OCC
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VIA ELECTRONIC MAIL

The Committee on Payments and Market Infrastructures ("CPMI")
The International Organization of Securities Commissions ("IOSCO")
Bank for International Settlements
CH-4002 Basel, Switzerland

Re: CPMI-IOSCO Consultative Report on the Resilience and Recovery of Central Counterparties: Further Guidance on the PFMI

Dear Committee Members:

I. Introduction

The Options Clearing Corporation ("OCC") appreciates this opportunity to comment on the recently released CPMI-IOSCO ("Committee") consultative report on the Resilience and Recovery of Central Counterparties ("CCPs"): Further Guidance on the PFMI ("Consultation"). We support the efforts of the Committee and appreciate the further guidance offered around the Committee's Principles for Financial Market Infrastructures ("PFMI"). As a systemically important financial market utility ("SIFMU") subject to the jurisdiction of the U.S. Securities and Exchange Commission ("SEC"), the Commodity Futures Trading Commission ("CFTC") and the Board of Governors of the Federal Reserve System ("Fed"), OCC believes in well-regulated, transparent and resilient markets and supported the over-the-counter regulatory reform efforts of the G20 nations following the 2008 financial crisis. As exhibited in the 2008 crisis and extreme financial market events that preceded it, exchanged-traded and centrally cleared derivatives markets proved superior to alternative market structures in times of severe market stress. At OCC, we appreciate that policy makers should be proactive in ensuring that the regulation of financial markets keeps pace with market evolution and that smarter regulation is a goal we should all strive for.

We are concerned, however, that certain aspects of the Consultation are too prescriptive and do not afford CCPs sufficient flexibility to adapt and apply these principles in the most effective manner for their businesses and the markets they serve. In this regard, the Consultation would supplant the expertise and judgment of CCPs' boards of directors and senior management, imposing "one-size-fits-all" requirements[1] that fail to account for the (i) unique risks that each CCP manages and (ii) the divergence of

[1] By way of example, Section 2.2.3 states that the board should ensure that a CCP's stress testing framework includes "proper risk identification, scenario selection, risk measurement and appropriate analyses of stress-testing scenarios, models, and underlying parameters and assumptions." (See Consultation at page 7.) While we generally agree that the board should analyze all factors listed in the Consultation, we would suggest that instead of a laundry list of stress testing framework factors as currently drafted, the final guidance clarify that the board is ultimately accountable for the stress testing framework in its entirety rather than only certain factors.

national laws and regulations that apply to CCPs, such as bankruptcy laws, resolution regimes and rules that apply to critical market participants. Moreover, we are concerned that in several areas of the Consultation, the further guidance actually contradicts the PFMI, which have already been implemented by most G20 national regulators in the form of binding regulatory requirements. We discuss these concerns in more detail below and offer constructive commentary as to how the Committee and national regulators might modify the guidance to avoid the unintended adverse consequences of overly-prescriptive, inflexible regulation of financial market utilities such as CCPs.

II. About OCC

OCC, founded in 1973, is the world's largest equity derivatives clearing organization ("DCO"). OCC is dedicated to promoting stability and financial integrity in the marketplaces that it serves by focusing on sound risk management principles. By acting as guarantor, OCC ensures that the obligations of the contracts it clears are fulfilled. As the marketplace evolves, so do the clearing capabilities at OCC. Although OCC began as a clearinghouse for listed equity options, it has grown into a globally recognized entity that clears a multitude of diverse and sophisticated products. OCC clears products subject to the jurisdiction of both the SEC and the CFTC. Specifically, as a registered clearing agency OCC clears transactions for exchange-listed options, security futures, stock loan and over-the-counter ("OTC") options; as a registered DCO, OCC clears transactions in futures and options on futures.

