WFEClear: The WFE’s Clearing and Derivatives Conference 2023

Conference Programme

Day 1 - Mon 27 Mar

08:00 - 16:15:

WFE Capacity Building & Technical Assistance: Clearing and CCPs

Registration

08:15 - 08:30:

Opening Remarks

Speakers

Nandini Sukumar
Chief Executive Officer
The World Federation of Exchanges

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

Dr. Alicia Greenwood
Chief Executive Officer, JSE Clear, and Director of Post Trade Services
Johannesburg Stock Exchange

08:30 - 08:45:

Speech: Phuthuma Nhleko, Chairman, Johannesburg Stock Exchange

Speaker

Phuthuma Nhleko
Chairman
Johannesburg Stock Exchange

08:45 - 10:15:

Session 1: The Concept of Central Clearing and the Role, Function & Workings of the CCP

The session will provide delegates with an understanding on the fundamental tenets of clearing direct from industry practitioners. It will give an insider’s view on CCPs and how they operate & interact with the market, introducing the fundamental concepts that will be explored in greater depth in subsequent sessions. Topics covered will include the CCP rulebook, risk management approaches, the default waterfall, the significance of governance practices, the benefits of multilateral letting, the role of incentives, and how margin practices discourage risky behaviour in times of market stress.

Moderator

Nandini Sukumar
Chief Executive Officer
The World Federation of Exchanges

Speakers

Vikram Kothari
Managing Director, NSE Clearing (NSCCL)
National Stock Exchange of India

John McPartland
Senior Advisor
Hidden Road Partners LP

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

10:15 - 10:30:

Coffee Break

10:30 - 12:00:

Session 2: The Legal and Capital Market Framework

The session will provide an overview of the legislative constructs upon which a CCP is based, and the important legal considerations that provide required legal certainty and inform broader policy and capital frameworks. Participants will be left with a sound awareness of the intersection of legal, policy, and capital frameworks, and their integration with foundational guidance such as the CPMI-IOSCO PFMIs. The session will also provide a thorough grounding in where the CCP sits in capital market structure sequencing, an understanding of the various and varied legal environments around the world, and important considerations thereto.

Moderator

Dr. Alicia Greenwood
Chief Executive Officer, JSE Clear, and Director of Post Trade Services
Johannesburg Stock Exchange

Speakers

Tinuade Awe
Chief Executive Officer
NGX RegCo

Robert Steigerwald
Senior Policy Advisor
Federal Reserve Bank of Chicago

Louis Cockeran
Legal Counsel
Johannesburg Stock Exchange

12:00 - 13:00:

Lunch Break

13:00 - 14:30:

Session 3: An Introduction to Risk Modelling and Methodologies

The session will outline how risk managers at CCPs approach clearing risk management, focusing specifically on risk modelling as part of the overall risk methodology. We will describe how margin requirements for cleared portfolios are calculated, and how risk methodologies interact with market volatility to promote the safety and soundness of a CCP. We'll cover the debate on procyclicality, stress-testing, and the factors that impact margin requirements during times of market stress. Participants will examine various different design choices, with consideration of past market events, such as whether to consider margin variation across the cycle, or focus on short-term margin increases, while looking at how historical and simulated data portray various margin models in regards to their risk sensitivity.

Moderator

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

Speakers

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

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

14:30 - 16:00:

Session 4: Regulatory Themes in Clearing

The session dives into current regulatory themes and industry initiatives, and anticipates what changes could be on the horizon for CCPs. We take stock of current areas of regulatory focus from international standard setting bodies, considering the broader role for clearing as enshrined in the 2009 G20 reforms, as well as at jurisdictional level. This session will ensure that delegates have an understanding of how policy initiatives are formed, advanced, and implemented among standard-setting bodies and market participants, including CCP operators. The WFE Regulatory Affairs team will share best practice and insight into what's active and new on the international policy agenda, including skin-in-the-game, non-default loss arrangements, recovery and resolution, margin practices (such as anti-procyclicality measures), and minimum account requirements.

