

Recommendations for Central Counterparties: A report by the CPSS – IOSCO Task Force on Securities Settlements



Pat Parkinson
ACSDA General Assembly
Santiago, Chile
March 4, 2005

Introduction

Last March, the CPSS-IOSCO Task Force on Securities Settlements published a consultative report on recommendations for Central Counterparties (CCPs).

I discussed the consultative report at your meeting last year in Buenos Aires. Today I would like to discuss the final CCP recommendations the CPSS and IOSCO published last November.

Why CSDs should care about this work

A CCP often participates in a CSD and its operations are interdependent with the CSD's

CSDs sometimes act as CCPs or guarantors

Form of the Report

Identify major types of risks faced by CCPs

Develop one or more recommendations to address these risks

- Headline recommendation plus discussion

Develop an assessment methodology to evaluate the degree to which a recommendation has been met

Content of the Report: 15 Recommendations

- R1. Legal Risk
- R2. Participation Requirements
- R3. Measurement and Management of Credit Exposure
- R4. Margin Requirements
- R5. Financial Resources
- R6. Default Procedures
- R7. Custody and Investment Risks
- R8. Operational Risk
- R9. Money Settlement
- R10. Physical Deliveries
- R11. Risks in Links between CCPs
- R12. Efficiency
- R13. Governance
- R14. Transparency
- R15. Regulation and Oversight

Major Revisions as a Result of the Consultation

- More flexible approach to collateral requirements
- More flexible approach to evaluation of guarantee funds

More Flexible Approach to Collateral (Margin) Requirements

Consultative Report

R3. A CCP should calculate its credit exposures to participants on a daily basis and hold collateral that in normal market conditions covers its potential losses from closing out positions held by a defaulting participant.

Final Report

R3. A CCP should measure its credit exposures to its participants at least once a day. Through margin requirements, other risk control mechanisms or a combination of both, a CCP should limit its exposures to potential losses from defaults by its participants in normal market conditions so that the operations of the CCP would not be disrupted and non-defaulting participants would not be exposed to losses that they cannot anticipate or control.

R4. If a CCP relies on margin requirements to limit its credit exposures to participants, those requirements should be sufficient to cover potential exposures in normal market conditions. The models and parameters used in setting margin requirements should be risk-based and reviewed regularly.

More Flexible Approach to the Evaluation of Guarantee Funds

Consultative Report

These recommendations should be applied to guarantee arrangements as well as CCPs.

Final Report

The use of the assessment methodology for guarantee funds is problematic. Nonetheless, there are benefits to conducting an evaluation of such guarantee arrangements on the basis of the CCP recommendations where these recommendations are applicable. Report provides checklist of issues that should be raised in an evaluation.

Implementation of Recommendations

Self-assessments by CCPs and national authorities,
(central banks and securities regulators)

External assessments as part of IMF/World Bank FSAPs

Future Work of CPSS-IOSCO Task Force

The Task Force has completed its work and has been disbanded.

Focus now is on assessments.

CPSS and IOSCO may decide to hold a workshop to discuss experience using the RSSS and RCCP.