CCIL's Feed Back to FSB Consultation

"Financial resources to support CCP resolution and treatment of CCP equity in resolution"

CCIL appreciates the continued effort made by FSB to provide guidance on CCP recovery and resolution. CCIL broadly agrees with the 5 step process laid out in the consultation paper. It is in favour of setting up a framework that will facilitate dialogue between the CCP, the local regulator, the local resolution authority and the market at large to ensure that an orderly resolution is carried in the unlikely event that it were to happen. Such a framework needs to have enough required flexibility in order to tailor it to the specific circumstances and the jurisdictional requirements. It also needs to ensure transparency and induce confidence in times of market stress.

Rather than responding to individual questions set out in the Consultation paper, CCIL would like to provide the following comments:

- The guidelines provided should have a <u>fair amount of flexibility</u> to ensure that it can be tailored to include the unique characteristics of each CCP and its local jurisdictional requirements. Also every situation leading up to a recovery and in turn a resolution scenario is different and may call for a case to case understanding and handling.

- It should be ensured that evaluation of existing tools and resources for resolution (as given in Step 2) does not lead to a re-assessment of the CCP rulebook which has been put in place after detailed deliberations between the CCP, local regulator and other stake holders.

- CCIL is concerned with the concept of <u>early intervention by the Resolution Authority</u> to invoke Resolution as it would deny market the time and space to follow the CCP rulebook to get back to normal functioning. The CCP rule book is accepted knowledge for market participants and any deviation will only exacerbate uncertainty and market stress.

- CCIL is of the opinion that the <u>use of CCP equity in Resolution should not be resorted to</u> especially in the case of CCPs which are user owned and are run like a public utility. CCPs already apportion a significant portion of their capital for default and non-default losses (which are allocated) as skin in the game as given in their rule book. This is designed to balance the incentive structure between the clearing participants and the CCP management. Digression from this leads to skewing of the incentive structure thereby raising financial stability concerns. Also, de-capitalizing a CCP which is already under stress and struggling to stay solvent, further limits the potential options available to it to get back to viability.