

MEMO# 35518

November 28, 2023

ICI Global Responds to FSB's Consultation on Financial Resources and Tools for CCP Resolution

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TO: ICI Members
ICI Global Members
Derivatives Markets Advisory Committee
Equity Markets Advisory Committee
Europe Regulatory and Policy Committee SUBJECTS: Derivatives
Financial Stability
International/Global
Trading and Markets RE: ICI Global Responds to FSB's Consultation on Financial Resources and Tools for CCP Resolution

ICI Global has filed comments with the Financial Stability Board (FSB) regarding the Consultation report on [Financial Resources and Tools for Central Counterparty Resolution](#) (Consultation). This memorandum summarizes [ICI Global's comments](#).

The Consultation presents a summary of the FSB's analysis of the benefits and limitations of potential financial resources and tools for the resolution of systemically important central counterparties (CCP). The FSB proposes a global standard for resolution-specific resources and tools that should be available to the resolution authority in a CCP resolution with a "resolution toolbox." The aim of the toolbox is to ensure that resolution authorities have access to adequate resources to maintain the continuity of critical functions in the event of a CCP resolution.

We express general support for the toolbox approach as it would enhance resolution regimes and the likelihood of a successful CCP resolution through seeking to ensure that resolution authorities have access to resolution-specific tools.

The proposed tools to be included in the toolbox, which would be available in addition to available recovery resources and tools, include:

- Bail-in bonds,
- Resolution funds,

- Resolution-specific insurance,
- Resolution-specific third-party contractual support,
- Resolution cash calls,
- Statutory or contractual variation margin gains haircutting, and
- Equity in a first-loss position.

We generally express support for the resources and tools that the FSB proposes to include in the toolbox, most of which are consistent with the principle that losses should be allocated to the parties responsible for the losses and the CCP's failed risk management. We push back, however, on the unqualified inclusion of variation margin gains haircutting (VMGH) in the resolution toolkit (i.e., including VMGH as a potential tool to address a loss, regardless of type). We discourage the FSB from using VMGH to address default losses and we identify strict limitations that must apply to any use of VMGH for default losses. We also state that VMGH should never be used to address non-default losses.

The Consultation acknowledges the importance of transparency in resolution to market participants and the FSB's proposed standard includes transparency expectations for resolution authorities. However, the FSB could do more to enhance transparency and the effectiveness of the proposed resolution toolkit. We suggest that the FSB precisely define when resolution begins, distinguish tools that would be used to address default and non-default losses, and develop guidance on standardized disclosures regarding resolution tools.

The FSB proposes to monitor implementation for CCPs that are systemically important in more than one jurisdiction through the FSB's annual Resolvability Assessment Process (RAP) and Crisis Management Group (CMG) Monitoring, publishing findings in the FSB's annual resolution report. These processes involve resolution authorities submitting information to the FSB. Since transparency regarding the use and calibration of resolution tools and resources is intended to benefit market participants, we propose that the FSB revise the implementation monitoring mechanism to incorporate feedback from these participants.

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