CPSS-IOSCO report on update to initial level 1 assessment report about implementation of Principles for Financial Markets Infrastructures (PFMIs). July 2014.

IOSCO and the Committee on Payment and Settlement Systems (hereinafter CPSS) published, on the 28th May, the **first update to the initial level 1 assessments of the implementation monitoring for the Principles for Financial Market Infrastructures** (hereinafter PFMIs). The PFMIs were published by IOSCO and CPSS in April 2012 and members of IOSCO and CPSS committed themselves to adopting the 24 principles for Infrastructure Financial Markets and the 5 types of responsibilities derived for central banks, regulators and other relevant authorities of the various Financial Market Infrastructures (hereinafter FMIs).

FMIs are organisations -sometimes made up of several institutions- offering at least one of the following services: settlement, clearance, registration and storage of transactions in financial instruments. The principles refer to 5 different categories: Payment Systems (hereinafter PSs), Central Securities Depositories (hereinafter CSDs), Securities Settlement Systems (hereinafter SSSs), Central Counterparties (hereinafter CCPs) and Trade Repositories (hereinafter TRs). The assessments methodology reduces the categories from 5 to 4 gathering in a single category CSDs and SSSs.

CPSS-IOSCO have established a working-level Task Force (onwards TF) to carry out the monitoring of the implementation of PFMIs including both the principles and responsibilities. Monitoring of the implementation involves three phases:

Level 1 assessment: the jurisdictions decide (self-assessments) whether and how they have completed the process of adopting the legislation, regulations and other policies that will enable them to implement the principles and responsibilities.

Level 1 initial assessment was conducted in 27 jurisdictions in mid-2013. The results were published in August 2013 and showed that most jurisdictions had begun the implementation process, although few had completed the process for all categories of FMIs. This represented substantial progress given the complexity and diversity of FMIs and the fact that PFMIs were issued as recently as April 2012

The first update to those level 1 initial assessment has been conducted in 28 jurisdictions (Indonesia was added to Argentina, Australia, Belgium, Brazil, Canada, Chile, China, European Union, France, Germany, Hong Kong, India, Italy, Japan, Korea, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States), and reflects the status of the legal, regulatory or policy frameworks as of 11 January 2014. As previously observed in the initial level 1evaluation, jurisdictions implement the PFMIs in different ways. Depending on the national legal framework, some jurisdictions use a rule-based approach whereas others use a policy-based approach, and other combine these two approaches.

This report shows that there has been a significant progress in the 28 jurisdictions participating since the initial level 1 assessment. The degree of progress on PFMIs implementation varies according to the type of FMI. Implementation is well advanced for CCPs, TRs and PSs, while has lagged behind for CSDs and SSSs. In particular, implementation measures applicable to PSs have shown the most progress since the initial level 1 assessment.

Level 2 assessment: consists in deciding whether the content of the legislation, regulations and policies is complete and consistent with the principles and responsibilities. Level 2 assessments consist of a detailed evaluation and a peer review assessment regarding whether the adopted measures are complete and consistent with the PFMIs. In a first round, the assessment will be focused on implementation for CCPs and TRs in the European Union, Japan and the United States and the results are expected to be published in the fourth quarter of 2014.

Level 3 assessment: consists in determining whether there is consistency in the outcomes of the implementation of the principles and responsibilities.

Other contents are presented below following the report´s structure:

.- Key observations

Implementing the PFMIs is a comprehensive an large-scale undertaking that spans several different types of FMIs and, typically involves several regulators within a single jurisdiction.

Overall, the first update to the level 1 assessment shows that participating jurisdictions have made significant progress since the initial assessments in completing the process of adopting legislation, regulations and/or policies that will enable them to implement the PFMIs. As a result of this progress, this report shows a significant number of changes in jurisdiction´s ratings on principles and a limited number of changes for responsibilities. These changes reflect the fact that many jurisdictions had already achieved the highest ratings in implementing responsibilities, and that additional measures were primarily needed with respect to principles.

.- Assessment methodology

Monitoring of the implementation of PFMIs is being conducted, as it has been said by a TF comprising from CPSS and IOSCO Board member institutions (see Appendix D for a list of the members) who reports to the Steering Group of CPSS-IOSCO.

In December 2013, CPSS and IOSCO sent a questionnaire to 28 jurisdictions with authorities that are members of the Financial Stability Boar and/or CPSS and/or IOSCO. Jurisdictions were asked to update their self-assessments (as at 11 January 2014) with regards to progress in implementation of the principles and responsibilities of each of the four categories of FMIs: CCPs, PSs, CSDs/SSSS and TRs. Survey respondents were asked to provide, where possible, an overall rating for their jurisdiction. The self-assessments, including the ratings, were reviewed by the TF for consistency. This allowed the TF to identify where jurisdictions had interpreted the survey differently and to provide guidance on methodology in order to increase the consistency and comparability of self-assessments.

Three minor changes have been made in the methodology and survey template for the update of level 1 assessment to reflect the experience gained during the initial assessments:

- Additional guidance on transparency: clarity on what constitutes an acceptable level of transparency in the context of the rating methodology, in particular for higher ratings levels.
- Clarification of the additional guidance for ratings "3" and "4": Annex C contains the new wording of the ratings scale.
- Questions about the responsibilities were modified to clarify the intended focus on authorities´s legal capacity to implement the responsibilities.

.- Next Steps

Further updates of the level 1 assessments will be conducted periodically to show progress made by jurisdictions in achieving full implementation. The next update is scheduled for later this year.

.- Annexes

Annex A contains a summary table of survey results, Annex B, which constitutes the largest part of the report contains the details of the self-assessments of each jurisdiction, links to public documents that implement PFMIs, and, where appropriate and available, information on upcoming initiatives. Appendix C contains a scale that defines the framework of ratings and annex D lists the members of the TF.

If you want to read the first update to initial level 1 assessment report on implementation monitoring of Principles for Financial Market Infrastructures (PFMIs) (May 2014), please, do click on: http://www.iosco.org/library/pubdocs/pdf/IOSCOPD440.pdf

If you want to read the first IOSCO-CPSS report with the initial level 1 assessments on the monitoring of implementation of the PFMIs (august 2013), please, do click on: http://www.iosco.org/library/pubdocs/pdf/IOSCOPD419.pdf

If you want to read the report on Principles for Financial Market Infrastructures (PFMIs) (april 2012), please, do click on: http://www.iosco.org/library/pubdocs/pdf/IOSCOPD377.pdf