Financial Regulation
Stability versus uniformity
A focus on non-banks actors

Session 4

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CCP Recovery & Resolution
Key principles
Risk management (1/2) – Key principles

• CCPs should always adhere to the highest risk management standards that are set above the regulatory minimum.

• **Initial margin contributed by members should remain the first and most important line of defence** and should not be subject to haircut either in recovery or resolution.

• **CCPs should implement CPMI-IOSCO transparency standards** and CCP disclosure should include the results of a standardised stress testing regime, to be coordinated by CPMI-IOSCO.

• The introduction of a **standardised stress testing regime for CCPs is desirable** and will allow easier comparison between institutions.
Risk management (2/2) – Skin-in-the-game

• CCPs should hold “skin in the game”, meaning a portion of capital in the default waterfall and had it even prior to EMIR.

• The EMIR requirement of 25% of minimum capital should be adopted globally.

• It is significant with respect to the CCPs’ capital base therefore it is a strong and effective incentive for prudent risk management.

• Its purpose is not loss absorbency.

• The concept of significantly increasing SITG may result in higher clearing fees, creating disincentives to clearing, which is against the G20 commitment.
Recovery (1/2) – Key principles

• CCPs need to be subject to a recovery and resolution framework to ensure that they can continue to provide their critical services during periods of extreme financial stress, avoiding recourse to public funds. Such a framework will require:
  – CCPs to have plans to restore their viability in the event of adverse developments (recovery plans)
  – Authorities to have plans to restructure an institution in order to ensure the continuity of its essential functions and preserve financial stability (resolution plans)

• Recovery tools should be transparent, predictable and agreed ex-ante so that the shareholders of the CCP, its clearing members and end-users understand in advance how they might be applied.

• Variation Margin Gain Haircutting is a powerful tool for the preservation of financial stability and the viability of the marketplace in a default scenario.

• To ensure the right level of certainty and predictability, liabilities of clearing members and of clients to the CCP should be limited.
Recovery (2/2) – Mitigating contagion

- **Post-crises reforms** have done much to strengthen the resiliency of the financial system and banks in particular. Clearing Members are now subject to recovery and resolution regimes, this has **benefits for CCPs’ resilience**.

- **EMIR has specific guidelines** for the National Competent Authorities to follow when assessing interoperability arrangements and resulting exposure.

- The guidelines require specific risk management standards which aim to ensure **interoperating CCPs safely manage the mutual exposure**, including:
  - requirement to post Inter-CCP margin
  - each CCP’s default management procedures should be designed to ensure that the management of a default of a clearing member does **not affect the operations of the interoperable CCPs**
  - each CCP should have assessed the **need for specific default management procedures**
Resolution (1/2) – Key principles

- The triggers for resolution should be transparent and agreed *ex ante* and resolution should only start after a CCP has implemented its recovery plan, unless there is evidence that the recovery plan is likely to fail.
- A CCP’s entry into resolution should not trigger counterparties’ early termination rights.
- The establishment of Crisis Management Groups for cross-border CCPs is desirable as they will facilitate dialogue and discussion between the relevant authorities.
- Crisis management groups, to be tested *ex-ante*, should help the market avoid CCP resolution by taking a coordinated approach across the market; however, the decision making should ultimately reside with the resolution authority of the CCP in resolution.
- The concept of a resolution fund is negative as it would increase the cost of clearing and undermine the effectiveness of the robust lines of defence and the risk mutualisation structure of the CCP.
Resolution (2/2) – Mitigating contagion

• Regulatory efforts to address the open issues in the context of CCP Recovery and Resolution must be supported (e.g. defining the role of the Resolution Authorities, their set of tools, the triggers for both Recovery and Resolution...)

• Crisis Management Groups will play a fundamental role in addressing issues around global interconnections and CCPs’ interdependencies.

• The FSB/CPMI/IOSCO/BCBS have issued a 2015 CCP work-plan and, as part of that, they are expected to issue a ‘coordinate report on living wills for CCPs’.
THANK YOU FOR MAKING US NO. 1. AGAIN.