

NEWS RELEASE
For Immediate Release

ISDA Proposes CCP Recovery and Continuity Framework

NEW YORK, January 26, 2015 – The International Swaps and Derivatives Association, Inc. (ISDA) today announced the publication of a new position paper that sets out a proposed recovery and continuity framework for central counterparties (CCPs).

Clearing houses have become vital to derivatives market infrastructure following the implementation of new regulations that require standardized over-the-counter derivatives to be cleared. As a result of their systemic importance, CCPs are required to develop recovery plans to avert a threat to their viability and ensure they can maintain the continuity of critical services without requiring the intervention of resolution authorities or resorting to public money.

The ISDA *CCP Default Management, Recovery and Continuity* paper proposes a framework for recovery and sets out tools that can be used to re-establish a matched book following the default of one or more clearing members. The paper does not cover non-default losses and those relating to liquidity shortfalls.

The proposed recovery measures are consistent with the recommendations made by the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions in October 2014, and include a portfolio auction of the defaulted clearing member's portfolio, limited cash calls to solvent clearing members, loss-allocation mechanisms in the form of a pro-rata reduction of unpaid obligations of the CCP, and consideration of a partial tear-up of contracts to re-establish a matched book.

ISDA believes the recovery of a CCP is preferable to its closure. As a result, recovery efforts should continue so long as the CCP's default management process is effective, even if pre-funded resources have been exhausted. In the event the default management process hasn't been effective in re-establishing a matched book – signaled by a failed auction – the CCP may have to consider the closure of the clearing service. At this point, it is likely that resolution authorities will be considering whether this should trigger resolution.

ISDA also believes that recovery measures should be clearly defined in clearing service rule books to provide transparency and predictability over the maximum time frame for the default management process before recovery tools are deemed to have failed.

ISDA further recommends that clearing services should be segregated and structured to be of limited recourse to the clearing provider to mitigate the potential for contagion across other clearing services of the CCP.

The proposed framework on CCP default management, recovery and continuity follows ISDA's publication of a set of [high-level principles for CCP recovery](#) in November 2014, which called for greater CCP transparency, use of standardized stress tests and significant CCP 'skin in the game'.

"Many clearing houses are systemically important and it's vital they have robust mechanisms in place in order to recover from a threat to their viability. ISDA and its members believe that the recovery of a clearing service is preferable to its closure, and we think the proposed recovery framework outlined in this paper offers a comprehensive and effective set of detailed measures to ensure a CCP's ongoing viability," said Scott O'Malia, ISDA's Chief Executive Officer.

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

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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 67 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, 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 web site: www.isda.org.

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