



IOSCO Report – Principles for Financial Market Infrastructures

The ABI's response – July 2011

Introduction

The ABI is the voice of the UK's insurance and investment industry. Its members constitute over 90 per cent of the insurance market in the UK and 20 per cent across the EU. They control assets equivalent to a quarter of the UK's capital. They are the risk managers of the UK's economy and society. Through the ABI their voices are heard in Government and in public debate on insurance, savings and investment matters.

The ABI was formed in 1985 to represent the whole of the industry and today has over 300 members, accounting for some 90% of premiums in the UK. Underpinning their business activities members have assets under management of £1.5 trillion and in addition manage substantial sums on behalf of third parties such as pension funds.

The ABI welcomes the opportunity to respond to this Report. Our comments are made from the viewpoint of the institutional investor and tackle those points in the paper which are of particular concern to our members.

General Comment

The report contains new and more demanding international standards for payment, clearing and settlement systems. We believe that it is vital to ensure that these proposed principles complement the Dodd Frank Act and the EMIR Directive; otherwise there is a risk of conflicting regulation for the derivative markets.

Compared with the current standards, the new principles introduce more demanding requirements in many important areas including segregation and portability, tiered participation and general business risk. We have provided more detailed views on these principles below.

Specific comments:

Principle 4: Credit risk

Our concerns:

- We agree with the principle of CCPs maintaining additional financial resources to cover a range of stress scenarios, but as CCP clearing members or as clients of clearing, they need greater clarity on whether the additional resource required by the CCP results in an increased cost to operate through them.
- We need more clarity on how the CCPs intend to maintain additional collateral – as it needs to be proportionately based on the level of risk each counterparty presents. Also, more detail is required on the type of extra collateral required. We believe that



collateral that has minimal credit and market risk should be accepted, including cash and government and high quality corporate bonds.

- We agree that CCPs should establish margin levels that relate appropriately to the portfolio of the clearing member, but it is equally important to ensure that there are adequate segregation arrangements in place to limit the risk for individual clearing members.

Principle 7: Liquidity risk

Our concerns:

- We agree that CCPs should have appropriate resources to meet margin payments; however, more detail needs to be provided to help understand what the default margin is for clearing members. This needs to be made clear at beginning of any contractual agreement.
- Additionally, we believe more detail needs to be provided on the types of liquid assets that will be held by the CCPs and clearing members/clients of clearing members should be made aware of this at the beginning of any contractual agreement.
- We need more clarity on the pre-funding arrangements FMIs need to have to ensure they have sufficient cover to cover any potential liquidity risk if there are insufficient cash resources and these types of arrangements should also be made clear to the clearing member during the contract stage.

Principle 14: Segregation and portability

- We agree that the participant/clients of clearing members should be able to transfer customer positions and collateral upon the customer's request, rather than the CCP waiting to default, and that this position should be reflected in the EMIR Directive to ensure consistency of application throughout member states.
- We agree that CCPs should clearly state segregation and portability arrangements in their rules and procedures to increase transparency to the clearing member as it will allow the clearing member to choose the most fitting type of CCP to their needs.

Principle 15: General business risk

- We agree that the FMI should have a default fund to ensure no other stakeholder is affected by any potential risks. However, the clearing member/client of the clearing member should also have a choice to move from one CCP to another if they are not satisfied with the level of service provided by that CCP.
- We believe that it is crucial for all FMIs to make clear the capital plan to its customers before the contract is agreed to avoid any systemic disruption.
- We believe that the CCPs should use the same definition of 'own funds' as set out in Basel III to ensure consistency.

Principle 18: Access and participation requirements

- By permitting open and fair access, FMIs should ensure that its clearing members are not exposed to risk through indirect participants.
- We believe that direct participants should accommodate their clearing members needs in terms of the type of collateral they accept from them.



- We agree that FMIs should monitor compliance with their participation requirements on an ongoing basis and that the clearing member is made aware of this process at the outset.

Principle 19: Tiered participation arrangements

- Whilst we agree that the FMI should integrate treatment of indirect participants within its framework, it is essential that the linked FMI informs the clearing member of these rules so they are not in breach of any of them as soon as the contract is agreed between both parties.

Principle 20: FMI links

- We agree that CCPs should assess any spill-over effects if a linked CCP were to default, however, the clearing member should be informed.