As a result of OTC derivatives regulatory reform following the 2008 financial crisis, OCC was designated by the Financial Stability Oversight Council ("FSOC") as a SIFMU under Title VIII of the Dodd-Frank Act ("Title VIII") and is subject to further oversight by the Fed. In contrast to European-based CCPs, OCC, like other U.S.-based CCPs, is a self-regulatory organization ("SRO"). As an SRO, OCC is subject to extensive day-to-day oversight, including regulatory review and approval of changes to policies and rules, and undergoes regular exams and inspections by the relevant regulatory authorities.

Unlike many CCPs, OCC is not part of a vertical exchange model. Rather, OCC operates as a market utility and clears for over a dozen different exchanges, all of which operate in the US. OCC's participant options exchanges currently include: BATS Exchange, Inc., BOX Options Exchange LLC, C2 Options Exchange, Incorporated, Chicago Board Options Exchange, Incorporated, EDGX Exchange, Inc., International Securities Exchange, LLC, ISE Gemini, LLC, ISE Mercury, LLC, Miami International Securities Exchange, LLC, NASDAQ OMX BX, Inc., NASDAQ OMX PHLX, LLC, The NASDAQ Stock Market LLC, NYSE MKT LLC and NYSE Arca, Inc. OCC's clearing members serve both professional traders and public customers and comprise approximately 115 of the largest U.S. broker-dealers, futures commission merchants and non-U.S. securities firms.

III. Specific Comments

1. Governance

Consistent with the Consultation, OCC agrees that CCPs should provide clear and direct lines of responsibility and accountability and clearly specified roles and responsibilities for the CCP's board, or equivalent body such as a board-level risk committee, and the CCP's management as required by the PFMI.[2] The Consultation, unfortunately, fails to provide further guidance in this regard, and instead provides an abundance of granular instruction for CCPs that ultimately blurs this line between respective roles and responsibilities of the board and management. This is problematic for several reasons, including that, if taken literally, the guidance would require the board to have the same degree of

2 See PFMI Principle 2 Key Considerations 2 and 5 which specify that there should be "documented governance arrangements that provide clear and direct lines of responsibility and accountability" and that the "roles and responsibilities of management should be clearly specified."

expertise and time commitment as management, which is impractical and out of line with best practices for governing bodies of organizations such as CCPs.

Specifically, we are concerned that the Consultation unnecessarily shifts many existing management functions to the board (or equivalent body) to the potential detriment of the CCP. For example, Section 2.2.4 of the Consultation states that the board should have "explicit responsibility" for the process of analyzing a CCP's risk management framework, which would include the "evaluation of various models and approaches, and the selection of those most appropriate,"[3] and Section 2.2.7 also seems to imply the board is responsible for daily tasks related to adjusting and maintaining the level of financial resources at a CCP.[4] While we believe that the board should be ultimately accountable for the risk management framework of the CCP, the day-to-day execution and selection of models are tasks better suited for the expertise of the CCP's management team. This shift would undermine the board's ability to perform core functions such as overseeing and challenging the management in an independent capacity, interfere with a CCP's ability to deliver proactive and timely risk management tools, particularly in times of stress, and provide a disincentive for qualified persons to serve on CCP boards, as the demands and risks would markedly exceed such requirements for boards in other sectors.

To that end, OCC recommends that the final guidance make clear that the intent is for a CCP's board to have ultimate accountability for the CCP's overall risk management framework (and risk tolerance), rather than the prescriptive approach outlined in Section 2.2.7 of the Consultation.[5] The guidance, and national regulators, should leave the day-to-day risk management decisions (e.g., determining whether or not a change to a CCP's products are material to the risk management framework[6] or performing an immediate review of a CCP's risk management framework after a breach to the level of a CCP's financial resources[7]) to management. This approach would preserve, yet clarify, the existing roles of boards and management and is more in line with existing general corporate governance principles and best practices. Such an approach also would facilitate more "checks and balances" and allow for a feedback mechanism between the CCP's management -- which are required to be qualified risk managers familiar with the specifics of a particular CCP -- and the board to ensure that proper questions are asked, and answered, based upon thorough analysis by management.

