

NEWS RELEASE
For Immediate Release

ISDA launches principles on CCP recovery

LONDON, November 25, 2014 - The International Swaps and Derivatives Association, Inc. (ISDA) today announced the publication of a set of key principles on the adequacy and structure of central counterparty (CCP) loss-absorbing resources and on CCP recovery and resolution.

Clearing houses have become a crucial part of the derivatives market infrastructure, supported by regulation such as the Dodd-Frank Act and the European Market Infrastructure Regulation that requires standardized over-the-counter derivatives to be cleared. With the volume of cleared trades increasing rapidly and certain to grow further, these entities have become systemically important. ISDA and its members therefore believe particular attention needs to be paid to ensuring the risks of a CCP reaching the point of non-viability are minimized. If that point is reached, however, a clearly defined recovery plan needs to be in place that does not involve the use of public money.

The ISDA *Principles for CCP Recovery* paper identifies the key issues that need to be addressed, and makes several recommendations on how to proceed:

- **Transparent risk management standards, practices and methodologies:** The practices, standards and methodologies used by CCPs to size their loss-absorbing resources, which include initial margin, default-fund contributions and CCP ‘skin in the game’ (SITG), need to be transparent to market participants. Without transparency on CCP risk methodologies, the ability of market participants to accurately assess the adequacy of CCP resources is severely hampered.
- **Mandatory, standardized and transparent stress testing:** CCP risk management methodologies and frameworks should be regularly tested and assessed using regulatory driven standardized and transparent stress-test criteria to assure market participants they are adequate.
- **Significant CCP SITG:** CCPs’ contributions to the loss-absorbing resources pool should incentivize robust risk management, align CCP management incentives with those of the clearing members (CMs), and be fully funded, material and substantial.

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- **Clearly defined CCP recovery plans:** Ensuring the continuing operation and restoring the viability of a failed CCP is less disruptive and costly, and therefore preferable, to its liquidation or full contract tear-up. Toward this end, CCP recovery mechanisms should be clearly defined and transparent; they should be pursued as long as the CCP default management process (DMP) is effective. Where CCP rules provide for cash calls to CMs, they should be limited, capped and fully transparent. Loss-allocation tools should only be considered if they are rules-based, clearly agreed upon and in place, and are economically viable for all categories of clearing participants.
- **Clearing service termination or resolution:** Recovery efforts should only be undertaken as long as the DMP is effective and the clearing service is viable. If the DMP has failed and/or further recovery efforts to re-establish a matched book are either ineffective, unfeasible or create systemic instability, then the CCP is faced with the prospect of considering the closure of the clearing service. It is likely that, at this point, the resolution authorities will be evaluating which course of action is most effective.

A full version of the paper is available on the ISDA website: <http://www2.isda.org/functional-areas/risk-management/>.

For Media Enquiries, Please Contact:

Lauren Dobbs, ISDA New York, +1 212 901 6019, ldobbs@isda.org

Nick Sawyer, ISDA London, +44 203 088 3586, nsawyer@isda.org

Donna Chan, ISDA Hong Kong, +852 2200 5906, dchan@isda.org

About ISDA

Since 1985, ISDA has worked to make the global over-the-counter (OTC) derivatives markets safer and more efficient. Today, ISDA has over 800 member institutions from 64 countries. These members include a broad range of OTC derivatives market participants including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure including exchanges, clearinghouses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's web site: www.isda.org.

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