

International Regulatory Developments

Following the financial market turbulence of recent years, policy makers and regulators around the world have sought to increase the resilience of the financial system. At the international level, the Financial Stability Board and G-20 have recommended actions to strengthen financial markets, and the financial institutions and financial market infrastructures that underpin them. The various aspects of these recommendations are being pursued by a range of bodies, including the Basel Committee on Banking Supervision, the CPSS, the International Organization of Securities Commissions (IOSCO), and national governments, central banks and regulators.

Two key developments in the payments area, in which the Reserve Bank has been involved, are the CPSS-IOSCO review of international standards for payment, clearing and securities settlement systems, and the international regulatory efforts to ensure a robust legal and operational infrastructure for the OTC derivatives market. During 2009/10, the Reserve Bank became a member of CPSS and the international OTC Derivatives Regulators' Forum (see 'Liaison Activity'), facilitating our involvement in this work, as discussed below.

CPSS-IOSCO Review of Standards

The CPSS, together with the Technical Committee of IOSCO, has produced three major sets of standards related to the stability and efficiency of payment, clearing and settlement systems:

- *Core Principles for Systemically Important Payment Systems* (CPSS, 2001);
- *Recommendations for Securities Settlement Systems* (CPSS and IOSCO, 2001); and
- *Recommendations for Central Counterparties (RCCP)* (CPSS and IOSCO, 2004).

The standards set out principles for the design and operation of these systems, and are used by many central banks and other regulators as a basis for their oversight activities. The standards also underpin the Financial Sector Assessment Program of the International Monetary Fund and the World Bank.

In February 2010, CPSS and IOSCO announced a comprehensive review of the three sets of standards. The review will look to assess and, where appropriate, strengthen the standards in light of the financial crisis and developments in the industry since the standards were originally introduced. The review is considered to be a key step towards the Financial Stability Board's objective of strengthening financial market infrastructure. The Reserve Bank is represented on a number of committees and working groups as part of the review. It is intended that a draft of the revised standards will be released for public consultation by early 2011.

Strengthening OTC Derivatives Markets

Efforts to improve risk management and transparency in OTC derivatives markets, which have been underway for a number of years, have gained increased attention following the global financial crisis. Statements of the Financial Stability Board and the G-20 have been directed towards encouraging a co-ordinated international approach to enhancing the financial infrastructure for these markets and increasing use of that infrastructure.

CPSS and IOSCO have undertaken two pieces of work aimed at strengthening OTC derivatives markets. The first is a review of the RCCP to ensure they remain appropriate for CCPs clearing OTC derivatives. This will ultimately result in additional guidance to the RCCP, specifically regarding their application to CCPs clearing OTC derivatives. The second piece of work considers the role of trade repositories for OTC derivatives, and establishes a set of considerations for such facilities and their overseers. A consultation process on both pieces of work has been undertaken. It is intended that this work will be folded into the general review of standards, outlined above.

Over the past year, major industry participants have made commitments to US and European regulators to increase transparency and risk management relating to their activities in OTC derivatives markets. These include commitments to increase use of market infrastructures, such as electronic processing platforms, CCPs and trade repositories, and additional infrastructures have commenced operation to service the OTC derivatives market. In the United States and Europe, legislation is being developed to increase the use of such infrastructures and effect other improvements to risk management and transparency in the OTC derivatives market.

At this stage, the Australian financial authorities – APRA, ASIC and the Reserve Bank – are seeking to achieve the desired improvements to market transparency and legal, counterparty and operational risk management in the OTC derivatives market through encouragement of industry participants rather than formal rule setting.¹¹ Domestically, the Reserve Bank and the other authorities are engaging with industry participants and industry bodies to facilitate improvements to practices in the OTC derivatives market. The authorities have also been engaging with the (typically international) market infrastructures regarding Australian market participants' access to their services. In addition, the Reserve Bank finalised its regime for oversight of overseas CCPs in 2008/09. The regime places reliance on infrastructure providers' home regulators, thus facilitating cross-border provision of clearing services. This is an important issue for Australia, as the existing market infrastructures have not typically catered to the needs of participants in smaller markets, such as Australia. The Australian Financial Markets Association (AFMA) has been actively involved in these efforts, playing an important role of facilitating dialogue and information flow between the Australian regulators, Australian market participants and market infrastructures.

Internationally, the three authorities are also engaging with other regulators regarding OTC derivatives market issues. In late 2009, the OTC Derivatives Regulators' Forum was established to provide regulators around the world with a means to co-operate, exchange views and share information related to OTC derivatives CCPs and trade repositories. The Forum comprises international financial regulators (including central banks, banking supervisors and market regulators) and other governmental authorities with an interest in OTC derivatives markets. All three Australian financial authorities are members of the Forum and have been actively engaged in its work. Key aspects of the Forum's work are to promote consistent public policy objectives and oversight

¹¹ See the 2009 Survey of the OTC Derivatives Market in Australia, conducted by APRA, ASIC and the Reserve Bank and available at: <http://www.rba.gov.au/payments-system/clearing-settlement/survey-otc-deriv-mkts/index.html>, for detail on the actions that have been identified to effect these improvements.

approaches for OTC derivatives CCPs and trade repositories (including the development of international co-operative oversight arrangements for these infrastructures where appropriate) and to co-ordinate the sharing of information routinely made available to regulators or to the public by OTC derivatives CCPs and trade repositories. Through the Forum, the Australian regulators have brought to the attention of the international regulatory community the importance of smaller market participants' access to international market infrastructures, on terms appropriate to the scale and scope of their business.

