BLACKROCK

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Submitted via email to: cpmi@bis.org & CCP-SST@iosco.org

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RE: CPMI-IOSCO Consultative Report on a Framework for Supervisory Stress Testing of Central Counterparties (CCPs)

Dear Co-Chairs Russo and Wasserman

BlackRock, Inc. (together with its affiliates, "BlackRock") welcomes the opportunity to provide feedback on the Consultative Report of CPMI-IOSCO on the Framework for Supervisory Stress Testing of Central Counterparties (CCPs) of 28 June 2017. BlackRock manages money for millions of individuals from all walks of life, including teachers, nurses, firefighters, and factory workers, who need to save for education, retirement and other long-term goals. A central tenet of this responsibility is to ensure that the voice of the end-investor is heard and reflected in policy discussions regarding the financial regulatory framework. Strengthening the framework around key market infrastructures, such as CCPs, is critically important to ensure that end-investors are sufficiently protected and have the confidence to invest over the longer term.[1]

The mandate for central clearing of over-the-counter (OTC) derivatives, promoted by the G-20 in the aftermath of the 2008 Crisis, is now being implemented around the globe. While it is broadly recognized that central clearing mitigates many of the counterparty risks inherent in bilateral OTC transactions, there is an increasing understanding that central clearing concentrates risks into a handful of firms, and particularly in CCPs. If these risks are not properly managed, with due focus on resiliency, central clearing could actually contribute to, rather than reduce systemic risk.

BlackRock continues to believe that CCP stress testing is a key part of a successful regulatory framework. While CCPs have operated successfully in prior market disruptions, the nature and sheer magnitude of trades in the clearing ecosystem and the manifold interdependencies between central clearing counterparties, clearing members and other participants has meaningfully changed the lens through which we should view resiliency to future disruptions and market stresses. A successful operating history cannot be a substitute for a sound regulatory framework. Part of that framework must include an ability to test a CCP's resiliency to stressed market events through Supervisory Stress Testing (SST). A transparent SST process will enhance participants' confidence in the central clearing mandate and more importantly, the financial ecosystem.

Our experience is that each CCP leverages its own stress testing framework to size its financial safeguards package and these frameworks are generally designed to simulate market events that would directly impact that CCP's specific risk profile. These tests are integral to the management of any one CCP's idiosyncratic risk. Standardized stress tests are generally not favored for sizing an individual CCP's financial safeguard package.

[1] See BlackRock ViewPoint *Resiliency, Recovery and Resolution – Revisiting the 3 R's for Central Clearing Counterparties* (October 2016) https://www.blackrock.com/corporate/en-pl/literature/whitepaper/viewpoint-ccps-resiliency-recovery-resolution-october-2016.pdf

Those should be done using CCP models that are vetted and overseen by regulators, but should not be imposed by regulators, lest they introduce model risk into the system. In addition to making sure the CCP adheres to the Principles for Financial Market Infrastructure (PFMI) guidance on stress testing[2], a supervisor must ensure that these tests are well calibrated to support that CCP's specific risk profile.

A set of standard tests should be separately implemented that allow authorities to test systemic stability. In addition to validating a given CCP's stress testing methodology and approach, a supervisor has a responsibility to understand how CCPs will react to specific potential market events and scenarios. While each CCP has a unique risk profile, market disruptions, when they occur, are not unique to a CCP. The value provided by a supervisory-run stress test is it provides a view into how certain broad market scenarios with a range of extreme, plausible and potentially implausible outcomes could impact all CCPs, who must operate under normal or stressed conditions as they arise.

The broad mandate that is embedded in regulation to clear derivatives underscores the importance of these supervisory level tests. It is incumbent upon the regulatory community to demonstrate the resiliency of the required infrastructure, particularly during periods of disruption and market stress. This should be demonstrated at an individual CCP level to allow market participants to decide whether a particular CCP is a suitable counterparty. While it would be valuable for market participants to see results at an aggregated macro level, such results would provide little value to risk management decision making. A favorable report would provide support to the clearing mandate while a negative report would call it into question; however, neither outcome would have an impact on the actual clearing obligation or a participant's ability to address any revealed risks. For this reason, we are concerned by CPMI-IOSCO's position to avoid applying any insights to an individual CCP.

BlackRock supports a high level of transparency and disclosure around the stress testing process, including the disclosure of results and any regulatory actions arising. At the same time, we would expect any SST to duly protect market participants' confidential data.

We encourage and support disclosures around the aggregate scale of losses arising from these SSTs – in particular, how losses are shared and mutualized across participants – CCPs, clearing members and whether potential losses extend to end clients' margin. Liquidity stress testing disclosures, whilst potentially more challenging, would promote the confidence of end-users and other participants in the central clearing ecosystem.

Overall, we are strongly encouraged by the report and the continuing dialogue. BlackRock believes that a high level of transparency and disclosure will contribute to the wider dialogue on sufficiency of CCP's financial resources and resiliency promoted by end-users and industry participants. This will be complementary to the other PFMI framework components and outcomes under consideration by CPMI-IOSCO.

Please contact the undersigned if you have any questions or comments regarding BlackRock's views.

Sincerely,

Andrew Chang
Director, Risk and Quantitative Analysis

Stephen Fisher
Managing Director, Global Public Policy Group

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Director, Risk and Quantitative Analysis

[2] See CPMI-IOSCO *Resiliency of central counterparties (CCPs): Further guidance on the PFMI – Final report* (July 2017) http://www.bis.org/cpmi/publ/d163.pdf