



Memo

Ah,To		SIX x-clear Ltd
Department	SIX Clearing	Pfingstweidstrasse 110 CH-8005 Zurich
Copy to		Mailing address:
From	SIX Clearing	P.O. Box
Department		CH-8021 Zurich
Phone	+41 58 399 2184	T +41 58 399 4311
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Introduction

SIX operates the financial market infrastructure for the Swiss and Spanish financial centers, catering to a broad international client base. As such SIX encompasses the two Central Counterparties ('CCPs') SIX x-clear AG and BME Clearing SA (together SIX Clearing). SIX x-clear is an interoperable CCP clearing cash equity and fixed income across 20 trading venues and 19 markets. In contrast, BME Clearing is diversified in asset classes, clearing Cash Equity, Derivatives, Fixed income, Interest Rate Swaps and Energy derivatives within the Spanish value chain. Both SIX CCPs have a recovery plan in place that complies with the CPMI-IOSCO standards and have been approved by their respective NCA. Discussion with the two CCP's home resolution authorities on resolution scenarios and tools has started, although the level of progress is different in both jurisdictions.

SIX Clearing thanks the Financial Stability Board ('FSB') for the opportunity to provide feedback to the consultation report on Financial Resources and Tools for Central Counterparty Resolution. SIX welcome the FSB's dedication to ensuring stable financial markets and supports the building of an effective resilience, recoverability, and resolvability regime for systemically important CCPs in default and non-default loss scenarios.

While SIX Clearing in general supports global standards for the availability of adequate resources and tools to support resolution authorities and CCPs in resolution, SIX Clearing is of the opinion that the proposed framework could be revised along the following lines:



- **Stronger Focus on Prevention:** In the ever-evolving landscape of financial markets, securities clearing has long been a pillar of stability, ensuring the smooth and secure processing of transactions. CCPs interpose themselves between the counterparties to the contracts traded, 'becoming the buyer to every seller and the seller to every buyer' thereby allowing counterparties to trade with each other anonymously while safeguarding the integrity of the trade by stepping in should one of the counterparties to the trade default.

SIX Clearing agrees that effective resolution regimes for systemically important CCPs remain critical for supporting financial stability and ensuring confidence in the financial system. However, CCPs have continued to successfully manage the risks brought by market participants, despite multiple periods of market stress. This was also recognized in the work by international standard setting bodies, including the FSB, in their 2022 report *Central Counterparty Financial Resources for Recovery and Resolution*. While we appreciate the work of the FSB to support the stability of the broader financial system, SIX Clearing does not believe that this new report provides sufficient evidence which supports the need for additional resolution-resources and tools.

In particular, some non-default events such as a cyberattack are unlikely to be addressed with additional resources, but they should rather be prevented through the application of ex-ante measures, such as an appropriate cybersecurity policy.

Considering previous consultation results and proven track record of CCPs, SIX Clearing urges the FSB to expand more on prevention as a key aspect of their work on CCP resolution and to support financial stability by continuing to incentivize market participants to effectively manage their risks.

- **Clear definition of extreme but plausible resolution scenarios:** Even though we note that any scenario in which a CCP would need to be resolved is hopefully extreme and remote, SIX Clearing believes that a key prerequisite to identifying which tool is most suitable requires a clear definition of extreme but plausible resolution scenarios. As the FSB' report notes, 'resources and tools carry different strengths and weaknesses and may be more or less appropriate in specific resolution scenarios'. SIX Clearing therefore suggests that the FSB expand their work on resolution scenarios to support resolution authorities in the selection of the appropriate tools in resolution.
- **Clarity and Usability of Classification of Resolution Tools:** In its report, the FSB has identified 4 parameters and 6 analytical dimensions to classify the resolution tools. While SIX Clearing understands the intention of these parameters and dimensions, we are under the impression that the parameters and dimensions overlap and could be grouped and/or subcategorized in order to better help resolution authorities to classify appropriate resolution tools in any given scenario. Furthermore, we would also suggest clarifying the scope of this



draft Guidance in relation to previous FSB Guidance on this matter (e.g. FSB Key Attributes (2014), FSB Guidance on CCP Resolution and Resolution Planning (2017) and Guidance on Financial Resources to Support CCP Resolution and on the Treatment of CCP Equity in Resolution (2020)).

