

Policy Working Committee
Meeting Minutes
18 July 2017

Attendees:

Co-Chair Jesy Beeson (JB), CME
Co-Chair Ryan Ingram (RI), HKEx

- B3
- CCIL
- DTCC
- EUREX
- ICE
- JSCC
- KDPW
- KRX
- LSEG
- NASDAQ
- NCC
- NCCPL
- OCC
- SGX
- SHCH
- TAIFEX
- TPEX
- CCP12 Office

Agenda	
Agenda	1
1. Approval of minutes of last meeting and todays agenda	2
2. Final guidance from CPMI-IOSCO/FSB re: CCP Resilience, Recovery and Resolution	2
3. Other initiatives/current consultations	4
4. Reference/Publications of interest.....	4
5. AOB.....	5
6. Follow-up.....	5

<p>1. Approval of minutes of last meeting and today's agenda</p>	<p>Presenter</p>
<p>Minor updates on the headlines need to be adjusted. Will be forwarded again.</p>	<p>Chairs</p>

<p>2. Final guidance from CPMI-IOSCO/FSB re: CCP Resilience, Recovery and Resolution</p>	<p>Presenter</p>
<p>a.) CPMI-IOSCO Further Guidance on the PFMI's Marcus Zickwolff from CCP12 briefed the Committee on the key points on the recent guidance enhancing: 1.) Implementation deadline states as EOY 2017. 2.) On Governance the board is ultimately responsible for the risk management of the CCP. The board has to install a feedback mechanism to respond on member's concerns. 3.) Detailed guidance on credit and liquidity risk parameters is given as well as on margining, e.g. portfolio margining. It should be noted that CCPs may introduce a volatility floor to avoid procyclicality in times when volatility comes back. 4.) Cover 1/2 requirement is further clarified and CCPs systemically important in more than one jurisdiction should fulfill cover 2. 5.) Guidance on CCP own funds for recovery is given stating that these funds are to be reserved for the default waterfall only and cannot be used to cover other risks. The PWC then shared a large discussion highlighting the following key points:</p> <ul style="list-style-type: none"> • The Implementation timeline of six months was mentioned as a focus point that some members found challenging and question whether everyone is able to pursue it. Some mentioned that they started a conversation with their regulator, however have not acted upon it yet. • Regarding guidance: <i>Margins and procyclicality</i> was also mentioned as well as the complications that raised after the Brexit election with CCP practices. • Some thought having the actual guidance taken this far was an achievement on its own and needs to be acknowledged. However, the <i>Chairs</i> reminded that to prepare an official statement on behalf of CCP12 we have to have a critical stand point to address. • The fact that whether CCP's have enough recourses in general was point that many found alarming. • Interdependencies of CCP's was also addressed as a topic to take to a further discussion. <p>b.) CPMI-IOSCO Recover of FMIs Ryan Ingram from HKEx summarized focus points of the revised report regarding 1.) Increased focus on ensuring that CCP's have sufficient financial resources to implement their recovery plan. 2.) Revision to the text surrounding how to address non-default losses and references to potential expanded liability of the CCP (or its parent company, as referenced in the FSB guidance. 3.) Reinforcement of text surrounding of how certain recovery tool (e.g., VMGH, PTU) may be utilized, suggesting that they should be clearly defined in the rulebook. Generally speaking '<i>default management practices of CCP's</i>' could be theme</p>	<p>MZ, Chairs, all</p>

that takes a step forward in the future by CPMI-IOSCO- (e.g., best practices for auctions).

The PWC shared a large discussion highlighting the following key points:

- Transparency is definitely a theme that needs to be highlighted as the set up between the bank regulators and CCP regulators lacks readjustment.
- Recapitalization of the CCP (by various stakeholders) seems to be an ongoing theme that is expected to lead to further discussion and analysis by the FSB.

