

Via E-Mail (CPSS@bis.org and qdisclosure@iosco.org)

December 13th, 2013

**The Committee on Payment and Settlement Systems
The International Organization of Securities Commissions**

Dear Committee Members:

RE: CPSS-IOSCO Consultative Report: *Public quantitative disclosure standards for central counterparties*

The CCP-12 is a global association of 31 major central counterparty organizations in Europe, Asia and the Americas.¹ This letter is in response to Committee Payment and Settlement Systems and the International Organization of Securities Commissions (“CPSS-IOSCO”) consultative report on public quantitative disclosure standards for central counterparties (“the Report”) under the principles for financial market infrastructures (“PFMI”).

CCP 12 has separated its response into three sections to ensure it has the flexibility to address all comments/concerns stemming from the Report while also providing CPSS-IOSCO with clearly delineated responses to the relevant questions posed in the Report. The first section contains the general principles CCP 12 believes CPSS-IOSCO should consider when finalizing its quantitative disclosure standards, the second section addresses the general questions covered in the Report’s cover note and the final section responds to the detailed questions contained in the PFMI Disclosure table. Please note that where CCP 12 does not address one of the questions posed by CPSS-IOSCO it has determined that it does not oppose such disclosure.

General Principles

- 1. The quantitative disclosure requirements should not include any information that could result in the disclosure of confidential and proprietary information of the FMI, its clearing members or clients.**

¹ CCP-12 was formed to share information, develop analyses and develop policy standards for common areas of concern. The CCP-12 members work toward the common purpose of creating conditions in which a global CCP solution can emerge to meet the needs of the marketplace. The member list of the CCP-12 is included in Annex 1 to this letter.

Due to the significant amount of information already available in some jurisdictions including, but not limited to, reports on clients with particularly sizable activity (e.g. large trader reports), FMI open interest and daily volume reports, CPSS-IOSCO should be cognizant of the ability of sophisticated parties to potentially reverse engineer confidential and sensitive information. CPSS-IOSCO should be especially careful about information having a market impact (positions, collateral types, etc. for individual market participants), providing proprietary FMI operational and risk management technique and information, such as the results of stress testing, that could be misinterpreted in a way that could inadvertently damage market confidence.

2. The quantitative disclosure requirements should account for the unique aspects of different FMI business and should not conflict with FMIs obligations under local law or regulation.

For example, FMIs should not be required to disclose information they, or an affiliated entity which is an exchange listed company, are not authorized to provide under local law and should not be required to report information in advance of any of the timeframes required by local law or regulation (such as timing of annual 10-K reports required for public entities in the US or information on a defaulted/bankrupt clearing member). In addition, it should be recognized that each FMI is unique in respect to their businesses, services provided and risk management models. Where the disclosure requirement is not relevant to the FMI's business, the disclosure requirement should give FMIs the discretion and flexibility to provide analogous information relevant to its business and which would provide adequate insights to the risk of the FMI.

3. The quantitative disclosures should be reported on a consistent time frame to avoid unnecessary duplication of work and to allow for standardized processes to be built to comply with reporting requirements.

Requiring multiple reporting periods for FMIs including monthly, quarterly, semi-annually and annually introduces unnecessary work and complexity into the reporting process. All information required to be reported under the quantitative disclosure standards should be reported on a semi-annual basis whilst not contravening any exchange listing obligations. Providing information on a consistent and standardized schedule will provide the necessary information to the marketplace without overly burdening FMIs with unnecessary reporting obligations that may take away from their primary remit of providing effective risk management.

4. FMIs should be provided with sufficient time to report quantitative data to the public considering the volume and complexity of data that will be provided.

CPSS-IOSCO suggests providing a diverse and complex set of quantitative data which will require significant time and effort to compile and check. As such, FMIs should be provided ample time to report quantitative data after the reporting period has closed.

- 5. A sufficient implementation period should be provided to allow FMIs to build the systems necessary to provide regular quantitative data reports.**

Considering the fact that the standards are unlikely to be finalized prior to 2nd Quarter 2014, we do not believe that implementing any of the requested quantitative reporting is feasible before January 1, 2015, at the earliest, with a phased implementation process that allows for some of the more detailed reporting to begin at least one year from the date the standards are approved for FMIs.

- 6. We encourage harmonization between the reporting requirements of the Payments Risk Committee (“PRC”), CPSS-IOSCO and local regulations to the extent possible, to avoid unnecessarily duplicative work for CCPs.**

The information to be provided should be in line with the reporting requirements of the Payments Risk Committee (“PRC”), CPSS-IOSCO and local regulations to the extent possible.

