



2015 CCP Workplan

1. Background

In 2009, the G20 Leaders committed to ensuring that all standardised OTC derivatives contracts are cleared through central counterparties (“CCPs”). Increased use of central clearing of derivatives is intended to enhance financial stability by: (1) increasing multilateral netting; (2) requiring derivatives market participants to post adequate amounts of variation and initial margin; (3) helping to manage the default of large derivatives market participants; and (4) increasing the transparency of the derivatives market and helping to simplify transactional networks.

At the same time, fully realising the benefits of CCPs requires CCPs to be subject to strong regulatory, oversight and supervisory requirements. First, CCPs must be sufficiently resilient in the sense that financial resources (including margin requirements, pre-funded default funds, and liquidity resources) allow CCPs to withstand clearing member failures and other stress events to a very high probability. Second, CCPs must have recovery plans that allow them to allocate excess losses and generate additional liquidity without putting an excessive burden on clearing members and other financial institutions, many of whom are likely to be systemically important in their own right. And third, there must be credible CCP resolution plans in place.

The Chairs of the FSB Standing Committee on Supervisory and Regulatory Cooperation (“FSB SRC”), the FSB Resolution Steering Group (“FSB ReSG”), the Committee on Payments and Markets Infrastructures (“CPMI”), the International Organization of Securities Commissions (“IOSCO”), and the Basel Committee on Banking Supervision (“BCBS,” and together with the FSB SRC, FSB ReSG, CPMI, and IOSCO, the “Committees”) propose the following 2015 CCP workplan to the FSB Steering Committee. The Chairs of the three standard-setting bodies (BCBS, CPMI and IOSCO) will also propose this workplan to their respective committees. The workplan describes a set of principles for coordinating international policy work on issues related to CCPs, and then sets out key substantive priorities. A summary table is attached as Annex A.

2. Principles for coordination

The Chairs of the Committees (“Chairs”) believe the following principles should be used to coordinate international policy work on CCPs.

1. CPMI-IOSCO should remain the primary forum for international coordination on the going concern oversight, supervision and regulation of CCPs, including recovery planning. This is appropriate given the respective mandates of CPMI and IOSCO as standard-setting bodies in the field, and the substantial existing CPMI-IOSCO

expertise on CCP resilience. This approach will avoid having the FSB duplicate work that is already being undertaken by CPMI-IOSCO workstreams.

2. CPMI-IOSCO should regularly interact with the FSB SRC on their activities regarding the going concern oversight, supervision and regulation of CCPs. With respect to CCP recovery planning in particular, CPMI-IOSCO will continue to work in close cooperation with the FSB ReSG. FSB ReSG engagement on these issues is appropriate given the potential systemic implications of the failure or distress of a CCP.
3. The FSB ReSG should serve as the focal point for work on the resolution of CCPs, working in close cooperation with CPMI and IOSCO. This is consistent with the mandate of the FSB ReSG, and will allow the development of resolution strategies for CCPs to be informed by the expertise gained by the FSB ReSG in developing resolution strategies for banking organisations and other types of financial firms, as well as by the expertise of CPMI and IOSCO on the specificities of CCPs. This arrangement will also allow appropriate consideration to be given to the impact of CCP resolution strategies on banking organisations and other financial institutions.
4. The BCBS should remain the primary forum for international coordination on the supervision and regulation of bank exposures to CCPs. Allocation of this responsibility to the BCBS is appropriate given the mandate of the BCBS and the depth of the BCBS's expertise on issues of bank supervision and regulation. The BCBS will regularly interact with CPMI-IOSCO and the FSB SRC on its efforts in this area.
5. The workplan agreed by the Chairs should focus on CCPs that are systemic across multiple jurisdictions, consistent with the Istanbul Communiqué of the G20 Finance Ministers and Central Bank Governors.
6. The Chairs should communicate regularly to ensure that international policy work on issues related to CCPs is proceeding efficiently and in a collaborative fashion.

