Lampiran Memorandum No. 24/ 261 /DPPK/M.01/B tentang Penyampaian Tanggapan atas *Discussion Paper* CPMI *"Publication of discussion paper on CCPs practices for addressing non-default losses"*

As a member of Committee on Payments and Market Infrastructure (CPMI) since 2018, it is Bank Indonesia commitment to support the development of best principles related to market infrastructures, including central counterparty or CCP. This commitment also includes an active role in responding to various CCP related discussion papers published by CPMI.

Bank Indonesia is currently preparing all aspects needed to implement CCP for OTC derivative transactions. Not only the infrastructure readiness which also focus on the interconnection of CCP system and other surrounding systems, various business, operational, legal and institutional aspects are also being prepared by closely coordinating with relevant authorities, associations and prospective CCP participants. Non-default loss also comes as one of the concerns needs to be addressed in preparing the CCP, thus conducting assessments and gathering best practises around various jurisdiction or standard setting bodies are what being done at the moment.

Therefore, some topics in the discussion paper needs to be elaborated as well as some inputs Bank Indonesia finds relevant are as follows. (according to the reference question):

1. **Are there areas in the context of CCP NDLs where further guidance under the PFMI might be helpful? If so, what are the potential areas where further guidance might be most helpful?**

   From the discussion paper, there are three main sources of non-default losses: operational or business failures; custodial failures; and investment losses. Indonesia is currently preparing to implement CCP on OTC derivatives, we need further information on:

   a. Operational or business failures:
      i. Types of operational or business failures, especially those that have occurred and experienced by CCP and approached solutions to handling failures (e.g. by surveys to CCP).
   b. Custodial failures:
      i. Portion of sharing losses if asset impairment caused by custodian failure.
      ii. Potential failure to manage securities placed in a central custodian held by a central bank.
      iii. Examples of custodial failures occurred to CCPs (in details).
   c. Investment losses:
      i. Guidance for cash collateral reinvestment activities to balance CCP liquidity conditions (e.g. proposed ratio, etc).
      ii. Examples of technical guidelines/investment policies for investments made by CCP.
   d. Any specific criterias of NDL or circumstances that some losses could be passed on to clearing members.
   e. CPMI may provide limited information to authorities regarding NDL cases resolution by several Qualified CCP/Recognized CCP.

2. **Are there any additional points of consideration or practices, in addition to those mentioned in this discussion paper or in the PFMI and existing guidance, that would help CCPs effectively and comprehensively address losses from non-default events? Are there areas that require additional clarity from authorities? If so, what are they?**
    a. If a CCP is partially owned by the authorities and industries, how about loss sharing mechanism implemented? Does it exclude authorities or does the authorities participate in the imposition of losses?
    b. Clearing members and the CCP should assume financial responsibility for non-default losses in accordance with each party's contribution to the losses. For example, if there is an NDL caused by operational risk, then the CCP should take the largest portion of loss.
    c. Standardized loss-sharing formulas, that would be useful especially for jurisdictions that are just about to implement CCP, including CCP which is also owned by a small part of its shares by the authorities and industries.
    d. How to treat clearing members that fail to pay its share of a non-default losses? Could they be categorized as default member?

3. **Are there particular challenges that CCPs face in planning for an orderly wind-down in a NDL scenario? Are there means to motivate further progress in orderly wind-down planning?**
    N/A

4. **Would a similar review of practices in the context of NDLs for FMIs other than CCPs be helpful? Would further guidance under the PFMI be helpful in this context?**
    a. Beneficial guidance especially for countries which are in the process of developing the said FMI to meet international standards and best practices. Most important to systemically important financial market infrastructures.
    b. Sharing experiences from several jurisdictions in implementing FMI (both best practices and minor-major failures) can be useful for other jurisdictions to be able to implement FMI better with robust prevention strategies.

We are confident that having input from all relevant parties on the discussion paper will lead to a sound NDL treatment recommendation. It will also be an excellent reference especially for us in developing the CCP. We are very grateful to be involved in this discussion paper and will continue to provide the best response that we can in the future.