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CPMI-IOSCO CONSULTATIVE REPORT: RESILIENCE AND RECOVERY OF CENTRAL COUNTERPARTIES (CCPs) - FURTHER GUIDANCE ON THE PRINCIPLES FOR FINANCIAL MARKET INFRASTRUCTURE (PFMI)

INTRODUCTION

The World Federation of Exchanges (WFE) is the global trade association that represents more than 200 Financial Market Infrastructures (FMIs), of which more than 100 are Central Counterparties (CCPs) and Central Securities Depositories (CSDs). Our members include exchange groups as well as standalone CCPs[1].

Our members are both local and global, operating the full continuum of Financial Market Infrastructure in both developed and emerging markets. Of our members, 36 percent are in the Asia-Pacific region, 42 percent in EMEA and 22 percent in the Americas. The market capitalisation of entities listed on our member exchanges is $68.5 trillion, and around $26 trillion in trading annually passes through the infrastructures our members safeguard[2].

The WFE works with standard setters, policy makers, regulators and government organizations to support and promote the development of fair, transparent, stable and efficient markets around the world.

The WFE and its members share the CPMI and IOSCO's goals of ensuring the safety and soundness of the global financial system, which is critical to enhancing investor and consumer confidence, and promoting economic growth. In that context, WFE appreciates the opportunity to respond to this consultative report[3] relating to resilience and recovery of central counterparties (further guidance on the PFMI).

EXECUTIVE SUMMARY

As the CPMI and IOSCO are aware, FMIs performed well through a range of significant market stress events including the 2008 global financial crisis and - more recently - in the global market volatility seen in August 2015 and at the beginning of 2016. Despite their impressive track record through stressed market conditions, FMIs continue to refine and improve their resilience and ability to manage future market crises as the core function of their offering.

The WFE welcomes well-designed international efforts to enhance and strengthen the resilience of the financial system post-crisis and supports further initiatives which encourage that objective. The WFE has previously publicly expressed support for initiatives such as the CPMI-IOSCO Principles for Financial Market Infrastructure (PFMI) and the FSB Key Attributes, and has sought to proactively contribute to the international debate on these issues and others – including CCP risk management,

[1] The WFE membership list can be found here

[2] As at end 2015

[3] CPMI-IOSCO Consultative Report

recovery and resolution[4]. In doing so, its members have contributed significantly to the strengthening of the system via the implementation of many post-crisis initiatives, including efforts to encourage central clearing of derivatives as per the G-20 direction.

Whilst supportive of the PFMI and the appropriateness of its principles-based nature – designed to enable sound global risk management practices and standards to "flex" to take into account nuances in jurisdiction, market structure and product cleared – and acknowledging the objective of bringing greater clarity to those standards, our overarching concern is that the proposed further guidance is, in places, too prescriptive, potentially undermining the ability to dynamically manage risk.

In particular, we provide our thoughts and comments on the following areas:

- **Governance**: We consider the proposals as described are ambiguous (and potentially harmful) relating to the expectations on the role of the Board of a CCP. Furthermore, we urge careful consideration in ensuring an appropriate level of feedback/disclosure to the market – specifically relating to the stress testing framework and scenarios;

- **Stress Testing**: We are concerned there is a risk of overly burdening the clearing system through imposing additional financial requirements, leading to potential adverse effects in terms of participation, and having a consequent effect on cleared markets. In particular, we suggest that the proposals go beyond what is reasonably likely/plausible relating to both client exposures, and intraday market changes;

- **Coverage**: We reflect that, whilst we consider Cover 1 / Cover 2 as currently set out to remain appropriate, the aggregate effect on the clearing system needs to be considered alongside additional stress testing and margin requirements;

- **Margin**: We consider the guidance overly prescriptive on certain tools – particularly margin models designed to reduce pro-cyclicality - which may restrict the ability to manage risk and design appropriate new innovative solutions. We consider value in retaining ability to make use of individuals' expertise – particularly in stressed times – rather than being restricted to model-driven methods;

