Targeted Implementation Review on Principles for the Regulation and Supervision of Commodity Derivatives Markets

FINAL REPORT

The Board of the
International Organization of Securities Commissions

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1. Executive Summary

Background

IOSCO's *Principles for the Regulation and Supervision of Commodity Derivatives Markets* **(Principles)** was originally published in September 2011 and updated in January 2023.[1] In October 2023, the IOSCO Board approved the project specification for Committee 7 on Derivatives (**C7**) to conduct a targeted implementation review (the **Review**) of Selected Principles, as defined herein, that aim to address excessive commodity market volatility, over-the-counter **(OTC)** derivatives transparency and orderly functioning of the commodity derivatives markets. C7 views that an appropriate implementation of the Selected Principles would help mitigate the impact of external factors which may disrupt commodity markets, as recently experienced.

C7 distributed two surveys: one for governmental regulators or Self-Regulatory Organizations (SROs) (**Regulator Survey**), and another for operators of regulated markets or exchanges (**Exchange Survey**) to selected Market Authorities.[2] The Regulator Survey and Exchange Survey included targeted questions on the implementation of specific elements of the Selected Principles within the commodity derivatives markets (e.g. position limit monitoring of large positions and assessment of the effectiveness and general suitability of the measures used to maintain orderly markets and prevent abuses).

Summary of Findings

Results of the surveys show that the majority of respondents[3] were broadly compliant with the Selected Principles. However, both regulators and exchanges identified significant challenges in implementing certain elements of the Selected Principles within OTC markets. Further, some responses were unclear about the extent to which the Selected Principles are implemented.

More details of the survey results are provided in Section 4. Here are some of the highlights:

Principle 9: OTC Transparency

- Most regulators have access to the reporting of OTC commodity derivatives to trade repositories. However, the information reported to trade repositories is not available for exchanges to monitor their markets.

[1] *Principles for the Regulation and Supervision of Commodity Derivatives Markets Final Report,* January 2023 Available at: https://www.iosco.org/library/pubdocs/pdf/IOSCOPD726.pdf
[2] Market Authorities, defined in the Principles as "the relevant governmental regulator, an SRO or operator of the regulated market." The identification of the relevant Market Authorities depends on the regulatory and legal structure and may differ across jurisdictions.
[3] Among the respondents, three regulators indicated that they do not have the relevant commodity derivatives markets/trading venues in their jurisdictions, and therefore the Selected Principles were not assessed in this Review.

Principle 12: Authority to Obtain Information

- While some exchanges reported effective systems for identifying risks in exchange-traded derivatives, several others do not have the authority to obtain OTC position data. Where the exchanges have access to some data, through member submission (using their rulebook, regulatory framework or both),it comes with limitations, which inhibits their ability to identify and act on risks that may spill over from related markets to their own.
- Where the exchanges have access, the OTC position data is different from the separate data set reported to the trade repositories and typically obtained on an ad hoc basis or post-event when concerns arise or specific triggers are breached. This is further complicated by other challenges, such as data anonymity, cross-border issues, and variations in the types of financial instruments that are captured by relevant regulatory frameworks (particularly for physically-settled commodity forwards).

Principle 14: Large Positions

- Most exchanges are able to identify large positions and have processes for identifying positions under common ownership. Several exchanges have the ability to aggregate customer positions on other exchanges within the same group of entities. However, the majority have expressed that identification and aggregation of positions across different exchanges extends only to exchange-traded positions, not OTC positions.
- Most responding regulators have access to large position reports, at least on an ad hoc basis; however, only few regulators receive the large position reports directly.

Principle 15: Intervention Powers in the Market and Principle 16: Unexpected Disruptions in the Market

- A majority of regulators indicated that they possess varying degrees of authority to intervene in market operations in exceptional circumstances, though it is not clear whether these powers include OTC markets.
- Most exchanges considered that they have effective arrangements to intervene in commodity derivatives markets to prevent or address disorderly markets and ensure their markets' efficiency. Some exchanges raised issues in relation to intervening in OTC markets.

