The Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) have today published for public comment the CPMI-IOSCO consultative report *Framework for supervisory stress testing of central counterparties (CCPs)* (the framework). The framework is designed to support supervisory stress tests (SST) conducted by one or more authorities that examine the potential macro-level impact of a common stress event affecting multiple CCPs (multi-CCP SSTs).

CPMI-IOSCO are publishing this consultative report to solicit feedback on the framework from interested parties, including on the proposed objective of SSTs, the anticipated benefits and other potential implications of multi-CCP SSTs, and the framework’s broader content. As noted below, CPMI-IOSCO have identified a number of targeted areas in which feedback from stakeholders, including public authorities, CCPs, clearing participants, buy-side firms and other relevant parties could be particularly valuable. However, comments on all aspects of the framework are welcome.

**Background**

In April 2015, the G20 finance ministers and central bank governors asked the Financial Stability Board to work with the CPMI, IOSCO, and the Basel Committee on Banking Supervision to develop and report back on a workplan for identifying and addressing any gaps and potential financial stability risks relating to CCPs that are systemic across multiple jurisdictions and for helping to enhance their resolvability. The chairs of the relevant committees subsequently agreed on the CCP Workplan and launched a series of workstreams under their respective committees to address the substantive priorities related to CCP resilience, recovery planning, and resolvability.

The framework published today is one part of the CCP Workplan. SSTs broadly refer to stress-testing exercises designed and executed by authorities, with or without the direct participation of CCPs. In considering the different objectives that SSTs can be designed to achieve, CPMI-IOSCO have developed this framework to support multi-CCP SSTs that are macroprudentially oriented.

As illustrated in the framework, a multi-CCP SST would evaluate the collective response of a set of CCPs to one or more common stress events, from a credit perspective, a liquidity perspective or both. In particular, a multi-CCP SST could help authorities better understand the scope and magnitude of the interdependencies between markets, CCPs, and other entities, such as liquidity providers and custodians. For instance, a multi-CCP SST could be designed to analyse concentrations of exposures to common participants, common risk factors, or common dependencies on particular service providers. In contrast to stress tests conducted in the banking sector, the SSTs envisioned under the framework would analyse the broad, macro-level impact of a common stress event affecting a set of CCPs, rather than assess the resilience of a particular CCP or assign a pass/fail metric to any of the CCPs participating in the exercise.
The framework

The framework sets out six components with underlying elements that describe the steps authorities would likely follow when designing and running a multi-CCP SST, including: setting the purpose and exercise specifications (Component 1); establishing governance arrangements (Component 2); developing stress scenarios (Component 3); data collection and protection (Component 4); aggregating results and developing analytical metrics (Component 5); and determining the use of results and disclosure (Component 6). The components are intentionally broad to accommodate any multi-CCP SST, whether carried out by a single authority or multiple cooperating authorities in one or more jurisdictions.

Since each supervisory stress-testing exercise may involve different authorities with varying responsibilities, legal frameworks, expertise and resources, the framework purposely applies a non-prescriptive and flexible approach to designing and running a multi-CCP SST. Given the number of variables at play, the guidance is intended to help authorities think through various issues, decision points and potential options, while recognising that each issue or option may not be applicable uniformly across all authorities or jurisdictions. Accordingly, voluntary and flexible application of the framework will let authorities develop the most suitable approach for their circumstances. Authorities are encouraged, but not required, to use the framework as they deem appropriate.

Key areas for stakeholder feedback

While the framework is intended to serve as a guide for relevant authorities seeking to conduct multi-CCP SSTs, these tests are also intended to elicit information that may be valuable, not only to authorities but also to a wide range of financial market participants. For example, the risk management decisions and frameworks of CCPs, clearing participants, buy-side firms and other CCP stakeholders could be informed by an SST’s results. In conducting tests, CCPs and other market participants may play a role by contributing data, information or operational capability at various points in the stress-testing process. Accordingly, feedback from a wide range of stakeholders, spanning authorities and different types of industry participants, will be valuable in a number of key areas as CPMI-IOSCO finalise the guidance in the framework.

