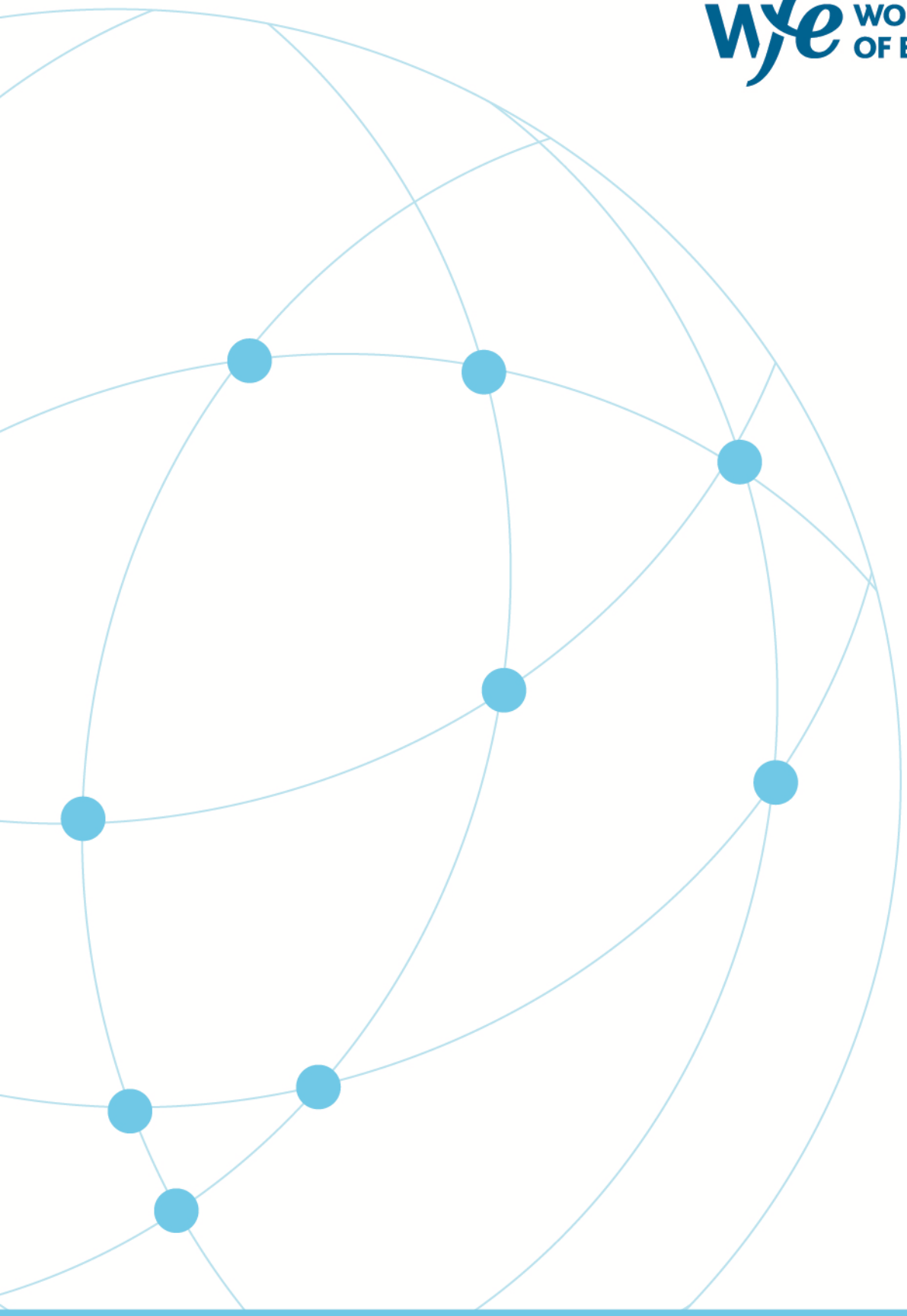


WFE Response to IOSCO on General Business Risks and Losses
6 February 2026

Response

The World Federation of Exchanges (WFE) welcomes the opportunity to comment on the CPMI–IOSCO consultative report on FMIs' management of general business risks and general business losses. The WFE strongly supports the overarching objectives of maintaining resilience and transparency in the application of the Principles for Financial Market Infrastructures (PFMI), and believe the PFMI have supported FMIs in establishing appropriate risk management practices for general business risks, in addition to maintaining appropriate financial resources. Given this, we question the necessity of this guidance. Furthermore, we have identified a number of areas where the guidance, as currently drafted, risks creating unintended consequences, including higher operational complexity, increased capital costs, and potential duplication or even inconsistencies with existing and longstanding regulatory frameworks that implemented the PFMI. With this in mind, we believe that there is limited evidence to support the idea that the proposed guidance would provide any material additional benefits to financial stability, and that it would not be beneficial to disrupt existing practices and regulatory frameworks to achieve further "consistency" in practices globally.

Our comments below are intended to help refine the guidance so that it remains risk-sensitive, proportionate, and practical across jurisdictions and CCP business models.

1. Scope and interaction with other PFMI principles

a) Is the guidance provided on the scope of general business risk and interaction with other PFMI principles clear and sufficient? If not, how should it be amended?

The WFE believes that the PFMI establishes appropriate risk management practices regarding the varying types of general business risks a CCP could face, including how the different principles of the PFMI interact with each other. To that end, we appreciate the consultation's recognition that it "is not intended to create or impose additional standards for FMIs beyond those set out in the PFMI." We want to emphasise the importance of the guidance not being perceived to expand the scope or duplicate the PFMI. To the extent any guidance is adopted, it should clearly recognise that general business risks are already subject to comprehensive risk management practices that significantly mitigate the risk of a loss occurring. We believe the Principle 15 of the PFMI clearly establishes expectations for CCPs' resources:

> "The amount of liquid net assets funded by equity an FMI should hold should be determined by its general business risk profile and the length of time required to achieve a recovery or orderly wind-down…At a minimum, an FMI should hold liquid net assets funded by equity equal to at least six months of current operating expenses."

