



Clearinghouse Benefits and Risks

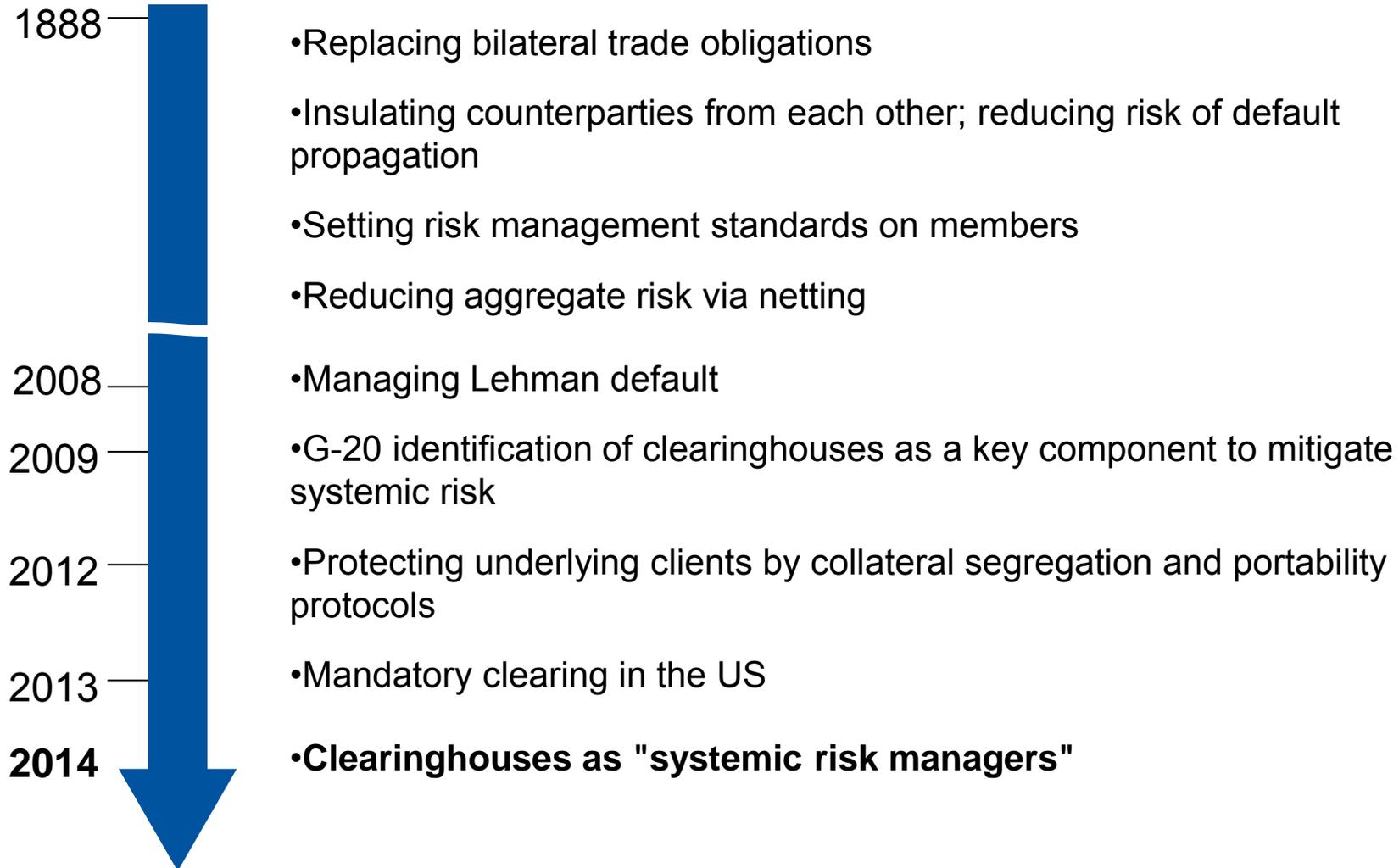
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Office of Financial Research and Financial Stability Oversight Council

