



Commodity Futures Trading Commission

Office of Public Affairs

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Q & A – Risk Management Requirements for Derivatives Clearing Organizations

What Core Principles and other matters are addressed in this rulemaking?

The Commission is proposing rules that would: (a) adopt a required application form for entities seeking to register as a derivatives clearing organization (DCO); (b) establish the regulatory standards for compliance with DCO Core Principles C (participant and product eligibility), D (risk management), E (settlement procedures), F (treatment of funds), G (default rules and procedures) and I (system safeguards); (c) implement heightened system safeguard standards and special enforcement authority with respect to DCOs that are designated by the Financial Stability Oversight Council as systemically important DCOs (SIDCOs); and (d) supplement the DCO reporting requirements proposed in a previous rulemaking.

What requirements for participant and product eligibility are addressed in the proposed rules?

The proposal addresses DCO participant requirements with the objective of achieving fair and open access through appropriate financial resource and operational requirements, and the DCO's monitoring and enforcement of participant requirements. The proposed rules also address the factors that a DCO must consider in determining the eligibility of a product for clearing by the DCO.

What risk management requirements are addressed in the proposed rules?

The proposal addresses certain general requirements, including a requirement that a DCO must have a comprehensive written risk management framework, subject to internal audit, and a chief risk officer. The proposed rules contain requirements regarding the measurement of credit exposure (mark to market), margin (including methodology and coverage, independent validation, spread margins, price data, daily review and periodic back tests, and special provisions for customer margin). Finally, the proposal addresses certain other risk control mechanisms, including risk limits, review of large trader reports, stress tests, swaps portfolio compression, and review of clearing members' risk management policies and procedures.

What system safeguards are addressed in the proposed rules?

The proposal addresses requirements for programs of risk analysis, business continuity and disaster recovery, location of resources and outsourcing, notification of the Commission, recordkeeping, and testing.

What additional requirements for SIDCOs are included in this rulemaking?

The Commission is proposing heightened standards for a SIDCO's business continuity and disaster recovery plan with respect to the recovery time objective and geographic diversity.