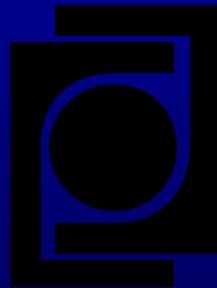


# *Recommendations for Central Counterparties*

George Hender

Vice Chairman, The Options Clearing Corporation,  
Chairman, CCP 12 and Chairman, IOCA



VI General Assembly ACSDA

Thursday, April 29, 2004

# Agenda

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- **OCC Overview**
- **CCP 12**
- **IOCA**
- **BIS/IOSCO Recommendations**

# The Options Clearing Corporation

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- **Founded in 1973**
- **Largest clearing organization in the world for options**
- **Self-regulated under jurisdiction of SEC, CFTC and Fed**
- **Members include 130 of the largest broker dealers and futures commission merchants**

# Participant Options Exchanges

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- **American Stock Exchange**
- **Boston Stock Exchange**
- **Chicago Board Options Exchange**
- **International Securities Exchange**
- **Pacific Exchange**
- **Philadelphia Stock Exchange**

# Futures Markets

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- **CBOE Futures Exchange**
- **NQLX**
- **Philadelphia Board of Trade**
- **OneChicago Exchange**

# CCP 12

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- **Founded in July 2001**
- **An association of the world's principal cash and derivatives clearing organizations**
- **Mission: Improving global CCP services**
- **Risk management subcommittee**

# CCP 12 Members

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- **Australian Stock Exchange**
- **Brazilian Merc and Futures Exchange**
- **Brazilian Clearing and Depository Corp.**
- **Chicago Mercantile Exchange, Inc.**
- **The Clearing Corporation**
- **Canadian Derivatives Clearing Corp.**
- **Canadian Depository for Securities Limited**
- **Depository Trust and Clearing Corp.**
- **Eurex Clearing AG**

# CCP 12 Members (continued)

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- **Hong Kong Exchanges and Clearing**
- **Indeval S.D.**
- **Korea Stock Exchange**
- **LCH.Clearnet**
- **The Options Clearing Corporation**
- **Singapore Exchange Limited/The Central Depository Limited**
- **Tokyo Stock Exchange/Japan Securities Clearing Corporation**



# IOCA

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- **Founded in 1989**
- **Association of the world's principal derivatives clearing organizations**

# IOCA Members

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- **Australian Stock Exchange**
- **Chicago Board Options Exchange**
- **Chicago Mercantile Exchange Inc.**
- **China Securities Depository & Clearing Corporation LTD.**
- **Eurex**
- **Euronext.LIFFE**
- **GreTai Securities Market**
- **Hong Kong Exchanges & Clearing Ltd.**
- **IOMA**

# IOCA Members (continued)

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- **International Securities Exchange**
- **Korea Stock Exchange Kuala Lumpur Stock Exchange Berhad**
- **LCH.Clearnet**
- **Mercado Mexicano de Derivado**
- **Montreal Exchange & BOX**
- **National Stock Exchange of India Limited**
- **Philadelphia Stock Exchange**
- **Shenzhen Stock Exchange**
- **Taiwan Futures Exchange**

# IOCA Members (continued)

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- **Taiwan Stock Exchange**
- **Tel-Aviv Stock Exchange**
- **Thailand Securities Depository Co., Ltd.**
- **The Options Clearing Corporation**
- **The Stock Exchange, Mumbai**
- **Tokyo Stock Exchange**
- **Warsaw Stock Exchange**
- **Zhengzhou Commodity Exchange**
- **World Federation of Exchange**
- **The CBM Group**

# BIS/IOSCO Recommendations

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- **Support need for “Best Practices”**
- **Applaud effort set forth**
- **Will prescriptiveness inhibit innovation in risk management?**
- **How will standards be monitored and applied?**
- **Collective response needed**

# Preliminary Reactions

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- **14 Draft Recommendations**
- **Comments on:**
  - **Participation requirements**
  - **Collateral requirements**
  - **Financial resources**
  - **Custody and investment risk**

# BIS/IOSCO Recommendations

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- **Recommendation 2 - Participation requirements**: A CCP should require participants to have sufficient financial resources and robust operational capacity.

# BIS/IOSCO Recommendations

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- **Recommendation 3 - Collateral requirements**: A CCP should calculate its credit exposures 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.



# BIS/IOSCO Recommendations

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- **Recommendation 4 - Financial resources**: A CCP should maintain sufficient financial resources to withstand a default by the participants to which it has the largest exposure in extreme but plausible market conditions.

# BIS/IOSCO Recommendations

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- **Recommendation 6 - Custody and investment risks: A CCP should hold assets in a manner whereby risk of loss or delay in its access to them is minimized. Assets invested should be held in instruments with minimal credit, market and liquidity risks.**

# Next steps

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- **OCC**
- **Gather feedback from CCP 12**
- **Further discussions**
- **Formalize response by June 9**