July 31, 2020

VIA ELECTRONIC SUBMISSION

Financial Stability Board
Randal K. Quarles, Chair
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Re: Guidance on financial resources to support CCP resolution and on the treatment of CCP equity in resolution

Dear Chair Quarles:

Cboe Global Markets ("Cboe") greatly appreciates the opportunity to respond to the Financial Stability Board's ("FSB's") draft guidance on financial resources to support CCP resolution and on the treatment of CCP equity in resolution (the "Draft Guidance").[1]

As a global exchange operator; a shareholder in two central counterparties ("CCPs"), including sole shareholder of pan-European equities clearinghouse EuroCCP;[2] and a leader in centrally cleared exchange-traded equities, options, and futures, Cboe understands the importance of incentives in developing healthy, efficient market infrastructures. However, Cboe is concerned that the Draft Guidance as it relates to the treatment of CCP equity in resolution would greatly disrupt longstanding incentive structures at the heart of the central clearing model. We are concerned that this would create less certainty for default management, reduce the likelihood of a successful recovery during times of stress, and create negative implications for financial stability. This view is consistent with concerns raised by the World Federation of Exchanges and many other commenters.

Importantly, existing FSB guidance supports the principle that, "[e]ffective CCP resolution planning should have regard to maintaining incentives for CCPs, clearing members, and market participants to centrally clear and engage constructively in efforts **to achieve a successful default management or recovery and reduce the likelihood of resolution**."[3] In other words, incentive

[1] FSB *Consultation on Guidance on Financial resources to support CCP resolution and the treatment of CCP equity in resolution*, May 2020, *available at*, https://www.fsb.org/wp-content/uploads/P020520.pdf.

[2] Cboe is a joint shareholder of The Options Clearing Corporation – the world's largest equity derivatives clearinghouse, and recently became sole shareholder of EuroCCP – a leading pan-European equities clearinghouse.

[3] FSB, *Guidance on central counterparty resolution and resolution planning*, July 2017, *available at*, www.fsb.org/2017/07/guidanceon-central-counterparty-resolution-and-resolution-planning-2/.

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structures should be designed to reduce the likelihood of resolution by ensuring market participants contribute to default management and recovery. However, the Draft Guidance conflicts with this principle by contemplating increases in CCP equity at risk that would reduce market participants' incentives to actively participate pre-resolution. For example, if in resolution contractual loss allocation arrangements could be modified, clearing members compensated, CCP equity partially or fully written down, or any number of potentialities raised by the Draft Guidance, clearing participants may be incentivized to seek resolution instead of actively participating in recovery. Quite simply, if resolution provides carrots to clearing participants that default management and recovery processes do not, clearing participants will be incentivized toward resolution rather than actively participating in the recovery process. In this way the Draft Guidance, if adopted, would serve as a potentially harmful standard that disrupts the carefully planned incentive structures implemented through the CCP rulebook and, in so doing, may reduce financial stability.

We therefore believe the FSB would better serve financial stability by rejecting increases to CCP equity at risk and supporting existing incentive structures that recognize an essential, fundamental fact of central clearing – **CCPs manage risk; they do not introduce risk**. It is therefore not only fair, but prudent for all stages of the risk management process to create the strongest of incentives for clearing participants – the introducers of risk – to contribute to pre-resolution default management and recovery.

Cboe greatly appreciates the opportunity to provide its views on the Draft Guidance and encourages the FSB to adopt guidance that promotes incentive structures that serve to achieve successful default management and recovery and to reduce the likelihood of resolution. If you have any questions regarding our comments please contact the undersigned at aevangelou@cboe.com or Kyle Edwards at kedwards@cboe.com.

Respectfully submitted,

Angelo Evangelou

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