

MEMO# 27400

July 24, 2013

IOSCO Final Report on Principles for Financial Benchmarks

[27400]

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TO: ETF (EXCHANGE-TRADED FUNDS) COMMITTEE No. 31-13
ETF ADVISORY COMMITTEE No. 32-13
ICI GLOBAL EXCHANGE TRADED FUNDS COMMITTEE No. 9-13
ICI GLOBAL MEMBERS
INTERNATIONAL COMMITTEE No. 19-13
SEC RULES COMMITTEE No. 30-13 RE: IOSCO FINAL REPORT ON PRINCIPLES FOR FINANCIAL BENCHMARKS

Following two earlier consultations on financial benchmarks , [\[1\]](#) on July 17 the International Organization of Securities Commissions (“IOSCO”) released its Final Report on Principles for Financial Benchmarks (“Report”). [\[2\]](#) The Report, described briefly below, provides a framework of principles for benchmarks used in financial markets.

The Report explains that recent investigations and enforcement actions 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.

Based on input received in the two prior consultations, the Report sets forth 19 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 Report 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 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. Transparency of benchmark determination
10. Periodic review

Quality of the Methodology

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

Accountability

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

Mara Shreck
Associate Counsel

endnotes

[1] IOSCO Financial Benchmarks Consultation Report, CR01/13, January 2013, available at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD399.pdf>; IOSCO Principles for Financial Benchmarks Consultation Report, CR04/13, April 2013, available at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD409.pdf>.

[2] IOSCO Principles for Financial Benchmarks, Final Report, FR07/13, July 2013, available at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD415.pdf>.