IFRS Advisory Council

Panel on Monitoring Adoption -
How regulators monitor adoption of their standards and policies

Implementation monitoring of the
Principles for financial market infrastructures (PFMI)

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Objectives

1. Describe the CPMI-IOSCO implementation monitoring process of the PFMI.

2. Share some of the main challenges experienced during the implementation monitoring process.

3. Suggest some takeaways from the implementation monitoring of the PFMI.

Note: *the views and opinions expressed in this presentation are those of the author and do not necessarily represent those of IOSCO or the CPMI.*

Introduction

The *Principles for Financial Market Infrastructures* (PFMI) are part of a broader set of internationally recognized standards (*key international standards* – some examples):

Financial Regulation and Supervision
- Insurance Core Principles, Standards, Guidance and Assessment Methodology
- IOSCO Objectives and Principles of Securities Regulation
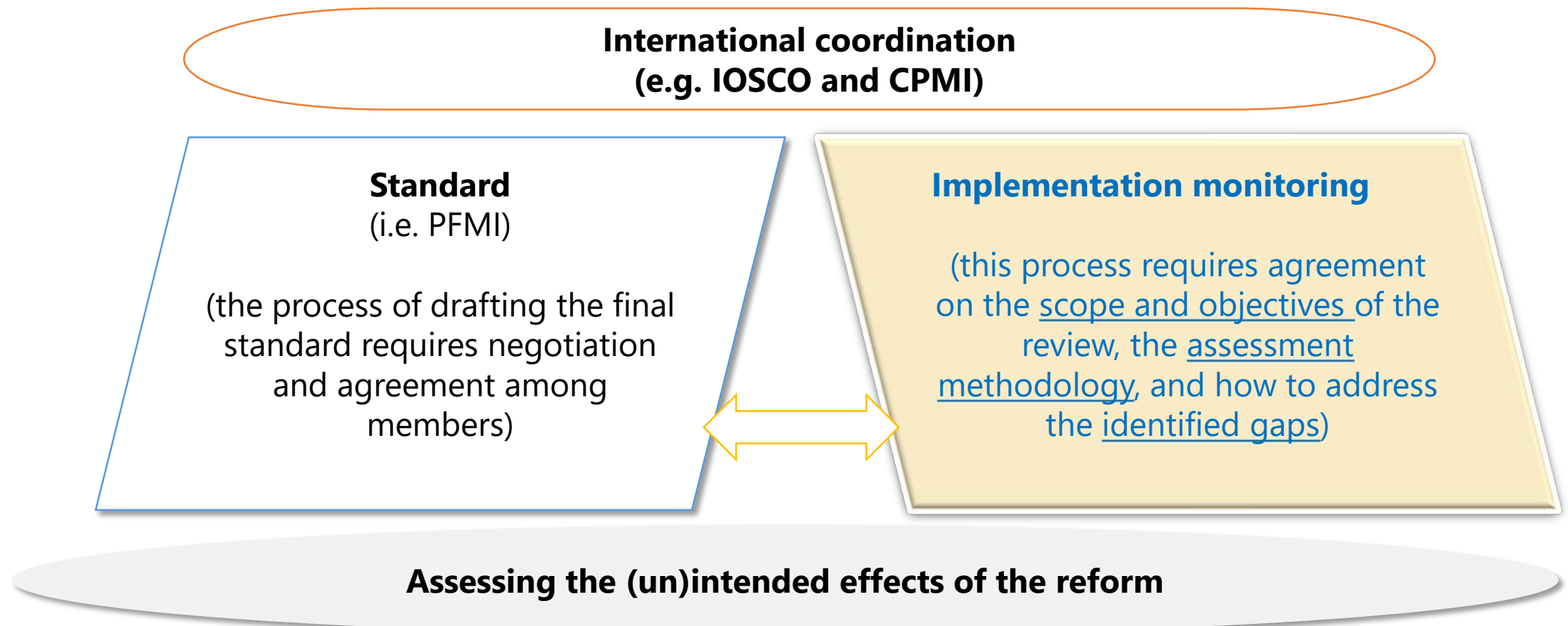- Core Principles for Effective Banking Supervision

Institutional and Market Infrastructure
- International Standards on Auditing (ISA)
- FSB Key Attributes of Effective Resolution Regimes for Financial Institutions
- **CPMI-IOSCO *Principles for Financial Market Infrastructures* (PFMI)**
- FATF Recommendations on Combating Money Laundering and the Financing of Terrorism & Proliferation

Macroeconomic Policy and Data Transparency
- Fiscal Transparency Code
- Code of Good Practices on Transparency in Monetary and Financial Policies (MFP)

- International standards are created to **address an issue** and/or **achieve an objective**.

