

**MINUTES OF THE SIXTH MEETING OF
THE U.S. COMMODITY FUTURES TRADING COMMISSION'S
MARKET RISK ADVISORY COMMITTEE
NOVEMBER 17, 2016**

The U.S. Commodity Futures Trading Commission's ("CFTC" or "Commission") Market Risk Advisory Committee ("MRAC" or "Committee") convened for a public meeting on Thursday, November 17, 2016, at 10 a.m. at the CFTC's Washington, D.C., headquarters, located at 1155 21st Street, NW, Washington, DC 20581. The meeting consisted of two panels. Panel I discussed the Central Counterparty ("CCP") Risk Management Subcommittee's ("Subcommittee") draft recommendations on how CCPs can better coordinate their efforts in preparing for the default of a significant clearing member. Panel 2 addressed a regulatory perspective on CCP resilience.

MRAC Members and Invited Panelists/Guests in Attendance

David Bailey, Director, Financial Market Infrastructure, Bank of England
Gerald Beeson, Chief Operating Officer and Chief Financial Officer, Citadel
David Burlage, Chief Financial Officer, CoBank
Thomas Coyle, Vice President and General Manager, Chicago and Illinois River Marketing, LLC
Andrew Gray, Managing Director and Group Chief Risk Officer, Depository Trust and Clearing Corporation
Michael Hennessy, Vice President, Treasury and Capital Markets, Federal Home Loan Bank of San Francisco
Nathan Jenner, Head of Market Transparency Products, Bloomberg LP
Jerry Jeske, Group Chief Compliance Counsel, Mercuria Energy Representing Commodity Markets Council
Andrew W. Lo, Director, Massachusetts Institute of Technology's Laboratory for Financial Engineering
Glen Mackey, Chief Risk Officer, NRG Energy Inc.
Kevin McClear, Corporate Counsel, Intercontinental Exchange, Inc. ("ICE")
Dennis McLaughlin, Group Chief Risk Officer, LCH Clearnet
Susan McLaughlin, Senior Vice President, Federal Reserve Bank of New York
Richard Miller, Consultant, American Council of Life Insurers
Michael Modlock, Head of TriReduce North Americas, TriOptima
John Nixon, Group Executive Director, Americas for ICAP
Susan O'Flynn, Managing Director and Global Head of CCP Strategy, Governance and Optimization, Morgan Stanley
Angela Patel, Senior Vice President, Putnam Investments
Edward Pla, Managing Director, Head of Clearing and Execution, UBS Investment Bank
Marcus Stanley, Policy Director, Americans for Financial Reform
Robert Steigerwald, Senior Policy Advisor for Financial Market, Federal Reserve Bank of Chicago
Kimberly Taylor, President, Global Operations, Technology & Risk, CME Group ("CME")
Kristen Walters, Global Chief Operating Officer, Risk and Quantitative Analysis Group, BlackRock

Scott Zucker, Chief Administrative Officer, Tradeweb

CFTC Commissioners and Staff in Attendance

Timothy G. Massad, Chairman

Sharon Y. Bowen, Commissioner

J. Christopher Giancarlo, Commissioner

Steve Greska, Associate Director, Division of Clearing and Risk

Petal Walker, Chief Counsel, Office of Commissioner Bowen, Designated Federal Officer

I. Opening Remarks

Ms. Walker called the MRAC meeting to order.

Following introductory and welcoming remarks by Commissioner Bowen, Chairman Massad made his opening remarks in which he noted that CCP resilience was a priority for the Commission and described some of the Commission's actions in this area. Additionally, he noted that the CFTC had released a report on the results of supervisory stress tests for the largest clearinghouses under CFTC's jurisdictions and had summarized the report's findings; however, he also noted that more needed to be done in this area.

Commissioner Giancarlo spoke next. In his remarks, he noted that clearing and non-clearing members should be able to communicate and understand their roles in a default situation. He also stressed the importance of understanding the mechanics of porting customer portfolios in the event of a default and addressing any related obstacles.

Commissioner Bowen followed with her opening statement and noted in her remarks that the purpose of MRAC was to advise the Commission on how to detect, analyze, and mitigate market risk and to provide information and analysis on the evolving market structure. Commissioner Bowen also briefly summarized MRAC's actions to meet these objectives.

II. Panel 1: Discussion of CCP Risk Management Subcommittee's Recommendations for CCP Default Management

Ms. O'Flynn facilitated the discussion, preceding it with a brief introduction of the Subcommittee's recommendations on default management, coordination, harmonization, enhancement, and porting.

Next, Mr. Beeson presented on customer participation in auctions. Among other things, he stated that the Subcommittee's recommendations encourage participation of non-clearing members in auctions, and that governance of such participation should be established upfront. Mr. Beeson also commented on governance mechanisms, such as confidentiality agreements, minimum deposits, and a demonstration of the financial resources to meet the initial margin deposits, and the capacity to clear the portfolio at another clearing member. In addition, he referenced a potential penalty if a bid falls below a certain threshold. Mr. Beeson also observed that the ability of a solvent customer of a non-clearing member firm to port its portfolio and the associated collateral to a solvent clearing member are key customer protections of central clearing. Further, he stated that the Subcommittee recommended the development of solutions to

allow remaining solvent clearing members to service the portfolios of non-defaulting customers on an interim basis, post the clearing member's default.

