

December 17, 2021

**VIA ELECTRONIC SUBMISSION**

**Bank of England  
Threadneedle Street,  
London, EC2R 8AH2  
United Kingdom**

**Re: Discussion Paper on Supervisory Stress Testing of Central Counterparties**

The Global Association of Central Counterparties (“CCP12”) appreciates the opportunity to comment on the Bank of England’s (“BoE”) Discussion Paper on Supervisory Stress Testing of Central Counterparties (“the Discussion Paper”).<sup>1</sup>

CCP12 is the global association for CCPs, representing 41 members who operate around 60 individual central counterparties (“CCPs”) globally across the Americas, EMEA and the Asia-Pacific region.

Some CCP12 members are directly supervised by the BoE, whereas others are keen to contribute and learn from the Discussion Paper, and we commend to BoE for consulting on this critical matter.

CCP stress testing, both by the CCP itself and by its supervisors, is the keyway to determine the scope and scale of mutualisation resources, and to validate overall risk management in a way that safeguards against, in the words of the BoE “myopic reliance on models”.

An idea that CCP12 would like to suggest is that authorities rely on each other’s supervisory stress tests for third country/foreign CCPs. This would relieve some burden on CCPs who are active in multiple jurisdictions and provide fruitful grounds for comparing and discussing amongst authorities about how they each conduct stress tests.

**I. Responses to specific Questions in the Discussion Paper**

**Question 1: Within the specified risk coverage, what specific risk exposures or areas should be prioritised for more granular analysis and disclosure?**

CCP12 would deem credit and liquidity stress tests to be the most critical areas. However, as other regulatory authorities – such as CFTC<sup>2</sup> and ESMA<sup>3</sup> - are already conducting stress tests, we would suggest applying a similar approach: starting with stress tests on counterparty credit risk, then expanding to liquidity risk and then expanding the scope even further to concentration risk. With this approach of developing a risk coverage over time, both CCPs and the BoE can adapt their processes accordingly.

We would like to highlight that the CCPs do not themselves carry market risk and that such tests are stress tests of Clearing Member (“CM”) portfolios across CCPs, and the benefits from this exercise is to

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<sup>1</sup> BoE, Discussion Paper, Supervisory Stress Testing of Central Counterparties (Jun. 2021), available at [Link](#)

<sup>2</sup> CFTC, Report, Supervisory Stress Test of Clearinghouses (Nov. 2016), available at [Link](#)

<sup>3</sup> ESMA, Report, EU-wide CCP Stress test 2015 (Apr. 2016), available at [Link](#)

view the risks that CMs bring across CCPs. In this regard, the risks that CMs bring to multiple CCPs should be analysed for any possible contagion effect.

**Question 2: Are there other risk exposures that supervisory stress testing would be the most optimal tool to assess from a regulatory perspective?**

As highlighted in our response to Question 1 (above), CCP12 believes that concentration risk in similar or related markets could be assessed. With this, supervisors should have the ability to evaluate the liquidity preparedness amongst participants based on the scenario outcomes that can be derived from the CCP. While having a view of potential CM losses across CCPs is helpful, systemic impacts can only be captured if banks are included in the exercise, thus increasing both coverage (exposures other than centrally cleared) and depth (visibility into clients not disclosed to the CCPs).

**Question 3: Should the Bank develop an approach for assessing default-related operational risks? If so, what methods could be deployed for assessing these risks?**

CCP12 believes this is a good point to consider. However, we would like to point out, that this may be difficult, as such events are even more rare than large market moves or liquidity strains. Testing such risk though, is beneficial, and fire drills can be used to test both adverse operational circumstances (e.g., move to back-up location or systems). The BoE might want to consider if it has broader information from participants that could be used to model their willingness or ability to bid in auctions or participate in trading for hedges.

If operational stress scenarios are added, however, CCP12 suggests keeping it to a narrow default related scope which is 'specific, measurable, plausible, relevant and timebound'.

