CPMI IOSCO Discussion Paper on Client Clearing: Access and Portability

Feedback from Indonesia Clearing and Guarantee Corporation (KPEI)

Access (Section 2) Design of direct and sponsored access models

1. Do you agree with the observation in the discussion paper that the direct and sponsored access models are designed for and generally used more by larger and/or more sophisticated clients?

   Yes we agree that this model is feasible only for large clients and sophisticated clients considering that small clients are not economically efficient to be a part of direct sponsored model.

2. Could there be any other solutions that would facilitate access, either through greater use of such access models by small and medium-sized clients, or through some other solution?

   In our opinion, small and medium sized clients do not need direct access to CCP. Eventhough, for client level clearing, CCP still needs to identify client's margin position and client's account segregation.

Barriers

3. Do you agree with the findings in the discussion paper that direct and sponsored access models are used more for certain types of products (eg repos) than for others? Do you agree with the reasons described in the paper for why this is the case? Why/why not?

   Yes we agree that this model is suitable for Repo transaction than for others as well as the reason described in the paper. In our case this is because, repo transactions are mostly traded by larger institutional clients.

Challenges related to direct and sponsored access models

4. Do you agree that direct and sponsored access models have the potential to diversify the risk profile of the direct clearing participant basis of a CCP by introducing new types of direct participants? Why/why not?

   We agree that this model would diversify members' risk profile. However, CCP should monitor the new risk exposure arise from new type of clearing membership with different characteristic.

5. Do you think that CCPs have introduced sufficient safeguards to prevent risk transmission from direct participants using direct and sponsored access models? Why/why not? If not, what additional safeguards do you think are necessary?

   Yes, in case of Indonesia there will be potentially risk transmission from one market to other markets. This could happen because buy side institutions (such as Pension Funds, Insurance Company, Mutual Funds) have different regulations. Sufficient safeguard will requires additional collateral which lead into operational inefficiency.

6. Do you think that sponsors are properly incentivised to closely monitor the activity of their sponsored participants (ie the direct participants)? Why/why not? If not, how do you think sponsors could be properly incentivised?

   In our case, we have not implemented this model. However, in our opinion among others by lowering/loosing risk charge sponsors can be incentivised to monitoring their participants' activities. This is also because of most sponsors are bigger members that have better risk profile.

7. Do you think that the number of sponsors is limited? Are you concerned about sponsor concentration risk? If so, is this because it is difficult to find a sponsor? Are there any other reasons?

   In Indonesia, sponsor model has not been introduced. So, we think that number of sponsors will be limited since they come from big financial institution which are not many. Therefore, risk concentration is also become our concern.

8. Do you think that CCP rules adequately address the issue of sponsor default? If so, what are the CCP rules that adequately address this issue? If not, what kind of CCP rules are required to address this issue?

   In case of Indonesia where sponsored model has not been implemented, but if Sponsor Member is a General Clearing Member (which currently exist), so CCP needs to regulate the risk of sponsors which is calculated the margin and default fund.

Testing

9. Have you participated in default management exercises that test direct and sponsored access models?

   Not yet.

10. Without providing identifying information, what has worked well in such exercises? What has not? Do you have recommendations as to what could be improved for such exercises?

    KPEI has not implemented the direct and sponsored access model.

Additional considerations

11. Please describe any additional factors that may be impacting the activity and uptake of direct and sponsored models that are not considered in this paper.

    In our opinion, there will be adjustments in regulation, system, process, especially for CCPs that have not implemented the new direct and sponsored models.

12. Please provide any additional comments with regards to the impact that direct and sponsored access models have on access to client clearing.

    Currently KPEI has implemented client level clearing. However, with the existence of new model which is different type of institutions and cannot be classified as client or member it will need adjustments in terms of regulation, system and process.

13. Please provide additional comments with regard to access to client clearing more generally.

    No Further Comment

Porting (section 3) Risks from not porting

14. Are there any additional risks or potential harm associated with not porting following a clearing participant default, which were not described in the discussion paper? If so, please describe such additional risks and/or harm.

