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Financial Stability Board: Desired Outcomes Relating to CCP Resolution and Resolution Planning



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Recovery vs Resolution

- 1) In the event of disruption, CCP-led recovery must be given every opportunity to be successful before invoking resolution proceedings;
- 2) Flexibility needs to be afforded in the tools used by the CCP to manage extreme events and based on the situation at hand. For example:
 - a. Strategic partial tear-ups - after multiple rounds where the CCP and participants can identify markets which may no longer be necessary - are a crucial tool to restore a CCP's matched book and to avoid more significant losses to the broader market.
 - b. Variation gains haircutting - as an extreme loss allocation tool - can effectively focus losses on those market participants who are in a position to absorb losses and so can be useful.
 - c. The allocation of losses through a non-default event should be based on the type of event, the source of the losses, the role of the CCP and clearing member in determining the risk, and the CCP's policies in managing these risks.
- 3) Resolution Authorities must only step in when all CCP recovery actions have been exhausted or in the interests of financial stability;

Resolution and Resolution Planning

- 4) Resolution Authorities should have access to appropriate powers and tools to carry out the resolution of a CCP if necessary for financial stability or once the CCP's recovery has been exhausted. However, it is important to carefully consider the specifics of each situation, and the effects of using those powers and tools;
- 5) On entering resolution, it will be vital to strike the right balance between providing sufficient certainty to participants (including the CCP) and leaving the authorities with sufficient flexibility - bearing in mind the significant risks created by early entry - to make the correct decision to protect market stability;
- 6) Careful consideration should be given to prevent actions or compensation that provide perverse incentives for participants, as well as the potential consequences of imposing additional financial resource obligations on CCPs and/or the wider clearing ecosystem;

Sharing of Information

- 7) Cooperation between relevant authorities - not only in the event of resolution, but also in the lead up to resolution - is key. Crisis Management Groups, strong cooperation and information sharing arrangements are necessary, as are practical exercises to test those arrangements

Desired Outcomes to be read in conjunction with the [WFE's response](#) to the Financial Stability Board Consultative Document: [Guidance on Central Counterparty Resolution and Resolution Planning](#).