

Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090
United States
www.sec.gov

Chris Barnard

26 May 2014

- **Release No. 34-71699**
- **File No. S7-03-14**
- **Standards for Covered Clearing Agencies**

Dear Sir.

Thank you for giving us the opportunity to comment on your proposed rule on Standards for Covered Clearing Agencies.

You are proposing to amend Rule 17Ad-22 and add Rule 17Ab2-2 pursuant to Section 17A of the Securities Exchange Act of 1934 (Exchange Act) and the Payment, Clearing, and Settlement Supervision Act of 2010 (Clearing Supervision Act), adopted in Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act). Among other things, the proposed rules would establish standards for the operation and governance of certain types of registered clearing agencies that meet the definition of a “covered clearing agency”.

I support your proposals, especially concerning financial risk management and liquidity risk. These should promote market integrity, act to improve the robustness of clearing systems and help to protect the financial system from contagion.

Determinations affecting covered clearing agencies

In proposed § 240.17Ab2-2 you state that in determining whether a clearing agency’s activity has a more complex risk profile, the Commission may consider characteristics such as the clearing of financial instruments that are characterized by discrete jump-to-default price changes or that are highly correlated with potential participant defaults. This is complete and reasonable, and covers the most important “complexity” risks including significant volatility, non-linear price characteristics, jump-to-default risk and wrong-way risk.

Prefunded financial resources

Proposed Rule 17Ad-22(e)(4)(iv) requires a covered clearing agency providing CCP services that is either systemically important in multiple jurisdictions or a complex risk profile clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to include prefunded financial resources when calculating the financial resources available to meet the standards under proposed Rules 17Ad-22(e)(4)(i) through (iii), as applicable. I support this proposed rule. I would ask for clarification of the role of default insurance in satisfying such financial resources requirements, as this is not explicitly mentioned in the proposals.

Testing the sufficiency of financial resources

Proposed Rule 17Ad-22(e)(4)(vi) requires a covered clearing agency to conduct a stress test of its total financial resources at least once each day using standard predetermined parameters and assumptions. I would also suggest that you should specifically refer to reverse stress testing in this proposed rule. This is a useful tool in order to manage expectations and to help the covered clearing agency to anticipate financial resources requirements in extreme conditions.

Yours faithfully

C.R.B.

Chris Barnard