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**Terry Flanagan**

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DTCC Details Risk Management Approach



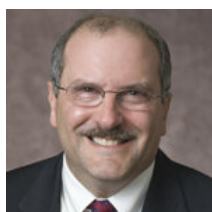
Depository Trust & Clearing Corp. is seeking to engage in a dialogue with CCPs, regulators and clearing participants concerning CCP risk management.

DTCC has issued a white paper that focuses on steps to refine and enhance the financial resources and default management structures of its two clearing agency subsidiaries, National Securities Clearing Corporation (NSCC) and Fixed Income Clearing Corporation (FICC), which have been designated as Systemically Important Financial Market Utilities (SIFMUs).

“We felt that it was very important for us to articulate our views on some of those topics and point out where we think there are differences both in the markets that we clear and the ownership structure of DTCC’s two CCPs,” Murray Pozmanter, managing director and general manager of DTCC’s SIFMUs, told Markets Media.

The debate over CCP resources and risk management practices has become especially intense against a backdrop in which global regulators are completing detailed rulemaking to implement legislative reforms and publishing interpretations and guidance that will drive outcomes for CCPs.

“A lot of focus has been on some of the newer asset classes in clearing, particularly swaps that are in clearing, and on how it’s sort of changing the risk profile of those markets,” Pozmanter said. “DTCC’s two CCPs were being lumped in and looked at within that same framework.”

**Murray Pozmanter,**
DTCC

As a user-owned company, DTCC’s directors are a cross-section of clearing agency participants, including international broker-dealers, custodian and clearing banks and investment institutions. This broad representation enables DTCC to be responsive to the needs of all its constituents in terms of its approach to risk management. “How we look at governance informs how we think about the loss

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waterfall and what the CCP's contribution to it should be," Pozmanter said.

Much of the debate recently has focused on whether CCPs should make larger contributions of their own capital to the loss allocation waterfall as a way to make sure that their risk management is prudent and that they had their own 'skin in the game.'

An argument could be made that CCPs that are publicly traded may potentially not be aligned with the interests of owners and shareholders, who also used its services.

"We felt it was very important to point out that this argument isn't applicable to DTCC's CCPs because in essence the source of our capital is our users," Pozmanter said. "We don't feel that putting an outsized portion of that capital at risk as part of our loss allocation waterfall would align our interests any better than they're already aligned with our owners and users. We look at that as a potential source of instability in a stressed market."

He added, "While we're in favor of having some of our capital in the loss waterfall, we think that having a very transparent methodology and a static percentage of our operating capital in the waterfall is what's most appropriate for us."

DTCC supports the concept of stress testing for CCPs, but believes the tests need to be tailored to the asset classes that each individual CCP clears. "We're very much in favor of a standardized framework because we think that will add a lot of transparency and predictability to the process, but there needs to be some flexibility for the stress test to be customized to address particular risks faced by different CCPs depending on which markets they clear, which asset classes they clear, and what markets they operate," Pozmanter said.

As for resolution procedures, DTCC is opposed to pre-funding the default loss waterfall, although it does support pre-funding the operating capital needed to get a new CCP up and running in the event of a default.

"As we go through our recovery and resolution planning we want to have the operating capital pre-funded to potentially start up a new CCP in the event of the resolution of one of our CCPs," Pozmanter said. "We definitely see the logic in having the operating capital to start up a new CCP pre-funded. The default fund contributions, however, are better made at the point when the CCP is actually enacted."

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Terry Flanagan is Managing Director at Markets Media Group, where he oversees the Markets Media, Traders Magazine, and GlobalTrading platforms....

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