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**Opening Remarks**  
**Public Policy Symposium on OTC Derivatives Clearing**

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Public Policy Symposium on OTC Derivatives Clearing  
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FEDERAL RESERVE BANK OF CHICAGO

The views expressed today are my own and not necessarily  
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# Opening Remarks

## Public Policy Symposium on OTC Derivatives Clearing

Charles L. Evans  
President and Chief Executive Officer  
Federal Reserve Bank of Chicago

Thank you, Ed. Good morning. On behalf of the Federal Reserve Bank of Chicago, I would like to thank you for joining us today at this Public Policy Symposium on OTC Derivatives Clearing. I'm delighted to be here to welcome you and provide some brief comments that, I hope, will help frame the discussion of the important issues related to the central clearing of over-the-counter (OTC) derivatives.

The Chicago Fed has had a long-standing interest in clearing and settlement issues. In particular, we have an obvious interest, since Chicago is home to the Chicago Mercantile Exchange and its clearinghouse, The Options Clearing Corporation and ICE Clear U.S. We are proud of our role in producing cutting edge research relating to clearing and settlement and facilitating dialogue among academics, policymakers and financial industry participants.

In 1996, we co-sponsored a conference on derivatives and public policy at which the Nobel laureate Merton Miller explored the competitive boundary between exchange-traded and over-the-counter derivatives and the impact of new technologies that were then changing the financial landscape. Miller recognized even then how clearing and settlement functions were central to the operation of financial markets.

Many of you will no doubt recall that we co-sponsored a conference on central counterparty clearing with the European Central Bank in 2006. That event, like today's, brought together industry leaders, policymakers and academics in a multidisciplinary discussion of key legal, risk-management and public policy issues relating to central counterparty clearing. In addition, the Chicago Fed has actively participated in the ongoing work of the OTC Derivatives Regulators' Forum since its formation in 2009.

We recently experienced the worst financial crisis since the 1930s. As we emerge slowly from that crisis, we have become engaged in a vigorous debate on how best to address the major weaknesses in our financial regulatory framework—and the issue of centralized clearing of derivatives has taken a prominent role. As you all know, the Dodd-Frank bill seeks to address these weaknesses and put forward a structure that will help prevent another crisis of this magnitude.

Notwithstanding the amount of work that has already been completed, making financial reform work will not be easy. We face complex problems that will require a comprehensive, multipronged approach. But make no mistake; reform is critical for ensuring our long-term economic and financial stability. And much of that reform will address the implications of the increasing interconnectedness of the global payment,

clearing and settlement infrastructure that supports financial market operations today. In a 2008 report titled *The Interdependencies of Payment and Settlement Systems*, the Committee on Payment and Settlement Systems said:

The development of tighter interdependencies has helped to strengthen the global payment and settlement infrastructure by reducing several sources of cost and risk. Yet, tightening interdependencies have also increased the potential for disruptions to spread quickly and widely across multiple systems and markets.<sup>1</sup>

The clearing of derivatives through central counterparties, or CCPs, is one important manifestation of the interdependencies in the financial system. CCPs interpose themselves between the counterparties to financial contracts by becoming the common buyer to each seller and the seller to each buyer. The centralization of clearing functions at the clearinghouse has obvious benefits, including multilateral netting and the centralization of the information needed to manage risk exposures in a robust manner. However, policymakers also recognize that central clearing concentrates risk and responsibility for risk management in the CCP.

This means the clearinghouse itself becomes a potential single point of failure. Accordingly, adequate capital, good risk management and prudential oversight are essential for such clearing facilities. The events of the recent financial crisis have certainly reinforced our recognition of the importance of these post-trade institutions.

As you know, the central clearing of over-the-counter derivatives is a core feature of the legislation recently enacted to reform financial market regulation—a development that has important implications for market structure. Interest in this topic isn't merely local or even national—in fact, it's global, as is evident from the attendance at this event.

Today's symposium has brought together leaders from industry, the policy and regulatory communities and academia from around the world to have an open and frank discussion on issues related to central counterparty clearing. Four questions will dominate the discussion:

- Who should own and control a central counterparty?
- Who should participate in central clearing?
- What is the appropriate capital structure for a central counterparty?
- What should the market structure look like?

These are all difficult questions. I doubt that a consensus will be reached quickly on all of the relevant issues. But it is important for us to understand each parties' perspective and to consider the costs and benefits of the policies that are being implemented for the regulation of these markets. Good policymaking depends upon this interaction. This symposium has been organized to take full advantage of the collective wisdom and body of expertise that exists in this room. The panelists' remarks are designed to initiate the discussion of each set of topics and then open the discussion to all. Thank you all

for coming. I look forward to a good discussion and further debate on the importance of OTC derivatives clearing and settlement.

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<sup>i</sup> Bank for International Settlements, Committee on Payment and Settlement Systems, 2008, *The Interdependencies of Payment and Settlement Systems*, Basel, Switzerland, June, p. 1.