

Aug 21, 2018

Press Release

Position of CCP12 in regards to the Basel III Leverage Ratio Framework

Shanghai, Aug 21, 2018 – CCP12 would like to emphasize again its reservations in regards to the Basel III Leverage Ratio (LR) and especially the application of the LR on CCP cleared client business. In accordance with the letter on concerns regarding the consequences of the current measurement of risk of positions in exchange traded derivatives in the context of the Basel III Leverage Ratio (LR) Framework published by Optiver and other industry participants in July CCP12 would like to highlight following points:

As already stated in its response to BCBS in 2016 concerning [the revision of the Leverage Ratio Framework](#), CCP12 supports in general the concept of the leverage ratio, however capital requirements shall be kept at appropriate levels. Additionally, the introduction of the Standard Approach for Measuring Counterparty Credit Risk (“SA-CCR”) model is a good solution to proceed with, as the calculation in the Current Exposure Method (“CEM”) does not take into account risk reducing metrics in derivatives contracts, which will unnecessarily increase capital costs and create further pressure for market makers to exit the business. In our opinion it would also be very beneficial to use the SA-CCR with immediate effect.

After the financial crisis in 2008, financial markets were restructured to fulfill the G20 mandate. With central clearing, market transparency, security and stability is improved. However, CCP12 is deeply concerned, that with certain regulatory and capital standards, central clearing is disincentivized which makes central clearing less attractive.

The proposed capital requirements demand that clearing member banks assign equal treatment to centrally cleared client trades as to their own proprietary trades, without accounting for the collateral posted by the clients to offset the exposure. Consequently the segregated customer collateral held in centrally cleared markets is effectively ignored, or indeed added to the clearing members’ leverage exposure. As a result, the leverage ratio will continue to be a binding constraint on centrally cleared derivative exposures even under the SA-CCR approach.

In the event of a clearing members default, solvent clearing members play an important role as they port the defaulter’s clients and transfer the defaulter’s positions. However with the proposed capital requirements, solvent clearing members may not be willing or even unable to accept the defaulter’s clients - albeit the collateral ported to support the positions – as higher capital charges cannot be afforded. The implication of this is, that the process of porting clients is made more difficult and the CCP may be forced – in an extreme market situation - to liquidate the client portfolio. This will not only cause more instability and uncertainty in an already troubled market but will also not allow clients to access the cleared market.

CCP12 promotes central clearing in order to improve transparency and to mitigate systemic risk in the financial markets. Therefore CCP12 is strongly advising against applying overly punitive charges, such as the supplemental leverage ratio, to bank clearing members, which threatens to drive firms away from client clearing or out of the cleared space all together, concentrates exposures and increases costs for end users.

CCP12 would like to offer its assistance and support to the Basel Committee on Banking Supervision to ensure transparent, secure and stable financial markets.

About CCP12

CCP12 is a global association of 36 members who operate more than 50 individual central counterparties (CCPs) globally across the Americas, EMEA and the Asia-Pacific region. CCP12 aims to promote effective, practical and appropriate risk management and operational standards for CCPs to ensure the safety and efficiency of the financial markets it represents. CCP12 leads and assesses global regulatory and industry initiatives that concern CCPs to form consensus views and seeks to actively engage with regulatory agencies and industry constituents through consultation responses, forum discussions and position papers. To learn more about CCP12, please visit www.ccp12.org.