Recommendations

Section 5 of this Report includes IOSCO’s recommendations for improving the implementation of specific elements of the Selected Principles, as well as proposals to conduct further work in the OTC markets area.

2. Introduction

Since the publication of the original Principles in 2011, IOSCO has undertaken three implementation reviews: in 2012,[4] 2014,[5] and 2018,[6] in response to the G-20 request. These reviews reflected an increasing level of implementation of the Principles by IOSCO members. In 2022, the commodities and commodity derivatives markets were characterized by high volatility due to a combination of factors such as the Russia Ukraine war, the supply-chain disruption due to the recovery from COVID, widespread global inflation and the consequent interest rate hikes, extreme weather events and the suspension of the LME nickel market.

In addition, in light of recent commodity market volatility and price spikes in energy, industrial metals and agricultural derivatives markets highlight the importance of the proper implementation of the Principles. The need to enhance the resilience of the commodities market is also stressed in the Financial Stability Board (FSB)'s progress report regarding enhancing the resilience of non-bank financial intermediation (NBFI).[7] In response to these recent market trends and changes within the commodities and commodity derivatives markets since the publication of the original Principles in 2011, IOSCO published an updated version of the Principles in January 2023.[8]

While commodity markets are heavily impacted by supply and demand, as well as other external factors, which are generally beyond the control of financial regulators, IOSCO's qualitative discussions suggest that compliance with the Principles (e.g. Principles that relate to large position management, transparency, trading interventions, volatility control mechanisms, contract cancellations, OTC positions visibility, addressing unexpected market disruptions, etc.) mitigates the impact of such external factors, as recently experienced in commodity markets.

At the March 2023 Board meeting, in consideration of the amended Principles published in January 2023, Board members agreed to a targeted implementation review of five Principles, namely:

- Principle 9: OTC Transparency
- Principle 12: Authority to Obtain Information
- Principle 14: Large Positions
- Principle 15: Intervention Powers in the Market
- Principle 16: Unexpected Disruptions in the Market

While commodity markets are heavily impacted by supply and demand, as well as other external

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[4] *Survey Report on the Principles for the Regulation and Supervision of Commodity Derivatives Markets*, October 2012: https://www.iosco.org/library/pubdocs/pdf/IOSCOPD393.pdf
[5] *Update Report to Survey on the Principles for the Regulation and Supervision of Commodity Derivatives Markets*, September 2014: https://www.iosco.org/library/pubdocs/pdf/IOSCOPD449.pdf
[6] *Update to Survey on the Principles for the Regulation and Supervision of Commodity Derivatives Markets*, November 2018: https://www.iosco.org/library/pubdocs/pdf/IOSCOPD617.pdf
[7] Financial Stability Board, July 22, 2024 <https://www.fsb.org/uploads/P220724-2.pdf>
[8] *Principles for the Regulation and Supervision of Commodity Derivatives Markets*, January 2023, Available at: https://www.iosco.org/library/pubdocs/pdf/IOSCOPD726.pdf

factors, which are generally beyond the control of financial regulators C7's qualitative discussions suggest that the Selected Principles may potentially mitigate the impact of such external factors and help to address commodity markets volatility and unexpected market disruptions.

The targeted implementation review aims to address excessive commodity market volatility, transparency (with a particular focus on the disclosure of positions in related OTC derivatives) and orderly functioning of the commodity derivatives markets, particularly to better understand each jurisdiction's approach to the implementation of the Selected Principles and highlighting the similarities or differences across jurisdictions.

C7 views that an appropriate implementation of the Selected Principles would help mitigate the impact of external factors which may disrupt commodity markets, as recently experienced.