- The **lifecycle** of an international standard involves coordination for 1) setting the **standard**; 2) monitoring its **full and consistent implementation**; and 3) assessing whether the standard is **achieving its intended objective(s)**.
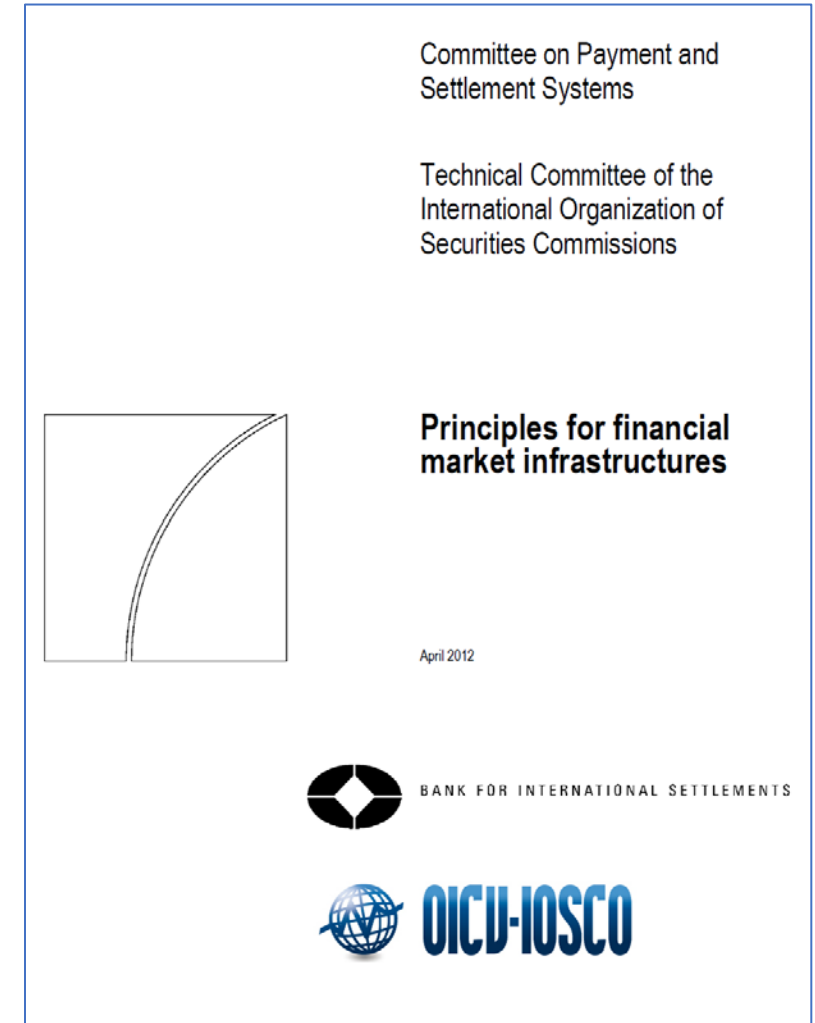

**International coordination
(e.g. IOSCO and CPMI)**

Standard
(i.e. PFMI)

(the process of drafting the final standard requires negotiation and agreement among members)

Implementation monitoring

(this process requires agreement on the scope and objectives of the review, the assessment methodology, and how to address the identified gaps)

Assessing the (un)intended effects of the reform

There is a commitment to implement/observe the PFMI:

"1.1 [...] **All CPSS [CPMI] and IOSCO members** intend to adopt and apply the updated standards...."

"1.30. [...] **FMIs** [...] are expected to [...] observe the principles."

"1.31. [...] **FMIs** are also expected to complete the CPSS-IOSCO Disclosure framework for FMIs."