**Question 4: What are respondents' views on the proposed launch and publication dates of the Bank's CCP supervisory stress tests? Are there benefits to launching stress tests and publishing results at alternative dates?**

Although CCP12 believes, that the proposed dates seem appropriate, we would like to highlight the practices conducted in other jurisdictions. Conducting supervisory stress tests on a more flexible basis (e.g., biennial as practiced by ESMA) would give the industry more time to review and assess the results of the stress test before the next test is conducted.

Furthermore, we would caution against implementing unplanned scenarios. We believe stress testing exercises should be planned well in advance, which includes that those scenarios are well known ahead of time and time and resources are allocated accordingly.

Lastly, we would like to emphasize the need and usefulness of deferring between authorities. We believe it to be crucial, that authorities should rely on other jurisdictions tests and/or conduct them in a coordinated manor to avoid overburdening a CCP with multiple jurisdictions conducting tests at the same time.

**Question 5: Are there areas or assumptions within the methodology as described in this Discussion Paper that respondents consider particularly important or insightful, and should be prioritised in the analysis and disclosure of results?**

CCP12 believes it to be most efficient for CCPs to provide granular data required for the BoE to then complete the exercise and does not agree with the proposed hybrid approach of supplying CCPs with high-level factors and leaving the responsibility to extrapolate these to other risk factors to the CCP. Especially on the high-level risk factors, CCP12 would strongly suggest that the BoE provides a greater number of risk factors than currently is being included, which the CCP can then extrapolate. By ways of example, ESMA provided more than 800 risk factors in their 3<sup>rd</sup> EU-wide CCP Stress Test<sup>4</sup>. Extrapolating from a small set of risk factors is particularly challenging. Therefore, CCP12 suggests that the BoE would need to either reconcile the assumptions made by the CCPs or to accept lack of common stress scenarios across the CCP.

**Question 6: Are there specific vulnerabilities, dependencies, or risk exposures of UK CCPs that respondents believe are not sufficiently covered by the methodology as described in this Discussion Paper?**

CCP12 finds these are comprehensively covered in the Discussion Paper.

We would however ask for clarification on the treatment of clients of defaulted CMs. We suggest that the BoE either provides a set of assumptions as to the client porting (potentially differentiating between different segregation models) or to explicitly leave it to the CCPs to use their internal assumptions leading to potentially inconsistent assumptions between CCPs.

**Question 7: Are there specific scenarios or types of scenarios that would be material for CCPs in scope which participants believe should be prioritised by the Bank?**

CCP12 believes all market shock scenarios are equally important as long as they remain “extreme but plausible”. Furthermore, the scenarios should be consistent with the regulatory standards for which CCPs are subject. We suggest that the BoE focus is on the largest risk factors across CCPs and CMs, focusing on systemic types of risks rather than individual factors.

Empirical models and reverse stress testing are also useful, and we recommend running these in the background as information-only.

**Question 8: Should the Bank’s market shock scenarios be broadly as severe as historical shocks or CCPs’ own stress test scenarios, or test CCPs against a higher level of resilience? How important is it for market shocks to stress CCP services to a similar degree of severity?**

We would urge the BoE to use scenarios that are “extreme but plausible”. We would also recommend that the BoE use evidence-based principles to be able to analyse the information properly and to employ

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<sup>4</sup> ESMA, Report, 3<sup>rd</sup> EU-wide CCP Stress Test (Jul. 2020), available at [Link](#)

a stress test that is consistent with the expectations as set within the regulations for which CCPs are subject. Also, we would highlight that severity has different angles and this should be recognized (e.g., different markets and products have different volatilities and certain types of boundary conditions may also differ).

**Question 9: Should the Bank apply a standardised market scenario as part of each supervisory stress test, to aid comparability of results over time? If so, are there particular design or methodologies with which such a scenario should be developed?**

CCP12 believes that a standardised market scenario makes sense to compare the results over time, but this should not be the only scenario that is run. Also, factors might not be comparable over time as markets and asset classes cleared change. Therefore, the BoE could apply simple and clear hypothetical scenarios (e.g., a specific shock up or down). What is most important for the efficiency of a supervisory stress test exercise is the stability of the wider scenario setup allowing the CCPs to reuse the tools it will have originally set up to support the process.

