The Clearing House Urges International Regulators to Establish Global Risk Governance Standards to Address Systemic Risks Posed by CCPs

Washington, DC – September 21, 2015 – Late Friday, The Clearing House Association (TCH) submitted a letter to the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) recommending that global supervisory authorities require central counterparties (CCPs) to adopt four key enhancements to CCP risk governance and member consultation processes. TCH has long voiced its support of enhanced regulatory oversight of CCPs given the potential systemic risks they pose.

Despite the growing recognition by regulators and market participants of the risks that CCPs may present to financial stability, TCH continues to have concerns regarding the failure to establish minimum, global standards designed to mitigate CCP systemic risks,” The Clearing House wrote in its letter. “In particular, TCH is concerned that in making key risk management decisions, many CCPs do not seek or consider the input of independent risk experts, nor do all CCPs solicit or consider the input of other relevant stakeholders, such as clearing members and clients. Because of the possible systemic risks that CCPs may pose, it is critical that CCPs’ management and boards of directors understand fully the potential risks associated with CCPs’ activities.”

In the letter, TCH urges global regulators to require all CCPs to:

- Establish CCP advisory risk committees with mandatory composition requirements and clearly articulated mandates;
- Solicit and consider the input of the advisory risk committee with respect to material risk matters that could impact a CCP’s risk profile or clearing member liability or exposure;
- Establish a process by which clearing member input is sought and meaningfully considered by CCPs’ management and boards of directors with respect to material risk matters; and
- Report to relevant regulatory authorities those instances in which a CCP’s decision on a material risk matter conflicts with the recommendation of the risk committee or clearing members.
TCH has long called for the establishment of enhanced regulatory standards for CCPs. In 2012, TCH released a white paper, Central Counterparties: Recommendations to Promote Financial Stability and Resilience, which advocated for improved CCP risk management that built upon the G20 mandate and the PFMIs and included recommendations to address key sources of systemic risks that could be posed by CCPs. Most recently, TCH submitted a letter to the FSOC urging it to lead a coordinated effort of its member regulatory agencies to address and mitigate systemic risks arising from increased market reliance on central counterparties. In the letter, TCH detailed a set of concrete recommendations that would subject CCPs to more stringent standards and help ensure that their risks are more carefully managed and mitigated.

About The Clearing House Established in 1853, The Clearing House is the oldest banking association and payments company in the United States. It is owned by the world’s largest commercial banks, which collectively hold more than half of all U.S. deposits and which employ over one million people in the United States, and more than two million people worldwide. The Clearing House Association L.L.C. is a nonpartisan advocacy organization that represents the interests of its owner banks by promoting and developing policies to support a safe, sound and competitive banking system that serves customers and communities. Its affiliate, The Clearing House Payments Company L.L.C., which is regulated as a systemically important financial market utility, owns and operates payments technology infrastructure that provides safe and efficient payment, clearing and settlement services to financial institutions, and leads innovation and thought leadership activities for the next generation of payments. It clears almost $2 trillion each day, representing nearly half of all automated clearing-house, funds transfer and check-image payments made in the United States. See The Clearing House’s web page at www.theclearinghouse.org.