"1.32. **Central banks, market regulators, and other relevant authorities**, [...] are expected to perform their own assessments of the FMI. If an FMI does not fully observe the principles, actions should be taken to promote full observance."
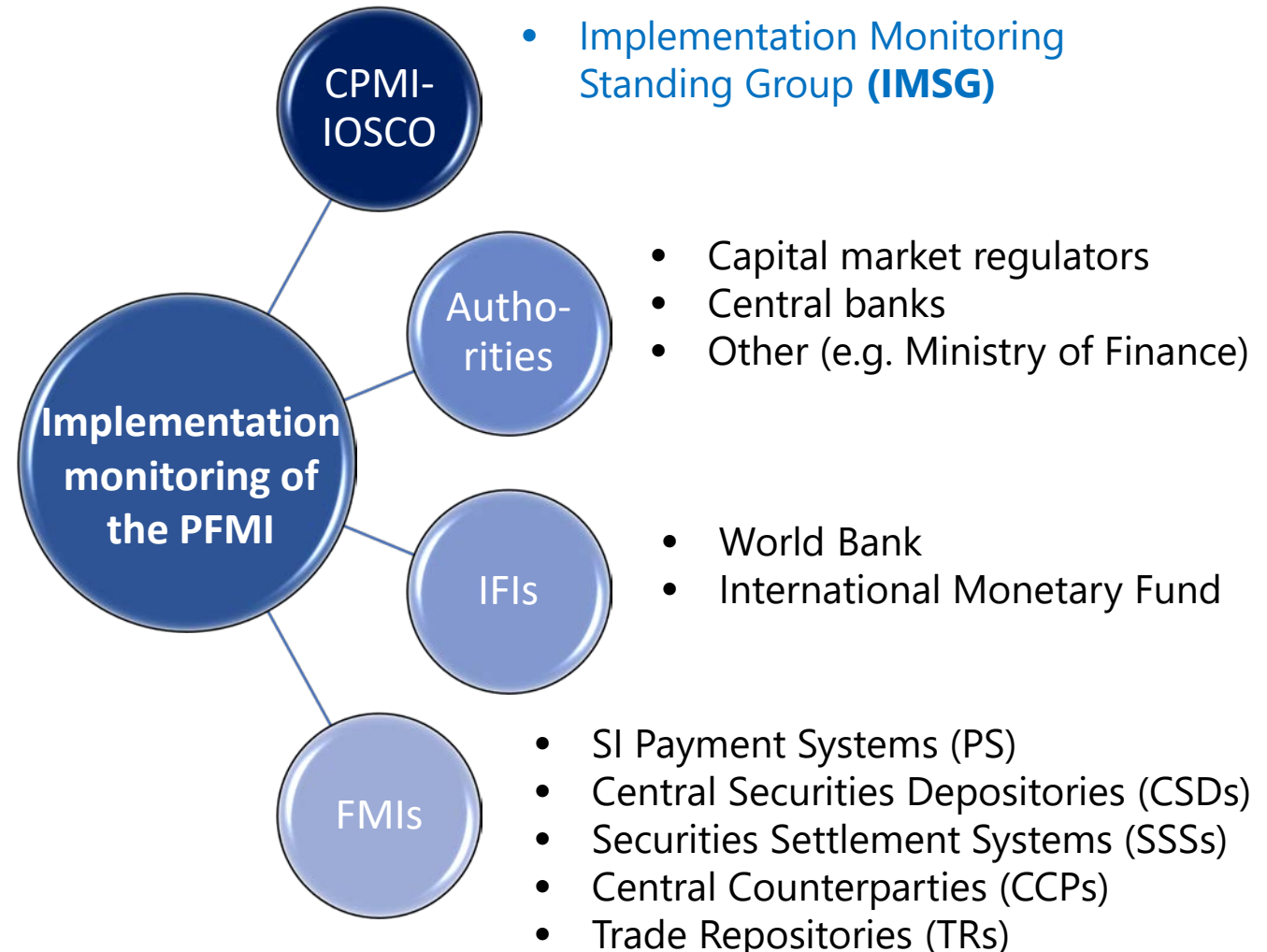
Committee on Payment and Settlement Systems

Technical Committee of the International Organization of Securities Commissions

Principles for financial market infrastructures

April 2012

BANK FOR INTERNATIONAL SETTLEMENTS

OICV-IOSCO

A. Description of the CPMI-IOSCO implementation monitoring process

Who monitors the implementation of the PFMI?