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[3] See Consultation at page 7.

[4] See Consultation at page 7. See also Sections 2.2.11 and 2.2.12 of the Consultation at page 8 in which it is stated that the board should "have explicit responsibility to assess and limit – to the extent practicable and prudent – destabilising, procyclical changes in the overall quantity of all financial resources collected from direct participants, including initial margins, margin add-ons, default fund contributions and the impact of collateral haircuts" and that the board should "establish quantitative and qualitative criteria that assist it in evaluating procyclical effects." While we agree that the board should review and approve a CCP's anti-procyclicality framework, it is our view that the assessments and limits on such a framework should be done by the management and then clearly articulated to the board or risk committee.

[5] See Consultation at pages 9-10.

[6] See Consultation at page 6.

[7] See Consultation at page 7. To be clear, we believe Section 2.2.8 should be deleted in its entirety. The breaches as described may happen, from time to time, during, e,g., the calculation of initial margin. As such, rather than that triggering an automatic review of the risk management framework, we believe that the framework itself would establish when reviews might be initiated based on the holistic risk management process, rather than have prescriptive automatic triggers based on one component of the risk management structure.

OCC further recommends that the final guidance clarify that CCPs may continue to use subcommittees of the board, assuming that specific and transparent delegated responsibilities are defined, to manage the diverse set of obligations imposed on CCP boards. We believe that this is what the Committee intended in referring to the phrase "or equivalent"[8] to the board in the current PFMI. Assuming this point is specifically addressed, we suggest that the final guidance assure that a CCP's board remains in fact accountable for its risk management framework, and that it should require that the risk committee (or equivalent) be a designated committee of the board, rather than a free-standing committee with little tie to the overall governance of the CCP. Such a construct would ensure that all risk committee members have the same degree of accountability, access to critical information and interaction with management as the directors of the full board. It would also ensure that extremely qualified members can be sought for specific roles without limiting those roles to the general directors of the board.

As discussed above, with the risk committee as a designated committee of the board, OCC agrees that the board should have explicit responsibility for establishing a comprehensive disclosure and feedback mechanism[9] for soliciting views from direct participants, indirect participants and other relevant stakeholders to inform the board's decision-making regarding the CCP's margin system, the stress-testing methodology and results, and any CCP contributions to financial resources.[10] We further agree that the appropriate committee, as an "equivalent body" of the board as discussed earlier, should have transparency into feedback received from external stakeholders per the guidance. Such a feedback mechanism, however, must strike a proper balance between public transparency and the disclosure of material non-public confidential information, which would be harmful to CCP markets for a multitude of reasons.[11]

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[8] See Principle 2, Key Consideration 3 of the PFMI.

[9] As part of this feedback mechanism, we believe that a CCP should clearly articulate and make transparent the obligations of participants, including during times of stress, to help ensure participants can adequately measure and manage any future financial obligations to the CCP. We do not agree, however, with the current language in Section 2.2.13, which would require CCPs to perform due diligence of their participants' *understanding* these obligations as we believe this to be ambiguous and CCPs would be unable to measure compliance with such a standard. In addition, it is our belief that this requirement is above and beyond any requirements to which the financial industry is currently subject. (See Consultation at pages 8-9.)

[10] We do note, however, that a feedback mechanism should be in place related to a CCP's contribution to financial resources; however, such a mechanism should not be so prescriptive to seek to solicit commercial interests from direct or indirect participants or other stakeholders and require the board to modify the amount or characteristics of the CCP's contribution based on such interests as suggested in Section 2.2.10. See Consultation at page 8. We agree that any changes to a CCP's contribution should be appropriately communicated to direct or indirect participants or other stakeholders.

