

Press Release

CCP12 responds to FSB and CPMI-IOSCO consultative reports

London, 21 October 2016 – CCP12, a global association of 35 major central counterparty (“CCP”) organisations in Europe, Asia and the Americas, today announced that it has published its responses to the Financial Stability Board’s (FSB) discussion note on the [Essential Aspects of CCP Resolution Planning](#), and the Committee on Payments and Market Infrastructures – Board of the International Organization of Securities Commissions’ (CPMI-IOSCO) consultative report on [Resilience and Recovery of CCPs](#).

After a two-month consultation period and multiple industry forums in which regulators engaged with market participants and CCPs on the pertinent topics of FSB’s discussion note, a summary of CCP12’s responses to the note, dated 17 October 2016, are as follows:-

- Whilst CCP12 agrees that it is crucial to have plans in place to address the possible scenario of resolution in order to ensure the continuity of critical clearing services, CCP12 believes that regulators and market participants recognise how extreme a situation must be to arrive at a scenario where multiple large, highly capitalised clearing members have defaulted simultaneously or if non-default losses of such magnitude threaten the CCPs’ solvency.
- For the aforementioned reason, CCP12 believes that proportionality should be the key principle driving the definition of a resolution framework for CCPs. In particular, CCP12 has put forth the following key arguments for consideration:
 - CCPs should be able to run their own recovery plan unless and until the plan fails or continuing the plan would cause more financial instability.
 - The incentive structure of risk and default management must be maintained to maximise the chance of a successful CCP recovery.
 - Clearing services should remain available to market participants without unnecessary costs or burden.
 - Market participants must be responsible for the risk they bring to the market.

On 18 October 2016, CCP12 responded to the CPMI-IOSCO consultative report on CCP resilience and recovery, after a two-month consultation period and multiple industry forums involving regulators, market participants and CCPs. A summary of CCP12’s responses to the consultative report, is as follows:-

- CCP12 would like to emphasise the benefits of principles-driven guidance for regulatory directives set at a global level.
- A principles-based approach strengthens all markets through local implementation that has the ability to take into consideration idiosyncrasies and nuances within the local markets as well as the local regulation of clearing participants which may impact their use of the CCP.
- This is in line with the original intent of the Principles for Financial Market Infrastructures (PFMIs) and is a strategy that has already dramatically improved the resilience of CCPs across jurisdictions.
- In particular, CCP12 has asked regulators to consider its key positions, as outlined:-
 - The existing principles regarding CCP governance and disclosure provide sufficient guidance for CCPs and meaningful transparency for market participants and the public.

- Some of the stress tests considered by the guidance, as detailed in CCP12's response, do not represent plausible scenarios for CCP stress testing.
- Regulators should exercise caution on setting overly prescriptive margin add-on, procyclicality, and portfolio margining policies that could ultimately result in more procyclical margin increases and greater systemic risk.
- CCP contributions serve different purposes, as compared to clearing member default fund contributions.
- CCP12 appreciates that the consultation is largely in line with and primarily reiterates the guidance in CPMI-IOSCO's 2015 report on the recovery of financial market infrastructures; CCP12 also stresses the importance of allowing the CCP to execute its recovery plan unless it fails or it is determined that the plan will cause greater financial instability.

"CCPs play a critical role in the global financial markets, and help market participants manage their risks, and CCP12 welcomes the opportunity to respond to FSB's discussion note on CCP resolution planning, as well as CPMI-IOSCO's consultative report on CCP resilience and recovery", said Lee Betsill, Chairman of CCP12, and Chief Risk Officer of CME Group. "CCP12 is committed to focusing on the important issues in central counterparty clearing and global markets, and our responses signal our commitment to continually play our role in stabilizing and strengthening the markets we operate in."

CCP12's full response to FSB's discussion note on CCP resolution planning, and CPMI-IOSCO's consultative report on CCP resilience and recovery, can be found here on the [CCP12 website](#).

About CCP12

CCP12 is a global association of 35 major central counterparty ("CCP") organisations in Europe, Asia and the Americas. CCP12 was formed to share information, develop analyses and develop policy standards for common areas of concern. CCP12 members work toward the common purpose of creating conditions in which a global CCP solution can emerge to meet the needs of the marketplace.

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