Clearinghouse Benefits and Risks

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A Successful Track Record

- Replacing bilateral trade obligations
- Insulating counterparties from each other; reducing risk of default propagation
- Setting risk management standards on members
- Reducing aggregate risk via netting
- Managing Lehman default
- G-20 identification of clearinghouses as a key component to mitigate systemic risk
- Protecting underlying clients by collateral segregation and portability protocols
- Mandatory clearing in the US
- Clearinghouses as "systemic risk managers"
Managing and Mitigating Risk: Avoiding a “Race to the Bottom”

Credit
Liquidity
Operational

Risk Concentration

CLEARINGHOUSE

Risk Mitigation

Clearinghouses
- Initial margin
- Default fund
- “Skin in the game”
- Recovery & resolution

Board Members
- Independent board members

Members / Clients
- Participation on CCP risk committees
- Consultation
Managing and Mitigating Risk

Assessment
- Default fund management
- Initial margin requirements

Monitoring
- Credit risk / CCP member exposure
- Mark-to-market
- Stress tests

Engagement
- Active Board participation by users and independent directors
- New York Fed Payments Risk Committee Transparency Task Force
- Other consultative bodies

Regulation
- Global, coordinated efforts
- Greater transparency and clarity on rules
- Resolution and recovery
- Access to central banks
Conclusion

1. **Risk Management:** Quality of risk management must always be paramount
   - Eligible collateral
   - Initial margin confidence factors and model add-ons
   - Default fund methodologies
   - Liquidity

2. **Governance:** Active engagement by users and independent directors on risk committees provides important check and balance to commercial goals

3. **Transparency:** Members, clients, regulators and the public need to understand clearinghouse approach to:
   - Evaluation and monitoring of clearing members and their clients
   - Margining and default funds
   - Default procedures
   - Collateral structure and segregation / investment
   - Investment balances
   - Liquidity