[11] To the extent information is released, we believe that such information should be released at an appropriate level of detail with the consideration that not all participants have executed the same amount of non-disclosure and confidentiality agreements as the members of a CCP's risk committee or board. (See Sections 2.2.16 and 2.2.19 of the Consultation at pages 9 and 10, respectively.) As such, we agree with the notion that non-public information released should not, for example, allow for the recreation of a participant's open positions.

2. Stress Testing

OCC strongly supports a streamlined and flexible approach to stress testing based upon the analysis done by a qualified CCP management team and taking into account attributes of each CCP including, but not limited to, its position in the market places and the totality of the suite of products for which it provides settlement and clearance services.[12] The Consultation as drafted does not allow for such flexibility; to the contrary, the Consultation significantly limits the manner in which CCPs may approach stress testing, which could have unintended adverse consequences to the CCP, its participants, and the markets it serves. Moreover, the prescriptive nature of the guidance is at odds with the letter and spirit of the PFMI, and creates unnecessary conflict and confusion between the two. For example, Section 3.2.25 of the Consultation[13] details precisely how CCPs must utilize peak historical volatilities. Stress testing cannot be thought of in a complete silo, and, this – including the use of historic volatilities –should be left to the discretion of the CCP's board or equivalent governing body as it is only one of the tools a CCP may employ to manage risk. We believe that the final guidance should state that a CCP's stress testing framework should be clearly articulated, transparent and approved by the board or equivalent body and reflected in appropriate policies and procedures, and it should eliminate prescriptive requirements such as those detailed in Section 3.2.43.[14]

Other aspects of the Consultation more directly conflict with the plain language of the PFMI related to the requirements to stress credit and liquidity resources under "extreme ***but plausible***" market conditions.[15] For example, Section 3.2.32 of the Consultation states that "in developing historical stress scenarios, a CCP should replicate as closely as possible historical stress events for which reliable price data are available."[16] This language seems to require CCPs to incorporate all historical stressed events and hold prefunded financial resources sufficient to cover the most extreme of those events rather than only plausible events. This requirement would undermine the clear intent to give deference to the CCP's risk management expertise, the board's determination of a CCP's risk tolerance, and analyses respecting how historical events might differ in the context of the current market structure. In other words, the Consultation does not give the CCPs any room to analyze what a plausible event would be on their

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[12] In particular, we agree with the approach described in Section 3.2.11 of the Consultation, and we believe that to the extent CCPs can perform this analysis correctly, the need for intraday stress testing becomes obsolete.

[13] See Consultation at page 15. In addition, Section 3.2.32 should be amended to simply state all decisions related to the stress testing framework are subject to the approval of a CCP's board rather than prescribe specific factors. In addition, it is not possible to quantitatively prove a negative, that volatility cannot reoccur, as the Consultation seems to suggest. See Consultation at page 18.

[14] See Consultation at page 20.

[15] As context, it is worth considering that European Securities Markets Authority ("ESMA") recently released the results of its annual CCP stress testing exercise (See https://www.esma.europa.eu/sites/default/files/library/2016-658_ccp_stress_test_report_2015.pdf). The main deficiencies that ESMA found in CCP stress testing methodologies were: (1) insufficient attention being given to clearing member exposures to other CCPs, when assessing their creditworthiness; and (2) stress price shocks applied by CCPs as part of their own stress testing framework that were not as conservative as the minimum shocks defined by ESMA for the purposes of the stress testing exercise, or that did not replicate "the most extreme historic price changes observed."

