Systemic Risk Council Urges G20 Financial Stability Board to Rethink Guidance on Resolution of Clearing Houses

WASHINGTON, D.C.—On July 31, 2020, the Systemic Risk Council issued its response to the Financial Stability Board's draft guidance on the resolution of central-counterparty clearing houses (CCPs). The Systemic Risk Council (SRC) considers that the proposed guidance is not fit for purpose as it currently stands.

The guidance does not provide a clear, internationally agreed solution to the problems of pro-cyclicality and the currently inadequate incentives embedded in plans based on clearing houses' existing rules. It does not solve the de facto stand-off between resolution authorities and supervisory agencies responsible for recovery plans.

SRC chair Paul Tucker said

> "The main clearing houses are super systemic parts of the financial system. The world cannot afford to continue with inadequate resolution plans for these vital institutions. The authorities should not risk leaving themselves with a choice between a taxpayer bailout or chaos if recovery plans do not work or threaten to exacerbate a crisis. The Systemic Risk Council urges the Financial Stability Board and its member authorities and standard-setters to continue working, as a real priority, to find a credible solution. We have offered one in our response."

The SRC is concerned that, as things stand, the FSB's guidance would leave the world relying on recovery mechanisms that could, in some circumstances, seriously exacerbate or even trigger a financial crisis. The SRC advocates moving to a position where owners' equity would be extinguished rather than preserved, with CCPs issuing bonds to the members or owners that could be used to cover excess losses and to recapitalize a failed clearing house without the destabilizing, pro-cyclical effects threatened by parts of the current recovery plans.

SRC recognizes that articulating a satisfactory standard might mean that some clearing houses' rules would need to be amended in order to promote orderly resolution.