3. Objectives of the Review and Report

The Review assessed Market Authorities' progress in implementing the Selected Principles and highlighted key issues, as well as similarities and differences, in their approaches to implementing the Selected Principles. The core objectives of the Review were to identify:

- the degree to which the Selected Principles are implemented by Market Authorities;
- where some or all of the Selected Principles are not implemented, the reason(s) why the Selected Principle(s) are not implemented; the steps that the relevant Market Authorities are taking to implement the Selected Principles; and what other policies/practices are being used; and
- the common themes from each respondent's implementation of the Selected Principles.

The objectives of this *Report on the Principles for the Regulation and Supervision of Commodity Derivatives Markets Survey* (the **Report**) are to provide:

- a description and assessment of the implementation of the Selected Principles;
- a description of any gaps or inconsistencies between current rules, policies and practices and the Selected Principles; and
- recommendations to IOSCO members on the basis of the results of the Review.

4. Overview of the Survey Results

IOSCO received feedback from 14 regulators[9] and 19 exchanges. This section provides a comprehensive overview of the results of the Review.

Principle 9: OTC Transparency

[9] Three regulators could provide only limited responses, since they have only less liquid or no commodity derivatives markets at all. Also, some responses were unclear about the extent to which the Selected Principles are implemented.

Description of the Principle

All IOSCO Members should promote the reporting of OTC derivatives contracts to trade repositories in order to improve transparency, mitigate systemic risk, and protect against market abuse in commodity derivatives markets. The relevant governmental regulator of commodity derivatives markets should work with regulators responsible for trade repositories to:

i) evaluate what improvements are appropriate to enhance the usefulness of, and access by regulators to and disclosure to the public of, OTC commodity derivatives markets data that is reported to trade repositories; and

ii) take affirmative steps such as encouraging ongoing work by the industry, rulemaking or recommending legislative changes to achieve these objectives.

The degree to which Principle 9 is implemented by Market Authorities.

Most regulators have established requirements for the reporting of OTC derivatives to trade repositories and for regulator access to such derivatives data. The types of regulator data access include: daily reports (the most common form); direct access to the data reported to the trade repository; access on an ad hoc basis; or access only upon authorization by the trade repository.

A few exchanges reported that regulation in their respective jurisdictions requires reporting of OTC trades to trade repositories, but currently, exchanges do not require such reporting. Although most exchanges have processes for identifying positions under common ownership, aggregation does not extend to OTC exposures.

Where Principle 9 is not fully implemented, the reason(s) why, the steps that the relevant Market Authorities are taking to implement Principle 9 and what other policies/practices are being used.

Some regulators lack comprehensive OTC reporting requirements for commodity derivatives to trade repositories.

None of the exchanges noted having any specific arrangements with members that support reporting of OTC data by such members to trade repositories. However,

- one exchange indicated that OTC information can only be provided to the exchange under certain circumstances for confidentiality reasons; for example, where members have given consent; and
- despite not having arrangements to obtain OTC information on a regular basis, most exchanges typically have rules which allow them to request the information from a member, as and when necessary, including positions in commodity derivatives on other exchanges and in lookalike OTC contracts.

Common themes from each respondent's implementation of Principle 9; and any gaps and inconsistencies between current rules, policies and practices and Principle 9.

Regulators are divided between satisfaction with their current arrangements and regulatory frameworks and the need for improvements to better identify risks, especially during times of stress. The following points were highlighted in regulator responses:

- Improvements are underway to achieve more internationally harmonized and standardized data, including the adoption of identifiers like Legal Entity Identifier **(LEI)**, Unique Transaction Identifier **(UTI)**, and Unique Product Identifier **(UPI)** to improve data utility and access.
- Few regulators noted the current reporting system focuses on transaction-based data, which is effective for systemic risk supervision but inadequate for monitoring commodity derivatives positions or for real-time crisis response.
- Although regulators can generally access trade repository data, this does not necessarily allow them to monitor positions in commodity derivatives, given the type of data reported to trade repositories.