- **CCP Contribution to Losses**: We argue that incentives of CCPs and clearing members need to be aligned and balanced. CCPs should have appropriately sized contributions to ensure balanced incentives and inspire market confidence, although this should not subsidise risk takers and create wrong incentives for them. Furthermore, in raising extra capital, we consider that CCPs need the flexibility to take into account the specific situation, market structure and market conditions; and

- **Recovery Planning**: In general, we agree the proposals are in line with the CPMI-IOSCO report on Recovery of Financial Market Infrastructures. However, we suggest there is a lack of clarity relating to assessment powers, and advocate for both voluntary and mandatory cash calls as reasonable recovery tools.

Our comments below seek to further elaborate on these issues, setting out our analysis and likely consequences as a result of the proposed further guidance.

[4] WFE: CCP Risk Management, Recovery and Resolution – Aligning CCP & Member Incentives

GENERAL REMARKS

FMIs are a critical part of the global financial markets and play a key role in mitigating risks for all participants in the markets they serve. FMIs performed well during and after the crisis, with this explicitly recognised in many of the G-20 post-crisis reforms. Additionally, they have proven to be part of the post-crisis solution, enabling companies to raise capital and manage risk, helping economies recover and grow following the largest global recession of modern times in addition to offering a bedrock of systemic stability.

The WFE welcomes international efforts to enhance and strengthen the financial system through regulatory reforms that will – amongst other things - increase market confidence whilst reducing systemic risk.

WFE has previously expressed support for initiatives such as the CPMI-IOSCO PFMI, and in particular the principles-based approach through which they have been issued. This has enabled CCPs to employ prudent risk management practices that sufficiently flex to fit the national/regional legal and regulatory requirements in which they operate, alongside suiting the nuances of the products and markets that they clear for.

However, whilst acknowledging the objective to bring further clarity and granularity to the existing PFMI standards, we are concerned that the proposed further guidance creates a more prescriptive layer of risk management requirements for CCPs which will compromise the effectiveness of the generally accepted and adhered to overarching standards. In particular we believe that this could likely lead to:

- The elimination – in some cases – of the discretion that CCPs need in order to employ risk management practices that are best suited for their specific environment and product/market offering;

- The inability to be nimble and be able to navigate and address a constantly changing market and clearing environment – and consequent types/nature of risk – given the likelihood that the more detailed the requirements, the more quickly they will become outdated; and

- The prevention of the ability for CCPs to exert judgement and technical expertise, and furthermore constrain risk management thought-leadership.

SPECIFIC COMMENTS

FMIs have proven themselves to be resilient through the financial crisis, and continue to constantly refine and improve their resilience and ability to manage future market crises. Risk management is the core offering and speciality of WFE members.

With regard to the particular aspects of the consultative materials, we would specifically note the following:

2. GOVERNANCE AND DISCLOSURE

GOVERNANCE

Within the proposed guidance lies the explicit responsibility for the Board of Directors (or equivalent) to perform a number of functions[5].

Literally taken - i.e. that the expectation is on the Board to be executing more of those management functions - we contend that this would undermine a CCP's ability to deliver proactive, prudent and appropriate risk management. Further, this would undermine the ability of the Board to perform core functions such as overseeing and challenging the management in an independent capacity. It may also dis-incentivise future participation in CCP Boards, as the functioning of a CCP's Board in the area of risk management would markedly differ to that in other areas of CCP oversight (and to Boards in other sectors).

We assume, therefore, that the intent of the guidance here is that Board has ultimate ***accountability*** for the risk management framework (and risk tolerance), although on a day-to-day basis would delegate risk management decisions to the management of the CCP (with the Board retaining overall responsibility). This would be more in line with existing general corporate governance principles and best practice[6] and therefore be more appropriate than the alternative.

