ISDA/FIA response to the Bank of England's discussion paper on CCP resolution execution and resolvability outcomes[1]

Executive Summary

ISDA and FIA welcome the Bank of England's further work on CCP resolution execution and resolvability outcomes, and support the objective of ensuring that resolution tools can be applied in a credible, predictable and operationally effective manner.

In the response, the associations support greater ex-ante clarity on valuation capabilities and the boundary between recovery and resolution, while stressing that default fund contributions are designed to mutualise default risk and should not become a mechanism for absorbing operational or other non-default losses. We caution against any change to creditor hierarchy that would result in weakening the NCWO safeguard.

While acknowledging that the UK resolution framework affords the Bank the power to issue resolution cash calls up to three times the default fund in a non-default loss scenario, ISDA and FIA encourage the Bank to consider alternative or additional loss-absorption and recapitalisation options, including right-sized CCP equity and potentially other pre-committed resources. We also encourage the Bank to ensure parent-group capacity is considered ex-ante, ahead of resolution, rather than treated as a live resolution tool. Consideration of such tools could form part of resolvability assessments.

Where clearing members or other creditors are required to bear losses or provide resources in resolution, our response underlines the importance of credible mechanisms to return value to clearing members who have contributed funds towards successful resolution. Compensation could take the form of profit-sharing arrangements where appropriate. Such arrangements should be designed to avoid undermining incentives, should not assume all clearing participants can hold CCP equity, and should prevent value being retained by CCP owners where clearing members have materially contributed to recapitalisation.

On partial tear-up, ISDA and FIA support commercially reasonable pricing and recognise that a pro-rata approach may often be equitable, but emphasise the importance of assessing the hedging, liquidity and contagion effects on non-defaulting members and clients.

Finally, the associations support the Bank's proposed resolvability outcomes, but also encourage greater transparency around resolvability assessments and resolution planning so clearing participants can act on reliable information rather than worst-case scenario assumptions during stress. The associations also recommend that resolvability assessments address explicitly how the Bank would coordinate with third-country authorities in a UK CCP resolution, particularly where the exercise of recovery or resolution tools could transmit

[1] Central counterparty resolution execution and resolvability outcomes | Bank of England

losses or disruption to financial systems outside the UK, given that this is a key concern of EU authorities when considering the EU financial system's reliance on clearing at UK CCPs.

This response covers the positions of our members on the buy-side and sell-side. The paper does not reflect the views of many CCPs, and many of the CCPs are in disagreement with the views.

Discussion questions:

Resolution powers and creditor hierarchy (NDL scenario)

1. Has the Bank correctly identified and understood the challenges associated with calculating the allocation of losses in an NDL resolution, as described in the section above?

We welcome the Bank's detailed thinking on these topics.

While loss allocation for default losses is very much driven by the waterfall defined in the rulebooks, we agree that NDLs raise specific issues.

We welcome the Bank's confirmation that "CCP capital would still be fully exposed to loss".

We agree with the analysis set out in paragraph 13 that a CCP's capital "cannot be guaranteed to provide sufficient loss absorbency for the CCP to manage any crystallization of non-default risk in all scenario". We note that the CCP's capital is meant to be sized at a level that is "prudent and subject to supervision", and we do encourage the Bank to consider appropriate sizing of CCP equity for general business losses. ISDA provided some suggestions on the sizing of Liquid Net Assets Funded by Equity (LNAFE) for the purposes of covering general business losses in its response[2] to the CPMI-IOSCO consultation on this matter.

We would comment on the framing set out in paragraph 14. The Bank presents the resolution cash call and the write-down of default fund contributions or other unsecured liabilities as the two options for absorbing residual NDL and recapitalising the CCP, observing that the choice between them "does not change the total amount of losses" and that a cash call "may provide operational benefits". While we accept that the aggregate quantum of loss is unchanged, the choice of tool is not neutral from a financial stability and contagion perspective. A cash call requires non-defaulting clearing members to source and deliver liquidity at a period of stress, whereas a write-down of resources already posted to the CCP could allow for some careful management of the situation by not asking for immediate top-up.

