Charges to FRAC for February 2019 Meeting

1. **Can you provide industry wide examples and possible solutions where FSOC member agencies request that data be reported using slightly different definitions or levels of granularity? How do these discrepancies cause a burden?**

2. **How could the recovery and resolution of a CCP be handled?**

3. **What are the best metrics for monitoring bond market liquidity? How can the market structure for corporate bond trading be improved?**

TOPIC: Reducing Regulatory Data Reporting Burden

Summary
The OFR is requesting the Financial Research Advisory Committee (FRAC) to provide industry wide examples and possible solutions where FSOC member agencies create significant issues by requesting data calculated using conflicting or inconsistent instructions.

Background
Given the sometime overlapping regulatory framework in the federal and state agencies, U.S. financial institutions are often asked to provide similar data to a number of agencies. Differences in the definition of a particular data field can require independent work for each regulator request. Moreover, not all financial institution may have understood the data request in the same way creating the possibility for inconsistent data production across institutions. While this fragmented approach enables tailored regulations, it can also result in inefficient oversight and reporting.

Questions
1. What industry wide examples can you provide of instances where the instructions from two different FSOC members require reporting of the same underlying data using different definitions, methodologies, or levels of granularity?
2. How do these individual discrepancies cause a burden?
3. Is there a straightforward solution that would address the burden?

TOPIC: Central Counterparty Resolution

Summary

The OFR is requesting that the Financial Research Advisory Committee (FRAC) consider how the recovery or resolution of a central counterparty (CCP) could be handled.

Background

Financial regulations globally have encouraged central clearing throughout financial markets. As a result, CCPs have assumed a key role in several markets in which trading previously had been bilateral. This change in market structure has several advantages: (1) it creates greater transparency and standardization of contracts, (2) it offers greater potential for the netting of positions, (3) it shortens the length of intermediation chains, which in principle can reduce contagion, and (4) it can reduce the cost of allowing a primary dealer to default. However the shift to central clearing also has drawbacks. A CCP, by its very nature, increases systemic vulnerability by creating a critical counterparty whose default could have widespread consequences.

As a result, the Financial Stability Oversight Council has designated all major U.S. CCPs as systemically important for the financial system. However, if one of these CCPs where to suffer significant member failures or exhaust its financial resources and fail itself, many unanswered questions exist regarding how the Financial Stability Oversight Council and its member agencies might best manage the CCP's recovery or resolution.

Questions

1. There is a tension over whether to attempt the recovery of a CCP that has been weakened by the failure of some clearing members, or to liquidate or recapitalize the CCP through a failure-resolution procedure. What are some key metrics and decision aides that can be used to make this pivotal choice?
2. A CCP facing failure will probably do so under extremely stressful conditions, most likely precipitated by the failure of one or more systemically important clearing members. Those clearing members would probably also have failed to meet their payment obligations to other major financial firms, including other CCPs. Are there key objectives that U.S. regulators should keep in mind beyond what has been proposed by the Financial Stability Board?[1]

[1] Financial Stability Board. Guidance on Central Counterparty Resolution and Resolution Planning. July 5, 2017.

3. What can we learn from the few historical examples of CCPs failing? For example what were the major drivers for their failure, and how was their recovery or resolution handled? What were the repercussions for the financial markets the CCP cleared? Where spillover effects seen in other markets?
4. Title II of the Dodd-Frank Act gives the Federal Deposit Insurance Corporation (FDIC) the responsibility to resolve a failed systemically important U.S. CCP. What are the advantages and disadvantages of the various resolution mechanisms from which the FDIC may choose? Are there resolution mechanisms that might be more suitable under certain conditions but require rule changes?
5. If a non-U.S. CCP where to fail, and that failure were to be seen as a financial stability concern, what levers should U.S. regulators use to support the resolution process?

TOPIC: U.S. Corporate Bond Market Liquidity and Potential Financial Stability Consequences

Summary

The OFR is requesting the Financial Research Advisory Committee (FRAC) to consider questions and provide feedback, with supporting analysis, regarding vulnerabilities that may arise from corporate bond market liquidity. Further, the OFR seeks feedback on metrics to monitor liquidity.

Background

The subject of market liquidity, broadly speaking, has been a recurring theme in the OFR's annual reports to Congress. Concerns about corporate bond market liquidity have been widely discussed by industry participants, regulators, the media, and Congress. The OFR is uniquely positioned to conduct research on this topic given its access to Regulatory TRACE (the system FINRA uses to collect and report on corporate bond trades executed by broker-dealers).

Measuring liquidity is challenging. No single metric effectively captures overall market liquidity. Some metrics indicate that liquidity has improved post-crisis, while others imply that it has deteriorated. Further, liquidity conditions can change suddenly and dramatically without advance warning.

Questions

1. What financial system vulnerabilities exist given today's corporate bond market structure?
2. Which business models are most vulnerable to disruptions to corporate bond market liquidity? What are the transmission channels? How have risk management practices evolved with changes in liquidity?
3. What are your recommendations to make corporate bond market liquidity more resilient? What changes to banking regulations (for example. the supplemental leverage ratio, liquidity coverage ratio, Volcker rule, and Basel III) would improve liquidity?
4. Which metrics are critical in monitoring corporate bond market liquidity? What data sources are needed to calculate each metric? What are the caveats for each metric?
5. How has the emergence of electronic trading venues affected corporate bond liquidity? What data sets and metrics are available to assess the impact of electronic trading?