Stakeholders are invited to share their views on all aspects of the framework and on whether there are additional topics that it would be beneficial to include in the framework. CPMI-IOSCO would be particularly interested to receive views on the following:

1. Objective and purposes of multi-CCP tests (see Introduction and Element 1.i)
   a. Is the framework clear with regard to the objective that a multi-CCP SST is intended to achieve, specifically to analyse the broad, macro-level impact of a common stress event on a set of CCPs?
   b. Do potential users of the framework consider that its structure and content, including the design tool in Annex A, are adequate to facilitate and support them in designing and running a multi-CCP SST to meet the stated objective?
   c. Do potential users of the framework consider that it is sufficiently flexible to accommodate different authorities with varying responsibilities, legal frameworks, expertise and resources?
d. What do stakeholders consider to be the benefits or other implications from a multi-CCP SST?

e. Remaining cognisant of confidentiality concerns and the potential need for aggregation and anonymisation of test results, how do stakeholders anticipate using the results of SST exercises?

2. Scope and frequency of SST exercises (see Element 1.ii, iii)

a. How can the authorities best strike a balance between the usefulness of SST results and the potential resource burdens and costs to themselves, CCPs and other stakeholders associated with conducting a SST exercise?

In particular:

i. What would be an appropriate frequency for conducting SSTs?

ii. Would the use of multiple reference dates sufficiently increase the information provided by a SST exercise to justify a higher resource cost?

3. Involvement of CCPs and other stakeholders (see Element 1.iv; Element 2.i, ii)

a. What level of engagement would CCPs and other stakeholders expect to have in the design of an SST exercise? Please explain whether the level of engagement is likely to depend on the particular purpose or design of the SST. How might stakeholder feedback best be sought?

b. Which roles and responsibilities should CCPs assume – or would CCPs expect to assume – in the design and running of an SST?

c. What safeguards would ensure that the independence of an SST as a supervisory exercise is maintained?

4. Information-sharing, data collection and data protection (see Element 2.iii, Component 4)

a. Do stakeholders perceive any legal or operational constraints on sharing the (individual/named) data required to support an SST exercise? Please describe.

b. What arrangements do stakeholders consider could be put in place to enhance the effectiveness of data collection and to promote the quality and consistency of data? What are the potential limitations?

c. What assurances would stakeholders seek if their data were to be used in an SST exercise?

d. What data protections and safeguards should the authorities put in place?

e. The framework anticipates that CCPs will be a primary source of data for many SSTs. Is this an accurate assumption? Do stakeholders agree that this approach is generally likely to be most efficient from an operational and confidentiality perspective? Are there other potential sources of data? If so, what other data sources could be relevant for conducting an SST and what guidance would be useful to provide to authorities?
5. Technical content of the framework (see Components 3 and 5)

a. Do stakeholders have any comments on the technical content of the framework, including but not limited to the guidance on setting extreme but plausible scenarios, identifying core risk factors, calibrating shocks, extrapolation, identifying defaults/failures, aggregation procedures and metrics?

b. In designing an SST, what should authorities consider when determining which risk sources and risk exposures to include? How can authorities balance the need for sufficient content with burden?

c. In designing an SST, authorities may (need to) make design choices that differ from the expectations set forth in the PFMI and further guidance on stress-testing practices by individual CCPs. Do CCPs foresee issues if authorities proceed in a manner that differs from approaches taken by individual CCPs in their own stress tests? What trade-offs would the authorities need to assess when making those design choices?

d. What is an appropriate number of scenarios to include in an SST? What factors should authorities consider when determining the number of scenarios to apply?

6. Use of SST results and disclosure (see Component 6)

a. Do stakeholders have views on disclosure of the results of an SST? Are there circumstances in which results should not be disclosed publicly?

b. Remaining cognisant of confidentiality concerns and the potential need for aggregation and anonymisation of the results, what types of disclosure would stakeholders find most useful?

Next steps

The consultative report is available on the websites of the Bank for International Settlements (http://www.bis.org/) and IOSCO (http://www.iosco.org/).

Comments on the report should be submitted by Friday, 22 September 2017 via e-mail to both the CPMI Secretariat and the IOSCO Secretariat.

All comments may be published on the websites of the Bank for International Settlements and IOSCO unless a respondent specifically requests confidential treatment.