CPMI and IOSCO report highlights the need for central counterparties to have adequate resources and appropriate tools to address non-default losses

- CPMI and IOSCO have today published a report on current central counterparty (CCP) practices to address non-default losses (NDL) arising, for example, from investment risk or cyber-attacks.

- CCPs must have policies, procedures and plans to address NDLs in accordance with the Principles for Financial Market Infrastructures (PFMI) because, if not managed properly, the financial consequences of non-default events can threaten a CCP’s viability.

- Given the wide range of CCP practices to address NDLs and industry requests for further clarifications, CPMI and IOSCO will work to identify areas where further guidance or recommendations may be useful. Further engagement with industry stakeholders will also be undertaken to inform a public consultation in the near term on further guidance or recommendations with respect to NDLs.

- Also published with this report is a cover note.

The Bank for International Settlements’ Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) have today published a Report on current central counterparty practices to address non-default losses (NDL) highlighting the need for CCPs to have adequate resources and appropriate tools to address NDLs.

CCPs have become increasingly important to the financial system for managing counterparty risk, especially since the introduction of the clearing obligation for standardised OTC derivatives following the 2007–09 global financial crisis. Therefore, the financial resilience of CCPs in case of losses and liquidity shortfalls is critical for financial stability – whether these losses arise from the default of CCP clearing members or from events other than clearing member defaults, such as investment risk or cyber-attacks (i.e., NDLs).

However, while the potential for losses arising from clearing member defaults is well understood, there is limited common understanding of how CCPs manage and address NDLs. If not managed properly, NDLs can threaten a CCP’s viability as a going concern and its ability to continue providing critical services to its participants and the markets it serves. Therefore,
according to the Principles for Financial Market Infrastructures (PFMI), CCPs must have policies, procedures and plans for addressing NDLs, in addition to a sound risk management framework to mitigate and manage those risks.

In August 2022, CPMI and IOSCO published a discussion paper – Report on central counterparty practices to address non-default losses. Taking into account the comments received in response to this discussion paper, today’s report updates it with a more thorough description of current practices that CCPs employ to address NDLs.

This report does not create additional standards for CCPs or other financial market infrastructures (FMIs), nor does it provide guidance on existing standards. It is intended to facilitate the sharing and understanding of these practices and to improve CCPs’ plans for managing NDLs. It also aims to assist relevant authorities to better understand the current state of CCPs’ practices for addressing NDLs, including areas where further improvements might be helpful.

Given the wide range of practices reported and the different views expressed by industry, CPMI and IOSCO intend to undertake additional work on NDLs across all FMI types, including an assessment of the implementation of the PFMI and guidance on general business risks. Further engagement with industry stakeholders will also be undertaken to inform a public consultation in the near term on further guidance or recommendations with respect to NDLs.