Some exchanges indicated that participants under relevant reporting regulations are not obligated to submit transactions to a single repository, and only a regulator overseeing all repositories could aggregate transactions for market surveillance purposes. **Overall, exchanges do not have rules or arrangements with their members to require or support OTC trade reporting to trade repositories, nor do they currently obtain OTC data from their members for purposes of aggregation with members' positions.**

Other Noteworthy Comments

- One exchange highlighted an issue with trade reporting rules in their jurisdiction, because there is a risk of members not reporting certain energy-related OTC physically-settled derivative positions where the positions are based on instruments that fall outside the definition of 'financial instruments' under the relevant regulations.

Principle 12: Authority to Obtain Information

Description of the Principle
Relevant Market Authorities should have the authority to obtain information on a routine and non-routine basis for regulated commodity derivatives markets as well as the power to obtain information on a market participant's positions in related over-the-counter (OTC) commodity derivatives and the underlying physical commodity markets. In particular, relevant Market Authorities should have the power to: i) *obtain information that allows the reconstruction of all transactions on a regulated commodity derivatives market (audit trail);* ii) *obtain information that permits them to identify large positions (i.e., "large exposures" or "concentrations") and the composition of the market in question;* iii) *obtain information, if needed, on the size and beneficial ownership of positions held by a market participant in order to aggregate positions held under common ownership and control;* iv) *obtain information about a market participant's transactions and positions in related OTC and physical commodity markets; and*

> v) *take appropriate action where a commodity derivatives market participant does not make requested market information available to the relevant Market Authority.*
>
> *Relevant Market Authorities should review the scope of their authority to obtain such information, and if necessary, to request such power from the relevant legislature or other appropriate governmental bodies.*

The degree to which Principle 12 is implemented by Market Authorities.

The responding regulators and exchanges outlined their capabilities and limitations regarding their authority to obtain data and information as follows:

i) **audit trails** - most respondents report having the ability to reconstruct all transactions on regulated commodity derivatives markets to create detailed audit trails;

ii) **identifying large positions** - most respondents possess the authority to identify significant market positions and overall market composition;

iii) **size and beneficial ownership** - most respondents can obtain information on the size and beneficial ownership of market positions, crucial for aggregating positions under common ownership and control;

iv) **related OTC and physical markets** - the majority of the responding regulators possess the authority to obtain transaction and position data in OTC commodity markets, while some exchanges stated they have the authority to obtain information about a participant's transactions and positions in related OTC commodity markets. Regulators and exchanges noted limitations in their authority to obtain useful information, such as data reported on anonymized basis; and

v) **take appropriate action** - most responding exchanges indicated they have the authority, as per their rules and/or regulatory frameworks, to request necessary information from participants and to take action if cooperation is withheld.

Where Principle 12 is not fully implemented, the reason(s) why, the steps that the relevant Market Authorities are taking to implement Principle 12 and what other policies/practices are being used.

The respondents identified the following limitations and challenges:

- Most regulators and some exchanges acknowledged legal or regulatory constraints that restrict their ability to gather information about the nature and size of beneficial ownership, as well as on a participant's transactions and positions in related OTC and physical commodity markets.
- Some exchanges highlighted difficulties in monitoring OTC positions, specifically citing issues related to the anonymity of OTC position data and the absence of appropriate regulatory obligations within certain jurisdictions to collect and share such information.

The respondents identified the following actions that they were undertaking to implement Principle 12:

- Some regulators noted improvements, such as the introduction of new supervisory and policy initiatives, and the implementation of a revised transaction reporting regime.

- Two exchanges noted that they are working with the relevant regulatory authority on policy reforms for information collection and sharing.

Common themes from each respondent's implementation of Principle 12; and any gaps and inconsistencies between current rules, policies and practices and Principle 12.