A separate challenge associated with calculating the allocation of losses in an NDL scenario, which is not discussed in the DP, lies in the definition of the boundary between resources reserved for recovery and the point at which resolution begins. As noted in our response to CPMI-IOSCO on general business losses, we see the determination of LNAFE as implicitly marking where this boundary sits. We appreciate that the determination of LNAFE is a CCP

[2] ISDA-and-FIA-Respond-to-CPMI-IOSCO-Consultation-on-General-Business-Losses.pdf

supervision rather than a resolution execution question, therefore outside of the scope of this DP. However, depending on the approach taken, in particular in terms of the severity of the scenario used to size the LNAFE, the amount of losses to allocate in resolution would vary widely between CCPs. It is therefore also in the interest of the resolution authority that the LNAFE be sized conservatively, as it will reduce the quantum of losses to allocate in resolution and increase the likelihood of successful resolution: as such, appropriateness of LNAFE is also a key feature of resolvability, and should form part of resolvability assessments.

We are concerned with the proposal to size the resolution cash call as to not trigger the NCWO safeguard, instead of allocating it along a number known in advance, for instance the share of the default fund, which drives the size of recovery cash calls. Linking the resolution cash call to the NCWO safeguard would introduce an arbitrary and unpredictable component into the sizing of the resolution cash call and akin to "who can take it". In the event of insolvency losses that extend beyond the size of the DF, sizing the cash call from the insolvency counterfactual would include a lot of other exposures and potentially disincentivize members from providing liquidity lines, investment services to the CCP and will further incentivize members to post only bankruptcy-remote initial margin, which in turn will make liquidity management for the CCP harder, especially in a crisis.

We appreciate that the UK CCP resolution framework already includes constraints around the use of cash call power, but our members remain concerned with the potential impact this tool could have especially in stressed market conditions. ISDA members note that they would not directly control many of the factors that would drive the scale of the call, including CCP risk models, default management decisions, operational resilience, cyber resilience and CCP governance. As a result, the design of these tools should ensure that CMs are not exposed to material, model-driven or discretionary costs arising from risks over which they have no direct control or influence.

In terms of the potential options to address the uncertainty surrounding the definition of the insolvency counterfactual, we agree with the approach to require CCPs to develop modelling capacity to support the Bank's own analytical framework for assessing the insolvency counterfactual. We agree that this still leaves the issue unaddressed around sizing a cash call in a volatile environment where the valuation of clearing members' exposures could vary rapidly. Given that key inputs like IM, DF, investments, called liquidity lines should already be in the CCPs' systems, there might be value in requiring CCPs to produce a daily or even ad-hoc report with these key drivers of the NCWO.

As a matter of principle, ISDA/FIA consider that cash calls should not be used to absorb NDLs, and default fund contributions even less so. We acknowledge that FSMA 2023 gave the Bank the power to use cash calls in NDL scenarios up to three times clearing members' required default fund contributions. With regards to mandating structural changes to how the CCP's unsecured liabilities sit in the creditor hierarchy, we understand that the Bank explores this option as a way to minimize the risk of breaching the NCWO safeguard. However, this will weaken the NCWO safeguard: without DF subordination members would be entitled to compensation earlier. It will also implicitly make clearing members worse off than other clearing participants. Even if the Bank notes that the CCP's default fund would still occupy the same position in the waterfall, and continue to be available for use in DL scenarios, subordination for the purpose of determination of the insolvency counterfactual in NDL scenarios means that default fund contributions can be used in resolution to absorb non-default losses without triggering the NCWO safeguard. Clearing members fund a default fund to mutualize their credit risk, not to mutualize operational risk or NDLs.

We also note that resolution cash calls will only affect clearing members, a subset of creditors to the CCP, and subordinating their DF contribution in the insolvency counterfactual leaves them less well protected.

2. Are there any potential options in addition to those identified by the Bank above?

As noted above, we would encourage the Bank to consider where the boundary between recovery and resolution lies in NDL scenarios. We would also welcome an approach to recovery and resolution planning for NDLs that look across the R&R continuum, taking into account the severity of the scenarios that underpinned the determination of LNAFE.

In addition to the options identified by the Bank, we would encourage greater prominence to be given to sources of loss absorption and recapitalisation that sit ahead of any tool drawing on clearing member resources:

- **CCP owner and parent-group support**. While we acknowledge that there is no legal lever to require the parent to step in, we would suggest that for group-owned CCPs, resolvability assessments consider the parent's ability to inject capital, or to facilitate a sale or transfer of the CCP, and, so far as possible, in a manner that is pre-committed.
- **Right-sizing pre-resolution NDL loss absorbency**. We reiterate our position, including in our response to the Bank's CCP resilience consultation, that CCP skin-in-the-game remains low relative to the scale of exposures CCPs manage. In that regard, we support CPMI-IOSCO proposal with regards to the sizing of LNAFE to absorb general business losses.
- **Other types of resources**. We would encourage the Bank to explore mechanisms such as pre-committed convertible instruments (e.g. a layer of bail-in bonds) or a CCP-industry-funded resolution fund, even if they are not explicitly part of the UK resolution framework, availability of such alternative tools could form part of resolvability assessments.