c.) FSB Guidance on CCP Resolution

Jesy Beeson from CME reminded all about the CCP12’s previous position to the FSB and which themes had followed through. All an all very few updates, which has its plus and downsides. A lot of flexibility for the CCP’s as well as for the Resolution Authority (RA). Remaining ambiguity comes from the topics not taken on board which might end up raising issues in the future. **1.) The Resolution authority and resolution powers:** it seems that there is a slightly emphasized approach regards to the RA as they are clearly enhancing that The RA can intervene earlier if needed in case that the resolution is triggered. **2.)** The earlier version of the FSB report included loss of confidence in the CCP as a potential trigger for the CCP’s resolution. CCP12 argued against this point and the FSB appears to have listened, removing the reference. **3.)** Revised Guidance further describes the no creditor worse off principle (NCWO), which will impact how the RA in various jurisdictions oversee/implement recovery /resolution planning for CCP’s. **4.)** The compensation fees part has been kept the same which can become problematic (CCP equities: other instruments and types of CCP ownerships).

The PWC shared large discussion highlighting the following key points:

- The increased flexibility related to intervention by the RA had been noticed by the members and acknowledged.
- NCWO – is an important topic as it stands to impact considerations for default management and recovery. EUREX agreed to prepare some key points to take the discussion further within the PWC.
- FSB stated that they will consider future work related to (a) sufficiency of CCP financial resources and (b) treatment on CCP equity in resolution. The PWC agreed to consider related advocacy.

d.) FSB Guidance on Continuity of Access

Jesy Beeson continued to explain that CCP12 had previously prepared a response to FSB regarding this one as well and now we can say it was very well received as the new report reveals. The comment letter was actually very strong response and very well received. Thus, the final guidance report is actually very positive result for CCP12. Just to recap: The scenario under consideration was in the event that part of the Clearing members had failed, could the CCP guarantee that the clearing member would maintain access to the clearing house? **1.)** The RA originally wanted us to define that as many scenarios as possible with defined actions for each. The final report alleviated

<p>many of ours concerns, but they do ask that we ensure the legally binding action to modify the rule book and they did acknowledged that we need a significant flexibility and on binding actions and agreed that CCP's have to play it by ear.</p> <p>2.) Another important aspect was that they wanted us allow the RA to step in and waive our decision. However, many of the existing regulation might fight against this.</p> <p>3.) Lastly the one critical point was that Clearing Members continue to write the constituency plan and continue to have access to FMI Providers under any of these given scenarios. Communication to the Clearing members within this "any given scenario" should be guaranteed.</p> <p>The PWC shared large discussion highlighting the following key points:</p> <ul style="list-style-type: none"> • Questions risen on about how much should we be thinking about what the RA is thinking about? Should the CCP in general pay attention to a default capital guidance of an apparent member such as a bank for instance? However, it cannot be recalled whether this report had any speculation's regarding the role of CCP and capital guidance. Also some tend to think that it cannot be expected that a settlement Bank is following our resolution guidelines on this matter. 	
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<h3>3. Other initiatives/current consultations</h3>	<p>Presenter</p>
<p>a.) CPMI-IOSCO consultation: Harmonization of critical OTC derivatives data elements (deadline 30 Aug, CCP12) → was skipped due to time constraints</p> <p>b.) CPMI-IOSCO consultation: Framework for Supervisory Stress Testing (SST) (deadline 22 Sep, CCP12 RWC) → was skipped due to time constraints, however it was noted that the Risk Working Committee is analyzing.</p>	

<h3>4. Reference/Publications of interest</h3>	<p>Presenter</p>
<p>a.) CCP Work Plan (FSB/CPMI/IOSCO/FSB) implementation update (No comment deadline) → was skipped due to time constraints</p> <p>b.) CPMI IOSCO report re: Analysis of central clearing interdependencies (No comment deadline) → was skipped due to time constraints</p> <p>c.) FSB reports on reforms to OTC derivative markets (No comment deadline) → was skipped due to time constraints</p> <p>d.) FSB reports to G20 leaders on progress in financial regulatory reforms (No Comment deadline) → was skipped due to time constraints</p>	

5. AOB	Presenter
Report on PQD Progress → was skipped due to time constraints	
6. Follow up	Presenter
Key topics on NCWO will be prepared and presented to the PWC	EUREX
It was agreed that the PWC would outline potential topics for further analysis and advocacy, including the possibility of white papers on topics where the FSB/CPMI/IOSCO/BCBS have outlined further efforts.	Chairs, EUREX