

From: rheckinger@gmail.com
To: [Financial Stability Board \(FSB\). Service](#)
Subject: Re : Guidance on Central Counterparty Resolution and Resolution Planning Consultative Document
Date: 13 March 2017 19:24:19

My name is Richard Heckinger, and I write in response to your consultative document to provide my comments on the proposed guidance. My status in this regard is as a private person, having retired in 2015 from the Federal Reserve Bank of Chicago as Vice President, Financial Markets Group, Markets Team. My background in markets started in 1973 at the Chicago Board Options Exchange, and I have managed CCPs in Chicago, Montreal and Hong Kong (to include its CSD), covering both derivatives and securities. During my tenures I was involved in managing the liquidation of several clearing members (due to their default or the default of related entities), and dealt with the appropriate courts, regulators, trustees or administrators pertinent to the cases at hand. In addition, I have served on industry committees such as ISSA, SWIFT, the OTC Derivatives Regulators' Forum, as well as central bank working groups.

My specific comments are with respect to two aspects of the proposed guidance. First, it appears that the division of responsibility and response to a financial crisis is proposed to be overlapping in the areas of authority (the resolution authority's rules versus those of the CCP) and timing. Simply, I believe it should be clearly stated that resolution is the last resort case when recovery by the CCP (using its rules) has failed. In balance, the resolution authority should have some reserve powers to override the CCP's rules if the financial crisis is so grave and widespread as to overwhelm the CCP and most other FMI and banks. But, clear priority should be explicit upfront.

Second, the proposed guidance might create moral hazard by prescribing the write down of CCP capital before the CCP exhausts all of its recovery powers. Too early an intervention by a resolution authority might prove to be more expensive, and possibly contagious, as compared to allowing the recovery efforts to work to their finish, and blunt the incentives created by the CCP's rules over its clearing members. To the best extent possible clearing members should be involved in recovery processes such as accepting transfers of positions (if able), bidding at auction of the defaulter's portfolio, etc. Otherwise, knowing that resolution is imminent the clearing members will very likely "exercise" that option and let the holders of the CCP's equity suffer the loss. CCPs and banks have very different capital structures, and to rotely apply banking resolution principles (such as the write down of capital) to CCPs should be avoided.

I think the overall objectives are laudable and needed, and appreciate the opportunity to provide my comments that are hopefully constructive to your consultative process.

Respectfully submitted,
Richard Heckinger
13 March 2017

Sent from [Mail](#) for Windows 10