Any guidance should in no way result in the effective double-counting of general business risks and/or layered capital expectations, especially regarding custody and investment losses. Instead of creating new guidance, the focus of international standard-setting bodies should be on reviewing and assessing the implementation of existing general business risk frameworks in different jurisdictions. Harmonisation of general business risk regulations across jurisdictions would be beneficial for FMIs to ensure a level playing field and create consistent global standards.

2. Identifying, monitoring and managing general business risks

a) Is the guidance provided on identifying, monitoring and managing general business risks clear and sufficient? If not, how should it be amended?

The PFMI provide sufficient guidance with regard to identifying, monitoring and managing general business risks - and as such, CCPs maintain comprehensive risk management practices that align with the PFMI. With that said, we are concerned that the additional guidance provided does not necessarily reflect proportionality and the diversity of CCP business models, particularly in the level of analytical sophistication expected. Requiring all FMIs to implement advanced loss distribution modelling, extensive sensitivity analysis, or to engage external validation expertise may significantly increase operational costs, with limited evidence of corresponding improvements in resilience or systemic stability. Requiring quantified loss estimates for every potential risk across wide parameter ranges may delay prevention and innovation, while mandating precise quantitative estimates for variables like insurance performance risks forcing reliance on biased assumptions.

b) Are there other approaches and tools, in addition to or instead of those mentioned in the report, that would help FMIs to identify general business risks and estimate the size and timing of general business losses? If so, please describe the approaches or tools.

The WFE recognises that there can be value in using a combination of historical data, scenario analysis, and expert judgement, but that CCPs should have the appropriate discretion to use their expert judgement in determining the appropriate approach for identifying general business risks and estimating the size and timing of any potential related losses. This is particularly important given the diversity of general business risks, as well as the diversity of across CCPs and FMIs more generally, given their varying risk management practices. For example, from a CSD perspective, EU CSDs already comply with detailed operational, prudential and governance requirements under the EU's CSDR framework, which helps to efficiently identify risks, including GBR, and estimate their size and timing.

