

MEMO# 27193

April 18, 2013

IOSCO Consultation on Principles for Financial Benchmarks; Member call April 23rd at 12 pm (EDT)

[27193]

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TO: ETF (EXCHANGE-TRADED FUNDS) COMMITTEE No. 21-13
ICI GLOBAL EXCHANGE TRADED FUNDS COMMITTEE No. 5-13
ETF ADVISORY COMMITTEE No. 20-13
INTERNATIONAL COMMITTEE No. 13-13
ICI GLOBAL MEMBERS
SEC RULES COMMITTEE No. 17-13 RE: IOSCO CONSULTATION ON PRINCIPLES FOR FINANCIAL BENCHMARKS; MEMBER CALL APRIL 23RD AT 12 PM (EDT)

Following up on an earlier consultation, [\[1\]](#) on April 16 the International Organization of Securities Commissions (“IOSCO”) released a “Consultation Report on Principles for Financial Benchmarks” (“Consultation”). [\[2\]](#) The Consultation, which is described briefly below, proposes a framework of policy guidance and principles for benchmarks used in financial markets.

Comments on the Consultation are due on Thursday, May 16, 2013. We will hold a joint call for members of ICI and ICI Global on Tuesday, April 23 at 12 p.m. EDT to discuss the Consultation and possible comments from ICI and ICI Global. Please contact Helenia Walker (Helenia.walker@ici.org) if you would like to attend the call. Dial-in information will only be sent to those who RSVP.

The Consultation explains that recent investigations and enforcement action regarding attempted benchmark manipulation have raised concerns over the fragility of certain benchmarks, and have the potential to undermine market confidence, which may affect the real economy and investors. Based on these concerns, IOSCO constituted a board-level task force, with the objective of establishing policy guidance and principles for benchmark-related activities. The task force’s report identified a number of risks to the credibility of benchmarks.

Based on the earlier consultation and comments received, the present Consultation sets out 18 proposed principles in four broad categories: governance; quality of the benchmark;

quality of the methodology; and accountability. It explains that the principles should be understood as a set of recommended practices that should be implemented by benchmark administrators and submitters, and that IOSCO members should encourage such implementation, including through regulatory action where appropriate. The Consultation acknowledges that the universe of benchmarks is large and diverse, and states that the task force set out to develop a set of high level principles that would be appropriate to benchmarks generally, and a subset of more detailed principles that are intended to address benchmarks that have specific risks arising from their reliance on submissions and/or ownership structures; thus, not all principles will apply to all benchmarks.

The principles relate to the following topics:

Governance

1. Overall responsibility of the administrator
2. Oversight of third parties
3. Conflicts of interest for administrators
4. Control framework for administrators
5. Internal oversight

Quality of the Benchmark

6. Benchmark design
7. Data sufficiency
8. Hierarchy of data inputs
9. Periodic review

Quality of the Methodology

10. Content of the methodology
11. Changes to the methodology
12. Transition
13. Submitter code of conduct
14. Internal controls over data collection

Accountability

15. Complaints procedures
16. Audits
17. Audit trail
18. Cooperation with regulatory authorities

The consultation then poses a series of questions about the applicability and sufficiency of the principles.

Mara Shreck
Associate Counsel

endnotes

[\[1\]](#) In January, IOSCO published a report by its board-level task force on financial

benchmarks, on which ICI and ICI Global commented. See IOSCO Financial Benchmarks Consultation Report, CR01/13, January 2013, available at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD399.pdf>. See also Letter from Karrie McMillan, General Counsel, Investment Company Institute, and Dan Waters, Managing Director, ICI Global, to Alp Eroglu, International Organization of Securities Commissions, dated Feb. 11, 2013, available at <http://www.ici.org/pdf/27001.pdf>.

[2] IOSCO Principles for Financial Benchmarks Consultation Report, CR04/13, April 2013, available at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD409.pdf>.

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