OVERVIEW

• Why GFMA Developed Best Practices for Financial Benchmarks:
  ➢ Financial benchmarks have a significant impact on global market activity
  ➢ Public trust and confidence in financial benchmarks is critical to an efficient financial system
  ➢ The financial industry has a responsibility in promoting the integrity of the benchmarks in use

• GFMA’s Principles:
  ➢ Were issued in preliminary form in September in response to The Wheatley Review and then finalized at the end of November
  ➢ Took into account input from a wide variety of key stakeholders, including other industry associations, benchmark sponsors and calculation agents, and information from regulatory reviews
  ➢ Are recommended as a basis for crafting uniform international standards
• The Principles cover any published reference rate which is used extensively to set the price of, or payments under, a financial contract.

• The Principles are intended to apply widely. Within scope are:
  - Benchmarks across all major asset classes
  - Benchmarks determined under a variety of methods
  - Benchmarks across a range of operating models and encompassing all participants, including the sponsor, calculating agents, publishers and data contributors

• Sponsors encouraged to evaluate their operations against the Principles and adapt appropriately to specific design and significance of benchmark.
## REGULATORY REVIEWS and INITIATIVES

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• Regulators are generally taking a broad view of benchmarks. These include benchmarks across all major asset classes and determination methods.

• Priority driven by significance of benchmarks in the marketplace and the possibility for, or actual, manipulation arising from the underlying market structure and methodology.

• All regulatory reviews have focused on the need for international consistency.

• Key issues for regulators include:
   Clear accountability
   Governance to avoid conflicts of interest and promote stakeholder input
   Objective determination methods, reliance on transaction data where feasible
   Controls at sponsors and data contributors to ensure process integrity
   Independent review and reporting
   Contingency and transition planning
REGULATORY APPROACH in GFMA PRINCIPLES

• Regulators should establish a broad framework for benchmarks within which the financial industry should be responsible for developing and operating the appropriate governance and control mechanisms. Seek to balance:
  - Public goals of market integrity and investor and consumer protection; and
  - Commercial interests of the industry and promotion of market innovation and development.

• Elements of suggested regulatory approach include:
  - All systemically significant financial benchmarks should be regulated.
  - Regulation should be appropriately scaled and targeted.
  - Any new regulation should be developed consistently across jurisdictions, avoiding duplication, and defining clear regulatory responsibilities for oversight of individual benchmarks.
  - Where no financial regulator has direct jurisdiction, appropriate administrative or legislative steps should be taken to ensure application of the standards to all participants in the benchmark process.
The overall responsibility for the benchmark process lies with the sponsor. The sponsor has three basic obligations:

- **Governance**: An appropriate governance structure should be in place for oversight of the benchmark.
- **Benchmark Methodology**: Sound design standards should be used in devising the benchmark and in ongoing processes related to its operations.
- **Controls**: An appropriate system of controls should be implemented to promote the efficient and sound operation of the benchmark process.
PRINCIPLES KEY ELEMENTS

**Governance**
- Single identifiable authority with specific accountability
- Clear roles and responsibilities
- Transparent governance and operation
- Conflicts of interest identified and managed

**Benchmark Methodology**
- Accurate reflection of market
- Primacy to data from actual transactions, where feasible
- Transparent methodology
- Periodic quality review

**Controls**
- Sponsor responsibility for overall control framework
- Robust operational and data controls, and contingency arrangements
- Code of Conduct for data contributors
- Periodic independent control reviews