We also note that there is a well-documented scarcity of historical data on extreme general business loss events that threaten CCP viability. It is important to recognise that the use of advanced loss distribution modelling, extensive sensitivity analysis, or engagement of external validation expertise could significantly increase operational costs for CCPs, with limited evidence of corresponding improvements in resilience or systemic stability. To this end, we appreciate that the CPMI-IOSCO identifies the specific tools under paragraphs 3.1.10 as those that the FMI should or could "consider" leveraging (as opposed to "should leverage") as part of its evaluation of potential general business losses. We understand this formulation to represent examples of approaches that the FMI may take, rather than prescriptive requirements, consistent with the approach taken in the drafting of the PFMI.

In regards to calculation sequencing, we believe general business loss estimation is most accurate when conducted on the residual risk profile. Modelling theoretical "gross losses" before controls introduces unnecessary subjectivity.

c) Are there other approaches and tools, in addition to or instead of those mentioned in the report, that would help FMIs to minimise and mitigate the sources of general business risk and manage residual risk? If so, please describe the approaches or tools.

The WFE appreciates the recognition that CCPs may mitigate risk through a range of tools, including governance arrangements, controls, insurance, and recovery measures. It is important to not favour capital accumulation over other effective mitigants, as using capital towards supporting one's resiliency practices for a given general business risk may reduce the likelihood of the related loss arising in the first place. Mandatory consideration of additional buffers ties up liquid capital (cost of carry) and risks becoming a "backdoor" minimum, undermining the principles-based intent. Resources should not be diverted away from investments in operational resilience, technology, and cyber security that directly reduce risk.

3. Determining the minimum amount of LNAFE

a) Is the guidance provided on determining the minimum amount of LNAFE clear and sufficient? If not, how should it be amended?

The objective of ensuring sufficient liquid net assets funded by equity (LNAFE) is well understood under the PFMI. The guidance introduces a level of prescription that may be interpreted as establishing new de facto capital standards. For example, the PFMI Headline Standard and Key Considerations 2 and 3 refer to holding sufficient LNAFE to achieve "recovery or orderly wind-down," whereas the proposed guidance transitions to the use of "recovery and orderly wind-down" coupled with inconsistent references between "plan" and "plans" without explanation. The WFE is especially concerned that the guidance may be read as requiring CCPs to hold LNAFE sufficient to fund both the full set of recovery actions and the full set of orderly-wind down actions (which may already contain certain recovery steps). This would be inconsistent with the original text of the PFMI, which served as basis for the regulatory frameworks to which CCPs are held.

CPMI–IOSCO should make clear in any guidance that LNAFE may be calibrated to the most relevant and extreme but plausible scenario, rather than cumulatively requiring each general business risk to be individually capitalised against. While paragraph 4.2.8 of the proposed guidance notes that "...an FMI should hold LNAFE sufficient to address the scenario that generates the greatest amount of LNAFE needed to implement its plans", the same paragraph also references "a potential transition" from recovery into wind-down as a scenario to consider. This creates ambiguity as to whether CCPs are expected to calibrate LNAFE to a combined recovery-to-wind-down outcome, effectively embedding a form of stacking within a single scenario.

Such stacking would contradict the logical, sequential framework implemented in major jurisdictions. For instance, under the EU regime, risk is addressed at three distinct levels: (1) Business-as-Usual losses are covered by standard regulatory capital; (2) severe losses are addressed by a comprehensive Recovery Regime (under CCPRRR) designed to ensure the FMI's survival; and (3) an Orderly Wind-Down is a final step taken only if recovery fails. Crucially, this robust recovery regime is designed to prevent a wind-down, making it illogical to require capital for both sequential outcomes. Furthermore, specific regulations already require dedicated, separate capital to cover the operating costs of a wind-down, so including this in the LNAFE calculation would constitute double-counting.