Most regulators have requirements for the routine and/or non-routine reporting of derivatives data (for both exchange-traded and OTC commodity derivatives). However, they highlighted the complexities and challenges that exist in the implementation of Principle 12, including the following:

- Regulators often rely on broader mandates to request necessary information, mainly in investigative proceedings or through specific requests, which may not allow for regular and comprehensive monitoring, or the specification of an audit trail of transactions and positions in related OTC and physical commodity markets.
- Several regulators noted there are information gaps with respect to certain types of OTC derivatives contracts due to the narrow regulatory definition of related types of OTC contracts under the relevant regulation. In practice, this narrow definition has resulted in very few OTC commodity derivatives being subject to position reporting requirements.
- Transaction reporting and position reporting may serve as useful data sources to conduct market surveillance; however, a position limits regime may only be monitored and enforced using position data which is reported on a regular and systematic basis. Although many of the respondents have implemented Principle 12 broadly, **in most jurisdictions there is no regular or systematic reporting of positions in related OTC and physical markets to regulators and many regulators have limitations in obtaining such data.**

Regulators indicated that they can enforce compliance through measures such as warnings, financial penalties, or the suspension or removal of a market participant's regulatory license.

Exchanges highlighted challenges in satisfying Principle 12. As above, exchanges have limited access to regular OTC data, which inhibits their ability to identify and act on risks (such as concentration risk and other risks that may spill over from related markets to their own). Some exchanges indicated confidentiality of client identities as potential limitations. Where the exchanges do have access, the OTC position data is typically obtained ad hoc or post-event, further complicated by data anonymity issues. Some exchanges indicated they are able to obtain OTC information when concerns arise or specific triggers are breached.

Other Noteworthy Comments

- Two exchanges noted disciplinary actions were taken against market participants due to non-compliance in providing the requested information in a timely manner, although such actions were rare among the responding exchanges.

Principle 14: Large Positions

Description of the Principle
Relevant Market Authorities should require the reporting of large trader positions for the relevant on-exchange commodity derivatives contracts. Relevant Market Authorities should have the ability to aggregate positions owned by, or beneficially controlled on behalf of, a common owner.

The degree to which Principle 14 is implemented by Market Authorities.

Certain regulators set and supervise position limits and thus receive large position reports directly via

- exchanges for on-exchange positions,
- clearing members for cleared transactions, and
- investment firms and traders on OTC positions.

In certain other jurisdictions, market participants report their large positions on a regular basis to the relevant exchange which is in most cases also responsible for supervising position limits, and the regulators in those jurisdictions all have access to this data, allowing them to aggregate positions. There are a few jurisdictions in which the regulators do not have large position reporting frameworks.

Most exchanges have the necessary arrangements and technical means to identify large position holders and to monitor concentrations, but they indicated that they do not have regular access to OTC positions, nor positions on other exchanges. Only a limited number of exchanges currently make anonymized large trader reports, also known as Commitments of Traders **(CoT)** reports, publicly available.

Where Principle 14 is not fully implemented, the reason(s) why, the steps that the relevant Market Authorities are taking to implement Principle 14 and what other policies/practices are being used.

Generally, both regulators and exchanges identified limitations in aggregating on-exchange positions with OTC positions because derivatives are almost always not identical or equivalent to those traded on exchange markets, which makes it difficult to aggregate large positions. One regulator indicated they are considering improvements in monitoring large positions. Some exchanges rely on large trader reporting requirements and pre-determined accountability limits/thresholds[10] to monitor OTC positions.

Exchanges pointed out that full implementation of Principle 14 is problematic because:

- **Most exchanges lack regular access to OTC positions,** although they can obtain this data from trading members through investigative powers established in their rulebooks.
- **They also lack regular access to positions on other exchanges** and there is generally a

[10] An accountability limit/threshold refers to an early warning mechanism used as a position management control. Once market participants exceed a pre-determined limit/threshold it triggers certain oversight actions by the exchange.

lack of sharing of this information among exchanges.

Common themes from each respondent's implementation of Principle 14; and any gaps and inconsistencies between current rules, policies and practices and Principle 14.