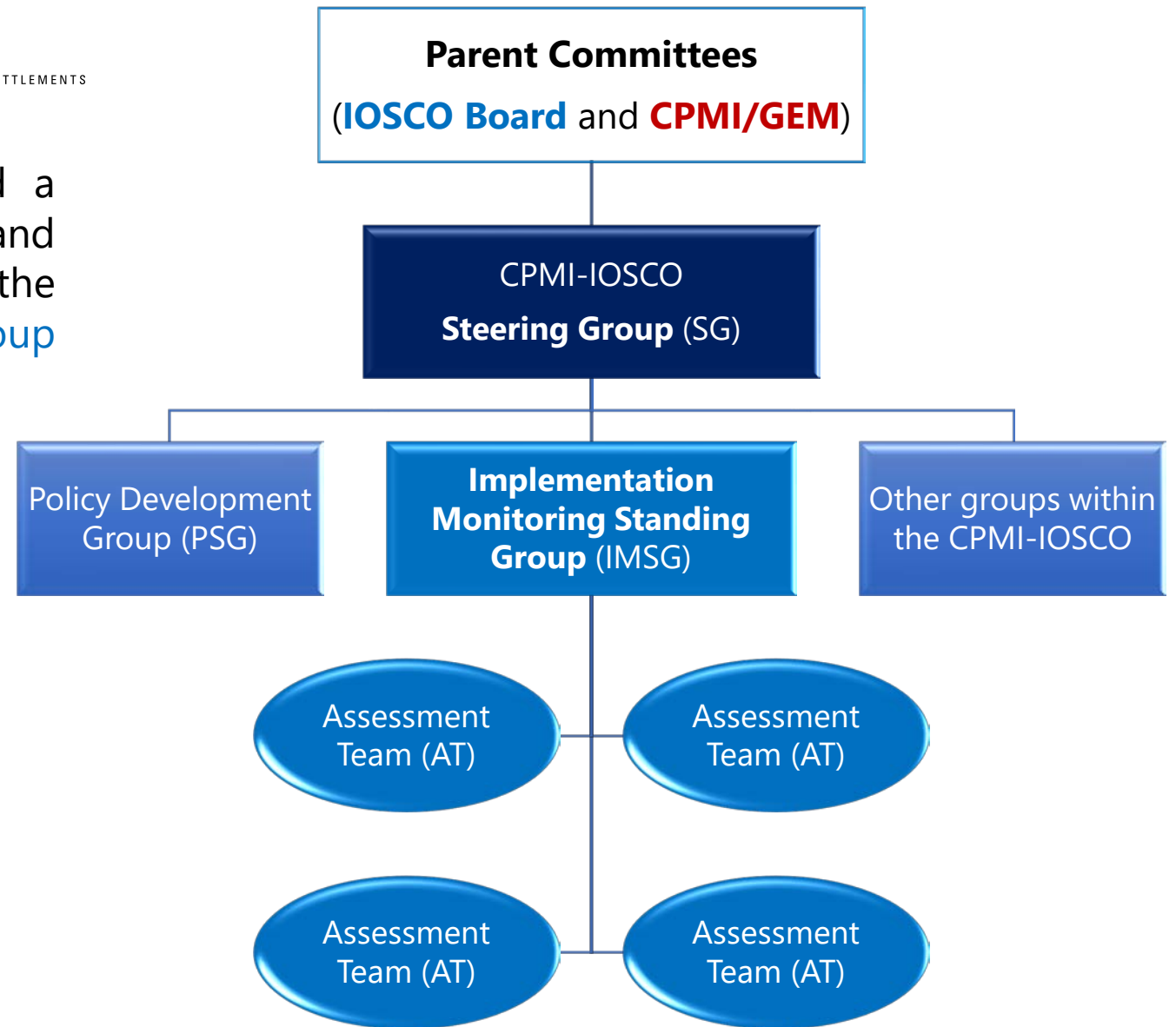Different organizations monitor the implementation of the PFMI, such as:

- IOSCO and the CPMI,

- the international financial institutions (IFIs),

- the authorities,

- the financial market infrastructures (FMIs).

CPMI-IOSCO
- Implementation Monitoring Standing Group **(IMSG)**

Implementation monitoring of the PFMI

Authorities
- Capital market regulators
- Central banks
- Other (e.g. Ministry of Finance)

IFIs
- World Bank
- International Monetary Fund

FMIs
- SI Payment Systems (PS)
- Central Securities Depositories (CSDs)
- Securities Settlement Systems (SSSs)
- Central Counterparties (CCPs)
- Trade Repositories (TRs)

IOSCO and the CPMI have established a dedicated group to monitor the full and consistent implementation of the PFMI: the Implementation Monitoring Standing Group **(IMSG)**.

Parent Committees

(**IOSCO Board** and **CPMI/GEM**)

CPMI-IOSCO

Steering Group (SG)

Policy Development Group (PSG)

Implementation Monitoring Standing Group (IMSG)

Other groups within the CPMI-IOSCO

Assessment Team (AT)

Assessment Team (AT)

Assessment Team (AT)

Assessment Team (AT)

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The IMSG conducts the implementation monitoring in a structured manner.

