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# Central Counterparties

## Evaluative Considerations

17<sup>th</sup> Annual Beneficial Owner Summit  
Information Management Network  
Scottsdale, Arizona

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# ***Central Counterparties: Defined***

“A CCP imposes itself as the legal counterparty to every trade. This substitution of the counterparties by the CCP typically occurs through a process known as novation, which discharges the contracts between the original trading entities and creates two new, legally binding contracts – one between each of the original trading parties and the CCP.”

# ***Central Counterparties: History and Evolution***

- Consolidation & Business Expansion
  - Activity Volume Growth
  - Technology Advances
  - Internationalization
- Evolution of Clearing Houses
  - Risk Management
  - Regulatory Change
  - Decentralization of Exchange Affiliations

# ***Central Counterparties: Bank Risk Capital Charges***

- “Qualifying” CCP
  - CPSS-IOSCO standards compliance
  - Trade exposure transparency
  - Verification of exposures
- Qualifying Default Fund Exposures
- Bankruptcy Remote Collateral
- Reduced Risk Capital Weight (2%)
- Indirect Access

Proposed, Basel Committee: December 2010

# ***Central Counterparties: Evaluation Criteria***

- Default Guarantees: Govt vs Members
- Activity: Stimulus vs Neutrality
- Systemic Risk: Reduction vs Transfer
- Initial Collateral Levels
- CCP Capital Adequacy
- Interoperability and Collateral Poolin