

The Clearing Corporation of India Ltd, Mumbai, India

Response to CPSS-114: CPSS IOSCO Consultative Report on Public Quantitative Disclosure Standards for Central Counterparties, October 2013

We refer to the October 2013 Consultative Document on “*Public Quantitative Disclosure Standards for Central Counterparties*” published on the BIS website.

2. We operate in India as a CCP for OTC financial market products since 2002 as an authorized Payment & Settlement System Service Provider authorized by Reserve Bank of India, the central bank of India. We presently provide CCP clearing for mainly institutional trades in Government Securities, Foreign Exchange – both spot and forward trades in Rupee/US Dollars, trades in domestic money market through our own product Collateralised Borrowing & Lending Obligation (CBLO). We are also in the process of offering CCP clearing of Indian rupee denominated trades in Interest Rate Swaps by using a trade data warehouse for such swaps created by us in Aug 2007.

3. We support the CPSS-IOSCO proposals in-principle. We are however apprehensive that many of the detail level disclosures to public will have the potential to create confusion and may not serve any useful purpose. Hence, we are of the view that the meaning of ‘public’ in this context should mean CCP’s Regulators, its Clearing Participants and other direct stakeholders unless otherwise specified.

4. Our submissions, on the issues considered in the consultative document, are as under:

i CCPs should not be required to release data where disclosure could reveal commercially sensitive information about clearing participants.

ii Given the need for developing systems to meet many of these disclosure requirements, along implementation period is required (about a year). It would be ideal if the disclosure requirements are introduced in phases after about 1 year period from its finalisation.

iii Reporting dates should be coterminous with calendar quarter ends and periodicity of reporting should ideally be annual for most of the items.

iv The applicable reporting lag should be set at a minimum of three months as against proposed one month as data will have to be culled out of financials settlement systems etc. and to be validated before release.

v CCPs should not be forced to disclose information regarding nature of business of Clearing Participants which may reveal to others some idea about concentration of positions taken by them (the Clearing Participants).

vi Some items relate to largest clearing member exposure rather than those being aggregate information. This may reveal confidential information on such entities.

vii Default handling related information may not be required to be disclosed publicly. Regulators can be provided with all details.

5. Our detailed responses on the format are as under:-

1. Para 4: Credit Risk (Principal 4):

Para 4.1: Default Resources:

Even if default fund is segregated according to clearing services, information on own capital cannot be split in the same way. Hence, this disclosure is not feasible in the way it has been asked for.

Para 4.3 : Information re. "Cover 1"&"Cover 2" requirements:

Information on both "Cover 1"& "Cover2" requirement is not relevant for CCPs which will have minimum Cover 1 requirement in relation of total prefunded resources. This will involve considerable unnecessary extra burden on the CCPs which clear less complex products.

Moreover, all of these disclosures should be kept restricted to the Regulators and clearing participants only. Public disclosures on the largest credit exposures may have little meaning outside of the country when shorn of other data such as market size, liquidity, etc, and within the country, may give rise to needless speculation.

2. Para 5 : Collateral (Principle 5):

Para 5.1 & 5.2:Haircut & collateral :

Haircut rates are changed at different frequencies depending on various factors. Usually the rates are changed on monthly basis.

Providing information in respect of all changes made during the quarter with the date of change etc. would be extensive and such information may not be of much value to the users. CCPs should instead be allowed to refer to the link in their website where this data is available.

3. Para 6 : Margin (Principle 6):

Para 6.1: Initial Margin:

The information should be required in the form of average over the quarter along with highest and lowest value. Providing daily data over a quarter would not be of much help to the users.

Para 6.2: Total Initial Margin posted:

Same remarks as against para6.1.

Incidentally, it may be noted that collaterals posted towards Initial margin are usually more than the Initial Margin required from the Clearing Participants. Hence, linking Initial Margin posted with types of collaterals would be a matter of appropriation.

Para 6.3: Initial Margin Rates:

Providing all changes made during the quarter alongwith effective dates would not be of much help to the users. If required, it should be considered adequate to provide link to the CCP's website where such details are available.

Para 6.5 : Results of Back Testing:

The backtesting model and assumptions should be required to be disclosed. Without this, the information asked for would not be meaningful.

4. Para 7: Liquidity Risk (Principle 7):

Para 7.1: Size and composition of qualifying liquid resources for each clearing service:

In our view, disclosure in public domain of composition of liquid resources would reveal sensitive information about individual liquidity providers and of the CCP. Revealing the source, may lead to clearing members coming under competitive pressure. Moreover, for some markets dominated by 1 or 2 very large players, it will be possible to identify the source.

Para 7.3: Largest Payment Obligation:

Disclosure of detailed information of the type asked for can accentuate a problem after a large default when the available resources suddenly go down (although the level will usually get restored in next few days' time).

Such information should better be kept at Regulator level.

5. Para 9: Money settlements (Principle 9):

Values in regard to settlement and values out of other margin etc. related transactions should not be clubbed and should be provided separately.

6. Para 13: Default rules and procedures (Principle 13):

Para 13.1 : Quantitative disclosures:

If quantitative disclosures are required, disclosure should be after a time lag of at least six months.

7. Para 15.1 : General Business Risk (Principle 15):

Value of liquid net assets funded by equity set aside to cover business risks should be asked for only on Annual basis. For most the CCPs, audited financial information will be available only once at the end of the year. For this purpose, information in annual financial statement should be treated as adequate.

8. Para 16: While the broad breakup of investments across assets may be provided, the break down in terms of tenor and maturities may provide little useful information, and should not be asked for.
9. Para 17: Operational Risk (Principle 17):
Information required in regard to system performance target will be difficult to be provided on quarterly basis.
10. Para 18.2 & 18.5: Access and participation requirements (Principle 18):
Information asked for is too detailed and may reveal sensitive information about the nature of business of Clearing Participants. Quarterly info on %age of members accounting for top 10% in terms of volumes and IM should suffice - thus only broad general information be required to be published.
11. Para 19: Tiered participation arrangements (Principle 19): The information in respect of top 5 and 10 Clearing members could reveal sensitive information in respect of business of those entities. Hence only broad general information be required to be published.
12. Para 23.5 & 23.6 : Disclosure of Market Data : info is sought on top 5 member jurisdictions (IM & Open Interest). For CCPs in markets outside Europe and US, arriving at the actual identity of the banks would be easy to guess and thus, this may result in disclosing sensitive information.

If any information/clarification about this submission is needed, please feel free to contact Mr Siddhartha Roy, Chief Risk Officer, The Clearing Corporation of India Ltd., Mumbai, India at +91 22 6154 6411 or via sroy@ccilindia.co.in or Mrs Indrani Rao, Chief Forex Officer, The Clearing Corporation of India Ltd., Mumbai, India at +91 22 6154 6461 or via irao@ccilindia.co.in

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