

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

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Background

December 1999, the G-10 Central Banks and IOSCO established the Task Force on Security Settlements to undertake joint work that would foster safer and more efficient settlement systems, enhance international financial stability.

This third report of the Task Force focuses on central counterparties or clearing houses.

Why CCPs are of interest and importance



They have a large and growing role in settlement systems

A risk management failure by as CCP has the potential to disrupt markets, payment systems, and other parts of settlement systems.

Scope of Application

Typically define a central counterparty as an entity that interposes itself between counterparties to contracts in financial markets

Suitable for CCPs in markets at all stages of development

Covers derivatives and cash markets

Also proposed to cover guarantee arrangements, that is, situations in which non-defaulting participants are compensated for losses they suffer in a default

Why CSDs should care about this work

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

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 whether a recommendation has been met

Recommendations Related to Counterparty Credit and Liquidity Risks



Participation requirements

Collateral Requirements

Financial Resources

Default Procedures

Examples of Recommendations

Financial Resources

A CCP should maintain sufficient resources to withstand a default by the participant to which it has the largest exposure in extreme but plausible market conditions that produce loss not fully covered by collateral requirements.

Default Procedures

A CCP's default procedures should be clear and transparent, and they should ensure that the CCP can take timely action to contain losses and liquidity pressures and to continue meeting its obligations.

Other Recommendations

Legal Risk

Custody and Investment Risk

Operational Risk

Settlement Risks – money and physical instruments

Risks in links

Efficiency, governance, transparency, regulation and oversight

Implementation of Recommendations

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

External assessments as part of IMF/World Bank FSAPs

Consultation Process

Document is posted on BIS and IOSCO web sites

<http://www.bis.org/publ/cpss61.htm>

A ninety-day comment period, ending June 9

Areas in which suggestions would be helpful:

- Relevance of topics and adequacy of rationale
- Is scope appropriate? Should the recommendations be applied to guaranty arrangements as well as CCPs?
- Are the recommendations too prescriptive?