We believe it prudent for all parties to work together to agree on a format that is not overly standardized to accommodate the need of each CCP to provide information relevant to their business and which would provide adequate insights to the risk of the CCP, as noted under point 2 above. Such format should be discussed in advance of the implementation date of any quantitative disclosure requirements and should focus on relevance to the stakeholders of a given CCP.

Responses to General Questions

1. *Are there additional quantitative data that are not included but are, in the respondent's view, necessary to allow risks associated with FMIs and the systemic importance of FMIs to be understood, assessed and compared? If so, what additional data should be disclosed, and why?*

CCP 12 is not of the opinion that any additional quantitative data needs to be disclosed.

2. *Are there alternative quantitative or qualitative data, or more effective ways of presenting these or alternative data, that would better meet the objectives of fully, clearly and accurately understanding FMI risks and systemic importance, and comparing FMI risk controls, financial condition and resources to withstand potential losses, given the different markets and products cleared by FMIs, and differences in their structure? Are there data items included that are not, in the respondents' view, necessary to achieve these goals and, if so, why are these not necessary?*

CCP 12 will address efficacy of each disclosure proposal, and whether it is necessary to achieve the Report's goals in turn but does not believe that any alternative data is required to meet these goals.

3. *Would any of this data be materially commercially prejudicial to FMI participants, linked FMIs or other relevant stakeholders and why is this the case?*

Yes, much of the data proposed to be disclosed would be materially commercially prejudicial due to the likelihood that it would provide insights into individual participant positions. CCP 12 will address its concerns in more detail in the specific sections set out below.

4. *Would disclosure of any of this data result in material additional burden to the FMI, and why (for example, because the data are not routinely available to the FMI in the normal course of its business and risk management)? If so, what analogous information could be disclosed in a meaningful way that would achieve similar goals while minimising this burden?*

Yes, the proposal would result in a material additional burden on FMIs to provide data in tailor-made formats and systems automation would be required given the frequency and scope of information required.

5. *Would disclosure of any of this data be inconsistent with local law or any legal or regulatory limitations on public disclosure? If so, what analogous information could be disclosed in a meaningful way that would achieve similar goals while avoiding such inconsistency?*

Due to the fact that the members of CCP 12 are registered in numerous different jurisdictions and as such, are subject to laws and regulations, CCP 12 will not be answering this question. To the extent available, we advise CPSS-IOSCO to refer to the respective answers of its members.

6. *Do the suggested frequencies for disclosing data strike an appropriate balance between up to date information and reporting burden? What is an appropriate reporting lag?*

As mentioned in General Principle 3 above, we believe that it is appropriate to have consistent reporting frequency across all data points to obviate the burden of the significant reporting obligations proposed in the Report. We believe that reporting no more frequently than semi-annually strikes the correct balance between the burdens of FMI reporting and the benefits of disclosure to the public. In addition, we believe that the appropriate reporting lag is by the end of the quarter following the semi-annual reporting period. By way of example, this would require an FMI to submit its first half semi-annual report by September 30th.

7. *(For FMI respondents) which of these data elements do you already publicly disclose? To what extent is that data maintained consistent with the quality controls called for in the template?*

Members of CCP 12 publish a variety of different information subject to different regulations and protocols. Due to the diversity of its membership, and the various information disclosure regimes to which its members are subject, CCP 12 does not believe it's prudent or beneficial for it to answer this question.

8. *What is the appropriate structure for presenting the quantitative disclosures so that comparability is facilitated? Once reporting has begun, should previous reports remain available to allow trends over time to be examined?*

The information required of all FMIs should be standardized and previous reports should remain available.

Responses to Specific PFMI Disclosure Proposals

Principle 4 – Credit Risk

Q.4.3.1. How would this information best be presented to provide meaningful information across FMIs while avoiding disproportionate reporting burden (eg what is the case for disclosing further information on stress testing methods)?

Q.4.3.2. What are the pros and cons of seeking disclosures with regard to the estimated largest credit exposures to both the single largest and two largest participants (plus affiliates), from all FMIs irrespective of whether they are subject to a cover 1 or a cover 2 regulatory requirement?

Default Fund Size Reporting

CCP 12 agrees that reporting aggregate data for default resources would provide useful information for industry participants by confirming the financial stability of the FMI. However, CCP 12 has significant concerns that providing specific information about individual credit exposures (whether the single largest or two largest) would allow market participants to reverse engineer confidential and proprietary information about FMI participants. This jeopardizes confidentiality obligations to clearing members and, as such, the CCP 12 must request that the Committees refrain from requesting public disclosure of quantitative information of any single or discrete group of clearing members.