To elaborate on the wider concern:

- It is clear and reasonable that the Board requires the necessary information on which to make informed decisions on significant matters relating to the risk profile of the CCP. However, we do not believe it appropriate or practicable for the Board to be involved in the more granular risk management decisions, which are better suited to the senior management of the CCP.

- The overall stress testing framework takes into account a breadth of scenarios, and the removal of one stress scenario – which is a small part of the wider framework - shouldn't therefore have a material effect. As such we believe the removal of a historical stress scenario should be the responsibility of the CCP management, and not the Board, unless management determines that it would have material impact on the risk profile of the CCP. Of course the Board requires visibility and understanding of the overall stress testing framework as it would be part of the broader risk appetite of the CCP - which would allow them to investigate the scenarios utilised - but managing risk at the granular level is better suited to the executive and management.

- Whilst different CCPs have different governance structures, a balance needs to be struck between the Board and management – including an appropriate clarity in respective roles. Without this clarity, not only would the quality of risk management be compromised, it would likely undermine the Board's ability to oversee and challenge the management in an independent capacity.

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[5] including setting and maintaining the required level of financial resources (2.2.1, 2.2.6), identifying and evaluating the choices and trade-offs in the design of the margin system (2.2.4), determining the amount and characteristics of a CCP's own financial resources to absorb certain losses (2.2.9), assessing and limiting pro-cyclical changes in the overall quantity of financial resources (2.2.11), ensuring the annual independent validation is conducted of the margin system and stress testing framework and that this is subject to independent review (2.2.14), and establishing a disclosure and feedback mechanism for all relevant market stakeholders (2.2.15)

[6] For example, including that contained in the CPMI IOSCO PFMI, and the G-20/OECD Principles of Corporate Governance

- Requiring an inappropriate amount of focus on one discrete area of the Board's oversight role will reduce the Board's ability to fulfil their other functions such as strategic planning, finance and audit, among others.

Furthermore, we assume that utilising appropriately composed and structured subcommittees of the Board – with specific delegated responsibilities – to manage the diverse responsibilities of Boards of major companies is envisaged when referring to "equivalent bodies" to the Board. This is a corporate governance best practice[7] that ensures that appropriate oversight is undertaken by the Board alongside the provision of 'accurate, relevant and timely information'[8].

DISCLOSURE / FEEDBACK MECHANISM

Within the proposed guidance, it is suggested that it should be the Board's responsibility to establish a comprehensive disclosure and feedback mechanism from relevant stakeholders (2.2.15), which should include a number of items relating to a CCP's margin system and stress testing framework[9], including all scenarios and information related to the management of pro-cyclicality. Furthermore, the Board is tasked with soliciting and receiving feedback from market participants on the amount and characteristics of its own resources exposed to losses, alongside suggestion of a range of public, and semi-public (i.e. member, on demand) disclosures[10]. Our concern here is as follows:

- **General**: Whilst there are clear benefits of disclosure and feedback mechanisms, the level of each needs to be carefully calibrated to take into account the balance between the risk-based, and commercial, interests of market participants. Different CCPs operate different governance structures and feedback mechanisms can take a variety of different forms. In soliciting views from market stakeholders, we therefore assume from the guidance it is intended that a CCP's risk committee - or similar non-Board committee which is designed to facilitate members' risk-based feedback to ensure system stability and safety of the CCP - is an appropriate forum through which to solicit views from market stakeholders.

- **CCP's Contribution to Losses:** It is important to be clear on the type of feedback sought from market participants relating to a CCP's contribution to losses. As currently drafted, the guidelines do not appear to acknowledge nor remedy the incentive effect of the size of a CCP contribution to losses on clearing members (i.e. that requesting feedback may create an incentive to provide feedback that is commercially advantageous to the firm). Ignoring these incentives could result in CCP loss-absorbing resources that are overly large, effectively allowing the risk-neutral CCP to subsidise the risk-taking market participants.

