



**G20 SEMINAR ON COMMODITY MARKETS'  
TRANSPARENCY: PHYSICAL AND FINANCIAL  
MARKETS**

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# **IOSCO- A BRIEF INTRODUCTION**

- IOSCO is recognized as the International Standard setter for Securities Regulation
- 120 + jurisdictions, more than 95% of world capital markets;
- IOSCO Principles are one of the 12 key standards and codes recognised as key to sound financial systems
- IOSCO MMOU recognized as a benchmark for international cooperation and enforcement

## IOSCO work in the area

- Principles for the Regulation and Supervision of Commodities Derivatives Markets
- Principles for Oil Price Reporting Agencies (PRAs)
- Broader work on Benchmarks- draft principles for Benchmarks
- OTC Derivatives: Reports on
  - Data reporting and aggregation (with CPSS)
  - Financial Markets Infrastructures- Trade Repositories, CCPs... (with CPSS)
  - Mandatory clearing, Trading platforms
- Decided to set up a Standing Committee on Commodities Derivatives from last year

## What are the issues?

- Interlinkages between physical and financial markets
- Settlements in financial markets
- Price discovery in physical markets
- Need for transparency in financial and physical markets

# IOSCO Principles for Commodities Derivatives Markets

- Contract design
- Surveillance, including authority to access information; large positions
- Disorderly markets: position management & position limits
- Enforcement and information sharing
- Enhancing price discovery and transparency: publication of aggregate exposures of different classes of large traders, especially commercial and non-commercial; also transparency of OTC data

- Contract terms and conditions should reflect the operation of the **underlying physical market** and avoid impediments to delivery. The futures contract should be designed to conform to physical market commercial practices.
- Specification for physical delivery contracts:

|                              |                                |
|------------------------------|--------------------------------|
| Quality or deliverable grade | Size of delivery unit          |
| Delivery instrument          | Delivery process               |
| Delivery points              | Type of delivery facility      |
| Inspection procedures        | Payment for transport/ storage |
| Contract delivery months     | Legal enforceability           |
- Settlement and delivery procedures should reflect the underlying physical market and promote price convergence
- Market authorities should have powers to obtain information on positions in OTC commodity derivatives and underlying physical commodity markets

# Principles for Oil PRAs

- Joint analysis by IOSCO, IEA, IEF and OPEC
- Importance of Oil:
  - As a commodity
  - Underlying asset for derivative contracts
- Therefore PRAs' activities are important for:
  - Oil derivatives markets- price formation and settlement
  - Physical oil markets
  - Broader financial markets
  - Global economy
- IOSCO PRA principles promote the quality and integrity of oil price assessments that will enhance the reliability of oil derivatives contracts

# IOSCO Principles for Oil PRAs (Contd)

- Methodologies
- Priority to concluded transactions
- Robust internal quality controls for submission and evaluation of market data
- Robust conflict of interest policies
- Audit trail- documentation and retention policies
- Formal complaints handling procedure
- Make available information to market authorities

***Implementation review after 18 months***

***Possible prohibition of trading in a commodities derivatives contract unless the assessment follows PRA principles***

# IOSCO Principles on Benchmarks

- Governance:
  - administrators to take overall responsibility for the benchmark setting process
  - Conflicts of interest framework
  - Control framework; special care to promote integrity of inputs where it is based on external submissions
- Quality of the benchmark:
  - Should be based on market prices, rates or value and anchored by observable, arm's length transactions
  - Non-transactional data to be used only as an adjunct or supplement
  - Administrators to publish clear guidelines on hierarchy of data inputs

# Principles on Benchmarks (contd)

- Quality of the methodology:
  - Documentation and publication of methodology
  - Criteria for inclusion of external submitters
  - Code of conduct for submitters
- Accountability:
  - Procedure for receiving and acting on written complaints
  - Audit trails to be maintained for 5 years
  - Documents to be made available to regulators

# OTC Derivatives

- Trade Reporting: Data reporting to TRs
- Legal Entity Identifiers
- Aggregation
- Central clearing
- Margin requirements for non cleared derivatives

# Authorities access to TR data: IOSCO-CPSS consultation report

- Principles to guide authorities' access to TR data in a manner that supports proper handling and use while taking into account confidentiality concerns
- Guidance to TRs and to authorities on the depth of transaction, breadth and level of anonymisation of counterparties
- Range of authorities: market regulators, central banks, prudential supervisors, resolution authorities, official international financial institutions
- Report follows a functional approach rather than institutional approach

“Information about the underlying commodity is key – indeed critical – for the satisfactory functioning of financial markets and reliable price discovery. The main purpose of financial futures and OTC derivatives markets is to express an expectation of future prices in the physical cash markets. So the basis on which these expectations are formed is critical”

“Better physical oil data (production, inventories, transport capacities etc.) will allow for increased understanding of the linkages between the physical and financial markets for oil.”

***IOSCO Report to G20, November 2010***

Thank you