[16] See Consultation at page 17.

market but creates a "one-size-fits-all" approach.[17] Accordingly, OCC recommends that the final guidance eliminate these conflicts and inconsistencies by aligning the final language with the plain language of PFMI Principle 2.[18]

OCC also is very concerned with the Consultation's commentary on sizing to the largest ***intraday*** credit and liquidity risk.[19] Positions and prices are transitory throughout the day and do not reflect the way the market manages or prices risk. For example, intraday positions are often allocated differently throughout the day, and, therefore, an intraday snapshot is not necessary reflective of actual open positions of each CCP member. It is not logical for a CCP to allocate or calculate a clearing fund contribution based on hypothetical positions and portfolios. This requirement also discounts the real-time risk exposure and position monitoring that CCPs do throughout the day. Looking at the stress testing in a vacuum is not practical nor reflective of actual CCP best practices and any references to intraday stress testing should be deleted.[20]

Critically, in the context of default management, end-of-day positions more accurately reflect an actual default for the purposes of the stress testing, and end of day pricing is what a CCP would typically use for purposes of porting or liquidating a portfolio. Consequently, the final guidance should remove all references to intraday stress testing. We do, however, agree that a CCP should consider intraday risk as suggested in Section 3.2.34[21] and believe that accounting for intraday risk in this manner is appropriate and sound in cleared markets.

In respect of default management, OCC respectfully disagrees with the assumption made in the Consultation that, in the event of a clearing member default, no payments will be made on behalf of a defaulter's clients.[22] There are a variety of alternative arrangements that may be made for clients to continue to meet obligations in the event of a clearing member default, and the guidance should explicitly provide that if alternative arrangements can be made for client payments, a CCP can assume that some

[17] The Consultation's discussion also contradicts other aspects in the PFMI. One example is that the Consultation provides that "[c]onstructing effective scenarios for stress testing involves designing scenarios that are sufficiently extreme to rigorously stress all identified sources of credit and liquidity risk, while retaining a level of plausibility that supports using the results for risk management. Establishing the plausibility or implausibility of a scenario often involves subjective judgment by the CCP, and such judgment benefits from extensive expertise with respect to the behaviour, the ecosystem of the markets cleared, and the risk tolerance of the CCP." Another is the proposal within the Consultation to "replicate as closely as possible historical stress events for which reliable price data are available" with requirements that (i) a CCP align prefunded financial resources and qualified liquid resources with the CCP's ***risk tolerance*** and (ii) the board consider the CCP's unique risk profile, e.g., its membership composition, the instruments it clears, and the size and volatility of the markets it supports. See Section 3.2.32 of the Consultation at page 16-17.

[18] See Consultation at page 14. Furthermore, we believe that any reference to a CCP absorbing the risk of a custodial bank failure should be removed. In situations where a participant is able to choose the location of a custodial bank, the participant should bear the risk of any failures related to operational timing and such failures should not be covered by the CCP's waterfall.

[19] See, e.g., Section 3.2.12 of the Consultation at page 14 and Section 3.2.35 of the Consultation at page 18.

[20] See, e.g., footnote 28 of the Consultation at page 14.

[21] See Consultation at page 18.

[22] See Section 3.2.50 of the Consultation at page 21.

client obligations will be fulfilled. Although we recognize that it is **possible** that no payments are made, this possibility is small and should not prevent the ability to account for market realities. Final guidance in this regard would unnecessarily increase the cost of and impede access to cleared markets with no measurable benefit to the CCP, its markets, or the system as a whole.

Finally, contrary to the assertion made in Section 3.2.55, not all stress test scenarios should be subject to the same governance.[23] Certain scenarios, such as those related to the size of a CCP's clearing fund, should be approved by a CCP's board or equivalent body. Other scenarios, however, may be better suited for a CCP's internal committees. A more flexible approach such as this would allow a CCP to quickly respond to market conditions and better use the judgment and expertise of its management without the added timing of seeking unnecessary approvals or analysis at the board level. A flexible governance approach in this regard is consistent with the overall spirit of the PFMI that the Principles are to be adapted and applied to address the unique risks faced by each CCP.

