

# Recommendations of CCP Risk Management Subcommittee

**Market Risk Advisory Committee**  
**April 25, 2017**

# Outline of Recommendations

## I. **Default Management: Coordination, Harmonization & Enhancement**

- Communication
- Default Management Committees
- Fire Drills
- Auction Process
- Customer Participation in Auctions

## II. **Porting**

- Key issues identified

# Recommendations Support CFTC Regulations

## **Regulation 39.16 – Default Rules and Procedures**

- Requires CCP to conduct annual test of written default management plan
- Default test scenarios now include testing all CCP procedures that affect clearing members and customers
- CCP rules must describe actions that CCP may take (e.g., transfer, liquidation, hedging, auctions, or allocations of positions)
- CCP rules must describe default waterfall and order of use of financial resources held by CCP
- If CCP rules obligate clearing members to participate in auctions or accept allocations of positions, CCP must permit clearing members to outsource authority to act in clearing member's place to a qualified third party

# Recommendation: Communication

1. Global CCP directory of contacts created by Default Risk Management Working Group (DMRWG is voluntary group of reps from 15 CCPs)
  - Contains contact info of decision makers and risk personnel at CCPs
  - CCPs have agreed to create dedicated email address for communications
2. Work ongoing to establish mechanism for CCPs to provide information to clearing members & customers about status of movement of customer positions
  - Details should include porting timeframes, success/failure of transfers, status of liquidations, direct communication with customers
  - Status of initiative...

# Recommendation:

## Default Management Committees

- CCPs should harmonize procedures related to committee participation
- CCPs should coordinate availability of seconded traders
- Member firms must assist in keeping lists of traders updated
- CCPs should consider optimal composition of committee
  - Including participation by non-clearing member representatives

# Recommendation:

## Multi-CCP Default Exercise

- Regulators: CFTC, Bafin, Bank of England, Bundesbank
- CCPs: CME, Eurex, LCH
- Products: Equities and IRS (interest rate swaps)
- CCPs began drill at approximately same time on April 24, 2017.
- CCPs instructed CMs to assume a “Brexit” level of volatility and liquidity.
- CCPs called CMs for hedge quotes, and recorded times and prices.
- Regulators focus on hedging and auctioning, operational and financial aspects of a CM default at multiple CCPs.
  - For example, would there be a potential financial benefit from cooperation between CCPs in hedging?
- Regulators will seek extensive feedback from CCPs and CMs post drill.
- Following April exercise, CCPs will conduct study related to auction file format alignment, including potential costs, benefits and barriers.
- Separate multi-CCP porting exercise to follow, possibly Q1 2018.

# Recommendation: Auction Process

- CCPs should ensure auction process is clearly communicated
- CCPs should endeavor to harmonize auction process
- Consistency and transparency are key
- CCPs should develop auction playbooks
- Default Working Group created Uniform CCP Terminology for Default Management Auctions

# Recommendation:

## Customer Participation in Auctions

- As a general matter, voluntary, market-based tools to re-establish a matched book, *e.g.*, auctions, should be encouraged, in order to avoid the necessity of mandatory tools such as partial tear-up.
- Permitting qualified non-clearing members to participate would potentially expand scope of bids, and increase the likelihood of successful auctions.
- Thus, CCPs should be encouraged to consider permitting non-clearing members to bid, and if so, the appropriate policies, procedures, rights, obligations, and confidentiality protections.



# Recommendation: Porting

- Transferring customers of an FCM in distress to a healthy FCM (“Porting”) is a key goal, as demonstrated by
  - § 764(b) of the Bankruptcy Code
  - Commission’s Part 190 regulations
  - Practice of CFTC and staff during prior bankruptcies
- Porting protects both customers and markets.
- Staff have historically taken a practical approach towards fostering transfers, before and after bankruptcy.
- Bankruptcy Court approval of transfers has been quick and reliable.
- Leverage Ratio makes finding transferees difficult.