**Question 10: What characteristics of reference dates (recentness, days of week, significant market settlement dates, etc.) are most important to support analysis of individual and system wide resilience? Are there benefits to assessing multiple reference dates for each market scenario?**

With the proposed flexibility, CCPs and the BoE can select reference dates, which are either “worst case” or typical for the asset classes in question as reference dates highly depend on the asset class. CCPs typically have daily and ad hoc stress test capability, which can help provide assurance that only running supervisory stress tests on a single or on specific dates is not inadvertently including a special date in terms of risk management capability.

**Question 11: What are respondents’ views on the most insightful defaulter assumptions to examine through supervisory stress testing?**

As we already highlighted in our response to Question 1 (above), we believe that these are not CCP stress tests but rather stress tests of CMs across CCPs. Stress tests are conducted based on CMs’ risk exposures and their positions across multiple CCPs.

Given this view, CCP12 believes, that it could be useful for supervisory stress tests to focus on the Cover 2 standard using “extreme but plausible” scenarios, as well as an extension of it alongside with how to model the netting down of portfolios if defaults are simultaneous or nearly simultaneous.

The setup of stress test scenarios should have a clear and consistent set of assumptions regarding netting between accounts for cleared exposures, collateral, and payments. Similarly, the stress tests should make clear and consistent assumptions about porting of clients of a defaulted clearing member (i.e., should CCPs follow any specific common assumption as specified by BoE or should they follow their individual assumptions about porting plausibility).

**Question 12: Which assumptions and elements of the Bank’s supervisory stress tests should be prioritised for sensitivity analysis and/or reverse stress testing, and would provide the most valuable insights to respondents?**

CCP12 would urge the BoE to start with a simple approach to reduce the difficulty of analysing and interpreting stress test results. For instance, reverse stress test outputs that show the market moves that would deplete the waterfall would be useful. Also, more broadly, it might be good to reflect on, in a reverse stress test, the allocation of losses (e.g., use of prefunded and unfunded resources comprising the waterfall).

**Question13: What do respondents’ consider to be the most appropriate quantitative metrics for assessing CCP resilience, and for disclosing supervisory stress testing results?**

CCP12 would like to again emphasize that this is less about CCP resilience and more about the CMs bringing the risk to the CCP. Therefore, quantitative metrics on CMs’ exposure across CCPs would be most insightful.

**Question 14: What are respondents’ views on the appropriate balance between granularity and anonymisation of CCP supervisory stress testing results?**

CCP12 believes that the public disclosures should be high-level to avoid misinterpretation and to protect the confidentiality of a CCP’s data as some of the data published might be sensitive information – this requirement arises out of the confidentiality of the portfolios of the CCP’s members which are the subjects of the stress tests.

However, for the CCPs themselves, the detailed test results are beneficial to improve processes and procedures.

**Question 15: What level of granularity in the quantitative stress-tests results would be most valuable? Should disclosure focus on results presentation or an analysis of drivers, and assessment, of risk?**

CCP12 would urge the BoE to only publish high-level results to maintain anonymity and confidentiality. Furthermore, we would suggest focussing on the risk and the assessment of the CMs, as the drivers will change.

## II. About CCP12

CCP12 is the global association for CCPs, representing 41 members who operate around 60 individual central counterparties (CCPs) globally across the Americas, EMEA and the Asia-Pacific region.

CCP12 promotes 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, while also actively engaging with regulatory agencies and industry constituents through consultation responses, forum discussions and position papers.

For more information, please contact the office by e-mail at [office@ccp12.org](mailto:office@ccp12.org) or through our website by visiting [www.ccp12.org](http://www.ccp12.org).

## III. CCP12 Members