For the PFMI to be implemented **consistently and in full** across jurisdictions, it is necessary to:

- set an implementation monitoring **framework**,

- define the **scope** of the work and the assessments, and

- define a **timeline**.
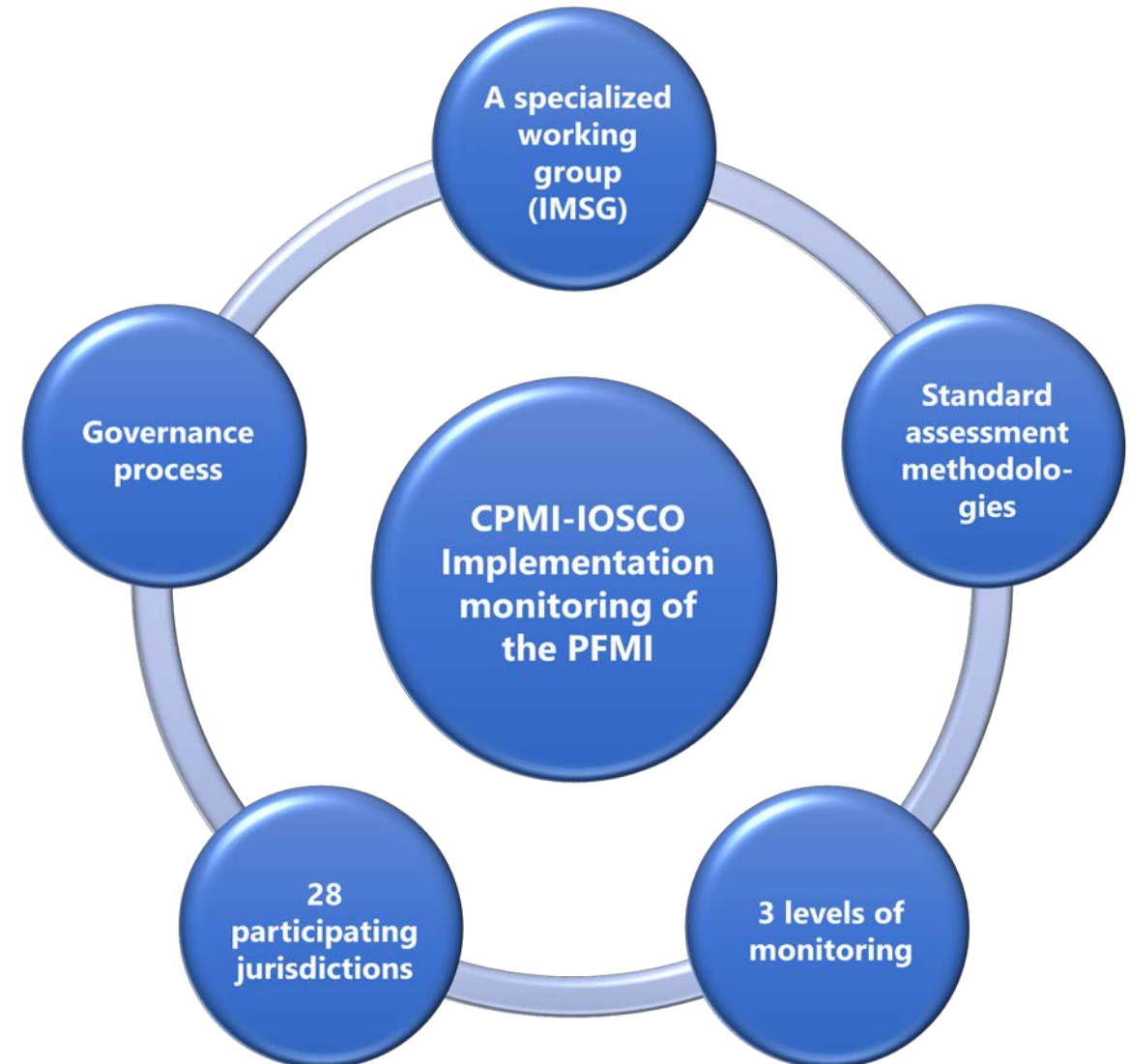
The implementation monitoring covers 28 jurisdictions.

IOSCO and the CPMI have selected 28 member jurisdictions to monitor the implementation of the PFMI.

This set of jurisdictions covers both advanced and emerging markets from all regions of the world.