Moderator

Richard Metcalfe
Head of Regulatory Affairs
The World Federation of Exchanges

Speakers

Summer Mersinger
Commissioner
Commodity Futures Trading Commission (CFTC)

Anne Clayton
Head of Public Policy & Regulatory Affairs
Johannesburg Stock Exchange

Astrid Ludin
Deputy Commissioner
Financial Sector Conduct Authority (FSCA)

16:00 - 16:15:

Concluding Remarks

16:30 - 18:30:

CCP Working Group Meeting

18:30 - 21:00:

Opening Reception

Day 2 - Tue 28 Mar

08:30 - 17:30:

WFEClear 2023

Registration

09:00 - 09:15:

Opening Remarks

Speakers

Nandini Sukumar
Chief Executive Officer
The World Federation of Exchanges

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

Dr. Alicia Greenwood
Chief Executive Officer, JSE Clear, and Director of Post Trade Services
Johannesburg Stock Exchange

09:15 - 12:30:

Clearing & The Real Economy

09:15 - 09:30:

Opening keynote: Summer Mersinger, Commissioner, Commodity Futures Trading Commission (CFTC)

Speaker

Summer Mersinger
Commissioner
Commodity Futures Trading Commission (CFTC)

09:30 - 10:30:

Session 1: Clearing – The Real Impact and the Real Economy

Clearing and the role of CCPs were thrust into the limelight after the latter ensured systemic stability during the Great Financial Crisis of 2008. But what are the visible, tangible impacts that CCPs have, and what is the role that they play in the broader financial system and real economy? Furthermore, what is the role that CCPs can play to directly mitigate broader market volatility in financial markets? How can we improve clearing to work best for end users, such as institutional investors and non-financial companies? Are barriers to clearing too high for some of these users, such as pension schemes? What are the challenges and opportunities for entities outside the centre of finance? What are the unique use-cases in which centralised clearing can further promote market stability in global markets and economies?

Moderator

Nandini Sukumar
Chief Executive Officer
The World Federation of Exchanges

Speakers

Summer Mersinger
Commissioner
Commodity Futures Trading Commission (CFTC)

Yuji Yamashita
Deputy Commissioner for International Affairs
Japan's Financial Services Agency (JFSA)

Laura Bayley
Head of Clearing Services and CEO
SIX x-clear AG

Daniela Peterhoff
Senior Vice President, President of Clearing and Head of Market Platforms Strategy
Nasdaq

10:30 - 11:15:

Session 2: Paper Presentation: How confident are we of margin model procyclicality measurements?

The WFE Research Paper brings the attention to the fact that the standard measures of initial margin model procyclicality are random variables and, as such, are subject to uncertainty. While this fact has attracted little attention, it has important consequences because, for any discussion around the procyclical behaviour of a model or any implementation of a procyclicality mitigation tool, it is fundamental to be able to adequately measure the responsiveness of the model. In particular, to mitigate the risk of prescribing hard rules which may have an unknown but significant chance of resulting ineffective or even detrimental, any decision or policy making that is based on these measures requires to take into consideration the impact that uncertainty will have on expected outcomes. To aim of the paper is to estimate such impact, examining the case of some typical margin models, both empirically and within a Monte Carlo simulation setting.

Moderator

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

Discussant

Alex Comninos
Chief Risk Officer, JSE Clear
Johannesburg Stock Exchange

11:15 - 11:30:

Coffee Break

11:30 - 11:45:

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

Speaker

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

11:45 - 12:45:

Session 3: Conquering New Commodity Risk

Exchanges and CCPs have always managed commodity risk, but the last few years have brought new challenges. What are they? Are there new opportunities too? Are energy companies in a position to meet higher margin requirements that arise in times of geopolitical instability? What is the role of centralised clearing in mitigating risk arising from the multitude of economic and geopolitical issues that affect the price and volume risk of hard or soft commodities? What are the different regulatory responses proposed in different jurisdictions? What is the right regulatory structure?

