

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-crisis 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'.

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THANK YOU FOR MAKING US NO. 1. AGAIN.