- **Resolution Tools should not disincentivize Recovery:** While SIX supports the definition of a usable toolbox which serves as a fall back solution for resolution authorities, in a pre-defined resolution scenario, and while SIX furthermore agrees that CCPs and resolution authorities can tailor such tools based on their specific circumstances, each of the seven resolution-specific tools and resources included in the FSB's proposed toolbox could have varying adverse effects on CCP resilience and recovery, and broader financial stability, some of which are outlined by the FSB in the Report. In particular SIX Clearing notes that it is paramount to preserve incentives for participation in recovery and central clearing (Parameter D). Any measure that ultimately undermines incentives for central clearing and financial stability by increasing costs and discouraging participation to the detriment of the global marketplace should be avoided.

We therefore urge the FSB to develop standards designed to encourage participation in cleared markets and the likelihood of successful CCP-led default management process and recovery. Guidance that provides incentives for market participants to see the CCP resolved rather than recover would work against the stability of the broader financial system.

- **CCPs are not banks:** The differences between CCPs and banks range from their business objectives, their risk appetite, the balance sheet, the way they perform risk management through to their supervisory architecture. CCPs play a very different role from banks in this respect since they manage risk instead of taking risk, and therefore we would kindly recommend the FSB to exclude the applicability to CCP of tools for banking resolution that would be inappropriate in the context of CCP resolution, such as bail-in bonds and total loss-absorbing capacity and which have already been discarded in existing and effective CCP resolution regimes.

In addition to our introductory note above, please find answers to all your questions below. Furthermore, SIX Clearing fully supports the submissions to this consultation by the industry associations European Association of CCP Clearing Houses (EACH) and World Federation of Exchanges (WFE) and refers to these submissions for any information beyond SIX' own submission.

Questions

2. Section: Objectives for CCP resolution resources and tools

1. *Are the four parameters for resolution-specific resources and tools sufficient to comprehensively support the objectives for CCP resolution?*
 - A. *to provide sufficient loss absorption, CCP recapitalisation options and liquidity to give resolution authorities a reasonable opportunity to achieve a successful resolution in default loss (DL) and non-default loss (NDL) scenarios;*
 - B. *to be reliable and readily available in resolution;*
 - C. *to mitigate potential adverse effects on financial stability; and*
 - D. *to align incentives across recovery and resolution and achieve outcomes in resolution consistent with the Key Attributes, including by ensuring CCP equity remains in a first-loss position and by preserving incentives for market participants to participate in recovery and central clearing.*

SIX Clearing agrees with the four parameters for resolution resources and tools, although they could benefit from more description. While SIX Clearing understands that the four parameters should help resolution authorities identify which resolution tool is best suited in any given scenario, we are of the opinion that not all parameters should be treated equally.

In particular, SIX Clearing notes that it is paramount to preserve incentives for participation in recovery and central clearing as noted in Parameter D. Any measure that ultimately undermines incentives for central clearing and financial stability by increasing costs and discouraging participation to the detriment of the global marketplace should be avoided. SIX Clearing therefore suggests a stronger weighting of Parameter D versus the other three parameters.

Furthermore, SIX Clearing would like to refer to EACH's submission and reiterate that CCPs are not banks and that in particular Non Default Loss scenario should be prevented rather than remedied.

2. *Are there any other parameters that should be considered?*

SIX Clearing does not think that there are any other parameters that should be considered.

3. Section: Scope of analysis on resolution resources and tools

3. *Are the resource and tool descriptions appropriate and clear in order to underpin the remaining analysis in the consultation report?*

While SIX Clearing believes that the resource and tool descriptions are generally appropriate and clear to underpin the remaining analysis in the consultation report, we have strong concerns regarding certain of the proposed resolution resources and tools, which we do not consider suitable for CCPs as they would distort the CCPs' incentive structure based on neutral risk management principles and prevent the access to clearing by increasing its cost:

SIX Clearing agrees with the FSB, EACH and WFE that **Bail-in Bonds** and **resolution funds** should be removed from consideration given their potential to increase financial stability risks. For an explanation we refer to the submissions by EACH and WFE. Likewise we would urge the FSB to remove Total Loss Absorbing Capacity as a tool, as it would require the CCP to unduly increase its equity.

SIX x-clear does, however, appreciate the FSB's prioritisation of flexibility in their tool-box approach so that CCPs can tailor tools and resources based on the given scenarios, regulatory frameworks and strengths and weaknesses of each resolution tool.