The Chairs should discuss implementation of the workplan in their various committees, and provide an update on progress in carrying out the actions set out in the Annex at subsequent Steering Committee and Plenary meetings, with a view toward delivering a comprehensive report on progress to date to the September Plenary meeting.

3. Substantive priorities

The substantive priorities identified by the Chairs relate to CCP resilience, recovery planning, and resolvability. These priorities should not be understood as an exhaustive list of the CCP-related issues that the Committees may undertake, but rather as areas of key focus for the Committees in 2015.

A. CCP resilience

The Chairs have identified two substantive priorities with respect to CCP resilience. Consistent with the principles in Section 2, CPMI-IOSCO should serve as the primary forum for this work, regularly interacting with the FSB SRC.

First, CPMI-IOSCO should evaluate the adequacy of existing standards with respect to CCP loss absorption capacity and liquidity, taking into account the implementation of the CPMI-IOSCO Principles for Financial Market Infrastructures (PFMI).¹ This evaluation should, *inter alia*, assess whether the standards contained in the PFMI for initial margin methodologies are sufficiently granular and robust. The evaluation should also consider the adequacy of the PFMI's Cover 1/Cover 2 standard, given the possibility that multiple clearing members could come under stress during periods of extreme market turbulence.

Second, the Chairs believe CPMI-IOSCO should evaluate the existing stress testing policies and practices of CCPs, and consider the need for, and develop as appropriate, a framework for consistent and comparable stress tests of the adequacy of CCPs' financial resources (including capital) and liquidity arrangements, which could involve supervisory stress tests. As a complement to the internal stress tests that CCPs currently conduct, such a framework would be intended to promote confidence in the adequacy of the financial resources of CCPs and allow for comparison of financial resources across CCPs. A framework for consistent and comparable stress tests could also help authorities better understand the macro-prudential risks that could materialise if one or more CCPs come under stress simultaneously.

In addition, the Chairs believe the BCBS should continue to interact with CPMI-IOSCO on the potential effects of the leverage ratio on the functioning of CCPs.

B. CCP recovery planning

The Chairs have identified two substantive priorities with respect to CCP recovery planning. Consistent with Section 2, CPMI-IOSCO should serve as the primary forum for this work, working in close cooperation with the FSB ReSG.

First, CPMI-IOSCO should conduct a stock-take of existing CCP recovery mechanisms, including loss allocation tools. CCP default waterfalls typically include the initial margin of the defaulting clearing member, guarantee fund contributions provided by the defaulting clearing member, equity funds provided by the CCP and guarantee fund contributions provided by surviving clearing members. Depending on the CCP, additional losses may be allocated through various recovery tools, such as cash calls on clearing members, variation margin haircutting, forced allocation of contracts, partial or full tear-up of contracts and, where legally permitted, initial margin haircutting. The stock take should be used to compare recovery mechanisms across CCPs.

Second, the Chairs believe CPMI-IOSCO should consider the need for, and develop as appropriate, more granular standards or guidance for CCP recovery planning, taking into account the implementation of the requirements for recovery planning in the CPMI-IOSCO PFMI and the complementing guidance on the recovery of financial market infrastructures.² Recovery plans should be designed to maximise the probability of successful CCP recoveries, while mitigating the risk that recovery actions undertaken by CCPs could result in contagion to other parts of the financial system.

¹ <http://www.bis.org/cpmi/publ/d101.htm>.

² <http://www.bis.org/press/p141015.htm>.

C. CCP resolvability

The Chairs have identified three substantive priorities with respect to CCP resolvability. As indicated in Section 2, the ReSG will serve as the primary forum for this work, working collaboratively with CPMI-IOSCO.

First, the ReSG should conduct a stock-take of existing CCP resolution regimes and resolution planning arrangements. This stock-take should gather information on the powers currently available to authorities in each jurisdiction to resolve CCPs and any arrangements for developing resolution strategies and plans.