3. What factors should the Bank take into account when considering the potential benefits, risks and costs of such options?

In assessing the benefits, risks and costs of these options, we would encourage the Bank to give particular weight to the financial stability and contagion implications of any tool that allocates losses to, or draws liquidity from, non-defaulting clearing members and their clients. In an NDL scenario the primary tool available to the Bank is the resolution cash call, which is unfunded and calibrated by reference to default fund contributions. Requiring sizeable cash calls from many members simultaneously, in already stressed conditions, risks draining liquidity from participants precisely when it is most needed, which could squeeze members that are themselves under liquidity pressure. Given the significant overlap of clearing memberships across CCPs, there is also a risk of correlated cash calls at multiple CCPs at once.

The Bank should therefore weigh:

1. the procyclicality and liquidity impact of the tool on non-defaulting participants;
2. the resulting contagion risk to the wider financial system;
3. whether the same objective could instead be met through the CCP's own pre-funded resources (right-sized equity, and potentially a layer of bail-in bonds), which we continue to see as the preferable means of absorbing NDLs; and
4. the need for clear ex-ante caps and compensation where such tools are used.

4. Would any of the potential options carry material risk of unintended consequences?

As noted in response to question 1, subordination of default fund contributions should not mean that CCPs can include default fund contribution in the amount of LNAFE meant to cover general business losses as going concern.

As mentioned above, resolution cash calls affect only clearing members and not other creditors, which is an inherent issue with the NCWO, as other creditors (e.g. clients in ISA accounts, or non-clearing members providing investment services) are not affected.

We would also draw attention to a potential unintended consequence arising from the interaction between the cash-call sizing described in paragraph 15 and the NCWO safeguard. Paragraph 15 ties the sizing of a resolution cash call to the losses a clearing member would have borne in the CCP's insolvency counterfactual. If that counterfactual assumes clearing members bear substantial losses, while the CCP's owner is able to exit resolution with a recapitalised CCP, it means that clearing members could contribute very significant resources to rescue the CCP without commensurate compensation, while value is retained by, or returns to, the owner. We would encourage the Bank to ensure that the loss hierarchy and any compensation arrangements do not unfairly favour CCP owners over member.

Returning value to CCP creditors (NDL scenario)

5. Are there any other potential options to expose CCP equity to loss and to return value to creditors in addition to the two broad options identified by the Bank above?

The option discussed under paragraph 27 would consist in transferring equity to clearing members, directly or via an intermediary vehicle. We note that not all clearing members may be able to hold equity in a CCP, as rightly acknowledged under paragraph 28. However, clearing members would rather solve this problem than not being compensated at all. They, for instance, could sell their shares to other willing clearing members, or even to the CCP.

We also don’t believe that the CCP’s potential reliance on shared group services is necessarily a problem, assuming these have been set up on an arms-length basis with provisions for continuity in the first place, so that any other owner of the CCP could use these services after transfer of ownership. Other than initial set-up cost, we do not believe such provisions would result in duplication of other additional cost.

We consider the option of a mandated profit-sharing agreement proposed under paragraph 31 as worth exploring. ISDA and FIA have long considered that a credible option to return value to creditors would be for the resolved entity to issue compensation instruments representing a claim on future income of the CCP, including for clearing participants that would not be able to hold equity in the CCP. The approach described under 31 would effectively achieve this.

6. What factors should the Bank include when considering the potential benefits, risks and costs of such options?

We agree with the Bank's observation, under paragraph 32, that "the acceptability of a mandated profit-sharing arrangement to clearing members and its likely effectiveness in mitigating the risk of public funds being exposed through NCWO claims will also need to be fully considered". Achieving a fair approach to returning value to CCP creditors, while ensuring that the CCP's equity and CCP's group resources are tapped first, would effectively set the right incentives on the CCP, its group and clearing members to support the continuity of the CCP's critical services.

We however believe that such arrangements need to be defined properly to avoid the CCP "managing" their profit, for example through transactions with the parent or group in form of expenses or other cost.

