

# Improving Central Clearing Risk Management and Resilience



The Securities and Exchange Commission proposed to enhance risk management and resilience of covered clearing agencies (CCAs). The proposal would require a CCA to have:

- Policies and procedures to establish a risk-based margin system that monitors intraday exposures on an ongoing basis and includes the authority and capacity to make intraday margin calls as frequently as circumstances warrant;
- Policies and procedures to establish a risk-based margin system that address the use of substantive inputs, in addition to price data, in its risk-based margin system, including when such inputs are not readily available or reliable; and
- Recovery and orderly wind-down plans (RWP) that include specific elements to ensure that the RWP is fit for purpose and provides sufficient identification of how a CCA would operate in a recovery and how it would achieve an orderly wind-down.

## Why This Matters

CCAs are registered clearing agencies that act as a central counterparty, meaning that they act as the buyer to every seller and the seller to every buyer in a securities transaction, or as a central securities depository, meaning that they act as a custodian of securities in connection with a central system. CCAs can help increase the safety and efficiency of securities trading and reduce costs. The proposal would augment and strengthen the requirements of the rules that govern CCAs.

## How the Rules Apply

First, the proposal would amend Rule 17Ad-22(e)(6)(ii) to require that a CCA's margin system monitors intraday exposure on an ongoing basis and include the authority and operational capacity to make intraday margin calls as frequently as circumstances warrant, including when specified risk thresholds are breached or when the products cleared or markets served display elevated volatility.

Second, the proposal would amend the requirements of Rule 17Ad-22(e)(6)(iv) to require that a CCA's margin system have procedures that would apply in the event that the CCA relies on substantive inputs from third parties. Specifically, when such inputs are not readily available or reliable, the proposal would require that the procedures include the use of price data or substantive inputs from an alternate source or, if it does not use an alternate source, the use of an alternate risk-based margin system that does not similarly rely on the unavailable or unreliable substantive inputs.

Finally, proposed new Rule 17ad-26 would require particular elements in a CCA's RWP. Currently, Rule 17Ad-22(e) requires that a CCA's policies and procedures include an RWP but does not include requirements for the RWP's content. Specifically, proposed new Rule 17ad-26 would require that a RWP:

- Identify and describe the CCA's critical payment, clearing, and settlement services and address how it would continue to provide such services in the event of recovery and during an orderly wind-down, including the identification of the staffing necessary to support such services and analysis of how such staffing would continue in the event of a recovery and during an orderly wind-down;
- Identify and describe any service providers upon which the CCA relies to provide its identified critical services, specify to what critical services such service providers are relevant, and address how the CCA would ensure that such service providers would continue to provide such services in a recovery and orderly wind-down, including consideration of contractual obligations with such service providers and whether those obligations are subject to alteration or termination as a result of the initiation of the RWP;
- Identify and describe scenarios that may potentially prevent the CCA from being able to provide its critical services, including as arising from uncovered credit losses, uncovered liquidity shortfalls, and general business losses;
- Identify and describe criteria that could trigger the RWP's implementation and the process that the CCA uses to monitor and determine whether the criteria have been met, including the applicable governance arrangements;
- Identify and describe the rules, policies, procedures, and any other tools the CCA would use in a recovery or orderly wind-down;
- Address how the identified rules, policies, procedures, and any other tools or resources would ensure timely implementation of the RWPs;
- Include procedures for informing the Commission as soon as practicable when the CCA is considering initiating a recovery or orderly wind-down;
- Include procedures for testing the CCA's ability to implement the RWPs at least every 12 months, including by requiring its participants and, when practicable, other stakeholders to participate in testing its plans, providing for reporting the testing results to its board of directors and senior management, and specifying the procedures for amending the plans to address the testing results; and
- Include procedures for review of the plans by the board of directors at least every 12 months or following material changes that would significantly affect the RWPs' viability or execution, with such review informed, as appropriate, by the RWP testing.

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***Additional Information:***

The public comment period will remain open for 60 days following the publication of the proposing release on the SEC's website or 30 days following publication of the proposing release in the Federal Register, whichever period is longer.