Regulators generally consider their regulatory frameworks to be adequate in the context of their particular markets. However, the following challenges have been identified by respondents:

- In certain jurisdictions where exchanges are mainly responsible for large position monitoring, these exchanges receive large position reports from their members, which may not be the beneficial owners. Thus, the identification of accurate trading positions is difficult.
- In certain jurisdictions exchanges have limited visibility into their participants' related positions in the OTC market or on other exchanges. This type of information gap limits the ability of exchanges to monitor markets.
- In a broader sense, the division of responsibilities between financial and commodity-specific regulators can lead to information gaps in certain commodity sectors.

Principle 15: Intervention Powers in the Market

Description of the Principle

Relevant Market Authorities should have, and use, effective powers to intervene in commodity derivatives markets to prevent or address disorderly markets and to ensure the efficiency of the markets. These powers should include the following:

1) ***Position Management Powers,*** *Including the Power to Set Position Limits – Relevant Market Authorities should have and use formal position management powers, including the power to set ex-ante position limits, particularly in the delivery month.*

   These should necessarily include position management powers that:

   i) *Establish a trader's automatic consent to follow an order of the relevant Market Authority when that trader's position reaches a defined threshold size or any size, which the relevant Market Authority considers prejudicial to orderly market functioning, taking into account all relevant circumstances. They should also require such a trader to comply with the relevant Market Authority's order, either not to increase a position or to decrease a position; and*
   ii) *Authorize a relevant Market Authority to place ex-ante restrictions on the size of a position a market participant can take in a commodity derivatives contract (i.e., position limits).*

2) ***Other Discretionary Powers*** *– Relevant Market Authorities should also have the powers to employ any of the following measures, as appropriate to address market disruption or the perceived threat of such disruption or to assist market surveillance efforts:*
   i) *the imposition of price movement limits;*
   ii) *calling for additional margin, either from customers or from clearing members on behalf of their clients;*

iii) ordering the liquidation or transfer of open positions;
iv) suspending or curtailing trading on the market (e.g., trading halts and circuit breakers);
v) altering the delivery terms or conditions;
vi) cancelling trades;
vii) requiring owners of positions to specify delivery intentions; and
viii) requiring traders to disclose related OTC derivatives or large physical market positions.

The degree to which Principle 15 was implemented by Market Authorities.

(1) ***Position Management Powers***

Most regulators have established requirements regarding position limits, which include setting pre-determined fixed position limits on specific commodities or trading instruments, issuing regulatory actions to adjust or reduce positions in response to market conditions, and mandating exchanges to have position management controls. These controls are designed to monitor, report, and, if necessary, intervene in market activities to prevent excessive speculation, mitigate market risk, and ensure overall market orderliness.

Few regulators have oversight over exchanges and their specific position limits. Exchanges set accountability and limit levels across a range of commodity derivatives, with consequences such as forced liquidations and trading restrictions for non-compliance. They can also adopt ad hoc actions to adjust or restrict positions based on market conditions, with some exchanges specifically empowered to prevent disruptions.

(2) ***Other Discretionary Powers***

Regulators and exchanges are generally able to implement measures like price limits, trading halts, and circuit breakers to ensure market stability and prevent abuses. Most regulators require exchanges to establish controls over their operations and to report to the regulator any emergency actions that they take. Information about the discretionary powers of exchanges is generally disclosed to the public on the exchanges' websites and the exchanges' regulatory documents, such as the exchange rulebook or risk management rules. Most exchanges were of the view that the measures they could take have been effective in dealing with abrupt market changes.

Where Principle 15 is not fully implemented, the reason(s) why, the steps that the relevant Market Authorities are taking to implement Principle 15 and what other policies/practices are being used.

Exchanges generally acknowledged that they have effective powers to manage their markets. However, a couple of exchanges outlined legal constraints that do not provide them with a clear mandate to address OTC positions. The regulators that do not have the power to set position limits did not indicate any plans to set position limits in the future.

Common themes from each respondent's implementation of Principle 15; and any gaps and inconsistencies between current rules, policies and practices and Principle 15.

Majority of the responding regulators and exchanges noted limited instances in the past two years where they needed to instruct market participants to reduce positions to stabilize markets.