- **Level of Disclosure to Stakeholders**: The level of disclosure to market stakeholders needs to acknowledge the concerns and risks of disclosing information that can be used for commercial gains. The CPMI-IOSCO Quantitative and Qualitative Disclosures – alongside other disclosure requirements and practices – already provide a balanced, transparent approach to disclosures. We are concerned that the proposed level of granularity for disclosures related to stress testing could undermine the risk management benefits of a prudent stress testing framework, as it would

[7] G20/OECD Principles of Corporate Governance (2015), pg. 52
[8] G20/OECD Principles of Corporate Governance (2015), pg.53
[9] As described in 2.2.17
[10] See Industry Group suggestions – annex to CPMI-IOSCO Cover Note to this consultative report

enable market participants to "game the system" should they have access to too great a level of detail relating to scenarios. CCPs do not operate in a similar way to banks, who's public disclosures of stress exposures are related to exposures that they create and control. CCPs are not risk takers, and it would be inappropriate to disclose information relating to exposures of market participants, particularly given they could be used for commercial benefits by changing their approach to risk taking in a manner that would limit their financial obligations and potentially increase risk in the market. If indeed this disclosure is to be mandated, a CCP would likely require some form of waiver or indemnification to be signed by its clearing members so that any adverse implications of disclosing data would result in no liability for the CCP.

3. STRESS TESTING

GENERAL

There are many parts of the Consultative Report that propose add-ons, buffers or floors (for both margin, and default fund, requirements). The Consultative Report also suggests that CCPs should be able to call for more financial resources faster and more frequently.

Whilst we agree with the overall outcome that exposures are at all times covered by financial and liquidity resources, we are concerned that some of the requirements described may result in obligations which make central clearing uneconomical. As such we suggest the impact of these additional requirements should be considered carefully in light of the issues which already exist relating to banking capital (for example through current proposals for the Supplemental Leverage Ratio[11]) which fail to appropriately account for the centrally cleared market structure.

For example, such requirements could force some clearing members to exit the business, leading to further concentration of the membership base at many CCPs and reduced client access to the risk mitigating benefits of central clearing. Further, this would result in difficulty to auction and port client and defaulter positions in a default management situation.

CLIENT EXPOSURES

Whilst acknowledging the principle of rigorous stress testing using conservative assumptions, we do not think it reasonable nor necessary to impose a standard that implies CCPs need to maintain resources to cover the exposure of all clients of a defaulted clearing member.

In particular, it does not appear plausible to assume (and therefore hold capital against) the situation that the CCP will be unable to port any client accounts of the defaulted clearing member as this has not in practice (to our knowledge) occurred in previous default scenarios[12]. However, the likelihood (or not) of porting in the event of a default should be considered in the context of each jurisdiction's specific risk management requirements.

[11] See WFE response to BCBS Consultative Document: Revisions to the Basel III Leverage Ratio Framework
[12] i.e. customer portfolios have successfully and quickly been ported to surviving clearing members

INCLUSION IN INTRADAY MARKET CHANGES

The Consultative Report proposes that a CCP should consider the effects of how positions may change on an intraday basis by using historical and forward looking stress-scenarios that are based on intraday position changes. Also that they should consider changes to the size, composition, and directionality of participants' positions during the day, and that they should consider incorporating historical and forward-looking stress scenarios that are based on peak intraday and intra-period price moves, in addition to stress scenarios using end-of-day changes.

Regarding the use of intra-period or peak price moves, accounting for the historical maximum price change over potentially a 30-year plus period within a CCP's stress observations outside those calculated during a settlement cycle creates significant cost without any major benefit. We caution that the proposed guidance should not view the construction of appropriately "extreme but plausible" stress scenarios in a vacuum. For example, the likelihood of a CCP having to close out a defaulted clearing member at the exact bottom (or top) of a market move outside of a settlement cycle does not appear to be plausible. Furthermore, in accounting for such price moves in setting stress testing scenarios, these scenarios may be extreme but **not** plausible, and therefore the likelihood of the default could actually be negligible.