CPMI–IOSCO should ensure that any guidance recognises the overlap, where appropriate, of safeguards and governance arrangements that are in place for general business risks, and explicitly acknowledge the need to avoid duplication or inconsistency with existing regulatory frameworks.

In addition, the guidance suggests that resources held to address custody and investment losses related to participants' assets should be held separately from LNAFE (paragraph 4.2.11). For some CCPs, this segregation could significantly increase overall capital requirements, even where resources are genuinely loss-absorbing and structurally robust.

b) Are there other factors, in addition to or instead of those mentioned in the report, that an FMI should consider in its calculation of (i) the costs of implementing its recovery and orderly wind-down plans and (ii) the appropriate amount of LNAFE? If so, please describe the factors.

The primary and most effective tool for managing general business risk is a robust internal control and risk management framework, not simply the amount of capital held. Capital, such as LNAFE, should be calibrated to cover "severe but plausible" losses at a high, but not absolute, confidence level. The objective is not to cover every conceivable tail-risk, as 100% coverage is neither feasible nor intended under the PFMI. Consequently, recovery and resolution plans must be viewed as a necessary and designed backstop for managing extreme events that exceed robust capitalization, rather than as a sign of failure. Regulatory guidance should explicitly acknowledge this relationship to avoid creating unrealistic expectations of unlimited capitalization and to reinforce that a multi-layered defence is the most effective model.

4. Governance and transparency

a) Is the guidance provided on governance and transparency related to general business risk clear and sufficient? If not, how should it be amended?

The PFMI already provide sufficiently clear guidance on governance and transparency related to general business risks. As such, CCPs are already subject to robust board-level governance requirements that encompass general business risk management. Existing frameworks already meet or exceed the intent of the proposed expectations. See below for more on transparency.

b) What particular information related to an FMI's process for managing general business risk would be useful for the FMI's participants so they can assess the risks they incur by participating in the FMI? Are there practical problems with providing such information, and if so, how can they be addressed?

The qualitative and quantitative disclosures made by CCPs pursuant to the PMFI and CPMI-IOSCO's public quantitative disclosure standards provide robust transparency into how a CCP manages general business. Principle 15 sets the overall framework for managing general business risks, and the risk management for specific types of general business risk are addressed under Principle 1 (legal risk), Principle 9 (banking risk), Principle 16 (custody and investment risks), and Principle 17 (operational risk). These disclosures also supplement CCPs publicly available rulebooks, which clearly establish obligations on a CCP's participants, including to the extent any obligations exist regarding general business risks. While participants benefit from transparency, the WFE is concerned that disclosing detailed general business risk profiles, loss estimation methodologies, or scenario assumptions could reveal commercially sensitive or proprietary information. We therefore believe this type of detailed information should be removed from any guidance, especially given the robustness of CCPs current disclosures.

Meaningful transparency can be enhanced not by revealing sensitive data, but by clearly explaining the high-level structure of the risk management framework. For instance, explaining how risk is managed across three distinct, sequential levels: (1) a robust internal control framework for Business-As-Usual events, (2) a comprehensive Recovery plan for severe but plausible events, and (3)

a final Orderly Wind-down plan. This provides participants with a clear and logical view of the FMI's resilience without exposing sensitive details.

FMIs must retain the ability to determine the level of detail and specificity to disclosures regarding tools and procedures addressing general business risks to prevent disclosures from being used by malicious actors, especially in the context of operational/cyber events.

c) Are there other areas, in addition to or instead of those mentioned in the report, where an FMI should consider seeking stakeholder input on its process for managing general business risk?