Argentina	Germany	**Russia**
Australia	Hong Kong SAR	**Saudi Arabia**
Belgium	**India**	Singapore
Brazil	**Indonesia**	**South Africa**
Canada	Italy	Spain
Chile	Japan	Sweden
China	**Korea**	Switzerland
European Union	**Mexico**	**Turkey**
France	The Netherlands	United Kingdom
		United States
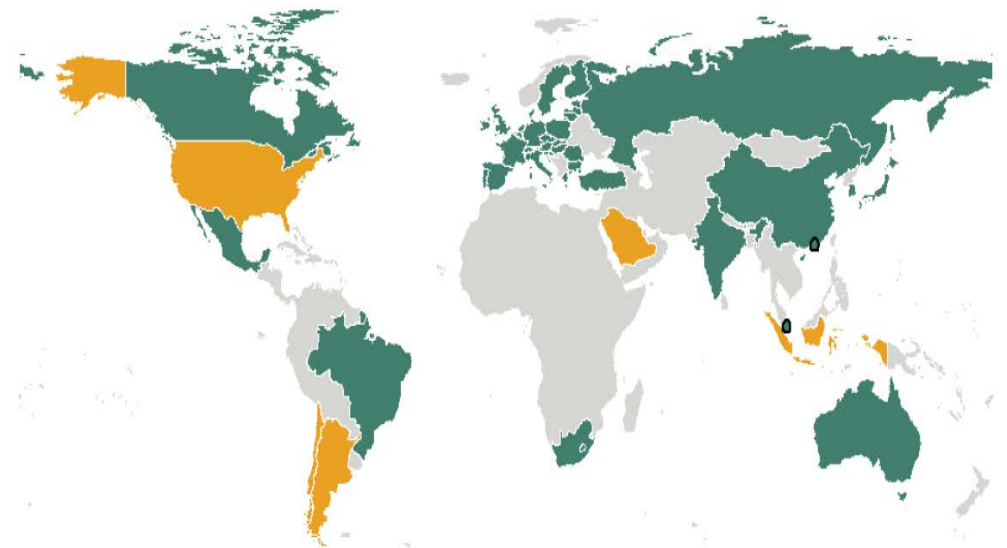
Three levels of implementation monitoring.

The CPMI-IOSCO implementation monitoring program is structured around **three levels:**

Level 1 – jurisdiction's self-evaluation
Assessment of whether a jurisdiction has **completed the PROCESS of adopting the regulatory framework** (legislation, regulations, and other policies – *implementation measures*) that will enable it to implement the Principles and Responsibilities.

Level 2 – peer review
Assessment of whether **the CONTENT** of the implementation measures is **complete** and **consistent** with the Principles and Responsibilities. (≠ *assessment on the application of implementation measures by authorities or the FMIs' observance of the Principles*).
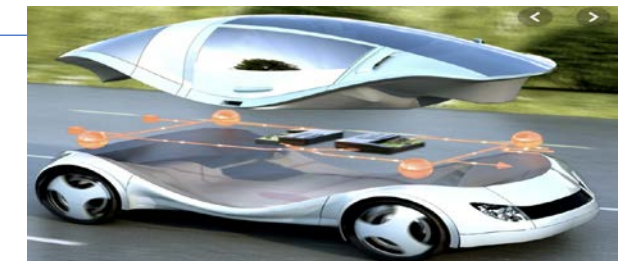
Level 3 - thematic, peer-bechmarking
Assessment of whether there is **consistency in the OUTCOMES** of implementation of the Principles and Responsibilities.

Implementation measures (L1, L2)
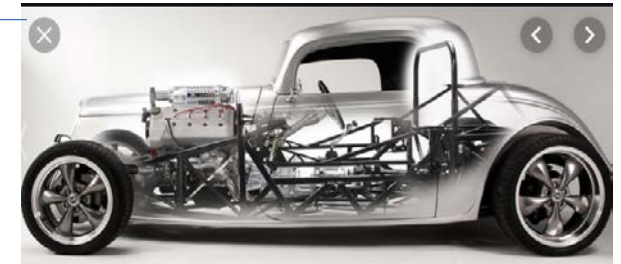
Consistency in outcomes (L3)

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Standard assessment methodologies.

For **each level of implementation monitoring**, the IMSG has adopted a standard assessment methodology. This supports the **consistency of assessments across jurisdictions** at the respective level of assessment.