CCPs' intraday exposures are risk managed using a collection of tools in addition to stress testing including, but not limited to, initial margin, settlement variation, and participant monitoring. Therefore, it is important that no one component within this is required to be so conservative as to pose liquidity constraints on market participants.

4. COVERAGE

COVER 1 / COVER 2 MINIMUM STANDARD

We consider that Cover 1 / Cover 2 is still appropriate for liquid and financial resources respectively. The grouping of affiliated clearing members in stress testing is generally considered paramount to a CCP's risk management. However, we advocate that the Cover 1 / Cover 2 requirements should be considered alongside the additional and expanded stress testing and margin requirements (which we consider in many cases to be extreme and implausible).

Further, in maintaining sufficient financial resources, the different roles of initial margin and default fund resources should be considered. Initial margin collateral has those who bring the risk bear the risk, whereas default fund collateral mutualises the risks of clearing members under extreme but plausible market events. An appropriate balance needs to be struck between the two in order to promote the necessary incentives for prudent risk management in both times of business as usual and market stress events.

PAYMENT OBLIGATION

The Consultative Report states that a CCP should have sufficient liquidity to meet payment obligations associated with the "delivery of securities, foreign exchange, and physical assets".

We agree it is prudent risk management for CCPs to maintain sufficient financial resources to meet their potential payment obligations under clearing member default scenarios. However, it is already general market convention that, in determining such payment obligations, ex-ante information which addresses a CCP's payment obligations for the contracts for which it clears – as laid out in the CCP rulebook - needs to be considered.

5. MARGIN

PRO-CYCLICALITY AND INTRADAY MONITORING

We note the proposals as laid out in the Consultative Report relating to pro-cyclicality and intraday margining.

We support the overall objective to appropriately manage pro-cyclicality in the course of prudent risk management. However, the guidance as proposed contains significant prescription around the use of certain tools – primarily related to margin – designed to reduce pro-cyclicality. The risk is that this level of prescription may ultimately restrict a CCP's ability to appropriately manage pro-cyclicality for the diverse group of products it clears while also undermining innovation and limiting flexibility to manage risks - particularly in times of high volatility or market stress. Taking such an approach is also likely to dilute alternative, innovative approaches to managing pro-cyclicality, such as implied volatility[13] and seasonality[14].

Further, we consider approaches to managing pro-cyclicality that are entirely model-driven do not sufficiently take into account the expertise, skills and judgement of a CCP's risk management team; these can (and have) provide(d) expert judgment and value during times of stress. We also caution that model-driven approaches run the risk of creating systemic risk, as it is unlikely that a model could adequately account for all types of risk. Ultimately, the more flexible and less prescriptive an approach – enabling adaptation to the specific circumstances[15] – the easier it is to ensure practical as well as prudent risk management.

Whilst large changes in initial margin may be viewed as pro-cyclical, other aspects of a CCP's practices can create far more destabilizing pro-cyclicality if not managed appropriately[16], which may result in even greater pro-cyclical risk in times of stress and likely cause more disruption than initial margin changes. For example, the CPMI-IOSCO quantitative disclosures demonstrate the fact that daily variation margin flows are multiples of margin calls and changes to margin requirements during stressed market conditions. These variation margin calls are particularly troublesome for clearing

[13] which is designed to account for future volatility
[14] for contracts that have clear seasonal trading patterns
[15] For example relating to political risk
[16] such as automatic hard threshold based settlement variation calls or frequent changes to haircuts

member liquidity when done on an ad hoc basis, as evidenced by the negative impact on market liquidity caused by ad hoc variation cycles following the UK referendum. We refer CPMI-IOSCO to the recent quantitative disclosures - which provide information regarding the peak size of variation margin calls - for more information on the sizing relationship between initial margin changes and variation margin calls.