3. Coverage

OCC believes that the Cover 1/Cover 2 regime established by the PFMI continues to be a useful global benchmark for an appropriate level of pre-funded financial resources.[24] We also believe that the same Cover 1/Cover 2 standard is a useful standard for liquidity resources. We would note, however, that liquidity standards in different jurisdictions are subject to different underlying regulations which materially impact the level of resources held in this regard. Thus, these differences at the national level should be accounted for, which may require a Cover 1 liquidity floor so as to not competitively disadvantage CCPs in different jurisdictions. Indeed, the size and sources of liquidity risk for a CCP vary greatly when compared to credit risk and are much more impacted by other laws and regulations than credit risk may be. In particular, unlike EU-based CCPs, U.S.-based CCP do not have access to central bank liquidity, which makes it significantly more challenging to meet a Cover 2 standard. Also, the U.S. customer protection framework is generally more robust than the EU framework, and notably U.S.-based CCPs are not permitted to use the cash collateral of non-defaulting customers to meet this requirement.

OCC respectfully disagrees with the guidance in its preclusion of excess collateral from a CCP's assumptions in conducting credit and liquidity stress testing pursuant to Section 4.2.4. Specifically, in the U.S., such excess collateral is held in a CCP's account, and in a CCP's name, and is treated no differently under our regime than other collateral, therefore it would make no sense to exclude it from the calculation when a CCP is assessing the adequacy of its resources. Importantly, in the U.S., a CCP in a default situation has access to all collateral it is holding, and has discretion to restrict the release of any collateral if it determines that a participant default is likely. We also disagree with the required use of unsynchronized scenarios as suggested in Section 4.3.2.[25] Requiring unsynchronized scenarios can easily lead to extreme but implausible results and is above and beyond stress testing best practices and current requirements. Consequently, OCC recommends that the final guidance leave use of these scenarios to the CCP's discretion.

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[23] See Consultation at page 22.

[24] We also suggest striking language in the proposed Sections 4.1.3 and 4.2.1 which seem to suggest a CCP should consider more coverage or that a CCP's coverage should go beyond the clearly articulated Cover 1/Cover 2 requirements. See Consultation at page 25.

[25] See Consultation at page 21.

4. Margin

As previously noted, OCC generally believes that principles-based regulation is the most effective means of regulating CCPs and cleared derivatives markets. Such an approach is particularly important in respect of pre-funded financial resource requirements, including margining practices.[26] In this regard, OCC opposes prescribing a minimum margin period of risk ("MPOR"); instead, any guidance with respect to MPOR should more generally provide that a CCP's MPOR should be considered in the context of its other margining practices and overall risk management framework, e.g., portfolio margining offerings, customer segregation models, and expected default management practices and liquidation timeframes. Given the potential differences among CCPs, it is imperative that all different factors are considered when developing these requirements.[27]

We generally support the objective of the Consultation to minimize pro-cyclicality, however, the Consultation takes a much too prescriptive approach to do so.[28] The approach taken in the Consultation has the potential to restrict a CCP in its ability to prudently manage risk. A principles-based approach is vastly preferable to ensure a CCP has the ability to tailor its anti-procyclicality approach to the underlying product set and trading characteristics.

Furthermore, we believe the guidance in relation to margin practices is overly prescriptive in respect of certain margin tools, especially the use of add-on charges and tools aimed at reducing pro-cyclicality. For example, the Consultation states that a CCP should "generally avoid applying add-on charges as a substitute approach in instances when the relevant risks may be realistically addressed by other components of the margin system or other aspects of a CCP's risk management framework."[29] Aside from the fact that this is a new requirement, we reiterate that a CCP must retain the ability to leverage its expertise, respond to changing market circumstances and be incented to innovate in this area. In the case of an extreme event, e.g., Brexit or a government shutdown, it is our strong opinion that a CCP should continue to have the ability to charge additional margin based upon its own analysis of the situation and should be able to do so in a fairly timely manner. So long as a CCP's add-on charges or anti-procyclicality framework are clear and transparent and are appropriate within the overall margin framework approved by the CCP's board or risk committee, CCPs should maintain the flexibility to address significant changes in market conditions or anticipation of market volatility to enhance overall risk management practices.

