October 7, 2022

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Head of Secretariat
Committee on Payments and Market Infrastructures
Bank for International Settlements
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Martin Moloney
Secretary General
International Organization of Securities Commissions
Calle Oquendo 12
28006 Madrid
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RE: Discussion paper on central counterparty practices to address non-default losses

Dear Madam/Sir:

Cboe Global Markets ("Cboe")[1] appreciates the opportunity to provide comments on the Discussion Paper from the Bank for International Settlements' Committee on Payments and Market Infrastructures ("CPMI") and the International Organization of Securities Commissions ("IOSCO"). The purpose of the Discussion Paper is to, among other things, foster dialogue on central counterparty ("CCP") management of potential losses, particularly as it relates to non-default losses ("NDLs").

Cboe welcomes the dialogue and supports efforts to better understand CCP risks; however, Cboe does not believe further regulatory guidance or rulemaking is necessary at this time. NDL risks are best mitigated through preventative measures that consider the unique characteristics and risks of individual CCPs, and more prescriptive guidance or rulemaking may in fact constrain the ability of CCPs to flexibly prevent and mitigate potential NDL events. As other commenters have noted, CCPs maintain robust risk mitigation practices around operational resilience, cyber threats, investment, custody and liquidity management. These practices are supported by current regulatory frameworks that have been effective in limiting NDLs. On the whole, regulatory intervention appears to be unnecessary.

Beyond NDL prevention, it is important when analyzing the ability of CCPs to handle hypothetical stress events that such hypothetical events be plausible. The plausibility of the scenarios enables more thoughtful and thorough analysis of potential outcomes. In the case of NDLs, it may be particularly important to avoid analyzing implausible scenarios given the infrequency of such events – limiting the opportunity to back test assumptions – and difficulty quantifying potential losses. We note the concerns

[1] Cboe's wholly-owned clearinghouse affiliates include Cboe Clear Digital (formerly Eris Clearing), a CFTC-licensed designated clearing organization clearing digital asset derivatives, and EuroCCP, a pan-European CCP licensed by the Dutch National Bank clearing cash equities, depositary receipts, ETFs and equity derivatives.

of commenters that the FSB/CPMI/IOSCO report on Central Counterparty Financial Resources for Recovery and Resolution[2] included stress scenarios that may not have been wholly plausible. Analyzing extreme but implausible events is not overly concerning if it leads to further analysis and dialogue, as is the stated purpose of this Discussion Paper. It would be concerning, however, if it led to (or formed the basis of) further regulatory intervention that risks upsetting important incentives that drive risk management practices and member participation in recovery processes. We believe in further exploring what best practices might mitigate NDL risks or help CCPs recover or implement an orderly wind-down, but it would be a mistake, for example, to introduce new CCP capital resource requirements for NDLs based on such scenarios.

With respect to the PFMIs we do not believe amendments are necessary at this time. We support efforts of policymakers to strengthen financial markets, and the PFMIs have successfully done so. However, the PFMIs strengthened markets by incorporating flexibility that enables local jurisdictions to adopt rules and regulations that are fit for purpose for their markets and registrants. As noted, more prescriptive requirements would be unhelpful and potentially constraining.

CPMI-IOSCO are right to continue this important dialogue. We are supportive of transparency and exploring best practices and look forward to working with members and policymakers.

Sincerely,

Angelo Evangelou
Chief Policy Officer
Cboe Global Market

[2] https://www.iosco.org/library/pubdocs/pdf/IOSCOPD697.pdf