

## **Financial Research Advisory Committee Meeting**

**February 25, 2016**

### **Discussion Topic: Central Counterparties Program**

We have begun to evaluate and measure vulnerabilities in central clearing and in central counterparties (CCPs), which have benefits but also potential risks.

The increased use of central clearing and CCPs in the derivatives markets increases price transparency and improves risk management, but it also can introduce concentration and contagion risks in replacing a network of two-way trading relationships with a centralized approach.

In addition, central clearing can have unintended consequences by creating incentives for market participants to obscure the cost of potential defaults and liquidation. Data are lacking in both scope and quality to assess and analyze those risks. Finally, the policy toolkit to address those risks is still in development and requires evaluation.

CCPs are supervised by multiple regulators. Although the OFR does not have a direct supervisory role, we have a unique perspective to study CCPs across institutions and markets. We can also develop monitoring tools and improve the data available to regulators and market participants. To support this initiative, our Financial Research Advisory Committee made two recommendations in July 2015 that the OFR further analyze risks in CCPs and launch a CCP data collection.

The CCP program has four components:

1. Research and analyze central counterparty (CCP) design, risks, risk management practices, and potential systemic impacts.
2. Identify and address data gaps to improve data about CCP risks available to regulators and market participants.
3. Develop tools for monitoring CCPs.
4. Evaluate policies proposed to mitigate the risks from CCPs.

### ***Questions for discussion***

1. In addition to the data template you proposed, are other data needed for analysis and monitoring of potential contagion or other risks posed by CCPs?
2. How should stress tests for CCPs account for the interconnections and overlapping CCP memberships?
3. How should we assess whether regulation and stress testing of CCPs should be standardized or customized?