7. Would any of the potential options carry material risk of unintended consequences?

We do not see material risks of unintended consequences with the options to expose equity to loss and return value to creditors, provided the mechanism is credible, predictable and available ex-ante, and does not assume all clearing participants are able to hold CCP equity (paragraph 28). We would, however, underline the importance of a credible route to compensation from a financial stability perspective. In principle, where participants cannot estimate their potential exposure in resolution, there is an incentive to take pre-emptive protective action, such as reducing or closing out cleared positions, transferring positions to another CCP, or withholding liquidity, which can hinder resolution and transmit stress to the wider market.

We agree that profit sharing agreements need to be carefully crafted, so that the objectives of the CCP owners and the clearing members that receive shares of the profit are aligned. As mentioned above, the CCP would need to refrain from "managing" their expenses in order to pass profit back to the CCP group. This would require a level of supervision. Also, the profit-sharing arrangements must not stop the CCP from investing in systems and its risk management framework. Finally, the maximum percentage (so that the CCP owners still receive a part of the profit, albeit smaller than before) and duration should be an additional consideration from the Bank. For example, 10 years could represent an appropriate amount of time and compensation should not scare away prospective equity investors in the CCP. However, for compensation to be effective in addressing moral hazard concerns, it is important that all due compensation is paid. Depending on the scenario – for example the prevailing economic and financial conditions – it could take a protracted period for a CCP to be consistently and materially profitable after a recovery event. As noted in ISDA/FIA's response to ESMA's RTS on compensation[3], there should also be a strong incentive for the CCP to pay all its dues to members and clients and therefore any time limit might not be appropriate. We propose a sliding scale: for the first 10 years, 70% of profits are available for compensation, but for years 11 to 20 only 50% of the CCPs profits would be available for compensation.

Partial Tear-Up (PTU) considerations

8. Might the Bank adopting a pro-rata approach to a tear-up present any risks or potential unintended consequences? What factors should the Bank consider when assessing whether and if so how, to utilise any flexibility in the allocation or scoping of a statutory tear up in resolution?

First, we welcome the clarification under paragraph 34 that "a statutory tear up in resolution must be performed at a commercially reasonable price and therefore does not reallocate losses from some clearing members to others nor generate resources for any reason, including the recapitalisation of the CCP". We welcome the Bank confirming explicitly its indication that a statutory tear-up would not be used as a loss-allocation tool.

We however do not agree that this would mean tear-ups should not be subject to the NCWO safeguard. Even if the tear-up is executed after the VM run, where mark-to-market is reset to zero, affected firms will still incur cost in rehedging themselves in a stressed market.

We also caution against any approach that would look to apply the tear-up power in a way that would target specific clearing members, as this would raise complex NCWO implications and be extremely inequitable. The Associations have always advocated against "hit the firms that can take it" approach.

ISDA and FIA have in the past done a lot of work on partial tear-ups. Please refer to the paper Partial Tear-Up: Comparison to other rebalancing tools and how the tool could evolve (the PTU paper). This paper discusses the pros and cons of narrow versus wider allocation of tear-ups. For instance, while generally narrow tear-ups appear less impactful, in extreme cases these can arbitrarily affect a small number of clearing members, and in the extreme case where the other side of a transaction to be torn up is with only one clearing member would amount to invoicing back.

Then, on the pro-rata approach, "in which the tear up is distributed across non-defaulting clearing members and clearing accounts proportionally based on each of these accounts' share of the holding of positions in contracts selected to be torn up": we agree that a pro-rata approach is, in principle and subject to the considerations above, often the most

[3] Microsoft Word - FIA-ISDA response Art 20 Recompense

equitable basis for distributing a tear-up across non-defaulting members and accounts. As the DP acknowledges, tearing up a non-defaulting member's (or client's) positions removes contracts that may be hedging other exposures, including positions held outside the CCP, leaving those participants under-hedged and exposed to market risk at a moment of acute stress. This can transmit losses and liquidity pressure into the wider market and act as a channel of contagion, even where the allocation is proportionate. On the other hand, the market participants whose contracts are torn up might have, compared to the CCP, more ways to re-hedge themselves in other markets. They could, for instance, hedge a torn-up interest rate swap with futures or by buying/selling the underlying asset, at least initially. We agree that narrow tear-ups could be the least impactful measure, but it could be better for financial stability if the tear-up could be less narrow and affect more market participants, but with smaller contract sizes being torn up. In the PTU paper, we propose a loss allocation methodology that tear up contracts even with some small tolerances in terms of maturity dates and coupons.

