CCP Performance: Structure or Behavior?

April 4, 2006
CCP Functions

- Enable liquidity via credit risk mitigation
- Provide centralized processing efficiencies
- Act to contain systemic risk
  - On-going risk management activities
  - Default protections and crisis management
- Support market innovations

Do so against a backdrop of cost and capital efficiencies
Is CCP Structure the Issue

- Does structure drive a CCP’s ability to effectively perform its functions?
- Does CCP achievement of operational and capital efficiency depend on structure?
- Do the critical CCP incentives vary given different structures?
- Is there a discernible difference between overall CCP performance given a utility vs a for profit structure?
Credit Risk Mitigation

Drivers Include:

- Membership standards
- Financial and Risk Management Surveillance
- Margining and Mark to Market
- Risk Management Policies
Centralized Processing Efficiencies - Operational

Drivers Include:

• Systems and on-going investment in technology
• Scale of business cleared
• Use of industry standard interface protocols
Centralized Processing Efficiencies - Capital

**Drivers Include:**

- Scope of business cleared
- Risk based portfolio margining
- Collateral programs
Systemic Risk Containment

Drivers Include:

- Overall risk management culture and policies
- Financial safeguards and default protections
- Crisis management geared toward protecting the entire system as a first priority
- Information sharing
Support for Innovations

Drivers Include:

- Alignment of priorities
- Technology synergies between markets and CCPs
- Allocation of resources
- Intellectual property protection
Do we actually have a problem that market forces cannot solve?

We should be certain to answer that question before seeking a regulatory solution.
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Default Rules and Procedures

Tier 1
- Resources of the defaulting firm(s)
- Aggregate performance bond deposits = $50.1 Billion
- Market value of pledged shares = $870 Million

Tier 2
- Temporary liquidity facility = $750 Million

Tier 3
- CME capital contribution surplus funds = $60 Million

Tier 4
- Risk capital contribution
- Security deposit = $1.07 Billion

Tier 5
- Contingent risk capital assessment powers
- $2.94 Billion

Total Financial Safeguards Package = Over $4 Billion
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