Moderator

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

Speakers

Amar Radia
Head of Analytics, Financial Market Infrastructure Directorate
Bank of England

Tapas Das
Managing Director & Chief Executive Officer
NG Clearing

Robert McIntyre
Head of Financial Resources
Rand Merchant Bank

Chris Sturgess
Director
Burnt Orange Trading

12:45 - 14:00:

Nasdaq Working Lunch

Global Drivers for FMI Modernization and Impact on Clearinghouse Strategies

14:00 - 17:45:

New Technologies & Clearing Models

14:00 - 15:00:

Session 4: Whither Innovation

"If future generations are to remember us more with gratitude than sorrow, we must achieve more than just the miracles of technology. We must also leave them a glimpse of the world as it was created, not just as it looked when we got through with it." **Lyndon B. Johnson, President of the United States of America.**

As the implosion of FTX continues to bring wreak havoc on both the crypto market and investor trust, the topic of innovation and how it's best regulated has become an existential debate. Could the debacle of FTX have been prevented? What lessons can we learn? What are the drivers of progress in clearing? Is it technology, new products, and/or established clearing and policy frameworks? What changes can or should be made to global regulatory environments and frameworks in the wake of FTX? What are the costs and benefits of accommodating new approaches and models in clearing? Can innovation emerge within the established constructs and frameworks?

Moderator

Robert Steigerwald
Senior Policy Advisor
Federal Reserve Bank of Chicago

Speakers

Orly Grinfeld
Executive Vice President and Head of Clearing
Tel Aviv Stock Exchange (TASE)

Farzam Ehsani
CEO & Co-Founder
VALR

Hsi-Chi Chen
Executive Vice President
Taiwan Futures Exchange (TAIFEX)

15:00 - 15:45:

Session 5: Academic Paper Presentation: The Prudence of Central Clearing with Market-based Default Management

A model of central clearing where the central counterparty (CCP) offers direct access to all account holders has grown in prominence recently. Direct clearing houses often manage risk algorithmically: accounts are settled to market, and the first line of defence for the CCP against falling account value is submitting market orders to reduce account risk. This market-based default management strategy is fundamentally different from the margin call-based approach of traditional CCPs. The paper presents the strategy employed, illustrating its dynamics using a detailed example. A stylised clearing service is used to compare the financial resources a traditional CCP would require with those needed by a direct CCP clearing the same service and targeting broadly the same safety standard. Some key issues affecting the risk of market-based default management are discussed using these insights. As a contribution to the current debate on the regulation of direct CCPs, their policy consequences are also considered.

Moderator

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

Discussant

Kristin N. Johnson
Commissioner
Commodity Futures Trading Commission (CFTC)

15:45 - 16:45:

Session 6: New Clearing Models: New Paths to Manage Risk

Looking to the future, new technologies and products have potential to reshape the industry and take risk management to the next level. In Schumpeter's creative destruction process, innovation is a driving force for progress and growth. But which innovations will outlive the hype? What technologies provide a true response to genuine problems? What new risks will emerge and how do we manage them? Looking to new classes of products, from crypto to carbon-related products, what are the risks associated? Do we need new risk management tools for an industry that has stood the test of time and held steadfast through many stress tests?

Moderator

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

Speakers

Vikram Kothari
Managing Director, NSE Clearing (NSCCL)
National Stock Exchange of India

Miguel Ángel Herrero Alvite
ESMA CCP Supervisory Committee Member and Secondary Markets Department Coordinator
Spanish National Securities Market Commission (CNMV)

Julie Schoening
Expert in risk, clearing, and market structure

Dr. Pinar Emirdag
Global Head of Digital Client Services for Markets Operations
JP Morgan

16:45 - 17:45:

Session 7: We Have Nothing Without Liquidity (and Settlement)

Why is there a debate on shortening the status quo in settlement cycles? What are the benefits, costs, and challenges? Is liquidity under strain, and if so why? How will CCPs and market participants manage, and in particular, how does this impact risk modelling methodologies? What changes in market structure are needed to optimize the use of capital and enhance funding liquidity? What are the liquidity challenges observed in prefunded markets? How are CCPs deploying technology to benefit market participants, the cleared market, and the financial system? What is the role of new and existing technology? Will tokenisation alter post-trade clearing and settlement? Will the fundamental trade-offs involving credit risk and liquidity remain in a tokenised world?

