

NEWS RELEASE
For Immediate Release

**ISDA Publishes “The Economics of Central Clearing: Theory and Practice,”
A Discussion Paper on Clearing Issues**

NEW YORK, May 23, 2011 – The International Swaps and Derivatives Association, Inc. (ISDA) today announced the publication of an in-depth discussion and analysis of the purposes, function and issues associated with central clearing of over-the-counter (OTC) derivatives.

The paper, “The Economics of Central Clearing: Theory and Practice” is authored by Craig Pirrong, Professor of Finance at the Bauer College of Business at the University of Houston. It is the first in a series of discussion papers covering key topics in OTC derivatives, public policy and financial regulation that will be written by acknowledged experts in their fields of study. The new paper is particularly timely given the current regulatory proposals to expand the role of central clearing, and the active debate about the rules that should apply to it.

Central clearing can provide significant benefits to the stability of the financial system. Current statistics indicate that approximately 50 percent of the interest rate swaps volume outstanding has been cleared, and over \$17 trillion of credit default swaps has been cleared.

The paper points out both the benefits and potential issues related to central counterparty clearing facilities (CCPs). Several of its more important conclusions include:

- CCPs can successfully reduce and reallocate counterparty risk through rigorous preparation for, and management of, member defaults;
- CCPs can also create systemic risk, and it is imperative they have strong and conservative risk management and sufficient financial resources to withstand stressed markets. They also require close supervision by regulators;
- The margin policies of CCPs can pose risks to the efficient functioning of the financial system. Mandatory clearing of OTC derivatives will lead to a large amount of liquidity being tied up as margin at CCPs. Increases in margin requirements by CCPs during a crisis could be destabilizing;
- CCPs should generally align control, governance and membership requirements with the interests of participants that absorb their risks and share their losses.

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The paper is available on the ISDA website [here](#).

About the ISDA Discussion Papers

The ISDA Discussion Papers are a new series of publications covering key topics in derivatives, public policy and financial regulation. Each is written by an acknowledged expert in the field, and they are aimed at informing debate, encouraging discussion and illuminating public policy options as the derivatives markets evolve. Since its inception, ISDA has led the debate on derivatives matters, and the discussion paper series continues that tradition of thought leadership.

About Professor Craig Pirrong

Craig Pirrong is Professor of Finance, and Energy Markets Director for the Global Energy Management Institute at the Bauer College of Business at the University of Houston. Professor Pirrong's research focuses on the economics of the organization of financial markets, including the economics of exchange and OTC markets, and the economics of clearing and other mechanisms for allocating counterparty credit risk. He has also written extensively on commodities and commodity derivative pricing; the relation between market fundamentals and commodity price dynamics and the implications of this relation for the pricing of commodity derivatives; derivatives market regulation; and market manipulation. He has consulted widely with exchanges around the world, has testified before Congress on energy pricing, and has served as an expert witness in a variety of cases involving derivatives and commodities markets.

About ISDA

Since 1985, ISDA has worked to make the global over-the-counter (OTC) derivatives markets safer and more efficient. Today, ISDA is one of the world's largest global financial trade associations, with over 800 member institutions from 56 countries on six continents. These members include a broad range of OTC derivatives market participants: global, international and regional banks, asset managers, energy and commodities firms, government and supranational entities, insurers and diversified financial institutions, corporations, law firms, exchanges, clearinghouses 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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