

CFTC Market Risk Advisory Committee
Report of the CCP Risk and Governance Subcommittee
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Good afternoon and thank you to Commissioner Benham, Alicia Lewis, Nadia Zakir and the rest of the MRAC for allowing us to provide an update on the progress of the MRAC's CCP Risk and Governance Subcommittee.

The MRAC established the CCP Risk and Governance Subcommittee to provide reports and recommendations directly to the MRAC regarding current issues impacting clearinghouse risk management and governance.

By way of introduction we are: Lee Betsill, Managing Director and Chief Risk Officer, CME Group, and Alicia Crighton, Co-head Global Futures and Head of OTC and Prime Clearing, Goldman Sachs (representing the Futures Industry Association).

As an update to the December 2019 Subcommittee report, we have structured the committee in to a series of work streams in order to advance the more detailed discussion required to produce actionable recommendations and detailed best practices to the MRAC to enhance and advance the safety and soundness of the cleared derivatives markets.

Each work stream is led by 2 subcommittee members and the details are as follows:

- Margin: Dale Michaels, OCC and Alicia Crighton, Goldman Sachs
- Default Management: Kevin McClear, ICE and John Murphy, Mizuho
- Governance and Transparency: Lee Betsill, CME and Marnie Rosenberg, JPM
- Stress Testing and Liquidity Framework: Richard Berner, NYU and Matthias Graulich, Eurex
- Capital and Skin In The Game: Robert Steigerwald, Federal Reserve Bank of Chicago and Dennis McLaughlin, LCH

Commencing, mid-May, the Subcommittee has started to meet on a weekly basis to discuss each of the work streams. At this stage, each of the work streams has met at least once.

It is important to note that while the Subcommittee has agreed upon a series of topics to review and provide recommendations on, it is possible that recommendations may not be agreed on by the Subcommittee and therefore a summary of the discussion will be provided to the MRAC.

At this time, we will provide an overview of the topics under review in the work streams and anticipate providing the final work product to the MRAC at the final meeting in 2020.

Margin:

- Pricing feeds and associated best practices
- Margin Period of Risk
- Liquidity and Concentration Margin

- Margin floors
- Intraday margin calls, both routine and non-routine

Default Management:

- Subcommittee is reviewing:
 - 2015 -206 Default Management Recommendations to the MRAC
 - 2019 CPMI IOSCO paper
 - Subcommittee work to provide an update on progress made as well as additional recommendations, if any that are needed.

Governance and Transparency

- Reviewing the need to further split in to 2 separate work streams to progress the Transparency discussion while the Governance work is underway
- Review of CFTC Rules 40.5, 40.6 and 40.10 and how CCP's currently apply them
- Sub-committee continuing to review potential enhancements to the framework that CCP's utilize to obtain and address input from all market participants on relevant risk issues

Stress Testing and Liquidity Framework:

- Reference materials provided such as:
 - Best practice for CCPs stress testing
 - Best practice for CCPs – CCP12
 - CFTC Supervisory Stress Test; May 2019;
 - Stress Testing Networks: The Case of Central Counterparties; December 2019 (attached)
 - Jerome H. Powell, Central Clearing and Liquidity
- Under discussion
 - Defining clear goals needed for stress tests
 - Recognize the distinction and overlap/alignment between supervisory stress testing and that done by the CCPs
 - Scenario Design
 - Liquidity

Capital and Skin in the Game

- Reviewed CCP Capital regulation,
- Previously considered issues by MRAC
- Recent developments in Europe under Emir 2.2
- Quantitative disclosures regarding current levels of CCP SITG General discussion of CCP capital regulation
- Subcommittee will work to define commonly used terms (i.e. CCP Capital vs SITG) as well as the applicability of a position paper focused on more narrowly defined topics

We welcome your questions and your feedback on the discussed areas of focus as well as at any time during the work of this Subcommittee.

We would also like to thank MRAC members who have volunteered to serve on the Subcommittee. They are:

- Richard Berner - Clinical Professor of Management Practice in Finance and Co-Director of the Stern Volatility and Risk Institute, NYU Stern School of Business
- Matthias Graulich - Member of the Executive Board and Chief Strategy Officer, Eurex Clearing AG,
- Graham Harper – Head of Public Policy and Market Structure at DRW representing FIA, PTG
- Lindsay Hopkins - Clearing House Counsel, Minneapolis Grain Exchange
- Vincent B. Johnson - Head of Commercial Advocacy & Regulatory Affairs, BP Integrated Supply and Trading
- Demetri Karousos - Chief Risk Officer, Nodal Clear, LLC, and Managing Director, Market Administration and Surveillance, Nodal Exchange, LLC
- Eileen Kiely – Managing Director, Deputy Head of Counterparty & Concentration Risk, BlackRock
- Kevin McClear - Corporate Risk Officer, Intercontinental Exchange, Inc.
- Dennis McLaughlin - Group Chief Risk Officer, LCH Group
- Dale Michaels - Executive Vice President, Financial Risk Management, The Options Clearing Corporation
- John Murphy - Managing Director and Global Head of the Futures Division, Mizuho Americas, Commodity Markets Council
- Marnie Rosenberg - Managing Director and Global Head of Clearinghouse Risk & Strategy, JP Morgan
- Dr. Marcus Stanley - Policy Director, Americans for Financial Reform
- Robert Steigerwald - Senior Policy Advisor, Financial Markets, Federal Reserve Bank of Chicago
- William Thum – Principal and global Head of Capital Markets Legal and Regulatory, Vanguard
- Suzy White - Chief Risk Officer, Global Banking & Markets and Commercial Banking, Americas, HSBC
- Nadia Zakir – Executive Vice President and Deputy General Counsel, PIMCO