CCP 12 does support the reporting of its calculated Guaranty Fund. However, we do not believe that “cover 2” FMIs should need to report “cover 1” sizes and vice versa. FMIs should report data on the standards to which they are subject under their home regulatory regimes.

Furthermore, the data reporting should be limited to the post haircut value of the prefunded default resources which already accounts for the market risk of the collateral since this value is considered to be more relevant to the public in assessing the risk of the FMI. We do not believe that there would be any significant benefit to report the pre haircut value.

Default Fund Breaches

We believe that publishing the number of “default fund size breaches” is counterproductive and presents potential misinterpretation issues as mentioned in General Principle 1 above. Potentially, the public could start comparing the number of breaches among FMIs in a vacuum. This could be problematic because this information is irrelevant and does not qualitatively represent the resilience of FMIs’ risk management and default coverage. The resilience is determined in the respective risk management methodology which per se is intellectual property of the FMIs and wisely not required to be published publicly.

Principle 5 - Collateral

Q.5.1. *How frequently are haircuts changed for initial margin collateral?*

Q.5.2. *How frequently are haircuts changed for default fund collateral?*

Q.5.3. *How could this information best be presented to provide meaningful information across FMIs while avoiding disproportionate reporting burden?*

Generally, members of CCP 12 change haircuts on collateral accepted as initial margin and default fund contributions as market conditions dictate. It is expected that most, if not all, members of CCP 12 will publish information on collateral haircut policies in their PFMI Qualitative Disclosure document and their respective websites. We believe these are the appropriate forums for providing this information and that any further detail could potentially compromise an FMI's proprietary approach to risk management.

Principle 6 - Margin

Q.6.1. *Would it be preferable to report more frequently, eg monthly, or to report daily data over the period, the average over the period, highest and/or lowest values over the period, or data as at the end of the quarter?*

Q.6.2. *Would it be preferable to report more frequently, eg monthly, or to report daily data over the period, the average over the period, highest and/or lowest values over the period, or data as at the end of the period?*

Q.6.3./6.4.

How frequently are initial margin rates and key parameters, including correlations, changed? Is the information requested sufficient to provide a basic understanding of the initial margin model, or is more or different information necessary? (eg the weighting applied to historic data, the range of volatility shifts modelled, etc?)

Q.6.5. *How could this information best be presented to provide meaningful information across FMIs while avoiding disproportionate reporting burden? Is this information best presented at the level of clearing member accounts in each clearing service?*

As mentioned above, CCP 12 believes that reporting no more frequently than semi-annually is appropriate and that reporting frequency should be standardized to avoid undue burden to FMIs and to prevent negatively impacting the ability of risk staff to perform their primary risk management duties. CCP 12 appreciates the benefit of having FMIs publicly report on initial margin requirements and is committed to meeting a reasonable reporting standard.

With regards to the margin information requested, CCP 12 is concerned that including unique margin characteristics that are not applied to all clearing members, such as margin add-ons, may allow some industry participants to infer proprietary details about clearing members that would violate confidentiality obligations and expose confidential and proprietary business information of clearing members. As such, CCP 12 supports limiting reports to aggregate margin requirements (on post haircut value basis) which represent the total risk to FMIs.

For the purposes of 6.3, we believe that FMIs utilize alternative mediums of communicating margin changes and/or rates; therefore, the FMI should have the flexibility to disclose semi-annual-end information only on key products, which is most relevant to assess FMI exposure where separate disclosure are required.

CCP 12 agrees with the intent of question 6.5 which requests FMIs to report on backtesting results, including the number of initial margin coverage breaches. However, CCP 12 does not see the benefit of reporting on the excesses of the breaches, as this information would not necessarily provide meaningful insight into the coverage standards of FMIs.

For the purposes of 6.6 and 6.7, CCP 12 assumes that CPSS-IOSCO is requesting variation margin called on an aggregate level. To the extent this is the case, CCP 12 supports the requirements set out therein. However, we would be greatly concerned if the intent was to obtain daily variation margin information related to individual clearing members or their clients for many of the same confidentiality reasons we've expressed previously. That said, CCP 12 supports reporting variation on an aggregate level across all clearing members to better indicate FMI exposure while maintaining confidentiality and avoiding any risk that the disclosures could negatively impact fair and open competition in the market.