Level 1 methodology and ratings	Level 2 methodology and ratings	Level 3 methodology, but no ratings
4 - **Final** implementation measures **in force** 3 - **Final** implementation measures **published** 2 - **Draft** implementation measures **published** 1 - **Draft** implementation measures **not published** Not applicable	**Consistent** (i.e. implementation measures are "**complete and consistent**" with the PFMI) **Broadly consistent** – gaps and/or shortcomings that have a **minor impact** **Partly consistent** – gaps and/or shortcomings that have a **significant impact** **Not consistent** - gaps and/or shortcomings that have a **major impact** Not applicable	**No formal ratings** of observance, but identification of • **Consistency** of outcomes • **(Serious) issues of concern** • **(Other) observations.**

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A clear assessment process and governance structure.

1. The IMSG sets up **Assessment Teams (ATs)** to conduct the assessments. IOSCO and the CPMI nominate experts to made up the ATs (one AT per assessment). There is a Team lead (or two co-leads). The CPMI-IOSCO secretariats also support the work of the ATs. There is an "as cut-off date" for each assessment.

2. Authorities or FMIs under assessment fill in **standardized assessment templates**, respond follow-up questions and interact with the respective AT to provide clarifications. Authorities and FMIs under assessment are given the **opportunity to comment on the respective draft report** and make a review for factual accuracy.

3. All the **drat assessment reports** (which follow a standard structure) are reviewed and approved by the **IMSG**.

4. Assessment reports are also reviewed and approved by the **Steering Group** and by the so- called **Parent Committees**.

Assessed jurisdiction or FMIs	Assessment Team	IMSG	Steering Group	Parent Committees (IOSCO Board, CPMI/GEM)	Publication of assessment reports

Publication of assessment reports.

Assessment reports are publicly available on the **IOSCO** **and the CPMI websites**, respectively. A **press release** is issued together with the publication of an assessment report.

Level 1 assessment reports (all 28 jurisdictions, covering the regimes for all FMI types)	Level 2 assessment reports (covering all or some FMI types)	Level 3 assessment reports (thematic, covering all or some FMI types)
• Level 1 online tracker (January 2020 and January 2019) • Fifth update (L1U5), July 2018. • Fourth update (L1U4), July 2017. • Third update (L1U3), June 2016. • Second update (L1U2), June 2015. • First update (L1U1), May 2014. • Level 1 report, August 2013.	• United States (PSs and CSDs/SSSs), May 2019 • Switzerland (all FMI types), January 2019. • Canada (all FMI types), August 2018 • Singapore (all FMI types), July 2017. • Hong Kong SAR (all FMI types), May 2017. • Australia (all FMI types), December 2015. • European Union, Japan, United States (CCPs and TRs), February 2015.	• Follow-up Level 3 assessment of CCPs' recovery planning, coverage of financial resources and liquidity stress testing, May 2018. • Report on the financial risk management and recovery practices of 10 derivatives CCPs, August 2016.

L2/L3 Assessment and review of application of Responsibilities for authorities, November 2015.

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B. Challenges faced in the implementation monitoring (some examples)

Different approaches to implement the PFMI. Although there is no single way to implement the PFMI, sometimes it is challenging to conclude how different types of implementation measures (e.g. some granular or detailed, some very general) meet the same standard or specific requirement (e.g. "rule-based approach", "policy-based approach", "combination approach").

> The IMSG has produced a **Level 2 Handbook** and a **Level 2 Database** to help the Assessment Teams follow a standard assessment process and compare how jurisdictions are implementing the PFMI.

Interpretative issues. In some cases, jurisdictions or FMIs have interpreted the PFMI in different ways and this has resulted in inconsistencies or shortcomings. Also, novel situations have emerged during the assessments.

> In these situations, the respective Assessment Team prepares an "**Issues note**" for review and discussion by the IMSG. The issues note is also reviewed by the Steering Group (and by the *Policy Standing Group* (PSG), if necessary). The Steering Group provides or confirms the appropriate **guidance to address the issue(s) at hand**.
>
> The CPMI-IOSCO secretariats keep a **repository** of the issues notes and the related **guidance**, so that the same issue is dealt in the same manner in case it arises in other assessments.

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Addressing the identified gaps or shortcomings. The assessment reports identify the progress made by jurisdictions in adopting the respective implementation measures (L1), as well as the gaps or shortcomings in those implementation measures (L2). The assessment reports also identify the consistency of outcomes arising from the implementation of the PFMI (L3), including any issues of concern that need to be addressed by the authorities or the FMIs.