MARGINING STANDARDS

The Consultative Report highlights that margin standards should be considered in the context of assessing the MPOR. In addition, it is important to consider the minimum standards – which may vary from jurisdiction to jurisdiction - for customer margin collection by both the CCP and its clearing members in assessing the robustness of a CCP's risk management. Further we note that margin collection standards of a CCP's clearing members are also important to market stability.

PORTFOLIO MARGINING

The Consultative Report notes that, when determining if products are eligible for portfolio margining, a CCP should determine:

"(i) whether a strong economic rationale exists (e.g. the products are complements of or substitutes for each other, or one product serves as a significant input into the other product);

(ii) whether a proven ability to risk-manage the products as a single portfolio already exists; and

(iii) whether a reliable joint statistical relationship between the products in the portfolio exists."

We consider it important that a reliable correlation over an extended timeframe representative of a full business cycle exists amongst products when determining if it is appropriate for them to be portfolio margined (under both stressed, and business as usual, market conditions). In addition, we believe a clear economic rationale for correlations between the products is critical. However, we caution against the utilisation of artificial floors or ceilings on offsets that are not supported by robust data analysis as an artificial approach may result in unintended consequences for the risk management of a CCP[17].

6. CCP CONTRIBUTION TO LOSSES

CCP RESOURCES FOR CLEARING MEMBER DEFAULT

The Consultative Report primarily highlights the role that a CCP's contributions can play in promoting confidence amongst market participants. However, it does not highlight the other roles it can play.

A CCP's incentives are inherently aligned with those of its market participants because of the repercussions to the CCP's only service offering (clearing) of needing to utilise the mutualised clearing member default fund. A CCP's loss absorbing contributions further align those incentives. It is vital

[17] By way of example, we are not aware of any empirical support for the 80% offset cap applied under EMIR

therefore, that a CCP's contributions are appropriately sized and an appropriate amount sits as a first loss; overly large contributions can act to subsidise the risk of market participants and create the wrong incentives for them on an ongoing basis and during a default event as they are less likely to be subject to loss.

Further, we firmly believe that both clearing members' and CCPs' contributions to managing a potential clearing member default should be risk-based. CCPs do not bring risk to the system and on a day-to-day basis operate a risk-flat book. Therefore, we consider it appropriate for them to contribute the same amount as the clearing member minimum (upon its on-boarding) since, in this circumstance, the clearing member may not bring any risk to the system.

Failing to ensure that risk takers pay for that risk[18] will reduce member incentives for appropriate risk management, alongside reduced efficiency in an auction/liquidation situation, because the non-defaulting clearing members will have less incentive to bid appropriately (given their mutualized resources are exposed to less risk).

We therefore urge CPMI-IOSCO to ensure the PFMI take all incentives into account, including those of market participants, in providing guidance on all risk management standards, including CCP contribution to losses.

Further articulation of the WFE position on CCP Recovery and Resolution: Aligning CCP and Member Incentives, can be found on the WFE website[19].

CCP RESOURCES FOR CUSTODY AND INVESTMENT LOSSES

CCP resources for custody and investment losses are addressed as one in the Consultative Report.

However, we suggest there are important distinctions to be made between investment and custody losses, specifically relating to foreseeable market risk losses versus losses tied to idiosyncratic risks or systemic failures. Specifically:

- The idea that "those who bring the risk should bear the risk" is applicable in the context of foreseeable market risk losses, and therefore it is prudent that CCP-directed investment losses should be borne by the CCP.

- However, in contrast, losses related to idiosyncratic risks or systemic failures, which would be characteristic of custody failures, should not be borne by the CCP.

Further, we remind that standard market convention is that custodians generally disclaim liability related to their utilisation of sub-custodians for addressing losses. Holding a CCP to a higher standard than an entity that is in the business of providing custody services - and contrary to market convention - would not appear appropriate.

[18] Which could occur with overly large CCP contributions – i.e. a proportionately lower contribution from those taking risk

[19] WFE: CCP Recovery and Resolution – Aligning CCP and Member Incentives

RAISING ADDITIONAL CAPITAL

The Consultative Report proposes that a CCP should specify how it would raise new capital if it were to use assets to cover other general business losses.