Principle 7 – Liquidity risk

Q.7.1. *Would disclosures on composition of liquid resources reveal sensitive information about individual liquidity providers? (please say why, and how the disclosure could be amended to ensure adequate information on liquid resources is disclosed without this sensitivity?)*

Q.7.3. *How could this information best be presented to provide meaningful information across FMIs while avoiding disproportionate reporting burden? Would reporting this data present confidentiality issues and why?*

As with previous questions requesting clearing member specific data, CCP 12 strongly believes that individual clearing member reporting would be in violation of the obligations of confidentiality of its members and would expose proprietary and confidential business information of FMI clearing members. Moreover, in some cases it is inappropriate to disclose the overall size of secured liquidity resources as

such disclosure may put the FMI in a difficult situation when negotiating the conditions of the liquidity arrangement, such as the amount of credit line. CCP 12 believes the purpose of disclosure on liquidity resources is to allow external stakeholders to understand an FMI's ability to manage liquidity risk and help them assess the soundness of the FMI. CCP 12 believes that there are suitable alternative reporting metrics that will provide this necessary information without inadvertently subjecting the FMI to undue risk.

One possibility would be to require an FMI to disclose its policy for securing sufficient liquidity resources. Further, CCP 12 recommends that FMIs report their largest payment obligation as a percentage of available liquid resources per currency. This would provide clear and understandable information to the public.

Principle 9: Money Settlements

CCP 12 agrees with the Committees that reporting on daily cash payment instructions would improve market participants' understanding of the risks held at an FMI and their exposures to the market. Again, however, CCP 12 opposes the reporting of any single participant information, as suggested by question 9.3. This information would clearly allow market participants to ascertain confidential and proprietary information about clearing members and serves no real value in assessing the risk of an FMI. The peak and average information provided in questions 9.1 and 9.2 is more than sufficient for market participants to understand the risks to which an FMI is exposed.

Principle 10 – Physical deliveries

Q.10.5. Would this disclosure enable informed market participants to identify individual market participants and, if so, would that be materially commercially prejudicial to CCP participants and why?

Yes, disclosing any single participant information may allow informed market participants to infer confidential and proprietary information, particularly in less liquid products. The ability of any market participant to ascertain such information clearly prejudices the market participant whose confidential strategies and information has been obtained.

Principle 13 – Default rules and procedures

Q.13.1. Would it be useful to publish quantitative disclosures following a default, with a suitable lag? (eg amount of loss versus amount of IM; amount of other financial resources used to cover losses;

proportion of client positions closed-out /ported (in aggregate such that individual clients/members cannot be identified))? How long after the default would be appropriate?

The lessons learned from a default situation may be useful to market participants on a post default basis. However, clearing member defaults are rare and unique events. Each default tends to exhibit distinctive characteristics that cannot be predicted by FMIs or their regulators. This makes it very difficult for FMIs or their regulators to identify the most relevant quantitative information with any accuracy. As such, no report or disclosure can be expected to provide useful information to assist in anticipating future events of default or the proper reaction thereto.

In addition, due to the legal risks posed to FMIs on a post default basis, FMIs are loathe to reveal certain confidential information even years after an event of default. Consequently, due to the complexity of local laws applying to defaults and their variable and unique nature, we do not believe it's appropriate for a standard setting body to issue concrete guidelines for the content or time lag for the release of default reports that expose any confidential information on FMIs or their clearing members.

Principle 14 – Segregation and Portability

This quantitative disclosure appears to be drafted with European Markets Infrastructure Regulations in mind. The members of CCP 12 hail from a diverse set of jurisdictions and do not believe that requirements drafted specifically to address Europe should be included in a global standards document. To the extent this information is valuable and relevant CPSS-IOSCO should consider reformulating this disclosure principle.

Principle 15 – General business risks

Q.15.1. *Would any CCPs have difficulty providing more frequently eg every six months or quarterly, and would this add significant value?*

Q.15.2. *Would any CCPs have difficulty providing more frequently eg every six months or quarterly, and would this add significant value?*

Q.15.3. *What information on revenue would best give an insight into risks facing the CCP, while respecting commercially sensitivity?*

To the extent that an FMI, or its affiliated company, already provides reports on earnings, expenditures and liabilities publicly, we do not believe it is a good use of resources for an FMI to duplicate its primary financial reporting obligations in another forum. In addition, we do not believe that there would be any significant advantage to the market if an FMI provided this information more frequently than annually.

Further, such a requirement could potentially conflict other disclosure standards to which an FMI is subject and result in significant and unnecessary expenditures by an FMI.