Moderator

Michele Hillery
General Manager, Equity Clearing and DTC Settlement Service
DTCC

Speakers

Frédéric Hervo
Director of the second Banking Directorate, Autorité de contrôle prudentiel et de résolution (ACPR)
Banque de France

Burak Akan
CCP Director, Takasbank
Borsa Istanbul

Dr. Travis Nesmith
Assistant Director & Section Chief, Quantitative Risk Analysis
Board of Governors of the Federal Reserve System

Meshal Al Homaid
Risk Modelling & Methodology Head, Muqassa
Saudi Tadawul Group

18:00 - 21:00:

Gala Dinner

Day 3 - Wed 29 Mar

08:30 - 16:15:

WFEClear 2023

Registration

09:00 - 12:15:

Good Governance Leads to Good Outcomes

09:00 - 09:15:

Speech: John McPartland, Senior Advisor, Hidden Road Partners LP

Speaker

John McPartland
Senior Advisor
Hidden Road Partners LP

09:15 - 10:15:

Session 8: It's All About the Incentives

How can we create and maintain the balance of incentives that exist within the CCP construct to best serve the market and its users? Are the governance structures of CCPs calibrated correctly? Does regulatory arbitrage exist, and do governance failures take place? What is the role and function of financial resources contributed by clearing members and by the CCP as part of the overall mutualised resources available within the default waterfall? Do the waterfalls du jour encourage responsible position-taking? Do altering levels of skin in the game for private FMI stakeholders incentivise the prioritisation of clearing volume, and does this really impede demutualised CCPs from performing in the public interest? How do CCP governance structures mitigate risks while motivating collective engagement and contribution for both CCPs themselves as well as its market participants? What are the best practices, risks, and rewards from multi-stakeholder governance structures, and what is the potential for increased capital structure diversity?

Moderator

Richard Metcalfe
Head of Regulatory Affairs
The World Federation of Exchanges

Speakers

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

Kristin N. Johnson
Commissioner
Commodity Futures Trading Commission (CFTC)

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

John McPartland
Senior Advisor
Hidden Road Partners LP

10:15 - 11:00:

Session 9: Academic Paper Presentation: Empirical evidence on adverse feedback loop between asset price movements and position liquidation, and the efficacy of anti-procyclicality measures

The last decade has seen substantial research and debate on procyclicality of CCP margins. The procyclicality argument essentially involves two effects in an adverse feedback loop: first, volatile markets leading to higher margin demands, and second, higher margin demands leading to further market volatility. Regulatory authorities across the world advise CCPs to put in place anti-procyclicality (APC) measures to reduce this adverse feedback. However, the empirical research in this area is limited to the first effect of sensitivity of margin models to volatility. The second effect, i.e., sensitive margin models influencing subsequent trading behavior, as well as the efficacy of APC measures to attenuate this influence has not been investigated empirically. We utilize a quasi-natural experiment made possible by unique design of Indian derivatives market and recent strengthening of anti-procyclicality measures.

We investigate impact of sensitivity of margin models on customer level trading behavior to assess the evidence for effectiveness of anti-procyclicality measures. We find that under similar asset price movements, the tendency of market participants to exit outstanding positions is lowered under stronger APC measures. While initial margin procyclicality is just one factor influencing price stability, the results suggest that implementation of APC measures can achieve the desired effect of weakening the adverse feedback loop between asset price movements and position liquidation.

Author: **Aniket Bhanu**, NSE Clearing (NSCCL), National Stock Exchange of India

Moderator

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

Discussant

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

11:00 - 11:30:

Coffee Break

11:30 - 12:15:

Session 10: Academic Paper Presentation: The repo market under Basel III

It's well-known that regulation can have profound effects on asset prices and market fragmentation. Yet existing evidence is very thin. We contribute by assessing the effects of Basel III on financial market fragmentation using the UK repo market as an important case study. Evidence is affirmative of a fragmentation. The leverage ratio incentivises banks to net transactions in order to mitigate the associated capital charge, which leads to a fragmentation across prices between nettable and non-nettable trades. This effect is concentrated on the bilateral segment of the market, which showcases that central counterparties insulate their members from this fragmentation. In addition, the liquidity coverage ratio incentivises banks to reduce long-term (>30 days) lending backed by lower-quality collateral, which leads to a fragmentation across maturities. Finally, the documented effects are amplified during stress as banks that are jointly constrained by both ratios reduce their activity to a greater extent than those that are constrained by a single ratio or not constrained at all, with important implications for market liquidity.