It is important to note that on top of the already existing and comprehensive transparency which CCPs provide, that of which is often not applied or required by other market participants or infrastructures, CCPs also often operate specific forums for their participants (such as risk advisory committees and 1-to-1 meetings) to address, clarify, and gather feedback on their rules, procedures, and risk management frameworks. It's also not uncommon for market participants to be included on CCP boards, risk committees and/or working groups where these types of topics are often discussed. CCPs generally make themselves readily available to clients, both in 1-to-1 and group settings, to address questions, comments, concerns, for any matters, including general business risks and losses. Stakeholder engagement can enhance understanding and preparedness, particularly where recovery tools may affect participants. However, such engagement should remain consultative, and should not blur accountability or undermine the primacy of boards in making capital and risk management decisions. Excessive stakeholder influence over proprietary business risk strategies could create conflicts of interest. Involvement should focus on the outcomes of recovery planning (i.e. loss allocation) rather than internal identification methodologies.

5. Should the guidance distinguish between operating losses and non-operating losses in determining the minimum amount of LNAFE? If so:

a) Please explain why such a distinction would be helpful.
b) How should the guidance do so?
c) How should operating losses be defined? Are non-operating losses all losses other than operating losses and default losses?

We do not believe any guidance should distinguish between operating and non-operating losses, and that CCPs should be retain flexibility in terms of identifying the varying types of losses they may face relative to potential general business losses. We caution that overly rigid classifications could be difficult to apply in practice, as many loss events span multiple categories. Furthermore, the concepts of operating and non-operating losses are not referenced in the body of this consultation nor are they referenced in the PFMI, so it is unclear why CPMI-IOSCO is considering introducing such prescriptive context at this time. In fact, both documents clearly refer to six months of "current operating expenses" in regards to calculating LNAFE. LNAFE is already grounded in a concrete, expense-based metric - introducing new and abstract loss classifications would be unnecessary and potentially confusing. Any guidance on evaluating specific types of losses should remain principles-based, flexible, and consistent with the expectations in the PFMI, as well as aligned with existing accounting and risk management frameworks.

Concluding observations

The WFE strongly supports CCP resilience and believe the PFMI effectively supports such resilience by allowing CCPs to appropriately tailor their risk management practices to the unique risks that they face. While we do not believe such guidance is necessarily needed, we encourage CPMI–IOSCO to ensure that to the extent any guidance is adopted it:

- Remains clearly principles-based and proportionate
- Avoids creating implicit new capital standards
- Recognises existing jurisdictional frameworks and practices
- Balances transparency with commercial sensitivity
- Prevents inefficient or duplicative use of capital

We welcome continued engagement with CPMI–IOSCO on this subject.

Background

Established in 1961, the World Federation of Exchanges (WFE) is the global industry association for exchanges and central counterparties (CCPs). Headquartered in London, it represents over 250 market infrastructure providers, including standalone CCPs that are not part of exchange groups. Of our members, 37% are in Asia-Pacific, 43% in EMEA, and 20% in the Americas.

The WFE's 87 member CCPs and clearing services collectively ensure that risk takers post some $1.1 trillion (equivalent) of resources to back their positions, in the form of initial margin and default fund requirements. WFE exchanges, together with other exchanges feeding into our database, are home to over 49,000 listed companies, and the market capitalisation of these entities is over $116.58 trillion; around $155 trillion (EOB) in trading annually passes through WFE members (at end 2024).

The WFE is the definitive source for exchange-traded statistics and publishes over 350 market data indicators. Its free statistics database stretches back 49 years and provides information and insight into developments on global exchanges. The WFE works with standard-setters, policy makers, regulators, and government organisations around the world to support and promote the development of fair, transparent, stable and efficient markets. The WFE shares regulatory authorities' goals of ensuring the safety and soundness of the global financial system.

With extensive experience of developing and enforcing high standards of conduct, the WFE and its members support an orderly, secure, fair, and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise the common good, consumer confidence and economic growth. And we engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in a globally integrated financial system.

If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

Charlie Ryder, Regulatory Affairs Manager: cryder@world-exchanges.org
Richard Metcalfe, Head of Regulatory Affairs: rmetcalfe@world-exchanges.org
Nandini Sukumar, Chief Executive Officer: nsukumar@world-exchanges.org