§ 39.36 Risk management for systemically important derivatives clearing organizations.

(a) Stress tests of financial resources. In addition to conducting stress tests pursuant to §39.13(h)(3), each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall conduct stress tests of its financial resources in accordance with the following standards and practices:

(1) Perform, on a daily basis, stress testing of its financial resources using predetermined parameters and assumptions;

(2) Perform comprehensive analyses of stress testing scenarios and underlying parameters to ascertain their appropriateness for determining the systemically important derivatives clearing organization’s or subpart C derivatives clearing organization’s required level of financial resources in current and evolving market conditions;

(3) Perform the analyses required by paragraph (a)(2) of this section at least monthly and when products cleared or markets served display high volatility or become less liquid, when the size or concentration of positions held by clearing members increases significantly, or as otherwise appropriate, evaluate the stress testing scenarios, models, and underlying parameters more frequently than once a month;

(4) For the analyses required by paragraphs (a)(1) and (2) of this section, include a range of relevant stress scenarios, in terms of both defaulting clearing members’ positions and possible price changes in liquidation periods. The scenarios considered shall include, but are not limited to, the following:

(i) Relevant peak historic price volatilities;
(ii) Shifts in other market factors including, as appropriate, price determinants and yield curves;
(iii) Multiple defaults over various time horizons;
(iv) Simultaneous pressures in funding and asset markets; and
(v) A range of forward-looking stress scenarios in a variety of extreme but plausible market conditions.
(5) Establish procedures for:
(i) Reporting stress test results to its risk management committee or board of directors, as applicable; and
(ii) Using the results to assess the adequacy of, and to adjust, its total amount of financial resources; and
(6) Use the results of stress tests to support compliance with the minimum financial resources requirement set forth in § 39.33(a).

(b) Sensitivity analysis of margin model.
(1) Each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall, at least monthly and more frequently as appropriate, conduct a sensitivity analysis of its margin models to analyze and monitor model performance and overall margin coverage. Sensitivity analysis shall be conducted on both actual and hypothetical positions.
(2) For the purposes of this paragraph (b), a sensitivity analysis of a margin model includes:
(i) Reviewing a wide range of parameter settings and assumptions that reflect possible market conditions in order to understand how the level of margin coverage might be affected by highly stressed market conditions. The range of parameters and assumptions should capture a variety of historical and hypothetical conditions, including the most volatile periods that have been experienced by the markets served by the systemically important derivatives clearing organization or subpart C derivatives clearing organization and extreme changes in the correlations between prices. The parameters and assumptions should be appropriate in light of the specific characteristics, considered on a current basis, of particular products and portfolios cleared.
(ii) Testing of the ability of the models or model components to produce accurate results using actual or hypothetical datasets and assessing the impact of different model parameter settings.
(iii) Evaluating potential losses in clearing members' proprietary positions and, where appropriate, customer positions.
(3) A systemically important derivatives clearing organization or subpart C derivatives clearing organization involved in activities with a more complex risk profile shall take into consideration parameter settings that reflect the potential impact of the simultaneous default of clearing members and, where applicable, the underlying credit instruments.

(c) Stress tests of liquidity resources.
Each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall conduct stress tests of its liquidity resources in accordance with the following standards and practices:
(1) Perform, on a daily basis, stress testing of its liquidity resources using predetermined parameters and assumptions;
(2) Perform comprehensive analyses of stress testing scenarios and underlying parameters to ascertain their appropriateness for determining the systemically important derivatives clearing organization's or subpart C derivatives clearing organization's required level of liquidity resources in current and evolving market conditions;
(3) Perform the analyses required by paragraphs (c)(1) and (2) of this section at least monthly and when products cleared or markets served display high volatility or become less liquid, when the size or concentration of positions held by clearing members increases significantly, or as otherwise appropriate, evaluate its stress testing scenarios, models, and underlying parameters more frequently than once a month;
(4) For the analyses required by paragraphs (c)(1) and (2) of this section, include a range of relevant stress scenarios, in terms of both defaulting clearing members' positions and possible price changes in liquidation periods. The scenarios considered shall include, but are not limited to, the following:
(i) Relevant peak historic price volatilities;
(ii) Shifts in other market factors including, as appropriate, price determinants and yield curves;
(iii) Multiple defaults over various time horizons;
(iv) Simultaneous pressures in funding and asset markets; and
(v) A range of forward-looking stress scenarios in a variety of extreme but plausible market conditions.

(5) For the scenarios enumerated in paragraph (c)(4) of this section, consider the following:
(i) All entities that might pose material liquidity risks to the systemically important derivatives clearing organization or subpart C derivatives clearing organization, including settlement banks, permitted depositories, liquidity providers, and other entities,
(ii) Multiday scenarios as appropriate,
(iii) Inter-linkages between its clearing members and the multiple roles that they may play in the systemically important derivatives clearing organization’s or subpart C derivatives clearing organization’s risk management; and
(iv) The probability of multiple failures and contagion effect among clearing members.

(6) Establish procedures for:
(i) Reporting stress test results to its risk management committee or board of directors, as applicable; and
(ii) Using the results to assess the adequacy of, and to adjust its total amount of liquidity resources.

(7) Use the results of stress tests to support compliance with the liquidity resources requirement set forth in §39.33(c).

(d) Each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall regularly conduct an assessment of the theoretical and empirical properties of its margin model for all products it clears.

(e) Each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall perform, on an annual basis, a full validation of its financial risk management model and its liquidity risk management model.

(f) Custody and investment risk. Custody and investment arrangements of a systemically important derivatives clearing organization’s and subpart C derivatives clearing organization’s own funds and assets shall be subject to the same requirements as those specified in §39.15 for the funds and assets of clearing members, and shall apply to the derivatives clearing organization’s own funds and assets to the same extent as if such funds and assets belonged to clearing members.

(g) Settlement banks. Each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall:
(1) Monitor, manage, and limit its credit and liquidity risks arising from its settlement banks;
(2) Establish, and monitor adherence to, strict criteria for its settlement banks that take account of, among other things, their regulation and supervision, creditworthiness, capitalization, access to liquidity, and operational reliability; and
(3) Monitor and manage the concentration of credit and liquidity exposures to its settlement banks.

§39.37 Additional disclosure for systemically important derivatives clearing organizations and subpart C derivatives clearing organizations.

In addition to the requirements of §39.21, each systemically important derivatives clearing organization and subpart C derivatives clearing organization shall:
(a) Complete and publicly disclose its responses to the Disclosure Framework for Financial Market Infrastructures published by the Committee on Payment and Settlement Systems and the Board of the International Organization of Securities Commissions;
(b) Review and update its responses disclosed as required by paragraph (a) of this section at least every two years and following material changes to the systemically important derivatives clearing organization’s or subpart C derivatives clearing organization’s system or the environment in which it operates. A material change to the systemically important derivatives clearing organization’s or subpart C derivatives clearing organization’s system or

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