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Via Overnight Mail

December 11, 2018

Mr. Christopher Kirkpatrick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Center
1155 21st Street NW
Washington, DC 20581

Re: Market Risk Advisory Committee

Dear Mr. Kirkpatrick:

ABN AMRO Clearing Chicago LLC ("AACC") welcomes this opportunity to submit written statements in connection with the Market Risk Advisory Committee ("MRAC") meeting held on December 4, 2018, at the Commodity Futures Trading Commission's ("CFTC") Conference Center in Washington, DC.

AACC is registered as a futures commission merchant ("FCM") with the CFTC, is a member of the National Futures Association, and is a clearing member of all of the major futures exchanges in the United States. In addition, AACC is registered with the U.S. Securities and Exchange Commission as a broker-dealer, a member of the Financial Industry Regulatory Authority, and a member of all of the major equities and options exchanges in the United States. AACC is a subsidiary of ABN AMRO Clearing Bank N.V. and part of ABN AMRO Group N.V. AACC's main office is located in Chicago, Illinois and AACC has a branch office located in New York, New York.

AACC's customers predominantly are institutional clients (e.g., other FCMs, professional trading groups, corporate hedgers, introducing brokers and other BDs). AACC's primary source of revenue is generated from fees earned for providing clearing services to its customers in listed futures, options on futures, equities and equity options. To a lesser extent, AACC also earns commissions for executing trades in futures and options on futures on behalf of its customers. AACC does not engage in investment banking, AACC does not issue equities or equity options research reports and it does not recommend transactions to customers. AACC does not clear swaps. AACC is not a commodity trading adviser nor a commodity pool operator and does not engage in proprietary trading for its own account nor does it hold discretionary trading authority over its customers' accounts.

Background

On September 11, 2018, Nasdaq Clearing AB ("Nasdaq Clearing") placed a member of its Nordic market in default (the "Nasdaq Clearing Default"). The losses from the default were so large they exceeded the margin deposited by the defaulter as well as Nasdaq Clearing's own "skin in the game" funds and required the use of Nasdaq Clearing's commodities default fund. The non-defaulting clearing members of Nasdaq Clearing were then required to fully replenish the commodities default fund.

The Nasdaq Clearing Default prompted the Futures Industry Association ("FIA") to refresh its April 2015 *FIA Global CCP Risk Position Paper*. In November 2018, FIA issued its refreshed paper titled, *Central Clearing: Recommendations for CCP Risk Management* (the "FIA CCP Risk Paper"). (The April 2015 and November 2018 FIA papers are jointly referred to herein as the "FIA CCP Risk Paper.")

The FIA CCP Risk Paper makes a number of recommendations on best practices for central counterparties ("CCPs") to effectively manage risk. The recommendations take into consideration the views of various FIA clearing members as risk managers with cross-product and cross-market experience. The recommendations also take into consideration the Nasdaq Clearing Default and outline considerations that will support international best practices for CCP risk management.

AACC appreciates the efforts of FIA to promote and enhance the integrity of the financial system through the FIA CCP Risk Paper. In addition, AACC supports the recommendations set forth in the FIA CCP Risk Paper. However, AACC would like to provide additional comments to the CFTC and the MRAC that amplify or expand on several of the recommendations from FIA. The additional comments from AACC are set forth below.

AACC's Comments

1. *Membership Criteria*

AACC agrees with FIA's recommendation that self-clearing members should have independent risk management capabilities and those who lack independent risk management capabilities must be intermediated by a clearing member capable of risk managing the "self-clearing" member. However, if this recommendation is not ultimately approved by the CFTC or the applicable CCPs, AACC then believes that self-clearing members should be subject to stepped-up financial requirements. For example, self-clearing members should be required to make an extra contribution to a CCP's guaranty fund and also be subject to heightened capital requirements. These extra contributions would be designed to offset the additional risk presented by a self-clearing member that is not intermediated by another well-capitalized clearing member. AACC would appreciate the opportunity to participate in any follow-up discussions regarding stepped-up financial requirements for self-clearing members.

2. CCP Governance of Self-Clearing Members

AACC agrees with FIA's recommendation that CCPs who want to accept self-clearing members should develop more stringent requirements to account for the nature of these members. The development of more stringent requirements is justified because self-clearing members do not have another well-capitalized clearing member intermediating their relationship with the CCP. However, AACC believes that self-clearing members should also be subject to more frequent risk reviews, financial surveillance oversight and default drills. Self-clearing members tend to be smaller firms, however, in this scenario, a smaller size does not necessarily mean less risk. Additionally, AACC believes that CCPs should have clear visibility into all of their clearing members' access to intra-day and overnight liquidity amounts and sources and this information should be generally available to the clearing membership. Such transparency will assist clearing members in evaluating the financial strength and risk management capabilities of their fellow clearing members.