5. CCP Contributions

OCC agrees that CCPs and their clearing members should have aligned incentives to manage the risk brought to the CCP, and, as such, incentives of both must be taken into account in providing guidance on the appropriate amount of contribution of each. Given the vastly different business models of CCPs, OCC opposes a "one-size-fits-all" prescriptive dollar amount requirement for CCP contribution to

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[26] By way of example, we believe that Sections 5.2.11, 5.2.18 and 5.2.52 are incredibly prescriptive and should be amended to simply state the suggested full picture approach. See Consultation at pages 29, 31 and 39. We also believe that Section 5.2.42 should be struck in its entirety due to the vagueness in its language. See Consultation at page 37.

[27] As such, we recommend the deletion of Section 5.2.4 in its entirety as all factors should be considered comprehensively rather than one by one. See Consultation at page 28.

[28] See, e.g., Sections 5.2.38 through and including 5.2.41 of the Consultation at page 36.

[29] See Section 5.2.16 of the Consultation at page 30. In addition, Section 5.2.2 of the Consultation is confusing and should be less prescriptive to include these elements as part of the overall model validation process. See Consultation at pages 27-28.

losses.[30] We do, however, agree that placing CCP capital at risk behind a defaulting clearing members' clearing fund contribution is prudent and provides appropriate incentives for the CCPs; however, we strongly believe that if too much CCP capital is at risk, it may create incentives for clearing members to take larger risks because any losses incurred would be funded first by the CCP's contribution and could further destabilize the CCP during stressful market times. Allowing individual CCPs to have the option to contribute capital, while understanding the rationale behind the amount and placement of such capital within the CCP's waterfall, would allow the CCP to individually analyze its structure to determine the most prudent outcome. CCPs should be afforded the discretion to determine the appropriate amount and placement of the CCP's contribution based on careful consideration of each CCP's unique ownership and governance structures and default management practices.

6. Recovery Planning

OCC strongly supports comprehensive recovery planning for CCPs. We believe that further guidance, however, is necessary concerning the intersection between recovery, wind-down, and resolution and that regulators should provide more guidance around how CCPs would be resolved, particularly CCPs that fall under multiple regulatory regimes and legal frameworks or that operate in multiple jurisdictions. In particular, the final guidance should give some consideration to the fact that not all CCPs have access to central bank liquidity nor are all CCPs conclusively subject to resolution by a government-sponsored resolution authority. Difference in law around these critical issues, if not accounted for, could create uncertainty for CCPs in their planning efforts and ultimately uncertainty for the markets when considering the potential impacts of a particular CCP's default. In addition, we recommend that the final guidance clarify the parameters relating to a CCPs assessment powers in the context of recovery planning and permit CCPs to adopt both voluntary and mandatory cash calls as recovery tools. OCC emphasizes the importance of providing a CCP with flexibility with chosen recovery tools, along with the overall governance of the plan by, e.g., a Risk Committee, under international guidance and regulations to adopt such tools and develop recovery plans best suited for the unique markets it serves.

IV. Conclusion

OCC appreciates the opportunity to comment on the Consultation. We fully support to the spirit behind the Consultation and hope to achieve the same goals as outlined by the Consultation. We do believe that greater clarity can be brought to certain requirements, as discussed above, but caution against overly prescriptive rules that do not afford CCPs flexibility to adopt and apply the PFMI principles in a manner that addresses their unique risks and optimizes resiliency for the markets they clear and the global financial markets more broadly. We would be pleased to provide the Committee with any additional information or analyses that might be useful to the Committee in adopting final guidance.

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30 We also disagree with the notion that a CCP's contribution should be attributed to any custodial losses suffered in a situation where a participant has the choice of settlement bank location as suggested in Section 6.2.3. See Consultation at page 42.

We look forward to working with the Committee and national regulators in furthering our aligned interests in enhancing the resiliency of global derivatives markets.

Respectfully submitted,

C.S. Donohue

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