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Commodity Futures Trading Commission  
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23 January 2011

- **17 CFR Part 39**
- **RIN Number 3038-AC98**
- **Risk Management Requirements for Derivatives Clearing Organizations**

Dear Mr. Stawick.

Thank you for giving us the opportunity to comment on your notice of proposed rulemaking: Risk Management Requirements for Derivatives Clearing Organizations.

You are proposing regulations to implement Title VII and Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), which would establish the regulatory standards for compliance with derivatives clearing organization (DCO) Core Principles C (participant and product eligibility), D (risk management), E (settlement procedures), F (treatment of funds), G (default rules and procedures), and I (system safeguards). For systemically important DCOs (SIDCOs), you are proposing increased standards for system safeguards supporting business continuity and disaster recovery and a provision that would implement the CFTC's special enforcement authority over SIDCOs. You are also proposing certain additional amendments relating to DCOs.

The proposed rulemaking should encourage greater use of central counterparty clearing, through promoting efficiencies and improving risk management. In this context I would comment on product eligibility and risk management.

#### Product eligibility

§ 39.12(b)(2) states that: A DCO shall adopt rules providing that all swaps with the same terms and conditions submitted to the DCO for clearing are economically equivalent within the DCO and may be offset with each other within the DCO. A DCO shall also provide for

non-discriminatory clearing of a swap executed bilaterally or on or subject to the rules of an unaffiliated designated contract market or swap execution facility.

§ 39.12(b)(4)(iv) states that: If a swap is cleared by a clearing member on behalf of a customer, all terms of the swap, as carried in the customer account on the books of the clearing member, must conform to the terms of the cleared swap established under the DCO's rules.

The above proposals will improve efficiency in the swap market, promote the standardisation of swaps and also increase confidence in the integrity of swap markets. I fully support the proposals as forcing economically valid and cost-effective improvements in swap markets.

### Risk management

The proposals address certain general requirements, including a requirement that a DCO must have a comprehensive written risk management framework, subject to internal audit, and a chief risk officer. Risk management effectively encompasses organisational structure<sup>1</sup>, governance, the risk functions, internal controls, compliance, internal audit and the legal functions. I would recommend that you comprehensively and explicitly address all elements that make up a risk management framework. Furthermore I would recommend that you focus more on operational risk, which is glossed over in the proposals. Operational risk<sup>2</sup> is critical as operational risk failures effectively allow other types of risk, such as credit risk and market risk to be excessive.

I would also suggest that you consider the role of disclosure in more detail. Reporting, including public disclosures, should allow regulators and market participants to assess a DCO's approach to risk management. This should further increase confidence in swap markets.

Yours sincerely

Chris Barnard

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<sup>1</sup> For example, reporting lines and the allocation of responsibilities and authority within a DCO should be clear, complete, well defined and enforced.

<sup>2</sup> Operational risk is commonly defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.