

WFE's Clearing and Derivatives Conference

Conference Programme

Opening Dinner - Sun 29 May

18:30 - 21:30: **WFE Opening reception and Dinner**

Day 1 - Mon 30 May

08:30 - 09:15: **Registration**

09:15 - 09:30: **Opening Remarks**

Speakers



Nandini Sukumar
Chief Executive Officer
The World Federation of Exchanges



Pedro Gurrola-Perez
Head of Research
The World Federation of Exchanges

09:30 - 10:00: **Opening Keynote: Eva Hüpkes, Head of Regulatory and Supervisory Policies, Financial Stability Board (FSB)**

Speaker



Dr. Eva Hüpkes
Head of Regulatory and Supervisory Policies
Financial Stability Board (FSB)

Session 1: Horizon scanning

10:00 - 10:45:

Paper Presentation: The netting efficiencies of market wide central clearing

Market disruptions in response to the COVID pandemic spurred calls for the consideration of market wide central clearing of Treasury securities, which might better enable dealers to intermediate large customer trading flows. The authors assess the netting efficiencies of increased central clearing using non-public Treasury TRACE transactions data and find that central clearing of all outright trades would have lowered dealers' daily gross settlement obligations and would have substantially lowered settlement fails.

Authors: Michael J. Fleming, Frank M. Keane, and Or Shachar (Federal Reserve Bank of New York)

Presenter

Michael J. Fleming
Head of Capital Markets Studies, Research and Statistics Group
Federal Reserve Bank of New York

Discussant

John McPartland
Director of Research
Hidden Road Partners LP

10:45 - 11:45:

Panel: Extending central clearing to new asset classes

Multilateral netting, together with counterparty risk management and increased transparency, is one of the key benefits offered by central clearing. After the Great Financial Crisis, policymakers decided to extend these benefits to a wider set of instruments as a way of increasing financial stability, and mandated central clearing of standardized contracts. More than a decade later, a new and different crisis has brought the question of extending the clearing mandate even further. Is this a desirable outcome? What are the trade-offs involved when extending central clearing to other asset classes, including government bonds? What could be the implications for default management? What are the challenges of clearing crypto-assets?

Chair

Jorge Alegria
IOMA Chairman (2011-2014)

Speakers

Michele Hillery
Managing Director, General Manager, Equities Clearing and Settlement
DTCC



Vanaja Indra
Market and Regulatory Reform Director (Europe and UK)
Insight Investment



Corentine Poilvet-Clediere
Head of Repo Clearing, Collateral and Liquidity
LCH SA



José Manuel Ortiz-Repiso
Head of Clearing & Repo Operations
SIX

11:45 - 12:15:

Coffee break

12:15 - 13:00:

Paper Presentation: An unintended consequence of holding dollar assets

The authors study investor trading behaviour and yield patterns in the UK government bond market during the recent COVID crisis. They show that the yield spike in mid-March 2020 was accompanied by heavy selling of gilts by UK-based insurance companies and pension funds, which - they argue - was an indirect result of the US dollar's global prominence. In crisis periods, dollars appreciate against other currencies. To meet margin calls on short-dollar FX positions, foreign institutions sell their domestic safe assets, thereby contributing to the yield spikes in domestic markets.

Authors: Robert Czech (Bank of England), Shiyang Huang (University of Hong Kong), Dong Lou (London School of Economics and CEPR), Tianyu Wang (Tsinghua University School of Economics and Management)

Presenter

Dr. Robert Czech
Senior Research Economist
Bank of England

Discussant

Chris Rhodes
Chief Operating Officer
ICE Clear Europe

13:00 - 14:00:

Lunch break

Session 2: Cross border clearing

14:00 - 14:20:

Reflections on Cross border clearing**Speaker**

Froukelien Wendt
Independent Member of the CCP Supervisory Committee, Director for CCPs
The European Securities and Markets Authority (ESMA)

14:20 - 15:15:

Panel: Smoothing out frictions in cross border clearing

Because of the global nature of financial markets, clearing houses are naturally at the centre of cross border financial networks. They are subject to global, regional, and local regulations. From a supervisory standpoint this requires different types of coordination. What are the main cross-border frictions arising from regulation and how can we address them? What could be the evolution and implications of EU location policy. How does EU and US regulation impact third countries? Is there space for reducing the cross-border regulatory burden?