We also note that while partial tear-up may be operationally more feasible for ETDs, it is far more disruptive for long-dated OTC products such as IRS and CDS, where re-hedging could be difficult under stressed conditions, especially for long dated transactions. However, we are also mindful that it is most likely that use of the PTU power would be necessary on OTC derivatives rather than ETC products.

On the impact of the partial tear-up approach on netting, as noted in ISDA's accounting committee paper, the assessment should focus on whether the method for identifying the set of trades for pro-rata tear-up is broad enough to ensure the probability of identifying only the original bilateral transactions is low.[4] As noted in that paper, for non-standard-term products, there might be a lower number of trades on which to apply the partial tear-up for each trade type across the total volume of all trades. It is therefore more likely that the only clearing participant to hold an identical offsetting risk position (i.e., same rate, tenor, currency) is the same clearing participant that originally faced the defaulting clearing member on a bilateral trade. The paper recommended that the CCP may wish to identify a broader set of transactions for partial tear-up (such as all interest rate swaps in a particular currency) to avoid negating the conclusion that the CCP is the principal counterparty of the clearing member. The same recommendation would apply to the BoE as resolution authority in the event it resorts to this tool. A tear-up methodology that is based on tearing up all open contracts within a defined subset is therefore expected to be necessary for non-standard-term products.

On the Bank's proposal of utilizing a pro-rata approach, we understand that some CCPs cater for compression with blended coupons by looking at cash-flows, not identifying equal-and-opposite transactions. We therefore would welcome indication that the Bank would work with CCPs and market participants to determine the right tear-up strategy for all CCPs under its remit and consider the tear-up strategy already used by the CCP in question. Members also note that, to their knowledge, CCPs have not in practice tested the operational execution of tear-ups. We would therefore suggest that the Bank considers, as

[4] isda-accounting-committee-ccp-recovery-tools-white-paper-oct-13-2015-final.pdf

part of resolvability assessments, that CCPs demonstrate and test the operational feasibility of any tear-up methodology on which the Bank may need to rely.

9. Should any of these factors, or subset of factors, be prioritised over others by the Bank in performing our ex-ante or resolution scenario specific assessments?

We believe that this needs to be looked at holistically. A key consideration would be how narrow the tear-up would be, and whether there is a sufficient number of clearing members on the other side of the tear-ups. We would suggest that the Bank looks at the network of transactions and identify ex-ante, as part of resolvability assessments, which transactions might be difficult to tear up. We also note that most CCPs have sophisticated tear up strategies, which are part of their rulebook. The Bank could leverage CCPs' tear-up framework as a first port of call for the ex-ante analysis of the impact of the tear-up power.

Members would also encourage the Bank to weigh, as one of the factors, whether a partial wind-down of a specific clearing service (at the level of a specific underlying product or currency) could in certain circumstances be a more appropriate course of action than a tear-up, for example where doing so would better preserve the continuity of the CCP's other clearing services, or improve the overall prospects of an orderly resolution. By way of illustration, the resolution of a single currency within a swaps service (in the context of LCH Ltd) might be better addressed through a targeted wind-down of that a specific currency than through winding down a few transactions, which could put netting at risk, as noted above. The optimal strategy is likely to be CCP- and service-specific, which reinforces the case for scenario-based ex-ante planning.

As part of resolvability assessments and resolution planning, the Bank could also consider leveraging the concurrent supervisory work on annual CCP default management oversight and recovery fire drills, including an assessment of the realism, severity and credibility of the scenarios tested and the outcomes achieved, and also consider very extreme scenarios, that might not be plausible anymore but could test recovery and resolution strategies. This should encompass a review of the potential utilisation and adequacy of CCP financial resources and risk waterfalls, as well as an evaluation of the scale of losses that could arise under extreme but plausible market stress events.

Such insights would support timely and proportionate supervisory actions aimed at preserving the effectiveness of CCP loss-allocation arrangements, minimising unnecessary depletion of surviving clearing members' default fund contributions, and reducing the risk of broader financial market disruption during periods of acute stress.

10. Could the Bank's potential consideration of different options with regard to the scoping or allocation of a partial tear up in resolution carry material risk of unintended consequences?

In paragraph 38, the Bank notes that it "could also consider whether the scope of a given tear up, that is the total size of cleared positions to be terminated, should differ from just the outstanding cleared positions held by the defaulting clearing member or members". As mentioned under question 9, the Bank should consider closely what impact the tear-up would have on clearing members, and consider options that would spread the tear-up among a wider set of clearing members. Please refer to the PTU paper for more details.