Market control measures such as price limits, trading halts, and circuit breakers are broadly considered effective in managing trading errors and minimizing negative impacts, such as those from "fat finger" incidents, with many respondents citing minimal disruptions to price discovery. Some regulators expressed concerns that these measures may have the potential to disrupt markets, delay necessary price adjustments, and prompt participants to circumvent controls. They pointed out that it is essential to have effective risk control while still allowing for legitimate price movements based on changes in market fundamentals.

Most responding exchanges and regulators indicated that they would only intervene in market operations during exceptional circumstances or emergencies to ensure market integrity, and they are prepared with detailed contingency plans.

Other Noteworthy Comments

The importance of international consistency and cooperation was also highlighted to achieve greater resiliency during times of market stress.

Principle 16: Unexpected Disruptions in the Market

Description of the Principle
Relevant Market Authorities should have a process to respond to unexpected disruptions in commodity derivatives markets and the power to intervene, as necessary, to restore orderly markets in the event of an unexpected disruption and ensure market participants have a process and adequate plans to address unexpected disruptions.

The degree to which Principle 16 was implemented by Market Authorities.

Most regulators have established requirements for market intermediaries to address unexpected disruptions in the market, including requirements to implement business continuity plans, backup procedures, disaster recovery plans, and/or other risk management processes to intervene and restore order. Most regulators have also imposed reporting obligations on market intermediaries to report unexpected disruptions to regulators in a timely manner. Also, regulators identified key intervention powers to be established by market intermediaries.

The majority of exchanges have indicated having adequate business continuity plans and incident response structures to respond to unexpected disruptions, and restore order, to their markets, with these plans regularly tested and, in some cases, at least annually. They also have broad powers under their rulebooks to take actions to ensure fair and orderly markets. Several exchanges identified steps that they can take to isolate market contagion, such as liquidation of positions and suspension of trading.

Regulators have both formal and informal international agreements and cooperative arrangements in place to facilitate information sharing and coordination with relevant market authorities, both domestically and internationally, during unexpected disruptions. Regulators who have faced unexpected disruptions have found the existing arrangements to be effective.

Some regulators carry out direct oversight to monitor the trading activity of market participants during unexpected disruptions. In other jurisdictions, exchanges are responsible for self-monitoring and reporting directly to their regulators.

Most of the exchanges have risk management policies set out in their rulebooks, and several identified specific steps that they can take to isolate market contagion. Most exchanges have not experienced a halt in trading and thus have not had difficulties in determining the closing price of commodity derivatives.

Where Principle 16 was not fully implemented, the reason(s) why, the steps that the relevant Market Authorities are taking to implement Principle 16 and what other policies/practices are being used.

One exchange suggests that exchanges require a broader scope to apply expert judgement to be able to respond to exceptional events flexibly in order to maintain market orderliness and effective price formation in the circumstances.

Common themes from each respondent's implementation of Principle 16; and any gaps and inconsistencies between current rules, policies and practices and Principle 16.

The responding regulators and exchanges have regulations and arrangements to address unexpected market disruptions, which include intervention powers, maintaining backup procedures and facilities, and establishing recovery time objectives for critical systems.

Other Noteworthy Comments

One exchange suggests stronger collaboration between exchanges and regulators during times of crisis to allow prioritization of timely solutions to the issues posed by the crisis ahead of regulatory supervision and compliance.

5. Recommendations to IOSCO Members

The following section outlines:

a) IOSCO's recommendations for improving the implementation of specific elements of the Selected Principles; and
b) Additional proposals for IOSCO to conduct further work in the area of OTC markets.

a) Recommendations for improving the implementation of the Selected Principles

IOSCO's recommendations for improving the implementation of specific elements of the Selected Principles particularly in the OTC markets, are listed below.

Principle 9: OTC Transparency

IOSCO members should promote international consistency and cooperation in regulating commodity derivatives markets

IOSCO recommends that members continue to promote the adoption of a harmonized approach, to the extent possible, when regulating commodity derivatives markets given their global nature. In particular, IOSCO recommends that members continue to support the adoption of common identifiers such as LEI, UTI, and UPI in trade reporting.

