Statement

Covered Clearing Agency Resilience and Recovery and Wind-Down Plans

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Good morning Chair Gensler and Commissioners Peirce, Crenshaw, Uyeda, and Lizarraga.

Today, the Division of Trading and Markets recommends that the Commission propose two sets of changes to the rules applicable to covered clearing agencies under the Exchange Act. The objective is to improve the resilience and recovery and wind-down planning for covered clearing agencies.

The first set of changes would amend the requirements applicable to a covered clearing agency's risk-based margin system. The changes would provide that the margin system must monitor intraday exposure and further specify the circumstances in which a covered clearing agency must have the authority and operational capacity to make intraday margin calls. The Division believes that it is essential that a covered clearing agency monitors its intraday exposure because it faces a risk that its exposure to its participants can change rapidly as a result of intraday changes in prices, positions, or both.

The changes would also provide that, in the event that the covered clearing agency relies on substantive inputs from third parties to calculate margin, the covered clearing agency must have procedures that would apply when such inputs are not readily available or reliable. Such substantive inputs could include, for example, portfolio size, volatility, and sensitivity to various risk factors that are likely to influence security prices. The Division believes that establishing procedures for when such substantive inputs from third parties are not available or reliable should help ensure that the covered clearing agency can continue to calculate and collect margin.

The second set of changes would add a new rule to require certain elements in a covered clearing agency's recovery and wind-down plan. Currently, the Covered Clearing Agency Standards require only that a covered clearing agency have such a plan, but does not provide any further specificity as to its contents.

The Division believes that these amendments would strengthen and augment the existing Covered Clearing Agency Standards, thereby improving risk management and resilience of covered clearing agencies. The Division also believes that the additional requirements with respect to recovery and wind-down planning would strengthen the plans overall.

In a moment, I will introduce Elizabeth Fitzgerald in the Office of Clearance and Settlement who will discuss the proposed rule changes in more detail. Before I do, I would like to take a moment to thank our colleagues from across the Commission that contributed to this proposal, including staff in the Division of Economic and Risk Analysis, the Office of the General Counsel, the Division of Examinations, and the Division of Enforcement. Their input was invaluable in preparing this proposal. I would also like to thank our colleagues from the Board of Governors of the Federal Reserve, the U.S. Commodity Futures Trading Commission, and the Federal Deposit Insurance Corporation, for their helpful feedback.

I will now turn it over to Elizabeth. Thank you.