within a Methodology. These principles also call for credible transition policies in case a Benchmark may cease to exist due to market structure change.
- Accountability mechanisms: to establish complaints processes, documentation requirements and audit reviews.

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The principles provide a framework of standards that might be met in different ways, depending on the specificities of each benchmark. In addition to a set of high level principles, the framework offers a subset of more detailed principles for benchmarks having specific risks arising from their reliance on submissions and/or their ownership structure.

The principles provide for benchmark administrators to publicly disclose their compliance with the principles within twelve months of the publication of the report, with the intention of IOSCO reviewing within an 18 month period the extent to which the principles have been implemented.

Response to consultation feedback

Chapter three of the report clarifies a number of points that surfaced during public consultation on the intended scope and implementation of the principles.

Although its scope remains broad, the final report recommends that the application and implementation of the principles should be proportional to the size and the risks of each benchmark and/or administrator and the benchmark setting process. For example, benchmarks derived from data sourced from regulated markets or exchanges with mandatory post-trade transparency requirements might raise different concerns or issues from benchmarks that derive their value from submitted data.

The Data Sufficiency Principle provides that a benchmark should be based on prices, rates, indices or values that have been formed by the competitive forces of supply and demand and *anchored* by observable transactions entered into at arm's length between buyers and sellers in such an active market. The final report clarifies that this does not mean that individual benchmark determinations must be constructed solely or even predominantly by transactions or that data must be used in a certain order.

In response to the consultation feedback, a principle was added to disclose to what extent and on what basis expert judgment was used, if any, in each benchmark determination. An explanatory Annex has been added to detail the application of this principle.

Principles for Oil Price Reporting Agencies (PRA)

When developing the Principles for Benchmarks, the Board Level Task Force for Financial Market Benchmarks took into consideration the *Principles for Oil Price Reporting Agencies*, published by IOSCO in October 2012. While both sets of principles reflect similar high-level concerns, they differ in specifics. In order to respect the circumstances under which these two sets of principles have been adopted, as well as the on-going evaluation process of the PRA principles, IOSCO expects the oil PRAs to continue to implement and comply with the PRA principles.

IOSCO, in the context of its ongoing collaboration with the International Energy Forum, the International Energy Agency, and the Organization of Petroleum Exporting Countries, will consider the need in due course for any modification of the PRA principles to align them more closely with these benchmark principles.

IOSCO Task Force

The IOSCO created the Board Level Task Force in September 2012 to develop these principles in light of investigations and enforcement actions regarding attempted manipulation of major interest rate benchmarks. Those investigations and enforcement actions raised concerns over the fragility of certain benchmarks, caused by vulnerabilities in their methodology, transparency and governance arrangements.

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The Board-level Task Force is chaired by Martin Wheatley, the Chief Executive of the UK Financial Conduct Authority, and Gary Gensler, the Chairman of the US Commodity Futures Trading Commission.

Mr. Wheatley said: "Benchmarks are a useful and important tool in many financial markets. These principles set out clear and robust standards that will improve their construction and oversight of benchmarks, and form an important step in restoring their credibility. The FCA is at the forefront of the benchmark reform agenda, and we look forward to working with our international partners to drive up standards across the market."

Mr. Gensler said: "Given the known problems with LIBOR, EURIBOR and other significant market benchmarks, I am pleased that the IOSCO Principles issued today require that benchmarks be anchored by observable transactions and subject to robust governance processes that address potential conflicts of interest."

Consultation papers and other preparatory work

In April, the Task Force issued a second consultation report on financial benchmarks, which was informed by the comments received on an initial consultation report in January 2013 and at stakeholder meetings in February in London and in Washington. Additionally, it took into consideration the related work by a variety of regulatory and industry groups, while undertaking its own review of a selection of benchmarks representing different asset classes in different jurisdictions. Through this work, the Task Force identified certain broad, generic risks to the credibility of benchmarks arising from vulnerabilities in methodology, transparency and governance arrangement. It determined that these risks arise from conflict of interests that may be amplified when expert judgment is used in benchmark determinations.

It concluded that the following factors should be taken into account when assessing the above risks:

- Submissions to benchmarks

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- Content and transparency of methodologies
- Governance processes.

Benchmark administrators are required to publically disclose their compliance with the principles within 12 months of their publication. Additionally, IOSCO intends to review the extent to which the principles have been implemented 18 months after publication. To complete this exercise, it will draw on input from stakeholders, market authorities and, as appropriate, benchmark administrators.

NOTES FOR EDITORS

1. IOSCO is the leading international policy forum for securities regulators and is recognized as the global standard setter for securities regulation. The organization's membership regulates more than 95% of the world's securities markets in more than 115 jurisdictions and it continues to expand.

2. The IOSCO Board is the governing and standard-setting body of the International Organization of Securities Commissions (IOSCO), and is made up of 32 securities regulators. Mr. Greg Medcraft, chairman of the Australian Securities and Investments Commission, is the chair of the IOSCO Board. The members of the IOSCO Board are the securities regulatory authorities of Argentina, Australia, Belgium, Brazil, Chile, China, France, Germany, Hong Kong, India, Italy, Japan, Korea, Malaysia, Mexico, Morocco, the Netherlands, Nigeria, Ontario, Pakistan, Portugal, Quebec, Romania, Singapore, South Africa, Spain, Switzerland, Trinidad and Tobago, Turkey, United Kingdom and the United States.

3. IOSCO aims through its permanent structures:

- to cooperate in developing, implementing and promoting adherence to internationally recognized and consistent standards of regulation, oversight and enforcement in order to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks;

- to enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in enforcement against misconduct and in supervision of markets and market intermediaries; and

- to exchange information at both global and regional levels on their respective experiences in order to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

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