


ECB Meeting
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Investment Management Industry Requirements for European CCPs for Credit Default Swaps

Peter De Proft

Director General

EFAMA



The Investment Management industry
welcomes the proposal to set up
one or more EU CCPs for CDSs,
but needs to be included in the
discussion on the “rules of the game”



Key Buy-Side Requirements for CCPs: Mitigation of Counterparty Risk

- **Margin/Collateral Management:**

- Quality/Type of assets – Not just cash accepted
- Appropriate Haircut Levels
- No Re-Hypothecation
- Title Transfer preferable to Title Pledge

- **Segregation:**

- Separation of clearing and non-clearing member accounts and collateral posted
- Counterparty Risk mitigation by CCP for assets and cash (own funds and collateral it holds)
- Possible segregation of CDS clearing fund from clearing fund for other instruments

- **Clearing Fund must be adequate to cover default**



Key Buy-Side Requirements for CCPs: Risk Management and Valuation

- Robust Risk Management Systems for the CCPs

- Sound Valuation for Collateral
 - Rules, Frequency of Updates, Pricing Provider
 - Valuation should reflect market conditions as quickly as possible



Key Buy-Side Requirements for CCPs: Governance

- Interests of buy-side users must be considered within the CCP's governance objectives
- At least one buy-side representative on the Board
- Transparency of the rules also to non-CCP members



Other Key Buy-Side Requirements for CCPs

- CCP Rules and contractual arrangements should be designed for maximum legal certainty, particularly with regard to credit events
- Interoperability among EU CCPs is essential
- Transfer of positions between clearing members and between CCPs should be possible



Buy-Side Concerns

- Access to DTCC Data Warehouse to submit data currently not available to most buy-side investors
- Infrastructure requirements to connect to CDS CCPs are unknown – implementation time and cost must be considered
- Pricing provider must use product codes freely available to the market – no payment of license fees
- Backloading of existing trades:
 - Procedures
 - Will contract amendments be necessary?
- Buy side involvement in any discussion on possible revision of ISDA protocols in case of restructuring



Contact

Peter De Proft

peter.deproft@efama.org

EFAMA secretariat

Square de Meeûs, 18/2

B-1050 Brussels

Tel. +32 (2) 513 3969

Fax + 32 (2) 513 2643

E-mail: info@efama.org

www.efama.org