Basel Committee on Banking Supervision
BANK FOR INTERNATIONAL SETTLEMENTS

Committee on Payments and Market Infrastructures
BANK FOR INTERNATIONAL SETTLEMENTS

FSB FINANCIAL STABILITY BOARD

OICU-IOSCO

Incentives to centrally clear over-the-counter (OTC) derivatives

A post-implementation evaluation of the effects of the G20 financial regulatory reforms

7 August 2018

Questions for public consultation

The Committees invite comments on the consultative document, and the following specific questions. Please elaborate your answer and provide supporting evidence where appropriate**.**

Incentives

1. Do you agree or disagree with the finding that, in general, there are strong incentives for dealers and larger (in terms of level of derivatives activity) clients to centrally clear OTC derivatives? Do you agree or disagree with the finding that some categories of clients have less strong incentives to use central clearing?**We agree. Dealers and larger clients are obliged to clear some type of derivatives (IRS, CDS), smaller clients can decide to adopt an operational model based on cleared derivatives. Smaller clients can obtain legal and operational advantages in operating through clearing services.**

2. Do you agree or disagree with the finding that relevant post-crisis reforms have, overall, contributed to the incentives to centrally clear? Is the consultative report's characterisation of distinctions in how the reforms have affected incentives for different types of clients consistent or inconsistent with your experience? **We agree. We believe it's essential to distinguish clients in terms of volumes and/or investment policy; smaller clients not always have an adequate organizational structure and financial capacity to pay set-up costs.**

3. Do the margin requirements for uncleared derivatives give a sufficient incentive to clear? How do these requirements interact with mandatory clearing obligations to incentivise clearing? Are there particular instruments, and specific types of entities where the incentive to clear is not adequate? In such cases, are there specific aspects of the requirements that diminish incentives to clear? **In our opinion the trade-off between low requirements and risk exposure has to be carefully taken into account.**

4. The consultative report seeks to identify the most important regulatory and non-regulatory factors which affect incentives to centrally clear OTC derivatives for dealers, other financial intermediaries, large clients and small clients. Please identify any significant missing factors and comment on the relative strength of regulatory and non-regulatory factors discussed in the consultative report. **In our opinion all significant factors are included. Regulatory (mandatory clearing, high margin requirements for OTC not cleared) and non-regulatory factors are useful to incentive central clearing.**

Markets

5. Is the consultative report's characterisation of the shift of activity and trading liquidity towards centrally cleared products, and the consequent impact on uncleared products, consistent or inconsistent with your experience? **Based on our view the shift of activity and trading liquidity towards centrally cleared products is consistent.**

6. There are various industry efforts underway to reduce the cost of clearing, including portfolio compression and direct clearing membership models. Based on your experience are these proposals, or other forthcoming changes to clearing infrastructure and models, likely to affect incentives to provide or use clearing services? **It is our understanding that players with capital requirements on counterparty risk are keen on portfolio compression. However, our counterparties did not approach us as far as this issue is concerned. This could be in connection with the limited tenor of the contracts we have in place.**

Reforms

7. Do you agree or disagree with the report's characterisation of the effects of the following reforms on incentives to centrally clear?

   a. central clearing mandates (both in terms of product scope and entity scope);

   b. minimum standards for margin requirements for uncleared derivatives;

   c. capital requirements for credit valuation adjustment (CVA) risk;

   d. capital requirements for jump-to-default risk (including where applicable the Standardised approach for counterparty credit risk (SA-CCR) and the Current exposure method (CEM));

   e. G-SIB requirements; and

   f. The leverage ratio.

a) e b) yes; other points not applicable for our organization.

8. Do you agree or disagree with the consultative report's characterisation of the impact of these reforms on the incentives to provide client clearing services? **We agree as potential client due to the fact that we observe an increasing number of players offering clearing services.**

9. Are there any areas where potential policy adjustments should be considered which would enhance the incentives for or access to central clearing of OTC derivatives, or the incentives to provide client clearing services? **No suggestions about this issue.**

Access

10. Do you agree or disagree with the report's characterisation of the difficulties some clients, especially clients with smaller or more directional derivatives activity, face in:

    a. accessing clearing arrangements; and

    b. conducting trading and/or hedging activity given the restrictions imposed by their client clearing service providers?

a) Based on Arca experience, we use an indirect access with clearing broker service model (no relevant difficulties/constraints to access to the clearing services). b) No difficulties/constraints to set-up and to operate with clearing services.

11. Do you agree or disagree with the finding that the provision of client clearing services is concentrated in a relatively small number of banks? Does the current level of concentration raise any concerns about incentives to centrally clear, or risks to the continuity of provision of critical economic functions, including during periods of stress? **We agree that there is a concentration for relatively small (not small) number of banks in clearing service. In Europe clearing brokers are supervised SSM and definitively a plus.**

12. Do you agree or disagree with the report's characterisation of the incentive effects created by up-front and ongoing fixed costs of:

a. using clearing services?

b. providing client clearing services?

a) Set-up cost no disincentive using clearing services with a regular activity in derivatives
b) out of scope, we don't provide client clearing services.

13. In light of the finding in this report that economic factors generally incentivize central clearing for certain market participants but perhaps not for others, please describe your views regarding the costs and benefits of the scope of the clearing mandates, both in terms of the products and entities covered. **OTC clearing services have clear advantages in several areas: transparency (valuation made in CCP), process efficiency and counterparty risk mitigation.**

14. Should regulation seek to create incentives to centrally clear OTC derivatives for all financial firms, including the smallest and least active? If so, what would that imply for the costs of uncleared trades? If not, for which types of firm and product is it most important to have incentives for central clearing? Conversely for which types of firm and product would it be acceptable not to have incentives for central clearing? Please elaborate.**We think this is more for banks running a derivatives business or clearing services. We do not think we are in the best position to provide a valuable feedback.**