    There will be risk of using default fund and mutualised loss sharing if porting is not successful. In addition, clients are unable to trade, and if the clients are big clients, it will impact to market liquidity.

15. Potentially effective practices. Do you agree with the two tools identified in the discussion paper as potentially successful porting practices? Are there any other tools that should be identified as potentially effective practices?

    Yes we agree with the tools offered in paper.

16. What additional approaches do CCPs use to pre-emptively identify a backup CCSP? What incentives can be provided to assist the development of alternative/backup CCSP relationships? Are there any other considerations for alternate/backup CCSPs not set forth in the report?

    We agree to provide incentives, for example giving juniorisation when cash call and lowering portion of VMGH.

17. Are there other considerations for having a game plan that were not described in the discussion paper?

    We need the explanation of assessment and also criteria examples from Game Plan.

18. In addition to those outlined in the paper, what attributes of account structures facilitate or impede porting client accounts?

    In our opinion, one level account structure (direct account) will ease porting process, because KYC process will be in CCP or Custodian. In contrast, two levels account structure (client account is under Clearing Member) will impede porting process. In addition, the implementation of Individual Segregated Account will also ease the porting process.

19. Are some client accounts not suitable for porting?

    In our opinion, two levels account structure (client account is under Clearing Member) and net margin account will challenge porting process.

20. Does holding excess collateral and the ability to make direct payments improve the probability that a client will be ported successfully or are there impediments to using this collateral?

    Yes we agree Clients with excess collateral will be easily accepted by alternate CCSP .

21. What is your view of a client consent mechanism that could be used to facilitate porting, if permitted under applicable law?

    In our opinion, we agree to execute porting without clients' consent. In addition clients can give their consent upfront as part of arrangement within CCSP, their clients and alternate CCSP.

22. Are the potentially effective practices described in the discussion paper consistent with prior porting experiences?

    We do not have experience on porting.

23. Are there any barriers to implementing potentially effective porting practices that are not described in the dicussion paper?

    We think that porting practices are sufficiently explained in discussion paper.

Communication and coordination

24. Are there any additional communications by the CCP or the defaulting CCSP that may increase the probability of porting client accounts?

    CCP can coordinate with CSD that administrating client's account and contact information. In addition, CCP could also maintain client contact information based on porting pre arrangement.

25. Are there additional actions CCPs can take following a clearing participant default to coordinate that are not set forth in the discussion paper? Are there any limitations on coordination that are not included in the paper?

No Comment

Harmonisation

26. Are there additional items CCPs can harmonise or standardise during business as usual that are not outlined in the discussion paper? Are there any factors that may impede harmonisation or standardisation that are not provided in the paper?

In our opinion, harmonisation is quite challenging due to variability of process among CCPs, account structure and legal constraint.

Notable issues to consider when developing a porting protocol

27. Are there additional regulatory requirements that could impede porting? Can such impediments be addressed or mitigated through action prior to the CCSP's default?

In case of Indonesia, there are KYC Requirements and Client Opening Account Contract Process.

28. Are there any additional factors that should be addressed in testing exercises?

No additional comment to be addressed.

29. Please provide examples of good disclosure practices from your perspective.

CCP and CCSPs should provide information in rulebook including porting procedure. Fire drill that involve clearing member and its clients, could also very helpful.

30. Are there other arrangements a CCSP can make to ensure that, post default, the CCSP can help coordinate porting at multiple CCPs if the CCSP is a non-defaulter? If the CCSP defaults, what arrangements can the CCSP make to facilitate the porting of its clients?

Currently we don't have members that involved in multiple CCPs.

Suggested next steps

31. Please provide feedback on the suggested next steps for consideration. Do you agree that these issues warrant further consideration by CCPs, CCSPs and/or clients? Are there additional issues that may warrant further consideration?

    It need further explanation of benefits of direct access model. Furthermore, the conditions required that this model will be effectively implemented. There should also be economic benefits of this model or at least it is more efficient to implement.