4. *Are there other resolution-specific resources or tools that should be considered? If so, please describe the relevant resolution resource or tool, and how such resource or tool meets the parameters and dimensions. Alternatively, are there resources or tools that should be removed from consideration? If so, please explain why.*

Please refer to EACH's submission for this question.

4. Section: Qualitative analysis

5. *The analysis identifies six key dimensions and maps them to the parameters for resolution-specific resources and tools. Are the descriptions of the dimensions sufficient? Are there other dimensions that should be considered?*

SIX Clearing believes that the description of the dimensions is sufficient. However, similarly as for the parameters, we do not believe that all dimensions should be accorded the same with. Furthermore, in relation to Parameter B we suggest to add reusability of the tool as an dimension, as this can significantly increase the value of a tool.



6. *For each resolution-specific resource or tool discussed in the consultation report, have the key costs and benefits been appropriately identified? Are there additional cost/benefit factors that should be considered?*

Please refer to EACH's submission for this question.

7. *Section 4.3 considers the parameters and dimensions necessary to support orderly resolution (e.g. without material adverse effect on financial stability) and to address the implications of the resources and tools on the CCP as a going concern and on clearing members and market participants. Does this section adequately capture the relevant considerations or are there other factors that should be considered, such as synergies, cost efficiencies or offsetting qualities?*

As described in our response to question 1 and 5 above, we suggest giving different weighting to the different parameters and dimensions. Please also refer to EACH's submission for this question.

8. *Does the analysis by parameter and dimension provide sufficient clarity around how resources and tools may or may not contribute to a resolution toolbox such that the toolbox, in aggregate, would meet the parameters and dimensions?*

We do not believe that enough clarity is given. Furthermore, SIX Clearing believes that a key prerequisite to identifying which tool is most suitable requires a clear definition of extreme but plausible resolution scenarios. As the FSB' report notes, 'resources and tools carry different strengths and weaknesses and may be more or less appropriate in specific resolution scenarios'. SIX Clearing therefore suggests that the FSB expand their work on resolution scenarios to support resolution authorities in the selection of the appropriate tools in resolution.

5. Section: Framework for resolution resources and tools

9. *Is the toolbox approach and standard described a clear and effective means to support resolution objectives while providing flexibility to jurisdictions and resolution authorities?*

Please refer to EACH's and WFE's submissions.

10. *Is the toolbox approach an effective means to achieve each of the four parameters outlined in Section 2?*
- A. to provide sufficient loss absorption, CCP recapitalisation options and liquidity to give resolution authorities a reasonable opportunity to achieve a successful resolution in DL and NDL scenarios;*
 - B. to be reliable and readily available in resolution;*
 - C. to mitigate potential adverse effects on financial stability; and*
 - D. to align incentives across recovery and resolution and achieve outcomes in resolution consistent with the Key Attributes, including by ensuring CCP equity remains in a first-loss position and by preserving incentives for market participants to participate in recovery and central clearing.*

As stated above, SIX Clearing believes that a key prerequisite to identifying which tool is most suitable requires a clear definition of extreme but plausible resolution scenarios. In particular tools and resources applicable to Default and non-Default loss scenarios will be different. SIX Clearing therefore suggests that the FSB expand their work on resolution scenarios, including default and non-default loss scenarios, to support resolution authorities in the selection of the appropriate tools in resolution.

In addition, please refer to EACH's submission for this question.

11. *With regard to sizing in each jurisdiction, should the standard specify potential approaches for calibrating the quantum of one or more resolution-specific resources and tools to support resolution?*

Please refer to EACH's submission for this question.

12. *To what extent should the standard include transparency into jurisdictions' approaches to calibrating one or more of the resolution-specific resources and tools in the toolbox (such as a function or multiple of the default fund)?*

Please refer to EACH's submission for this question.

13. *What should be the scope of application for the standard? Should it apply to all systemically important CCPs or just to CCPs that are systemic in more than one jurisdiction?*

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14. *To what extent should jurisdictions' calibration analysis and choice of resolution-specific resources and tools in the toolbox take into account the home resolution authority's ability to (i) use resources and tools that are available to the CCP in recovery; and (ii) capability to intervene before they have been exhausted in recovery?*

Please refer to EACH's submission for this question.