Principle 16 – Custody and investment risks

Q.16.2. *What summary statistics could be disclosed without revealing sensitive information? (eg on concentration, maturity)*

CCP 12 believes that it's generally appropriate for FMIs to provide summary statistics about the investment and rehypothecation of clearing member and client collateral and that this information should be disclosed in percentages. However, information on individual investment counterparties or detail that would allow market participants to ascertain and potentially use confidential information about an FMI's investment portfolio to their advantage should not be a reporting requirement of any FMI.

Principle 17: Operational Risk

CCP 12 believes that narrowly tailored information covering system performance at a summary level is valuable to the market place. "System" should be defined in a way to ensure that only material FMI systems supporting the clearing members activities are in scope of this requirement. In this context, CCP 12 believes that narrowly tailored information covering system performance at a summary level is valuable to the clearing members only. In addition, such information should be based on standard criteria so disclosures can be consistently and objectively reviewed by the members when conducting due diligence on the CCP.

It is not appropriate to require a wider public disclosure for the data in this section, as it is too commercially sensitive. Particularly, by presenting pure statistics which do not take into account any measure to recover a system failure, the public could wrongly conclude that a system is more vulnerable than it actually is. This would severely undermine the reputation of the system.

Principle 18 – Access and participation requirements

Q.18.2. *Could these metrics reveal information about individual members? If so, how should information about concentration across members be conveyed?*

As referenced in numerous areas above, CCP 12 cannot support any disclosure that could potentially allow informed market participants to obtain confidential and proprietary information of clearing

members. While aggregating the top 5 or 10 firms will help to obfuscate the confidential details of clearing member activity, CCP 12 believes that this remains too granular to comply with obligations of confidentiality to FMI clients and regulators. This would be particularly problematic where the information is broken down by participant type and participant jurisdiction. The only way to ensure the necessary level of confidentiality is to report only at the aggregate level which ensures that individual clearing member activity cannot be identified.

Principle 19 – Tiered participation arrangements

Q.19.1. *Could these metrics reveal information about individual members? If so, how should information about concentration of client clearing be conveyed? Do CCPs have access to all the requested information?*

As previously discussed, any disclosure of individual FMI clients, whether clearing members or customers, would allow informed market participants to identify proprietary details about individual firms, thus jeopardizing the integrity of the market. From our perspective, reporting the top 5 or 10 clients is too granular a measurement to ensure the necessary level of confidentiality.

Further, many members of CCP 12 maintain omnibus accounts for their futures business and would not be able to distinguish between individual customers to report metrics on some customer business. Additionally, CCP 12 does not believe that there is a tangible benefit to reporting on the number of clients to a public audience, as this is not a useful measurement of the risk faced by an FMI.

Principle 20 – FMI Links

Q.20.4. *How could this information best be presented to provide meaningful information across CCPs while avoiding disproportionate reporting burden?*

In response to the questions on interoperability and cross-margining, CCP 12 asks that the unique characteristics of different links be kept in mind when determining what information should be disclosed. The disclosures proposed in the Report will not apply to each link relationship and we believe it prudent to apply a materiality standard to different link relationships since the goal of the disclosure is to provide transparency on the overall risk posed by an FMI. Responses to the questions as currently stated will not provide the insights to the overall risk of an FMI.

For example, 20.5 and 20.6 assume that FMIs collect collateral on behalf of their partners in all circumstances while, depending on the relationship, FMIs may only collect collateral for their own requirements for contracts cleared across link relationships. We believe it appropriate for CPSS-IOSCO to clarify what relationships are included in the term link, impose a materiality standard for any disclosure requirements and specify that disclosures are only required to the extent relevant.

Principle 23 - Disclosure of rules, key procedures, and market data

Proposed disclosures 23.5 and 23.6 are of concern to CCP 12 considering the possibility that the provision of jurisdictional specific information would, in all likelihood, allow informed market participants to deduce confidential and proprietary information of its clearing members. Generally, a large portion of most FMIs clearing business, including direct clearing members, open interest and initial margin originate from clearing members based in their home jurisdiction. In addition, many FMIs publish a list of their clearing members on publicly available websites. As such, reporting any clearing member activity by jurisdiction would allow market participants to easily compare the list of clearing members, proposed jurisdictional ranking and other publicly available information to quantify the size of individual clearing member exposures to members of CCP 12.

Conclusion

CCP 12 appreciates the opportunity to respond to the Report and looks forward to further dialogue on the quantitative disclosure standards. Should you have any questions please don't hesitate to contact the undersigned at sroy@ccilindia.co.in.

Sincerely,

Siddhartha Roy
Chairman,
CCP12 – The Global Association of Central Counterparties

Attachments: Annex 1: List of CCP12 Member Organizations