Chair**Froukelien Wendt**

Independent Member of the CCP Supervisory Committee, Director for CCPs

The European Securities and Markets Authority (ESMA)

Speakers**Dr. Alicia Greenwood**

Chief Executive Officer
JSE Clear

**Marcelo Carvalho**

Managing Director, CCP Chief Risk Officer
B3 - Brasil Bolsa Balcão

**Cécile Nagel**

President, EuroCCP
Cboe Global Markets

Session 3: Where are we in the regulatory cycle?

15:15 - 16:00:

Paper Presentation: The impact of margin requirements on voluntary clearing decisions

This paper examines the incentive to voluntarily centrally-clear swaps. Specifically, it takes advantage of changes brought about by a 2016 regulation to analyze the determinants of traders' clearing decisions. It finds that the decision to clear their swaps by certain entities was substantially affected by this regulation. The change in clearing rates was driven by a small number of entities; those who were already clearing members of the clearinghouse. This highlights an important aspect of clearing decisions; becoming a clearing member entails significant upfront costs but allows members much lower marginal costs of clearing.

Author: Esen Onur, David Reiffen and Rajiv Sharma (CFTC)

Presenter

Esen Onur
Research Economist
Commodity Futures Trading Commission (CFTC)

Discussant

Udesh Jha
Managing Director, Post Trade Division
CME Group

16:00 - 17:30:

Panel: The upcoming regulatory agenda

We take stock of the current areas of regulatory focus, especially at the level of international standards, considering the broader role for clearing enshrined in the 2009 G20 reforms. This naturally includes matters of resolution and related questions (notably around NDLS). Also high on the list would be the current discussion around margining practices.

Chair

Richard Metcalfe
Head of Regulatory Affairs
The World Federation of Exchanges

Speakers

Alexandre Garcia
CCP Supervisor
Banque de France



Patricia Sáenz de Maturana
Senior Policy Advisor
IOSCO



Gilles Hervé
Policy Officer
European Commission



Maria José Gomez Yubero
Co-chair of FSB Cross-border Crisis Management Group for FMI and
Head of Resolution, Benchmarks and Financial Stability
Spanish National Securities Market Commission (CNMV)



Edip Acat
Senior Advisor, Central Office, Payments and Securities Settlement
Deutsche Bundesbank

19:00 - 22:00:

WFE Clearing and Derivatives Conference Gala Dinner**Day 2 - Tue 31 May****Session 4: The future of clearing**

08:00 - 08:15:

ESMA Keynote: The future of clearing**Speaker**

Klaus Martin Löber
Chair of the CCP Supervisory Committee
European Securities and Markets Authority (ESMA)

08:15 - 09:15:

Panel: CCP risk management in a fat-tailed world

In the last years, as different crises unfolded, an intense focus has been placed on CCPs risk management models and strategies. We have been discussing margin model procyclical behaviour, the allocation of non-default losses (NDLs), or the conditions for a successful recovery and, eventually, resolution processes. In all these cases, one of the main difficulties is the fact that these questions refer to extreme situations, where the standard modelling approaches do not necessarily apply and where the conditions under which events will unfold are largely unknown. Are we assuming CCPs should underwrite risk without limit? And if not, where is the limit? Would alternative financial resources for CCP resolution be an option? When instead of risk we face uncertainty, are prescriptive approaches effective?

