## Statement

# Statement on Clearinghouse Resiliency, Recovery, and Wind-Down

**Chair Gary Gensler**

**May 17, 2023**

Today, the Commission considers a proposal to help ensure the continuity of clearing services during times of significant stress. I am pleased to support the proposal because, if adopted, it would help enhance the resiliency of this part of our market plumbing, which is fundamental for the capital markets to operate.

Clearinghouses sit in the middle of the capital markets, reducing risk amongst and between counterparties through multi-party netting. Rather than having thousands of bilateral or tri-party relationships amongst market participants, clearinghouses offer a classic hub and spoke model. Further, clearing reduces risk through the robust rules of the clearinghouses themselves, such as for the collection of initial and variation margin.

Recognizing the benefits of central clearing, Congress gave the Securities and Exchange Commission authorities over clearinghouses for stocks, bonds, and certain other securities in 1975. In addition, they expanded our clearing authorities to include Treasuries in 1986 and security-based swaps in 2010.

Well-regulated and well-managed clearinghouses help lower risk for the public.

Clearinghouses, though, are not without risks.

That's why clearinghouses long have needed to have robust risk management related to, among others, the collection of sufficient margin, default management procedures, and liquidity.

Prudent risk management, though, also means planning for an unlikely tail event where a clearinghouse may be unable to provide critical services to its members. Such a failure would undermine the system, causing harm to investors and issuers in the markets.

That's why, in 2016, the Commission adopted rules requiring clearinghouses to have policies and procedures that include recovery and wind-down plans.[1]

In the seven years since we adopted this rule, we have benefitted from reviewing submissions of various recovery and wind-down plans. At the time of the adoption, some commenters also had suggested we require more specific details. Today's proposal would do just that: add greater detail to current requirements regarding clearinghouses' plans and the tools they use to carry them out.

Today's proposal would require clearinghouse recovery and wind-down plans to account for nine specific elements. Those elements include, among others, describing the clearinghouse's critical services, identifying service providers that the clearinghouse relies on to provide those services, identifying the tools used for a recovery event, and describing how the plans would be reviewed and tested. Greater consistency across recovery and wind-down plans would enhance the resiliency and continuity of our market plumbing.

In essence, recovery and wind-down plans should be about ensuring that water continues to flow in our market plumbing even in times of significant stress. Such continuity is critical for our capital markets to function. Nobody would want this plumbing to be backed up.

Current rules from 2016 also have important provisions for clearinghouses to have the authority and capacity to collect intraday margin. Intraday margin calls played an important role in clearinghouses' ability to respond to volatility during the January 2021 "meme-stock" events and during recent periods of heightened Treasury volatility. I think enhancing these intraday tools would help make our markets more resilient.

Thus, today's proposal would require clearinghouses to add policies and procedures that specify they would monitor for intraday exposure. Under the rules, clearinghouses also would need to specify under what circumstances they would make intraday margin calls. Further, the proposal would require clearinghouses to designate alternative methods to calculate margin in the event that key data becomes unavailable. These changes would strengthen clearinghouses' risk management and give greater specificity to clearinghouse members about how clearinghouses manage intraday risk.

The proposal would help support the continuity of our market plumbing, and that benefits investors, issuers, and the markets alike.

In closing, in addition to thanking our excellent staff for their work on this proposal, I'd like to thank the staff of the Federal Deposit Insurance Corporation (FDIC) for their collaboration and give special thanks to FDIC Chair Martin Gruenberg. My thanks also to the staff at the Federal Reserve and the Commodity Futures Trading Commission.

I'd like to thank the members of the SEC staff who worked on this proposal, including:

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[1] *See* Rule 17Ad-22(e)(3)(ii).