Relatedly, as discussed by the Bank in paragraph 37, the Bank notes that it would expect "where reasonably possible" to "gather information about the defaulted clearing member's (or members') positions and the market conditions prevailing at the time including information on the size of the market". Members would welcome further indications as to what data the Bank expects to rely on to scope and execute a tear-up, and from where it would be sourced. We assume that the only credible source of data would be the CCP itself, as they hold the book and records of what is cleared. The granularity, timeliness and reliability of that data will materially constrain the tear-up strategies actually available to the Bank in resolution (see also our comments on resolvability outcome 3). We also note that it would not be a desirable outcome to concentrate tear-ups on entities the Bank has information about through their prudential supervision remit for example.

CCP resolvability outcomes

11. Has the Bank identified an appropriate set of 'resolvability outcomes' for CCPs? Are the topics set out in the high-level descriptions of these outcomes comprehensive, reasonable and proportionate?

We agree with these outcomes. As noted in our response[5] to the Bank's consultation on its approach to determining commercially reasonable payments for contracts subject to a statutory tear up in CCP resolution, outcome 3 with regards to the CCP's capacity to provide data, modelling and analytical capabilities should include looking into the CCP's own rules and arrangement to generate commercially reasonable prices.

12. Are there any further issues the Bank should consider when assessing the resolvability of a UK CCP?

We note that under paragraph 41, the Bank states that it has "no intention to introduce a Resolvability Assessment Framework requiring periodic self-assessment and public disclosure of a type similar to that applied to systemic banks in the UK", noting that CCPs have extensive resilience and recovery arrangements, and that, as noted under paragraph 44, "existing CCP recovery arrangements and capabilities will either meet or substantially contribute towards CCPs being able to meet the resolvability outcomes that the Bank is developing." Given the impact of enacting resolution on clearing participants, we believe that making at least part of the resolvability assessment and the resolution plan public would be helpful for clearing participants, and also for the Bank's resolution proceeding, as clearing participants would act based on that information, and not based on potential worst-case scenario. The latter could be very unhelpful for the resolution proceedings.

[5] ISDA-FIA-Response-to-BoE-Consultation-on-Tear-up-Power.pdf

In this respect, members would point to the approach in the United States, where systemically important institutions are required to prepare and publicly disclose a redacted version of their resolution plans (so-called "living wills"), with commercially sensitive information removed. A comparable approach for UK CCPs, disclosing an appropriately redacted part of the resolution plan, whether publicly or at least to clearing members, would allow participants to plan on the basis of reliable information rather than worst-case assumptions, without compromising sensitive content.

More broadly, members strongly support the Bank in retaining flexibility in the tools and actions available in resolution. That flexibility is valuable and should be preserved. However, a degree of transparency would also be of significant value to the industry. In particular, as the Bank develops its impact assessment, it could consider publishing a set of high-level, illustrative scenarios together with the types of resolution action it would be likely to consider in each. We recognise that the relevant dimensions are numerous and may be CCP-specific, market-specific and participant-specific. Setting out such scenarios would help the industry understand the likely range of outcomes, and would also highlight where the Bank may need additional data to make well-founded assessments of specific resolution actions. For example, a decision to apply a tear-up to house rather than client accounts may be operationally impossible depending on the data available, an outcome members would clearly wish to avoid, and early transparency on such constraints would benefit both the Bank and the industry.

We would also suggest to set out more explicitly as part of resolvability outcome how the BoE would intend to cooperate with third country authorities in a resolution scenario affecting a UK CCP. As noted in a recent ESMA Joint Monitoring Report report[6], one remaining concern from the ESRB relates to the scenario where recovery or resolution tools are triggered, and potential "risk of losses for the EU financial system from a failure of the CCP providing clearing services deemed to be of substantial systemic importance". We would encourage the Bank to consider as part of resolvability assessment and in its definition of resolvability outcomes how to allay third country authorities' concerns with regards to the impact of resolution proceedings on third country financial systems.

[6] See in particular box 1 in ESMA91-1525761655-5414 Annual report of the Joint Monitoring Mechanism

About FIA

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Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 79 countries. These members comprise a broad range of 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, such as exchanges, intermediaries, clearing houses 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 website: www.isda.org. Follow us on LinkedIn and YouTube.