



The Global Association of Central Counterparties

November 25th 2011

Reference: Capitalization of Bank Exposures to Central Counterparties

**Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel, Switzerland**

To whom it concerns

CCP12 - The Global Association of Central Counterparties of major central counterparty clearing house organizations across Africa, the Americas, Asia, Australia and Europe, operating an extensive range of OTC and exchange-traded markets, welcomes the initiative of the Basel Committee's public Consultation related to the Capitalization of bank exposures to Central Counterparties, which follows a previous consultation issued in December 2010.

As stated in our response submitted on the occasion of that previous consultation, CCP12 also welcomes the (majority of the) proposed Basel III reforms reflected in the proposed regulatory capital adequacy rules and understands the BIS intent, that banks make capital provisions for two major sources of exposure to CCPs:

- a) Loss mutualisation exposure: a CCP member defaults and surviving members could be exposed to loss sharing.
- b) Trade exposure: the CCP itself becomes insolvent, and clearing members face a) replacement cost risk, b) potential loss of collateral posted with the CCP which becomes part of the failed CCP's estate.

We would like to endorse the vast majority of the feedback contributed by EACH (The European Association of Clearing Houses) regarding the issues to be clarified and/or ensured in the Consultation, namely:

- In extreme situations, CCPs can fail but this is an extremely remote possibility due to their soundness compared to financial institutions that take market positions to generate revenue. CCPs are collateralized to cover the default of at least one of its members and they are subject to dedicated supervision.
- It's important that the Committee provide more detailed and comprehensive guidance on the individual capital calculation methods and regulators should ensure that such calculations are comparable across jurisdictions.
- The CEM method has several considerable drawbacks that result in a significant overestimation of the risk against CCPs, mainly: i) it

considers generic percentages across asset classes rather than looking at the portfolio risk, ii) these percentages are based upon a time horizon of several months or years while CCPs calculate and settle margins on a daily basis and often on an intraday basis reducing the current exposures, iii) The clearing members positions are de-netted in the CEM methodology, contrary to behavior in a default supported by CCP netting provisions, iv) KCCP calculation adds up all (weighted) CEM calculations.

- The need to specify which level of observation of the CPSS-IOSCO standards would enable a CCP to be designated as "Qualifying CCP".
- As highlighted by EACH, CCP12 members are concerned about differences between CPSS-IOSCO Principles and requirements on CCPs introduced by local or regional regulators.

CCP12 agrees with two alternative approaches proposed by EACH: A risk based approach (that does not seem to be feasible on the short term) and the improvement of the current methodology to better considering the CCP exposures. The latter one should consider CCP netting and the weighting of the notional referred position (in pp3) by duration.

CCP12 would like also to support the EACH's comment on the changes made by the Basel Committee to the December 2010 proposal. However it's important to say that at least one of our members does not support the first comment regarding "Indirect access related issues"¹.

We look forward to our comments being taken into consideration ahead of the implementation of Capitalization of exposures to Central Counterparties criteria and hope to keep the ongoing contact and cooperation with the Basel Committee to aid in the successful outcome in this important endeavor.

Sincerely yours,



Luis Jorge Pelayo
Chair CCP12

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Changes to the December 2010 proposal	EACH Comment
Revised segregation and continuity requirements are proposed so clients of clearing members can benefit from the CCP framework where it is considered that a client's trade with a clearing member is effectively a trade with the CCP.	EACH welcomes this change made by the Basel Committee, as it is constructive for the Buy-side.

CCP12 Members

ASX Limited (ASX)
BM&F Bovespa (BM&F)
The Canadian Depository of Securities Limited (CDS)
Canadian Derivatives Clearing Corporation (CDCC)
Cassa di Compensazione e Garanzia S.p.A. (CC&G)
CCLV
CME Group (CME)
The Clearing Corporation of India Ltd (CCIL)
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