



The Context: some personal reflections

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The Basic Issues – 1. Financial

- Advantages of CCPs
 - netting (multilateral)
 - supports standardisation of some trading (more liquid)
 - standardisation of processing
 - outsource some risk management ("guaranteed settlement")
 - Issues raised by CCPs
 - moral hazard for users (incentives change)
 - systemic risk from concentration
- ⇒ CCPs a 'good thing' if risks well-managed

Well – managed?

Core role = risk manager

- Day to day risks (strong incentive for CCP)
- Systemic risk (low probability, high impact)
⇒ regulation and/or mutualisation

Protections

- Control (oversight) of users; margin; capital/earnings; insurance; loss -sharing
- Balance of defaulter pays/survivors pay

The Basic Issues – structural/political

- Different organisation of trading, clearing and settlement (including payment) in different product markets and national markets
 - Partly result of history
 - Economies of scale and scope
 - economies of scale : “all or nothing” by product
 - economies of scope : debatable
- ⇒ **Q**: What should be organised competitively or co-operatively?

Time-line of securities transactions

Trading – price discovery; pools of liquidity;
bargain struck

CCP clearing – management of position risk
from trade to settlement

Settlement – exchange of claims/extinguishing of obligations

Dependencies/links between them

From trade to settlement



- T → S short for cash secs; longer for derivatives
- processing
 - trade capture
 - matching
 - reporting
 - netting calculation
 - valuation
 - settlement
- related margin movements

Resolution

- What does the market want?
- Removing inefficiencies: who loses?
- Can good resolution be achieved without public sector intervention?
- Value of informed debate – standardised language and concepts (CPSS/IOSCO)



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