Second, the ReSG should consider the need for, and develop as appropriate, standards or guidance for CCP resolution planning, resolution strategies and resolution tools, including cross-border coordination and recognition of resolution actions, which should build on the FSB *Key Attributes* and its existing guidance on FMI resolution set out in the Annex to the Key Attributes. Such standards or guidance would aim to ensure that any CCP can be successfully resolved without resort to a government “bailout”, and without resulting in contagion to other parts of the financial system.

And third, the ReSG should assess the need for additional prefunded financial resources (including capital) and liquidity arrangements in resolution, and develop a proposal as needed.

D. Analysis of interdependencies

The Chairs have identified the need to better understand the interdependencies among CCPs and their direct and indirect members. In many cases, CCP membership is drawn from a common group of large banks, many of which are also important providers of financial services to CCPs as well as to clients (such as liquidity provision, lines of credit, custodianship, settlement, and cash management). The interdependencies are very often cross-border.

International work is needed to explore and quantify in more depth these interdependencies and the potential for any spillovers related to recovery or resolution steps taken by CCPs or banks where such interdependencies exist.

The Chairs will establish a joint *ad hoc* study group to identify, quantify and analyse interdependencies between CCPs and major clearing members and any resulting systemic implications. The study group would work in parallel with other workstreams in the workplan to further promote the effectiveness of CCP resilience, recovery and resolution. The study group will consist of around 15 members covering a range of policy, regulatory and research expertise and perspectives, drawn from the committees’ chairs’ institutions and other interested authorities, supported by the committees’ secretariats. The study group will report regularly to the chairs, and through them to the relevant committees, with the aim of a final report ready to be published within 12 months of the study group being established.

Summary of 2015 CCP Workplan

Area	Action	Responsible Body
A. CCP resilience	<ul style="list-style-type: none"> • Evaluate existing standards on CCP loss absorption capacity and liquidity, including standards for initial margin methodologies and Cover 1/Cover 2 standard, taking into account the implementation of the PFMI. • Evaluate stress testing policies and practices of CCPs, and consider the need for, and develop as appropriate, a framework for consistent and comparable stress tests of the adequacy of CCPs' financial resources (including capital) and liquidity arrangements , which could involve supervisory stress tests. 	<ul style="list-style-type: none"> • CPMI-IOSCO will serve as the primary forum for this work, regularly interacting with the FSB SRC.
B. CCP recovery	<ul style="list-style-type: none"> • Conduct a stock-take of existing CCP recovery mechanisms, including loss allocation tools. • Consider the need for, and develop as appropriate, more granular standards or guidance for CCP recovery planning, taking into account the implementation of the requirements in the PFMI and complementing CPMI-IOSCO guidance on recovery. 	<ul style="list-style-type: none"> • CPMI-IOSCO will serve as the primary forum for this work, working in close cooperation with the FSB ReSG.
C. CCP resolution	<ul style="list-style-type: none"> • Conduct a stock take of existing CCP resolution regimes and resolution planning arrangements. • Consider the need for, and develop as appropriate, more granular standards or guidance for CCP resolution planning, resolution strategies and resolution tools, including cross-border coordination and recognition of resolution actions, taking into account the requirements in the FSB <i>Key Attributes</i> and complementing the FSB guidance on FMI resolution. • Assess the need for additional prefunded financial resources (including capital) and liquidity arrangements in resolution, and develop a proposal as needed. 	<ul style="list-style-type: none"> • ReSG will serve as the primary forum for this work, working in close cooperation with CPMI-IOSCO.
D. Analysis of interdependencies	<ul style="list-style-type: none"> • Quantify, where possible, the interconnections between CCPs and 	<ul style="list-style-type: none"> • Joint <i>ad hoc</i> working group

Area	Action	Responsible Body
	clearing members, mapping globally – in terms of both common memberships and common service provision. <ul style="list-style-type: none"><li data-bbox="491 369 1002 409">• Analyse potential contagion effects.	