

Securities and Exchange Commission
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United States
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Chris Barnard

21 March 2011

- **File No. S7-08-11**
- **Clearing Agency Standards for Operation and Governance**

Dear Sir.

Thank you for giving us the opportunity to comment on your proposed rule: Clearing Agency Standards for Operation and Governance.

In accordance with Section 763 of Title VII (Title VII) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank), Section 805 of Title VIII (Title VIII) of Dodd-Frank, and Section 17A of the Securities Exchange Act of 1934 (Exchange Act), you are proposing rules regarding registration of clearing agencies and standards for the operation and governance of clearing agencies.

I agree with SEC commissioner Kathleen Casey that “clearing agencies play a critical role in our markets, and ensuring their continued resilience and strength is an important element of supporting financial stability”. I therefore support the thrust of your proposals, particularly proposed rules 17Ad-22 concerning standards for clearing agencies and 17Ad-25 concerning conflicts of interest. I also agree with proposed rule 3Cj-1 that in general, each clearing agency should designate a chief compliance officer in order to ensure compliance with rules, and to resolve any conflicts of interest that may arise.

Concerning risk management, as I have commented before, risk management effectively encompasses organisational structure¹, governance, the risk functions, internal controls, compliance, internal audit and the legal functions. I would therefore recommend that you

¹ For example, reporting lines and the allocation of responsibilities and authority should be clear, complete, well defined and enforced.

should comprehensively and explicitly address all of these elements that make up a risk management framework. Furthermore I would recommend that you focus more on operational risk, which is glossed over in the proposals. Operational risk² is critical as operational risk failures effectively allow other types of risk, such as credit risk and market risk to be excessive.

Concerning conflicts of interest, I agree with the principles-based approach that you have taken here. I would not necessarily apply any more specific rules, but I recommend that you should consider whether it would be appropriate to require any ownership or voting limitations here vis-à-vis those proposed under Regulation MC.³

Yours faithfully

Chris Barnard

² Operational risk is commonly defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

³ See S7-27-10 concerning ownership and voting limitations proposed under Regulation MC for SBS clearing agencies, SB SEFs and SBS exchanges, and my comment letter thereon.