Next, Mr. McLaughlin addressed the communication-related recommendations, including establishment of a global directory of key individuals at clearing and non-clearing member firms, and permissible communications among such individuals. Mr. McLaughlin also commented on the Subcommittee's recommendations that joint fire drills be formalized across CCPs with a significant product overlap and on certain porting-related simulations.

Mr. Miller then addressed the Subcommittee's recommendation for CCPs to develop auction and porting playbooks, and to create a "break the glass" solution as a safety net for customers lacking relationships with multiple Futures Commission Merchants ("FCMs"). Among his remarks, Mr. Miller noted that the Subcommittee did not reach a consensus on whether to offer an FCM a relief from higher capital requirements during a crisis situation. He also commented on certain bankruptcy-related concerns associated with customer porting.

Next, Ms. O'Flynn summarized the Subcommittee's recommendations on default management committees. She stated that CCPs should harmonize certain aspects of their default management committees, maintain an up-to-date register of seconded representatives to be shared between clearinghouses, and that default management committees should include non-clearing member representatives. Ms. O'Flynn next commented on auction-related recommendations, including a recommendation that CCPs harmonize their auctions whenever feasible, and develop auction playbooks to provide ex ante transparency into the CCP's auction procedures. Ms. O'Flynn then summarized recommended elements of an auction playbook.

Other Committee members also commented on the Subcommittee's recommendations. Ms. Taylor observed that rules governing crisis management coordination and standardization should be treated as guidelines rather than ex ante commitments about the auction process. She expressed support for cross-CCP coordination on membership of default management committees and for including non-clearing member firms in default management and auction process. Among other remarks, she also stated her support for joint fire drills, porting-related recommendations, certain paperwork-related safe harbors associated with transferring customers from one clearing member to another, and a temporary relief from capital requirements. Mr. McClear then described a joint CME/ICE fire drill and Mr. Jeske followed with comments on a regulatory framework for porting, stressing the importance of timing. Mr. Jeske also advocated for a relaxation of know-your-customer and anti-money laundering related requirements, and commented on his support for leniency with respect to capital requirements.

Thereafter, Ms. Walters announced a brief break and the Committee returned for a vote at 11:05 a.m. The MRAC adopted by a vote of 19-0 with one abstention, the Subcommittee's recommendations as recommendations of the MRAC and for the MRAC to recommend these recommendations to the Commission. Following the vote, Chairman Massad made brief remarks and Ms. Walker announced another brief break.

III. Panel 2: A Regulatory Perspective on CCP Resilience

Ms. Walker called the meeting back to order at 11:20 a.m. Mr. Steigerwald facilitated the discussion.

Panel II began with a presentation by Mr. Bailey on a joint fire drill performed by the Bank of England, and RCH Ltd. and Eurex Clearing, which is also regulated by Bafin and Bundesbank. Mr. Bailey explained that the drill test assumed the default of a common, hypothetical clearing member clearing interest rate swaps and futures, and was integrated into the two CCPs' parallel annual fire drills. He described the objectives and main areas tested by the drill, and related findings. In particular, he explained that the drill tested clearing members' ability to second traders to multiple CCPs in parallel as well as their operational capacity to process auction files from two CCPs at the same time. Mr. Bailey also noted that the Bank of England, Bafin, and Bundesbank identified certain prerequisites for running more effective fire drills across multiple CCPs and that those prerequisites were communicated to the participating CCPs and clearing members. Mr. Bailey indicated that a similar multiple CCP fire drill, also including CME, would take place in 2017, and described the drill's objectives. He stressed the importance of fire drills and suggested that drills should involve a collaborative effort among CCPs, clearing members, and regulators.

Mr. Bailey next responded to questions from the MRAC, including cost impacts of fire drills and whether they rely upon existing industry practices or require new tests; practical features of arranging joint fire drills, porting, and inclusion in the drills of end-users; and virtual fire drills and sharing drill data with academics. The group then discussed testing non-default losses in a fire drill, followed by a discussion of auction file formats, cross-product drills, coordination, capacity, and non-default losses, among other topics. Mr. Bailey then responded to Ms. Taylor's question regarding sequential versus simultaneous auctions, and Ms. Taylor also commented on transparency in the drill process and not committing the industry to a specific drill process. Mr. Bailey also addressed issues raised by Mr. Steigerwald concerning inclusion of liquidity management in drill tests and intraday variation margins, with Ms. Taylor also commenting on CCPs' profits. Panel II concluded with Mr. Bailey's comments on structural reasons for a fire drill failure, an issue raised by Mr. McLaughlin.

V. Closing Remarks

Commissioner Bowen thanked the panelists, Chairman Massad and Commissioner Giancarlo, Commission staff, as well as the MRAC and the Subcommittee members for their work on the recommendations and participation in the meeting. Commissioner Bowen also invited the public to comment on issues MRAC should tackle in the upcoming year.

Thereafter, Ms. Walker adjourned the meeting at 12:10 p.m.

I hereby certify that the foregoing minutes are accurate:



Petal Walker
Acting Chair, Market Risk Advisory Committee

10/3/17

Date