

June 3<sup>rd</sup>, 2016

**VIA ELECTRONIC SUBMISSION**

Robert deV. Frierson, Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue NW.  
Washington, DC 20551  
**[Docket No. R-1534] [RIN No. 7100 AE-48]**

Re: Federal Reserve System Proposed Rule, Single-Counterparty Credit Limits for Large Banking Organizations

CCP-12 is a global association of 35 major central counterparty organizations in Europe, Asia and the Americas. This letter is submitted on behalf of the Executive Committee and the Chairman of CCP 12 and represents our position on the Board of Governors of the Federal Reserve System's (the "Board") proposed rule, Single-Counterparty Credit Limits for Large Banking Organizations (the "Rule"). CCP-12 appreciates the opportunity to provide comments to the Board on this important issue.

The proposed rulemaking regarding single counterparty credit limits would impact many of the large banking organizations that maintain direct memberships at CCP-12 members' exchanges and central counterparties ("CCPs"). CCP-12 supports the Board's proposed recommendation to exempt CCPs from the single counterparty credit limits for central counterparties that meet the definition of a qualified central counterparty ("QCCPs"). QCCPs are firms that have adopted the Principles for Financial Market Infrastructures ("PFMIs") under Regulation Q.

CCPs play a critical role in the global financial markets, mitigating and managing risks for participants in their markets. Under the proposed rules, CCPs are counted as counterparties to the covered companies, however, their role as central counterparty is unique from the covered companies intended to be the focus of the Rule. Additionally, CCPs maintain a flat market risk profile, which is distinct from the covered companies addressed under the Rule. This flat market risk position means that CCPs are not impacted by market movements; market risk swings will not directly lead to a CCP recovery. ESMA's recent stress test of European CCPs highlighted the extreme scenarios needed to force a CCP into recovery, scenarios that they ultimately determined were implausible<sup>1</sup>. As such, current resources are sufficient for all extreme but plausible stress scenarios, which themselves represent only very tail events.

By definition of the regulations they must meet to reach "qualified" status, QCCPs maintain safeguards from losses caused by at least the largest clearing members' default before they could even potentially reach a CCP recovery scenario. This is a much more stringent standard than the requirements held by any of the firms envisioned as a covered counterparty by the Rules. The fundamental differences between CCPs and other covered counterparties – in risk profile, structure,

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<sup>1</sup> "The results show that CCPs' resources were sufficient to cover losses resulting from the default of the top-2 EU-wide CM groups combined with historical and hypothetical market stress scenarios."

<https://www.esma.europa.eu/press-news/esma-news/esma-publishes-results-eu-central-counterparties-stress-test>

and financial safeguards – highlight the need to differentiate between the two with regards to the application of the single counterparty credit limit, as represented by the Board’s exemption.

CCP-12 shares the broad goals of the proposed single-counterparty credit limit rules, which are designed to reduce concentration risk and limit contagion during a stress event; however, CCPs support an entirely unique market function and as a result cannot be subject to the same standards as the other covered counterparties. CCPs play a central role in the global financial markets and maintain flat market risk exposure. CCPs are crucial to their markets, mitigating counterparty risk and ensuring efficiency in global financial markets. In particular, QCCPs, with their higher risk standards and significant financial resources available in the event of a clearing member default, should be eligible for exemption from the proposed counterparty credit risk rules.

In light of CCPs’ central position, risk mitigating impact, and broader market stabilization, the Board has proposed exempting QCCPs from any rules or orders establishing similar single-counterparty credit limits for nonbank financial companies. CCP-12 supports this proposal and would urge the Board to make this exemption permanent. Likewise, CCP-12 encourages other jurisdictions to provide a permanent exemption for QCCPs exposures consistent with this Rule.

QCCPs play a unique, risk mitigating, role in the financial system. They provide critical diversification and risk mitigation to their market participants and are subject to significant regulatory oversight to ensure compliance with their higher requirements. CCP-12 hopes the Board and other jurisdictions continue to take this into consideration with regards to the single counterparty credit limit proposed rules and appropriately account for CCPs in exempting them from this requirement.

Sincerely,



Lee Betsill  
Chairman, CCP-12