Chair

Klaus Martin Löber
Chair of the CCP Supervisory Committee
European Securities and Markets Authority (ESMA)

Speakers

Dale A. Michaels
Chief Financial Risk Officer
OCC



David Horner
Chief Risk Officer
LCH Ltd



Vikram Kothari
Managing Director
National Securities Clearing Corporation Limited (NSCCL)



Orly Grinfeld
EVP, Head of Clearing
Tel Aviv Stock Exchange

09:15 - 10:30:

Paper Presentation: What can we expect from a good margin model? Some insights from whole distribution tests of initial margin models

This paper presents an approach to testing initial margin models based on their predictions of the whole future distribution of returns of the portfolio. This 'whole distribution' approach to testing is substantially more powerful than the usual 'back-testing' approach which is based on returns in excess of margin estimates, and it provides a methodology for calibrating margin models. The results suggest that margin models can meet regulatory requirements, but that they do not, for the examples studied, accurately model the far tails of the return distribution. Different models which are acceptably accurate are shown to provide substantially different margin estimates in periods of high stress. The policy implications of these findings are discussed.

Author: David Murphy (London School of Economics and Political Science)

Presenter

Prof. David Murphy
Visiting Professor, Department of Law
London School of Economics (LSE)

Discussant

Dmitrij Senko
Chief Risk Officer, Member of the Executive Board
Eurex Clearing AG

10:30 - 10:45:

Coffee break

10:45 - 11:30:

Paper Presentation: Mitigating margin procyclicality – effectiveness of APC measures during the COVID-19 stress

This is an analysis of the effectiveness of APC measures implemented by CCPs on clearing member and client margins using daily portfolio-level data collected under EMIR. Using simulations, the authors show a strong sensitivity of APC measure effectiveness to the details of calibration and to the type of portfolios on which it is applied. They show that models that implement margin floors displayed diminished margin growth during the COVID-19 stress and conclude with a policy discussion on the benefits of margin model transparency and advocate for the provision of additional regulatory guidance for the implementation of APC measures.

Author: Argyris Kahros and Marco Weissler (European Central Bank)

Presenter

Marco Weissler
Economist
European Central Bank

Discussant

Pedro Gurrola-Perez
Head of Research
The World Federation of Exchanges

11:30 - 12:00:

Academic Keynote Speech: Facing Forward: Open Issues and Old Questions in CCP Governance**Speaker**

Prof. Paolo Saguato
Assistant Professor of Law
Antonin Scalia Law School, George Mason University

12:00 - 13:00:

Lunch break**Session 5: The system-wide view**

13:00 - 14:00:

Panel: CCPs, derivatives, and climate risk

While climate risk can naturally be incorporated into the enterprise-wide risk management of financial entities, including CCPs, its impact on the CCPs' management of counterparty credit risk – their main task – is perhaps less straightforward. CCPs should remain alert to any new potential scenarios that could have an impact on the risk of the portfolios they manage, including those scenarios that can constitute an extreme but plausible stress event, being climate-related or not. But while climate risk crystallizes in the long term at a macro level, CCPs focus on managing short-term exposures (spanning just a few days), informed by the nature of the products they clear. To what extent climate risks relate to the CCP's risk management models and strategies? What specific aspects, if any, are particularly relevant or different for CCPs? Which derivative products could be more affected?

Chair**Mark Manning**

Technical Specialist- Sustainable Finance and Stewardship, Financial Conduct Authority & Co-Chair of Sustainable TaskForce IOSCO

Speakers**Daniela Peterhoff**

Senior Vice President, President of Clearing and Head of European Markets Strategy
Nasdaq

**Iancu Daramus**

Responsible Investment Associate
Fulcrum Asset Management LLP

**Jenny Hancock**

Member of Secretariat
BIS-Committee on Payments and Market Infrastructures

**Dr. Maxine Nelson**

Senior Vice President, GARP Risk Institute
Global Association of Risk Professionals

14:00 - 14:45:

Paper Presentation: Unlocking ESG premium from options

The paper finds that option expensiveness, as measured by implied volatility, is higher for low-ESG stocks, showing that investors pay a premium in the option market to hedge ESG-related uncertainty. Using delta-hedged option returns, the authors estimate this ESG premium and show that all three components of ESG contribute to option pricing. The effect of ESG performance heightened after the announcement of Paris Agreement, and has done so after speeches of Greta Thunberg, and in the aftermath of Me-Too movement. The influence of ESG on option premia is stronger for firms that are closer to end-consumers, facing severe product competition, with higher investor ESG awareness, and without corporate hedging activity.