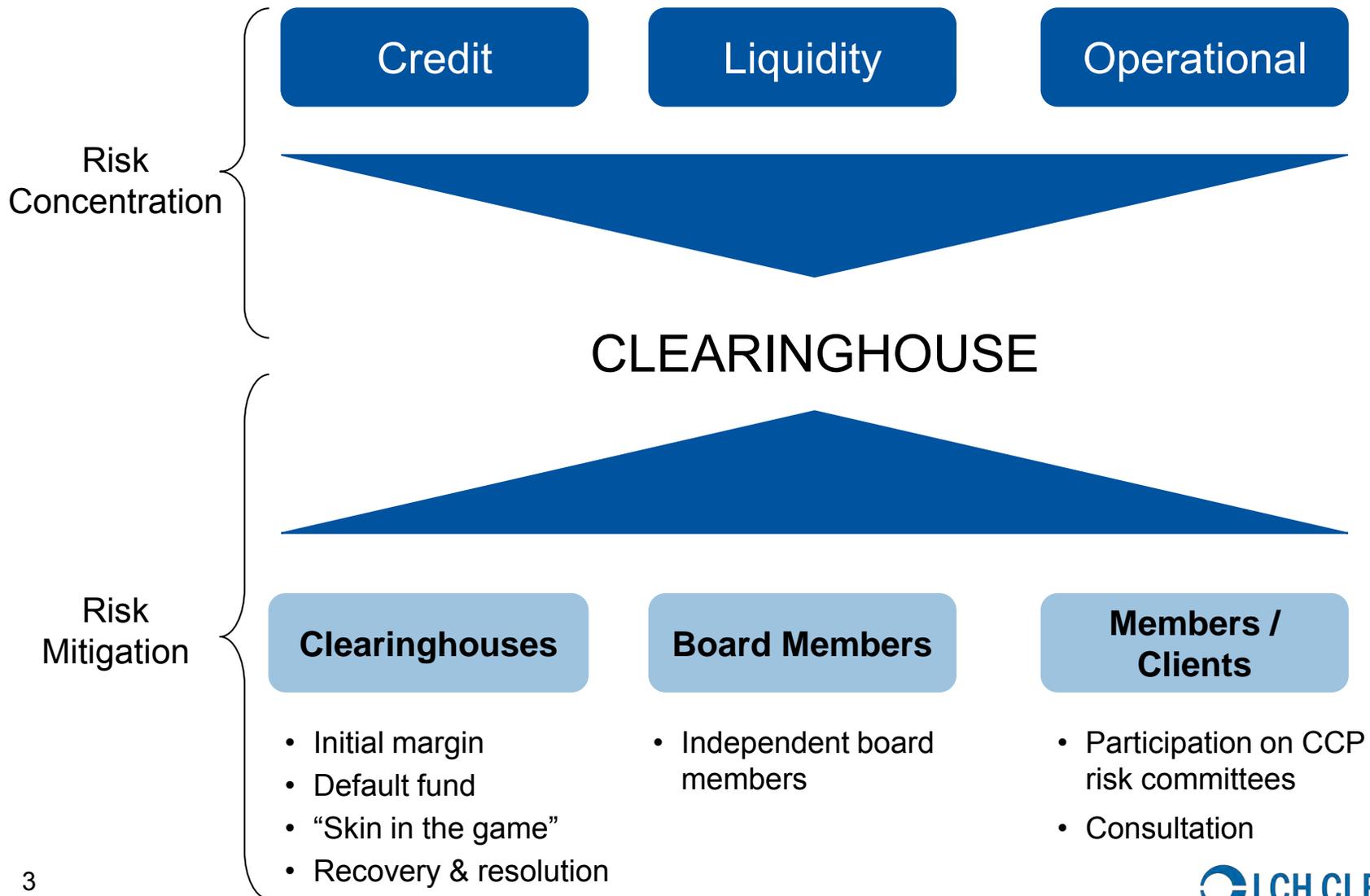
2014 Annual Conference

January 23, 2014

A Successful Track Record



Managing and Mitigating Risk: Avoiding a “Race to the Bottom”



Managing and Mitigating Risk

Assessment

- Default fund management
- Initial margin requirements

Monitoring

- Credit risk / CCP member exposure
- Mark-to-market
- Stress tests

Engagement

- Active Board participation by users and independent directors
- New York Fed Payments Risk Committee Transparency Task Force
- Other consultative bodies

Regulation

- Global, coordinated efforts
- Greater transparency and clarity on rules
- Resolution and recovery
- Access to central banks

Conclusion

- 1. Risk Management: Quality of risk management must always be paramount**
 - Eligible collateral
 - Initial margin confidence factors and model add-ons
 - Default fund methodologies
 - Liquidity
- 2. Governance: Active engagement by users and independent directors on risk committees provides important check and balance to commercial goals**
- 3. Transparency: Members, clients, regulators and the public need to understand clearinghouse approach to:**
 - Evaluation and monitoring of clearing members and their clients
 - Margining and default funds
 - Default procedures
 - Collateral structure and segregation / investment
 - Investment balances
 - Liquidity