
**EACH response to the Bank of England
discussion paper ‘Supervisory Stress
Testing of Central Counterparties’**

December 2021

Introduction

The European Association Clearing Houses (EACH) has represented the interests of Central Counterparties (CCPs) in Europe since 1992. CCPs are financial market infrastructures that significantly contribute to safer, more efficient and transparent global financial markets. EACH currently has 19 Members from 15 different European countries. EACH is registered in the European Union Transparency Register with number 36897011311-96.

EACH appreciates the opportunity to provide feedback to the Bank of England discussion paper 'Supervisory Stress Testing of Central Counterparties'¹. EACH Members have worked closely with Authorities on several occasions to contribute to the performance of CCP Supervisory Stress Tests, an important tool to confirm the robustness of CCPs.

¹ <https://www.bankofengland.co.uk/paper/2021/supervisory-stress-testing-of-central-counterparties>

EACH responses to the questions included in the discussion paper

Section 4.1- Risk coverage

Question 1 - Within the specified risk coverage, what specific risk exposures or areas should be prioritised for more granular analysis and disclosure?

EACH answer 1

EACH welcomes that the Bank of England focuses the exercise at first on credit (including concentration risk) and liquidity risks, which are two of the most acute risks for CCPs. The experience of this first exercise should help considering whether a different focus is needed in future exercises.

Question 2 - Are there other risk exposures that supervisory stress testing would be the most optimal tool to assess from a regulatory perspective?

EACH answer 2

No EACH answer.

Question 3 - Should the Bank develop an approach for assessing default-related operational risks? If so, what methods could be deployed for assessing these risks?

EACH answer 3

No EACH answer.

Section 4.2 - Frequency and timings

Question 4 - What are respondents' views on the proposed launch and publication dates of the Bank's CCP supervisory stress tests? Are there benefits to launching stress tests and publishing results at alternative dates?

EACH answer 4

EACH appreciates the transparency of the Bank in proposing a clear timeline for the stress tests exercises. EACH suggests that the Bank takes into account the depth of each exercise in order to determine an adequate level of frequency. We would also suggest that the Bank coordinates the timings and frequency of the exercise with other authorities potentially running similar exercises, to ensure that CCPs' resources are deployed in the most effective manner.

We would also like to note that based on previous experience with supervisory stress testing exercises, EACH Members note that a clear timetable of the different stages of the exercise (e.g. timing and duration of data requests) would greatly help CCPs to plan resources for the exercise.

Section 4.3 - Methodology

Question 5 - Are there areas or assumptions within the methodology as described in this Discussion Paper that respondents consider particularly important or insightful, and should be prioritised in the analysis and disclosure of results?

EACH answer 5

EACH Members suggest that Bank of England shares the objective of the different parts of the exercise with CCPs so that CCPs understand what the authorities want to achieve and therefore are better able to perform the exercise.

In addition, EACH recommends sharing the draft instructions and framework of the exercise with CCPs prior to the exercise start so that clarifications can be provided before the exercise begins, thereby ensuring a more efficient running of the exercise.

In line with the suggestion in the consultation paper, we believe that it would be useful for CCPs to provide feedback to authorities with suggestions to consider for future exercises based on previous experiences.

Question 6 - Are there specific vulnerabilities, dependencies or risk exposures of UK CCPs that respondents believe are not sufficiently covered by the methodology as described in this Discussion Paper?

EACH answer 6

No EACH answer.

Section 4.4 - Scenario design

Question 7 - Are there specific scenarios or types of scenarios that would be material for CCPs in scope which participants believe should be prioritised by the Bank?

EACH answer 7

No EACH answer.

Question 8 - Should the Bank's market shock scenarios be broadly as severe as historical shocks or CCPs' own stress-test scenarios, or test CCPs against a higher level of resilience? How important is it for market shocks to stress CCP services to a similar degree of severity?

EACH answer 8

EACH notes that regardless of the level of severity that the chosen shock scenarios have, these should all be operationally plausible shock scenarios.

Question 9 - Should the Bank apply a standardised market scenario as part of each supervisory stress test, to aid comparability of results over time? If so, are there particular design or methodologies with which such a scenario should be developed?

EACH answer 9

No EACH answer.

Section 4.5 - Reference dates

Question 10 - What characteristics of reference dates (recentness, days of week, significant market settlement dates, etc.) are most important to support analysis of individual and system-wide resilience? Are there benefits to assessing multiple reference dates for each market scenario?

EACH answer 10

No EACH answer.

Section 4.6 - Defaulter assumptions

Question 11 - What are respondents' views on the most insightful defaulter assumptions to examine through supervisory stress testing?

EACH answer 11

EACH generally welcomes the suggestions under the defaulter assumption section and understands that when referring to scenarios beyond Cover-2, Bank of England refers to some scenarios plausible but still within Cover-2 rather than beyond this standard. We support this idea and kindly request Bank of England to clarify that this is indeed the case.

Furthermore, we would encourage the Bank to provide respondents with a clear set of assumptions covering client segregation and porting of clients of a defaulted clearing member to ensure consistent application. This extends also to assumptions about netting of payments, collateral and portfolio exposures.

Section 4.7 - Sensitivity and reverse stress testing

Question 12 - Which assumptions and elements of the Bank's supervisory stress tests should be prioritised for sensitivity analysis and/or reverse stress testing, and would provide the most valuable insights to respondents?

EACH answer 12

No EACH answer.

Section 4.8 – Disclosure

Question 13 - What do respondents' consider to be the most appropriate quantitative metrics for assessing CCP resilience, and for disclosing supervisory stress testing results?

EACH answer 13

No EACH answer.

Question 14 - What are respondents' views on the appropriate balance between granularity and anonymisation of CCP supervisory stress testing results?

EACH answer 14

No EACH answer.

Question 15 - What level of granularity in the quantitative stress-tests results would be most valuable? Should disclosure focus on results presentation or an analysis of drivers, and assessment, of risk?

EACH answer 15

No EACH answer.

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