

Issues related to Central Counterparty Clearing

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What can the Commission do and what cannot do?

- Internal market rules / Competition policy rules
 - The scope of competition rules is narrow; it is aimed at specific types of abuses between individual companies and abuses of dominant position.
 - It requires lengthy investigations using a very high level of concrete evidence. Its remedies are produced ex-post.
 - In specific situations, merger control may require divestment ex-ante. In anti trust which intervenes ex-post such powers have never been used. The remedies need to be proportionate to the abuse under investigation.
 - Internal market rules may address the framework for a pro-competitive environment, however they cannot set up new institutions (e.g. the Commission does not have the power to establish a single CCP)

Possible models

- Full consolidation
- Interoperability

Full consolidation

- Consistent with:
 - Economies of scale and scope (within limits)
 - Network effects
 - Connection costs
 - Actual experience in domestic markets and in the Euronext Markets (Clearnet SA)

Full consolidation (2)

- What model?
- What costs?
- What time to market?
- How? Big bang or evolution?
- What regulator?
- Many uncertainties.....

Interoperability

- Pragmatic (efficient) solution :
 - Investment costs are sunk
 - Benefits of full consolidation can be realised
 - Examples:
 - CCG – LCH.CLEARNET SA for MTS
 - LCH.CLEARNET Ltd – SIS X-CLEAR for Virt-X

Interoperability

- To be effective, some costs need to be incurred:
 - Technological arrangement to implement interoperability among several CCPs, e.g.
 - verification
 - Choice of the CCP
 - Link between trading platforms (OTC) and SSSs

Interoperability

- Need to manage the risks linked to reciprocal exposures
- Costs / benefits of that

In any case...

- Harmonisation of risk management procedures and admission requirements ?

What Industry and Commission should do?

- The industry should decide between « full consolidation » and « interoperability – provided prudential requirements are satisfied
- Community intervention – if there is one – should help by acting as a facilitator