



# Joint Conference on Financial Crises

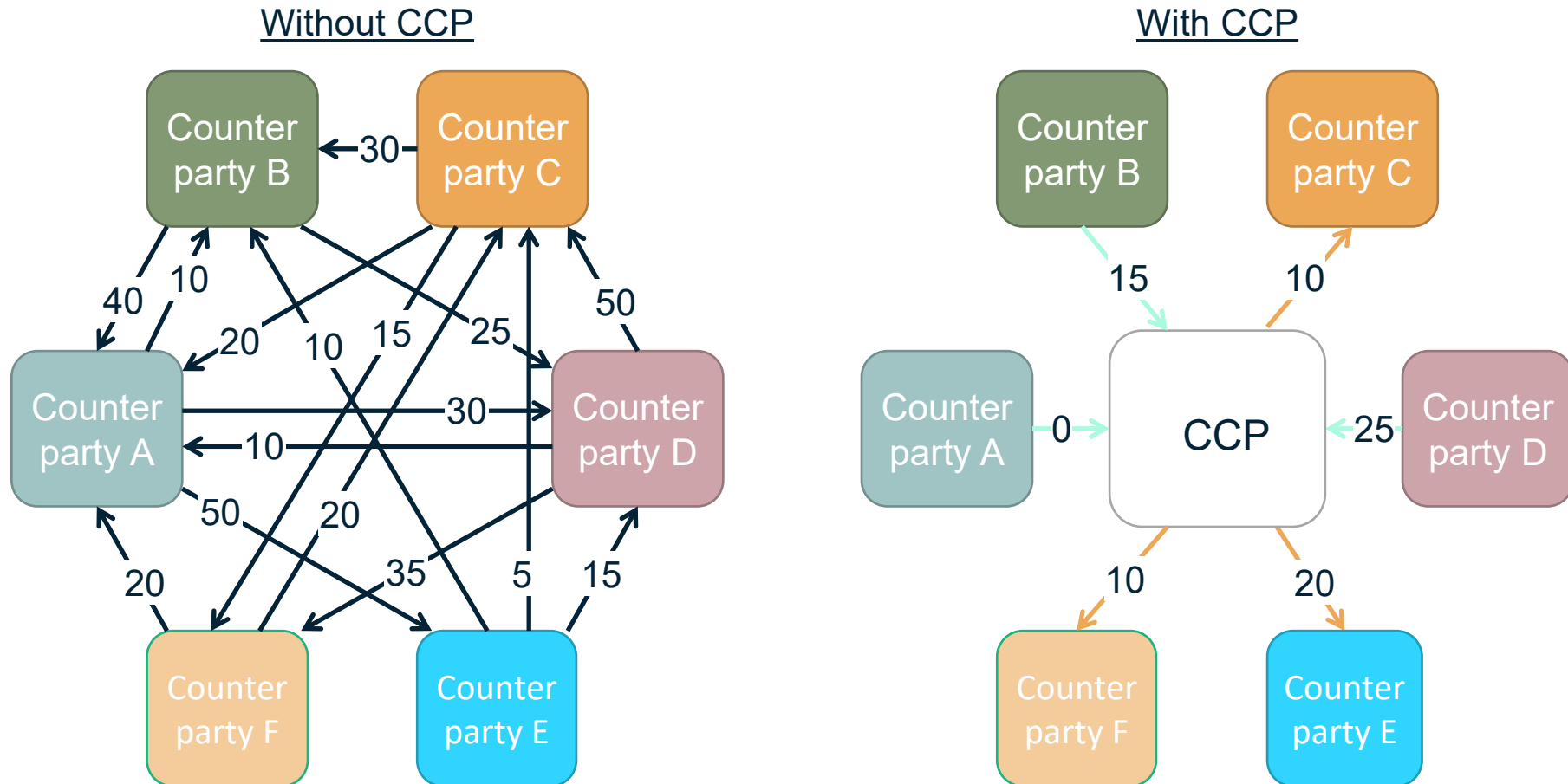
Produced by Federal Reserve Bank of Chicago  
and the Yale University Program on Financial Stability

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# WHAT IS A CENTRAL COUNTERPARTY (CCP)?

CCPs provide efficiencies by netting offsetting transactions and settlement obligations among multiple counterparties (i.e., clearing members).

CCPs stand between buyers and sellers, guaranteeing performance of contracts.



