

Sir Jon Cunliffe
Bank of England
Threadneedle St, London
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Dear Sir Jon

We welcome the opportunity to comment on this Bank of England consultation regarding the supervisory stress testing of CCPs.¹ We believe that the sort of stress testing proposed by the Bank to be important to the prudential supervision of U.K. CCPs and macroprudential supervision to promote financial stability (recognising that CCPs are risk-neutral infrastructures and stress tests primarily concern risks clearing members bring to CCPs).

We focus our comments primarily on cross-border and international topics related to stress testing as well as issues around the public communication of stress test results. We understand that our U.K. members will be responding to questions related to stress test methodology specific to their institutions and support these representations.

The spectacular failure of an opaque, bilateral and under-margined derivatives in the Global Financial Crisis (GFC) led policymakers to insist on a far greater proportion of over-the-counter (OTC) derivatives contracts be cleared at central counterparties (CCPs). The proportion of credit default swaps that are centrally cleared tripled from 2012 to 2020.² International policymakers have also enhanced the standards for CCPs' risk management following the GFC (e.g., *Principles for financial market infrastructures*).³

As supervisory regimes have matured, focus on cross-border supervision has also increased. The WFE has vigorously supported international comity and regulatory coherence with a view to promoting safe and efficient derivatives markets that serve the real economy. In this regard, we suggest that authorities practice deference and rely on third country supervisors' stress testing of CCPs to the extent possible. In 2017, [we responded to the CPMI-IOSCO](#) publication on supervisory stress testing and many of the themes of that response are applicable to the Bank's consultation paper. In particular, we welcome how the Bank has avoided a one-size-fits-all approach to supervisory stress testing, given the diversity of CCPs and products cleared in the UK.

Supervisory stress tests are one of many important elements to consider in the pursuit of improving (and monitoring) financial stability. Risk models need to be robust, and a realistic reflection of a given stress event; otherwise, the robustness of the financial markets may be misinterpreted. The communication of stress test results ought to target variety of audiences in a manner appropriate to each. It is particularly important that the public is not misled about the soundness of the clearing ecosystem based on suboptimal communication of stress test results.

Yours sincerely



Nandini Sukumar
Chief Executive Officer

¹ The World Federation of Exchanges (WFE) is the global trade association for regulated exchanges and clearing houses. We represent over 200 market-infrastructure offerings, spread across the Asia-Pacific region (~37%), EMEA (~43%) and the Americas (~21%). This includes over 50 distinct CCP clearing services, with everything from local entities in emerging markets to stand-alone CCPs based in major financial centres. With extensive experience of developing and enforcing high standards of conduct, WFE members support an orderly, secure, fair and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise financial stability, consumer confidence and economic growth. And we engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in an internationally integrated financial system.

² WFE calculations based on BIS data

³ <https://www.bis.org/cpmi/publ/d101a.pdf>