In addition, IOSCO urges members to work with international derivatives data committees, such as the Committee on Derivatives Identifiers and Data Elements (CDIDE) of the Regulatory Oversight Committee (ROC),[11] to review standardized data elements as they relate to commodity derivatives to ensure that parties to the transaction can report data accurately for the unique characteristics of different commodities and increasingly complex contract structures.

Lastly, IOSCO recommends that members, who are regulators, review their trade reporting requirements on a regular basis to ensure that regulators have adequate visibility of OTC commodity derivatives.

Principle 12: Authority to Obtain Information and Principle 14: Large Positions

IOSCO members should ensure that both exchanges and regulators can respectively access and consolidate relevant on-exchange and OTC data in order to identify large positions.

IOSCO recommends that relevant jurisdictions explore possible solutions to address the limitations in aggregating OTC positions with exchange positions due to derivatives almost always not being identical or equivalent to those traded on exchange markets. In addition, IOSCO proposes to develop a project to work with exchanges to determine feasible ways that they could receive OTC trade reports from their members, for purposes of aggregation with the exchange-traded positions of these members. The objective would be to assess the possibility of exchanges implementing rules to require their members to send reports on a regular basis to the exchanges of their transactions and positions in the related OTC market.

[11] Regulatory Oversight Committee **(ROC)** is a group of more than 65 financial market regulators and other public authorities and 19 observers from more than 50 countries. It promotes broad public interest by improving the quality of data used in financial data reporting, improving the ability to monitor financial risk, and lowering regulatory reporting costs through the harmonization of these standards across jurisdictions.

Further details on the proposed work can be found in Section 5.b) below.

Furthermore, IOSCO recommends that regulators and exchanges:

- continue to encourage transparency in each jurisdiction (e.g. CoT reports made available to the public);
- facilitate the identification of trading positions beyond the ownership of individual market participants in related OTC and exchange-traded derivatives;
- consider improvements in their information sharing, with a particular focus on market developments in the OTC area; and
- consider how to enhance communications (e.g., whether cooperative arrangements could be pursued) between financial market regulators and other regulatory bodies (such as commodity-specific regulators) to reduce information gaps in these commodity sectors.

Principle 15: Intervention Powers in the Market and Principle 16: Unexpected Disruptions in the Market

IOSCO members should balance risk management and price discovery when applying market control measures

IOSCO recommends and urges members to implement a balanced approach when applying the market control measures outlined in Principle 15 to commodity derivatives markets. Effective risk management is crucial to maintain the integrity of these markets, but this must be balanced with allowing for legitimate price fluctuations (i.e., price discovery) that reflect market fundamentals. This approach would ensure that control measures support market stability and accurate commodity derivatives valuation.

IOSCO members should enhance the mechanisms in place for open communication (both between exchanges and regulators, and among regulators) during times of crises

IOSCO recommends open communication between exchanges and regulators to avert any regulatory ambiguities and to share information in a timely fashion during times of crisis when rapid responses are necessary. Prompt and effective communication enables regulators and exchanges to intervene and manage potential market disruptions through coordinated responses, which ultimately supports the overall integrity and resilience of the commodity derivative markets. During the crisis, implementation of such solutions should take precedence over the routine activities of regulatory supervision and compliance. This prioritization is crucial as it allows for a more agile response to crises.

IOSCO jurisdictions should continue to leverage and enter into multilateral Memoranda of Understanding regarding the exchange of information across jurisdictions.

b) Proposal to conduct further work

Based on the results of this Review, IOSCO anticipates additional work related to the issues with the ability of exchanges and certain regulators to collect and aggregate, on both an ad hoc and regular basis, information about OTC positions. While the specifics of this work are still being determined, IOSCO is committed to ensuring that any future developments align with IOSCO's strategic goals.