Ice takes swipe at LCH over capital resistance

Jeffrey Sprecher, founder and chairman of Ice, has hit out at rival LCH.Clearnet, arguing central counterparties (CCPs) should not be resisting calls to boost their capital levels. LCH.Clearnet published a white paper on the topic on December 4, arguing in favour of the regulatory *status quo*.

"We are not shying away from it," Sprecher told attendees at a Goldman Sachs conference in New York on December 10. "We are not writing any white papers that say we shouldn't be doing it. The industry should be embracing the change and working to figure out its long-term capital needs."

Jeffrey Sprecher, Ice

Sprecher went on to say that any additional capital could come from third parties – CCPs are not keen to put more of their own capital at risk and member firms are also trying to constrain their costs.

In response to a question on the topic, he said the push for extra capital would "create opportunities for third parties that want to put up capital against risk and earn a return for doing that".

Sprecher provided only sketchy details on how this might work, saying the capital markets may create vehicles to put up more capital, and the large dealers were talking to Ice privately about new ways of allocating risk and capital that do not impede trading volumes.

Some CCPs have looked at insurance as a way of covering tail risks. GCSA Capital, for instance, is offering to underwrite losses stemming from member defaults, insure against non-default losses or refill default funds (*Risk* December 2014, *www.risk.net/2384649*). Alternatives could take the form of capital market products such as contingent convertible bonds.

Sprecher also discussed plans to relaunch futures for credit default swaps (CDSs), after a previous attempt fell flat (*Risk* October 2013, *www.risk.net/2295480*). On December 4, Ice announced a license agreement with Eris Exchange to list futures and options based on Eris's methodology, which combines the component cash flows of swaps in a single futures price, allowing payments through variation margin. It remains a future throughout the life of the trade and settles in cash.

The plan is for Ice to first launch CDS futures based on Markit's CDX North American investment grade and high-yield indexes.

Sprecher hopes the product will take off this time around. "We tried to do a credit default swap [future] a few years ago. The product wasn't right, the timing wasn't right and we continue to chip away at it. We do think the Eris product may solve some of that gap," he said.

Joe Rennison

Banking book rate risk project splits in two

Regulators have started considering proposals to update, rather than replace, the capital treatment for interest rate risk on loans, deposits and other non-traded assets, highlighting an ongoing lack of certainty about the outcome of the project, which has been running since 2013 but has yet to produce a consultation paper.

Until recently, the working group had been focusing on proposals for a so-called Pillar I approach: a single capital framework, including a standardised charge. This is expected to miss its original year-end deadline, and a working group at the Basel Committee on Banking Supervision has begun drawing up revisions to the existing Pillar II approach, which gives national supervisors discretion to set capital requirements.

"Both were included in the mandate, but it was a matter of prioritisation," says one regulator with knowledge of the interest rate risk in the banking book (IRRBB) proposals. "The priority of the task force's work has been developing a Pillar I proposal, but the mandate also refers to updating the current Pillar II guidance issued in 2004."

A mix of industry and regulatory sources say the standardised charge is proving difficult because loan and deposit products vary widely between banks and jurisdictions (*Risk* July 2013, *www.risk.net/2282918*).

If the Pillar I approach is adopted, it is unclear how much freedom banks will be given to continue using internal models, but regulators appear to be considering it.

A draft template for a quantitative impact study was circulated by the working group in early November, allowing banks to plug in modelled numbers alongside the standardised results for elements of IRRBB, including explicit and implicit optionality, and certain aspects of accounting for non-maturing deposits.

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> Michaela Zattler, BdB

"The good thing about the template is that on the difficult issues there will be a comparison between results based on standardised procedures and banks' individual calculations," says Michaela Zattler, division manager for banking supervision at German banking association BdB.

The regulator with knowledge of the IRRBB work adds: "It is very difficult to have a completely standardised approach, because there are so many differences and variances across jurisdictions and banks. I think there is a general sense that a completely standardised approach is fairly difficult for interest rate risk."

Even so, discussions between the industry and regulators have thrown up a host of contentious ideas – all still in play – including standardised caps on the duration of non-maturing deposits, which banks are currently free to estimate (*www.risk.net/2373698*). Bankers worry a standardised cap on deposit durations could force the industry to hold more capital, over-hedge or rein in longer-term lending (*www.risk.net/2382300*).

Catherine Contiguglia