Our view is that CCPs should not be bound by one option to raise additional capital and must have the necessary flexibility to raise new capital in ways that are best suited to their structure and the market conditions under which that capital is being raised.

Any requirement for a CCP to commit itself to any specific option would impose unnecessary limitations on the CCP during a period of market stress; this would void the PFMI objectives of employing a principles based approach to risk management.

7. RECOVERY PLANNING

GENERAL

We consider the Consultative Report to be in line with - and primarily reiterates the guidance in - CPMI-IOSCO's report on the *Recovery of financial market infrastructures*[20].

ASSESSMENT POWERS

We consider that the context in which assessment powers is addressed - in having tools in place to re-establish a matched book - is unclear and stated as:

"To avoid the need to resort to mandatory tools such as forced allocation or tear-up of contracts, however, the Recovery Report states that "the CCP should maximise the chances of a successful voluntary approach through appropriate use of the tools described in previous sections, such as assessment rights that would provide sufficient additional resources over and above its prefunded default resources…"

We consider that both voluntary and mandatory cash calls are reasonable recovery tools. In particular, we note that the use of mandatory cash calls is in line with the guidance issued by CPMI-IOSCO in its *Recovery of financial market infrastructures* report, as assessments are measurable and provide market participants the necessary transparency.

Additionally, assessments are designed to provide sufficient resources in times of unprecedented market stress to avoid the use of tear-up and/or gains haircutting, which we assume the Consultative Report intended to imply.

[20] CPMI-IOSCO: Recovery of Financial Market Infrastructures (October 2014)

CONCLUSION

The WFE and its members are committed to ensuring the trading and clearing environments they operate are secure, stable and able to withstand shocks.

The WFE welcomes international efforts to enhance and strengthen the financial system through regulatory reforms that will – amongst other things - increase market confidence whilst reducing systemic risk. Investor confidence in public markets is crucial for the industry and, as markets evolve – and as G-20 mandates continue to be implemented encouraging greater central clearing of financial markets – legislators and FMIs should work together to ensure that risks are appropriately mitigated without undue or unintended consequences.

WFE has previously expressed support for initiatives such as the CPMI-IOSCO PFMI, and in particular the principles-based approach through which they have been issued. The flexible approach permitted under these principles allows CCPs to continue to employ prudent risk management practices that served them so well during the financial crisis while also allowing sufficient flexibility to fit the national/regional legal and regulatory requirements in which they operate, alongside suiting the nuances of the products and markets that they clear for.

However, whilst acknowledging the objective to bring further clarity and granularity to the existing PFMI standards, we are concerned that the proposed further guidance creates a more prescriptive set of risk management requirements for CCPs to follow which will compromise the effectiveness of the generally accepted and adhered to standards and the ability of CCPs to operate as effectively during the next financial crisis as they have during past systemic events. As such, we advocate for:

- **Governance and disclosure arrangements** that are appropriate and proportionate, recognising that:
    - The Board should retain responsibility for ensuring appropriate arrangements, although be able to delegate day-to-day risk management to the executive and appropriate subcommittees; and
    - The level of disclosure needs to be carefully calibrated to ensure information cannot be used for unfair activities.
- **A level of flexibility in the use of risk management tools**, to ensure they can appropriately function in stressed times, as well as take into account the nuances of local jurisdictions, products and markets;
- **An appropriate funding requirement** such that member, and CCP, contributions are risk based and create incentives that are balanced and aligned; and
- **An acknowledgement of other relevant legislation** (for example, Basel III requirements) - and the aggregate effect - to ensure unintended consequences do not arise that act to have an adverse effect on the functioning of the market or ability to manage risk.

Ultimately, we are working towards the shared objectives of achieving fair, robust and resilient markets in which investors can have confidence. In that regard, the WFE and its members stand ready to work with national and international agencies to ensure this.

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