

WORKING GROUP on COMMON STANDARDS IN GLOBAL FINANCIAL MARKETS

Summary

Standardisation is key to both the efficiency and systemic safety of global financial markets. For example, the CFTC has been collecting data from swaps market participant for over a year but it cannot analyse risk exposures from it because of inadequate standardisation.¹ This fragmentation of standards undermines operational efficiency and is a major obstacle to securing financial stability

The purpose of this working group developing a 'road map' of standardisation in global financial markets, for the next decade or more. It will:

- Survey the landscape: reviewing existing standards, and identifying where market mechanisms or voluntary standardisation appear inadequate or have failed; hence requiring a policy response
- Identify a route forward: proposing priorities and recommendations for future standardisation and the co-operation of industry and regulators in the governance of standards, in order to support future progress.

Background

The WG is being established as a follow up to the UK Government Office for Science (GoS) Futures report on computer trading in financial markets.² It is though intended to involve stakeholders from across the global industry. It will be active for a defined period, initially proposed as 18 months.

The proposal for this WG emerged from a July 2013 workshop, hosted by the GoS and involving standard setters, regulators and industry practitioners from around the world. This workshop identified two key barriers to progress: (i) *Knowledge gaps*. Our understanding of standards in financial services is inadequate. (ii) *Inadequate articulation of practical steps* Progress developing a consensus on the development and implementation of specific common standards; and eventually developing more effective mechanisms for the governance of standards.

Steering group, membership and research and administrative support.

The global nature of this task requires effective partnership between stakeholders from many jurisdictions and many sides of the industry. High-level support for the WG is essential to its success. This will be provided by a steering group representing both regulatory bodies and major firms.

¹ <http://www.cftc.gov/PressRoom/SpeechesTestimony/opaomalia-34>

² The Foresight Report on "**The Future of Computer Trading in Financial Markets**" made a number of recommendations around standardisation with a view to improving the robustness, and resilience, of financial markets (The report can be found at <http://www.bis.gov.uk/foresight/our-work/projects/published-projects/computer-trading>). Standards play an important part of each of the recommendations A3, through B1.

The working group itself will consist of professionals actively involved in standardisation in financial markets, such as FIX, SWIFT, ISO and others. It will be co-chaired by Kevin Houston of Rapid Addition and Alistair Milne of Loughborough University. Loughborough University will provide research input and administrative support.

Most activities will be virtual, to keep overall costs low.

Outputs & Intended Outcomes

1. An initial review of existing standards. This will need to cover the full range of products, processes and jurisdictions in wholesale markets. It will provide as complete a statement of the existing standards landscape in global financial markets as possible but it will also identify areas (for example regulatory reporting) where there is currently little standardisation at all.

In addition this initial report will: discuss market failures which could justify governmental or regulatory intervention; highlight current and prospective standards developments (including examples discussed by the Foresight review such as for example methods by which data can be accessed and shared across borders; or the creation of a common timestamp); where appropriate draw comparisons with standard setting in other industries.

2. The WG will then report (likely to be in the second half of 2015) with recommendations for action. This will provide recommendations on an improved governance framework for common standards; review existing initiatives and what potential opportunities there are for the WG findings to inform and develop these activities.