Authors: **Eddie Gerba** and **Petros Katsoulis**, Bank of England

Moderator

Petros Katsoulis
Research Economist, Prudential Policy Directorate
Bank of England

Discussant

Dr. Kaitao Lin
Senior Financial Economist
The World Federation of Exchanges

12:15 - 13:45:

Lunch

13:45 - 15:45:

Risk, Recovery & Resolution

13:45 - 14:00:

Speech: Takeshi Shirakami, Deputy Head of Secretariat of Committee on Payments and Market Infrastructures, Bank for International Settlements

Speaker

Takeshi Shirakami
Deputy Head of the Secretariat of Committee on Payments and Market Infrastructures
Bank for International Settlements

14:00 - 14:45:

Session 11: Academic Paper Presentation: Optimal bidder selection in clearing house default auctions

Default auctions at central counterparties (or 'CCPs') are simultaneously critically important to financial stability and largely unstudied. We develop a model for CCP default auctions that incorporates: a.) the CCP's non-standard objective of maximizing success above a threshold rather than revenue; b.) addresses the important question of who participates in the auction, and; 3.) explicitly models information leakage affecting private portfolio valuations. These features make the auction analysis non-standard. We show that an entry fee, by appropriately inducing members to participate or not, can maximize the probability the auction succeeds. The result is novel, both in auction theory and as a mechanism for CCP auction design.

Authors: **Rod Garratt**, University of California Santa Barbara; **David Murphy**, London School of Economics and Political Science; **Travis Nesmith**, Federal Reserve System; and **Xiaopeng Wu**, University of Toronto.

Moderator

Dr. Travis Nesmith
Assistant Director & Section Chief, Quantitative Risk Analysis
Board of Governors of the Federal Reserve System

Discussant

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

14:45 - 15:45:

Session 12: Risk, Recovery & Resolution

What measures are required to promote resilience while maintaining the continuity of critical CCP functions, public confidence, and financial stability? Why have these longstanding tenets of a CCP, having performed admirably throughout recent market events, resurfaced as we look to understand CCP risk management strategies? How should a CCP model for extreme situations, where outcomes and conditions are unpredictable? Are CCPs being coerced into becoming insurers for the financial industry at a cost to clearing members? What is the current state of participant preparedness? Are market participants sufficiently anticipating and preparing for material, and at times unprecedented, market events that lead to reasoned increases in margin requirements to support corresponding increases in position exposures? How can CCPs maintain the integrity of the default management process and the financial resources that support it when considering recovery and resolution?

Moderator

Jeanne Balcom
Executive Director, Head of Regulatory Policy
OCC (Options Clearing Corporation)

Speakers

Dr. Alicia Greenwood
Chief Executive Officer, JSE Clear, and Director of Post Trade Services
Johannesburg Stock Exchange

Takeshi Shirakami
Deputy Head of the Secretariat of Committee on Payments and Market Infrastructures
Bank for International Settlements

Pietro Stecconi
Chair of the Expert Group on Clearing, European Systemic Risk Board (ESRB), and Head of the Post-Trading Division, Market and Payment Systems Oversight Directorate
Banca d'Italia

Pui Hoon Loh
Director & Specialist Leader, Markets Policy & Infrastructure Department
Monetary Authority of Singapore (MAS)

15:45 - 16:00:

Concluding Remarks and Announcing the Call for Papers WFE's Clearing Conference 2024

Moderators

Nandini Sukumar
Chief Executive Officer
The World Federation of Exchanges

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

18:00 - 21:00:

Farewell Reception

© 2018 by The World Federation of Exchanges. All rights reserved.