Authors: Jie (Jay) Cao (The Chinese University of Hong Kong), Amit Goyal (University of Lausanne and Swiss Finance Institute), Xintong (Eunice) Zhan (The Chinese University of Hong Kong), and Weiming (Elaine) Zhang (The Chinese University of Hong Kong)

Presenter

Xintong (Eunice) Zhan
Professor of Finance and Li-Dasan Endowed Chair
Fudan University School of Management (FDSM)

Discussant

Jon V. Cherry
President and Global Head of Options
Northern Trust Securities, Inc.

14:45 - 15:15:

Coffee break

15:15 - 16:00:

Paper Presentation: Construction of hypothetical scenarios for CCP stress tests using vine copula

Parametric models for construction of hypothetical stress scenarios involves use of expert judgement in parameter setting and substantial model assumptions. The authors propose a non-parametric method for generation and/or validation of hypothetical stress scenarios using vine copula. This method is superior because it allows for modelling individual marginal distributions of multiple risk factors independent of joint distribution structures. The method also allows for capturing non-linear tail dependence in addition to capturing fat tail and it is also scalable to large number of risk factors.

Author: Aniket Bhanu (NSE Clearing) and Vineet Virmani (Indian Institute of Management Ahmedabad)

Presenter

Aniket Bhanu
Vice President, NSE Clearing (NSCCL)
National Stock Exchange of India

Discussant

Dr. Gerardo Ferrara
Senior Economist
Bank of England

16:00 - 17:00:

Panel: CCPs contribution to mitigating systemic risk

CCPs contribute to financial stability firstly by ensuring the continuity of the contracts through a voluntary rules-based mechanism that provides transparency and confidence to the markets. In addition, CCPs facilitate multilateral netting thereby reducing overall exposures and improving market liquidity. In their role of managing counterparty credit risk, CCPs ensure that market participant risk exposure is commensurate with their credit quality and capital strength. However, CCPs were not intended to manage or bear the totality of risks in the financial markets' ecosystem (not least among cleared and non-cleared markets). How to strike the right balance to align the incentives of market participants with the social objective of financial stability, without impairing the objective and benefits of central clearing? Do new clearing models change the calculus? How can we get a better picture of risk across the system as a whole, rather than purely within the centrally cleared sector?

Moderator

Ashwini Panse
Chief Risk Officer - North American Clearing
Intercontinental Exchange Inc.

Speakers

Travis Nesmith
Assistant Director and Section Chief, Quantitative Risk Analysis
Federal Reserve Board



Simon Morley
Director Financial Market Infrastructure
Bank of England



Simon Gleeson
Partner
Clifford Chance



Virginie Saade
Head of Government & Regulatory Policy, EMEA
Citadel

17:00 - 17:30: Derivatives Regulation: Rules and Reasoning from Lehman to Covid

Nandini Sukumar in conversation with Dr David Murphy about his new book

Speakers

Nandini Sukumar
Chief Executive Officer
The World Federation of Exchanges



Prof. David Murphy
Visiting Professor, Department of Law
London School of Economics (LSE)

17:30 - 17:40: Concluding Remarks and Announcing the Call for Papers WFE's Clearing Conference 2023**Speakers**

Nandini Sukumar
Chief Executive Officer
The World Federation of Exchanges



Pedro Gurrola-Perez
Head of Research
The World Federation of Exchanges

17:45 - 20:00: WFE Clearing and Derivatives Conference Farewell Reception

CCP Working Group Meeting - Wed 01 Jun

09:00 - 15:00: WFE CCP Working Group Meeting

For CCPWG Members only

Chair

Ashwini Panse
Chief Risk Officer - North American Clearing
Intercontinental Exchange Inc.