> In order to promote a full and consistent implementation of the PFMI, it is relevant, although challenging, to follow-up on how the authorities or FMIs are addressing those gaps or inconsistencies.
>
> IOSCO and the CPMI rely on the willingness and ability of their members to make progress on this matter.

Translation issues. Following international practice, jurisdictions or FMIs under assessment have to provide their responses to the assessment questionnaires and the supporting documents in English. Some jurisdictions have encountered difficulties in getting their information translated into English (e.g. it is costly or time consuming).

> A timely translation and preparation of the responses supports the flow of the assessment process.

C. Some takeaways from the implementation monitoring of the PFMI

1. Define the scope of the monitoring work and the allocation of resources. In view of the limited resources available to your organization (and to your member authorities), prioritize your work. For instance:
- Agree on what you will monitor, e.g. progress in the adoption of implementation measures (L1), and/or the completeness and consistency of those implementation measures (L2), and/or the outcomes in the implementation the standards (L3).
- Identify and focus on the most relevant jurisdictions or themes. Other jurisdictions may follow by example.
- Coordinate with fellow institutions that are also interested in promoting the implementation of the standards (e.g. the World Bank and the IMF also monitor the implementation of the PFMI on their own, but also collaborate and coordinate with the IMSG).

2. Agree on a work program and timeline. You can define a comprehensive work program and agree with the respective jurisdictions on the date and scope of their assessment, so they can prepare accordingly. This could also prevent potential overlaps with other international assessments.
- The IMSG updates the Level 1 information at least once a year, conducts two Level 2 assessments per year (until all participating jurisdictions are assessed for all FMI types), and conducts one Level 3 assessment per year (covering different topics and FMI types).

3. Ensure consistency in the implementation monitoring process. To support a full and consistent implementation of your standards, you need a consistent monitoring process. This could be done in many ways:

- Have a clear assessment methodology (substance of the assessment).
- Have a well-structured assessment process (steps to conduct the assessment)
- Set up a dedicated group of experts to conduct the assessment (substance and process).
- Document and keep records of how you have solved different issues (e.g. interpretation of the standard, novel issues), so that similar issues are addressed in the same manner.

4. Have expertise and data. You can keep an updated pool of experts which can provide assessors for the different assessments. A database with relevant information can also be helpful.

- The experts in the Assessment Teams can be nominated by member authorities of your organization; they can have different expertise and backgrounds; and Assessment Teams can reach a balanced representation of regulatory/supervisory systems and regions.
- Use tools that help you map similarities and differences in implementation, e.g. a data base could facilitate identifying and understanding how different jurisdictions are implementing the requirements of the applicable standards (e.g. Principles and Key Considerations) and compare gaps and shortcomings across jurisdictions.

5. Educate your prospective assessors and the jurisdictions to be assessed. A consistent implementation monitoring work can be supported by assessors with a clear understanding of the assessment process (both substance and process). Likewise, jurisdictions to be assessed could provide better answers if they understand (well in advance to the date of the assessment) what information and explanations they are expected to provide to the Assessment Team.

- To the extent possible, combine the desktop work with an onsite visit (a close dialogue between the assessors and the assessed jurisdiction is extremely helpful).

6. Identify interpretative issues and the need for additional guidance. Sometimes jurisdictions or FMIs may understand the same standard (or a specific requirement under the standard) in different ways and this might result in gaps or inconsistencies in implementation. Novel issues (i.e. a particular way of implementing a standard) could also require further thinking on whether the subject matter at hand is consistent with the standard.

- Set up a process for framing the issues (e.g. an "issues note" template) and for providing the related guidance.
- Keep a repository of the related guidance.
- Differences in interpretation or difference in the outcomes of the implementation could also provide valuable input for the review or improvement of the current standards.

7. Follow-up on identified gaps and shortcomings. A full and consistent implementation of the global standards requires 1) implementation monitoring, and 2) addressing the identified gaps, shortcomings and inconsistencies. While Standard Setting Bodies (SSBs) or other international organizations are not (supranational) authorities, they can encourage change through different means, such as having an internal follow-up dialogue with the relevant authorities, providing capacity building, or sharing practical experiences about how other fellow members are addressing (or have already addressed) the gaps/shortcomings.

8. Make publicably available your assessment reports. The purpose is to promote full, complete and timely implementation of the standards, support transparency, and help interested parties to become aware of progress made by fellow jurisdictions.
- You can agree on a governance process for the review, approval and publication of the assessment reports.
- You can also agree on a standardized format for the assessment reports, so it is easy for the readers to compare the information overtime and across jurisdictions.

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