

RISK MANAGEMENT FRAMEWORKS FOR SYSTEMICALLY IMPORTANT CLEARINGHOUSES

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ABSTRACT

Systemically Important Clearinghouses (SICs) play a critical role in maintaining the stability of the global financial ecosystem by managing settlement risks in clearing and settlement processes. Given their pivotal function, any disruption in these clearinghouses could have cascading effects on the financial markets. This paper explores the key risk management frameworks designed to safeguard SICs, focusing on their ability to manage credit, liquidity, and operational risks. The study examines globally recognized frameworks, including the Principles for Financial Market Infrastructures (PFMI) and Basel III standards, assessing how these frameworks enhance resilience, governance, and compliance in SICs. Additionally, the paper discusses the role of stress testing, margin requirements, default management strategies, and cybersecurity measures in mitigating systemic risks. Emphasis is placed on the importance of coordination among central banks, regulatory bodies, and clearinghouses to achieve risk mitigation and foster trust in financial markets. The study concludes by offering recommendations for continuous improvement in risk management, considering emerging risks from market volatility, geopolitical uncertainties, and technological disruptions.

KEYWORDS: *Systemically Important Clearinghouses, risk management frameworks, financial market stability, credit risk, liquidity risk, operational risk, PFMI, Basel III, stress testing, margin requirements, default management, cybersecurity, regulatory compliance, financial resilience, market infrastructure*

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