3. Default Management Including Design and Testing

AACC agrees with the FIA that in order to assess CCP risk, clearing members and their clients require consistent and transparent information from CCPs. CCPs must disclose sufficient data and provide sufficient certainty regarding their procedures, rules and risk methodologies for clearing members to make informed decisions.

The need to disclose important risk-related information also applies to the guaranty funds of CCPs. CCP guaranty funds are generally designed to cover the tail risk of potential losses in excess of margin under extreme, but plausible, circumstances, as measured by stress tests. The guaranty funds are sized to cover the potential loss caused by the simultaneous default of the two clearing members and their affiliates with the largest potential shortfalls ("Cover Two"). AACC believes that clearing members should know on a regular basis approximately what a CCP's, and potentially the clearing members', risk is in the event of a Cover Two default scenario so an informed decision can be made by clearing members as to whether they want to remain a clearing member at the CCP. Accordingly, AACC believes it would be beneficial to clearing members if CCPs notified clearing members on a weekly basis what the CCPs approximate Cover Two exposure would be in the event of a default.

In addition, AACC believes that industry-wide default management drills are helpful, however, they should not be so predictable. Obviously, in the event of a real default scenario, there will be many unforeseen circumstances arising that are not expected by the individuals and clearing members involved in the default. Accordingly, during the industry-wide default drills, there should be unscripted factual situations inserted in the drill at different times to keep clearing members ready for any situation. Further, default drill participants should be provided with a given week when the exercise will take place and not be provided with the specific date of the default exercise. The default drill can then be announced any day during the week in order to make it more realistic.

4. Skin in the Game

The FIA CCP Risk Paper includes a number of practical recommendations regarding CCP Skin in the Game ("SITG"). AACC agrees with these recommendations, in particular, the recommendations that a CCP's contribution to the default fund should be an amount that is material to the CCP and also aligns with the amount of risk in the CCP system. In addition, SITG should be segregated and fully funded and earmarked for such purposes and CCPs should have sufficient capital on hand to replenish their capital contributions on the same timeframe and for the same number of defaults that clearing members are required to make such replenishments. SITG should be used ahead of any non-defaulting clearing member resources in the default waterfall.

If a CCP makes a business decision to accept self-clearing members, the SITG should also consider the real possibility that a self-clearing member may be more likely to default than a non-self-clearing member. The CCP, in effect, then acts as a clearing member for the self-clearing member with respect to risk management and trading oversight, and without the buffer of another well-capitalized clearing member acting as an intermediary. Accordingly, SITG should include a heightened contribution by a CCP for each self-clearing member.

AACC also believes that in a vertically integrated CCP-exchange structure, the exchange also should be responsible for a separate SITG contribution to the guaranty fund and the SITG should be used ahead of any non-defaulting clearing member resources in the default waterfall. Given the integrated functioning between certain CCPs and exchanges, which includes operational, financial and risk management capabilities, an exchange that is benefitting financially from trading activity should also have SITG when a clearing member defaults.

Conclusion

AACC supports the efforts of the CFTC and the MRAC to discuss important issues facing the industry, particularly the current state of CCP risk management and governance. AACC is also a strong supporter of the FIA promoting and enhancing the integrity of the financial system. In particular, AACC supports the recommendations set forth in the FIA CCP Risk Paper. As discussed above, AACC also believes that self-clearing members should be subject to heighted risk management and financial requirements since they do not have another well-capitalized clearing member acting as an intermediary between them and a CCP. Also, exchanges generating trading profits that are part of a vertically integrated CCP-exchange relationship should also contribute SITG that should be applied in a clearing member default ahead of the funds of non-defaulting clearing members.

AACC appreciates the opportunity to provide comments in connection with the recent MRAC meeting. Please do not hesitate to contact me if you have any questions regarding this correspondence or require any additional information.

Sincerely,

Andrej Bolkovic
Chief Executive Officer

cc: J. Christopher Giancarlo, Chairman
Rostin Behnam, MRAC Sponsor and Commissioner
Dan M. Berkovitz, Commissioner
Dawn DeBerry Stump, Commissioner
Brian D. Quintenz, Commissioner