Response of the IntercontinentalExchange (ICE) to the BCBS consultative document entitled 'Supervisory framework for measuring and controlling large exposures'

Introduction

ICE welcomes the opportunity to respond to the BCBS consultative report.

ICE's clearing operations comprise the following CCPs across the U.S., Europe and Canada:

- ICE Clear Europe is recognised by the Bank of England and is the designated clearing house for ICE's energy and emissions markets and European credit default swap (CDS) contracts. ICE Clear Europe is also a CFTC-regulated Derivatives Clearing Organization (DCO) and SEC-regulated Securities Clearing Agency (SCA).
- ICE Clear U.S. operates as a registered Derivatives Clearing Organization (DCO) under the oversight of the U.S. Commodity Futures Trading Commission (CFTC) and is the designated clearing house for ICE Futures U.S.
- ICE Clear Canada is regulated by the Manitoba Securities Commission (MSC) and is the designated clearing house for ICE Futures Canada.
- ICE Clear Credit is a clearing house for North American, European, Latin American and Emerging Markets credit default swap (CDS) markets. ICE Clear Credit is a CFTC-regulated Derivatives Clearing Organization (DCO) and SEC-regulated Securities Clearing Agency (SCA).

Comments

1. Our response is limited to Section IV D of the consultative document, dealing with exposures to central counterparties (CCPs). The subject of the treatment of large exposures to CCPs applies essentially to CCPs which qualify under the CPSS-IOSCO Principles for Financial Market Infrastructures (PFMIs), ie to Q-CCPs. As indicated in footnote 24 of the consultative document, exposures to non-qualifying CCPs are assimilated to merely bilateral transactions.

2. We believe that it is appropriate for large positions held by banks at Q-CCPs to be reported to banks' supervisors. We do not believe that hard limits should be applied to such positions. We therefore support the second option set out in the consultative document, in paragraph 125. The reasons why we believe that this approach is appropriate for banks' positions at Q-CCPs are set out below.

3. In accordance with the CPSS-IOSCO PFMIs, Q-CCPs provide a structured and rigorous control and risk management framework for all exposures, including large exposures. Such controls include the following:

   a) Collateralisation, using highly liquid initial margin, marking-to-market on a regular basis

   b) Identification and monitoring of risk concentrations

   c) The establishment and enforcement of appropriately conservative haircuts and concentration limits

   d) Where appropriate, the application of additional margins to reflect the risks associated with large exposures.

4. As outlined in paragraph 125 of the consultative document, the imposition of a hard limit would conflict with the G20 recommendation that all standardised derivatives be cleared through CCPs.

5. The perceived advantages of hard limits set out in paragraph 124 of the consultative document are questionable:

   a) The point is made that hard limits would mitigate the risk of contagion, in the event of a CCP failure, and that hard limits would incentivise the spreading of large exposures across multiple CCPs. The circumstances which could lead to the failure of a Q-CCP are almost inevitably associated with the failure of multiple participants with large exposures. The spreading of such large exposures across multiple CCPs could make such risks more difficult to manage and control, and potentially increase rather than reduce the risk of contagion. It would also require all participants with large exposures to have in place multiple clearing arrangements and to split their open interest across these arrangements, thus incurring increased costs through reduced netting and other efficiencies.

   b) The point is also made that hard limits would also ensure a consistent treatment of Q-CCP exposures across countries. Our understanding is that the CPSS-IOSCO PFMIs are intended to ensure such consistency in Q-CCP standards across countries, and believe that if they are deficient in this respect they should be adjusted accordingly.

6. We support the conclusion set out in paragraph 128 of the consultative document that an exposure of a client using a CCP indirectly should be treated as an exposure with the Q-CCP rather than with the clearing member. Such client exposures at the CCP are treated with similar standards and disciplines at the CCP as positions held directly by clearing members.

7. Concerning the issue raised in paragraph 129 relating to interconnectedness of CCPs, we believe that CCPs should not be regarded as interconnected provided they operate independently from each other, in terms of rules, collateral, default funds, etc. It is acknowledged that interoperability between CCPs can lead to increased levels of interconnectedness, and for this reason, depending on the nature of such links, CCPs operating interoperable links could be considered to be interconnected.