



CFTC ANNOUNCES RESULTS OF SUPERVISORY STRESS TESTS

OVERVIEW

For questions please contact [Kwon Park](#) at (202) 547-3035.

Today, the Commodity Futures Trading Commission (CFTC or Commission) held a [press conference](#) to announce the results of Supervisory Stress Tests. The results reflect CFTC staff conducted exercises applying a set of 11 internally-developed supervisory stress tests across five CFTC-registered derivatives clearing organizations (DCOs) to assess the impact on the organizations' credit risk.

Please see below for additional information:

[Report on the Supervisory Stress Test of Clearinghouses](#)

[Questions and Answers: Staff Supervisory Stress test of Clearinghouses](#)

Key Takeaways

- Key Findings:
 - Clearinghouses had the prefunded financial resources to withstand a variety of extreme market price changes across a wide range of products. The clearinghouses met or exceeded required resiliency levels.
 - Risk was diversified across the clearinghouses. Where a particular scenario was the worst for a clearing member at a particular clearinghouse, that clearing member generally did not incur margin shortfalls at all clearinghouses – and in many cases had a margin surplus or even gains across all clearinghouses.
 - Clearing member risk was also diversified across the scenarios. No single scenario accounted for more than 19% of the worst outcomes. Of the 11 scenarios applied in the test, ten different scenarios generated the worst outcome for someone, further indicating diversification rather than concentration. And no single clearing member had the largest loss in more than 16.6% of the tests.
- When asked about the impact of the Presidential election on his agenda, Chairman Tim Massad said that the Commission will continue to move forward with its articulated agenda. On position limits, he revealed that a draft final rule was circulating with the Commissioners for their review, and that he looks forward to considering their input.

SUMMARY

Presentation of Results by Chairman Massad

Purpose and Background:

- To look at the resiliency of the five major DCOs under CFTC jurisdiction (U.S. and U.K.), using actual data collected on positions and margin.
- Staff observed overall risk and the sufficiency of prefunded resources at the DCOs.
- Since the financial crisis, margin has increased from about \$90 billion to \$300 billion. While transaction risk still exists, central counterparties (CCPs) are easier to monitor due to financial reform.

Tools and Resources to Mitigate Risk:

- Variation margin (VM) and initial margin (IM).
- Clearing member requirements (CFTC and clearinghouse rules).
- Risk surveillance (by the CFTC and the clearinghouses).
- Other tools and resources exist.

Default Management Tools and Resources:

- Prefunded sources (defaulting firms' IM).
- Clearinghouse capital (skin-in-the-game).
- Prefunded guaranty fund (cover two standard).
- Other ex ante resources such as clearing member assessments, gains-based haircuts, and tear ups.

Stress Testing versus Supervisory Stress testing:

- Stress testing is required by CFTC rules, and clearinghouses perform these tests daily using extreme and plausible scenarios.
- Supervisory stress testing looks across all clearinghouses to assess the impacts of stressed market conditions, analyze the risks that the largest clearing members pose across all asset classes, and to identify prefunded resources. These tests do not cover liquidity, operational, and cyber risks.

Results:

- In 11 scenarios across the five clearinghouses (8 guaranty funds), all the guaranty funds achieved at least the cover two standard. Full coverage of defaults was achieved in 23 out of 36 tests.
- Clearing member risk was generally diversified among scenarios, and clearing members generally had diversified risk profiles. No single clearing member had the largest loss in more than 6 of 36 tests, and no two firms generated the largest losses at more than one guaranty fund in any scenario.
- Clearing member risk is highly diversified across clearinghouses and guaranty funds were either adequately prefunded or exceeded regulatory requirements.

Question and Answer

Q) Any surprises from the results? *Massad:* Surprises were generally good - the fact that two thirds of tests on prefunded sources were sufficient to cover all losses without further posting of margin, and the degree of diversification.

Q) Any areas for improvement? *Massad:* The tests only cover stresses from a one-day period. The key is ongoing vigilance and ensuring that clearinghouses are safe, domestically and internationally. Constant surveillance is critical, especially in other categories of risk that were not tested (i.e. operational, cyber, capital, etc.).

Q) Any context on the timing of these results? *Massad:* We evaluated the impacts of financial reforms as clearinghouses were made more important to the financial system (i.e. clearing mandate). As to timing, we always intended to release these findings.

Q) How has the Presidential election impacted your agenda, especially position limits? *Massad:* I am committed to a smooth and orderly transition to the next administration, but at the same time, the Commission will continue to move forward with its articulated agenda that was determined for some time. The position limits rule is with the Commissioners for review. I look forward to considering their input and will try to build consensus around that.