# CREDIT RISK VS. LIQUIDITY RISK FOR CCPs

CCPs ≠ Banks

Key Distinction: Risks are conditional on a Counterparty Default (Short-term)

PFMI 4:  
Credit Risk (Solvency)



**Key Question?**

How will the CCP cover losses?

**Loss Allocation “Waterfall”  
(Prescribed Sequence):**

1. Defaulter’s Collateral
2. CCP Skin-in-the-Game
3. Mutualized Default Fund
4. Assessments / Recovery Tools

PFMI 7:  
Liquidity Risk (Funding)



**Key Question?**

Does the CCP have cash on time?

**Liquidity Resources  
(Available Tools, No Order):**

- Cash
- High-Quality Liquid Securities
- Committed Credit Lines
- Member Commitments
- FX swaps & repo facilities

**Key Takeaway**

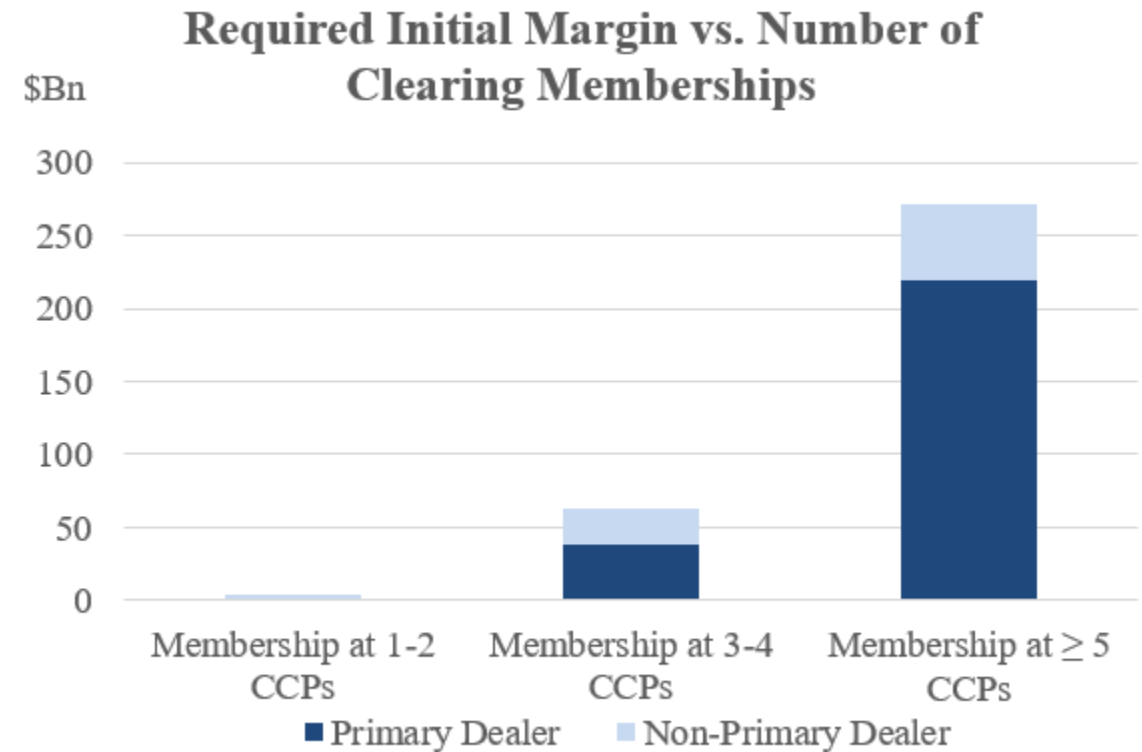
**Credit risk** is mitigated by having access to **enough assets**; **Liquidity risk** is mitigated by having the **right assets (cash)** at the **right time**.

# BANKS MAY HAVE MULTIPLE ROLES WITH CCPs

Banks can have multiple roles with CCPs

- Clearing Member
- Custodian
- Settlement Bank
- Committed Liquidity Provider

Many banks which are clearing members at CCP are also primary dealers in the U.S.



Source: CFTC Financial Data for FCMs (as of December 2025)

CCPs may depend on commercial banks for multiple roles

\*Chart is an updated version from Chicago Fed Letter #510 authored by Hull and Solimine  
<https://www.chicagofed.org/publications/chicago-fed-letter/2025/510>