
AFME – Position Paper

Own fund requirements for CCP Exposures

March 2017

Introduction

The market has made significant strides in reducing aggregate / systemic counterparty credit risk in recent years as an increasingly large percentage of business is transacted via central clearing. This has been encouraged by regulators as incentives for central clearing, particularly via a qualifying central counterparty (QCCP), are maintained. The industry believes it is important to retain and extend these incentives going forwards to maintain systemic counterparty credit risk at current levels.

Margin Period of Risk

As such, we believe the requirement per Article 304(3)(b) to apply a margin period of risk (MPOR) of at least 10 business days for exposures to a CCP should be revisited. The application of this 10 business days MPOR floor should apply to derivative trades only. Securities financing transactions (SFTs) transacted bilaterally i.e. not via a central counterparty (CCP), per Article 285(2) are subject to a 5 business days MPOR floor. Applying a higher MPOR floor for centrally cleared SFT trades goes against the objective of encouraging central clearing. We therefore ask that a distinction be made in the draft CRR amendments between derivative and SFT transactions, such that SFT transactions transacted via a CCP are subject to a 5 day MPOR.

Additionally, we believe these requirements should be resituated to CRR Article 303 as they relate to clearing member exposures to CCPs and not clearing members' exposures to clients as is the subject of Article 304.

Transitional Provisions

Article 497 sets out transitional provisions for when a CCP may be considered a QCCP, as well as the associated methodology for calculating the CCP's own funds requirement. The draft CRR proposals omit paragraph 3 from the current CRR, which allows the European Commission to extend the transitional provisions for a limit period where necessary to avoid disruption to international financial markets. We believe this is an important provision to safeguard the stability of financial markets and should be reinstated.

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About AFME

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