



EACB



ESBG



European CDS CCP: USER REQUIREMENTS

Positioning & Questions

Meeting of the European Central Bank February, 24th 2009

Alessandro Schwarz

on behalf of

European Association of Cooperative Banks (EACB)

European Savings Banks Group (ESBG)

European Association of Public Banks (EAPB)

The associations

Overview

European Association of Cooperative Banks

The voice of the cooperative banks in Europe

- 4.200 locally operating banks and 63.000 outlets
- 160 million customers, 50 million members
- European market share of about 20%



European Savings Banks Group

Representative of banks & associations in 26 European countries

- Comprises 1/3 of the European retail banking market
- Total assets of €5.215 billion



European Association of Public Banks

Representative of the interests of 32 public banks in Europe

- Combined balance sheet total of €3.500 billion
- European market share of about 15%



General remark

Introduction

We support creation of one or more

European System of Central Banks or Eurosystem

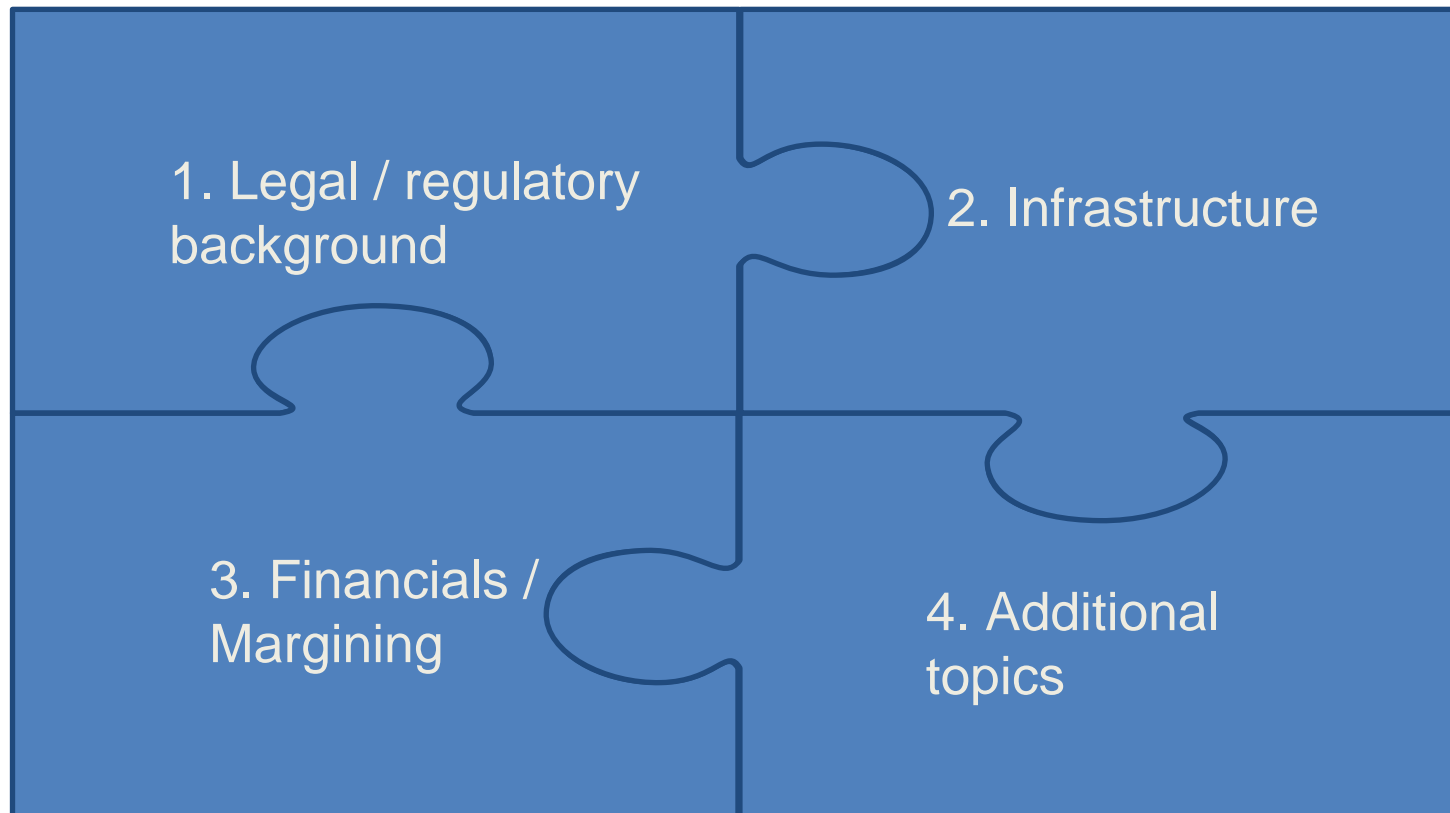
based CCP(s) to initially clear all CCP-eligible CDS contracts for European reference entities and indices based on this entities.



User Requirements – Positioning & Questions

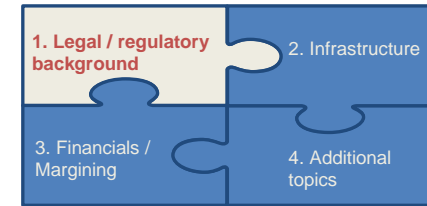
Overview

The represented Associations have established User Requirements, respectively Positioning & Questions in four categories:



User Requirements I

Legal / regulatory – Positioning & Questions



Is it guaranteed that all vital CCP procedures adhere to legal and regulatory rules currently in effect?

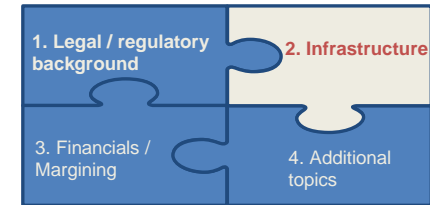
For instance:

- Clear rules and procedures in case of clearing member default
- Credit event definition, communication and management (important: restructuring recognized as credit event)
- Sound and harmonised dispute resolution model
- Clear definition of the legal counterparty of CCP-cleared trades (first novation to the CCP)
- Sound and harmonised novations-processes



User Requirements II

Infrastructure – Positioning & Questions

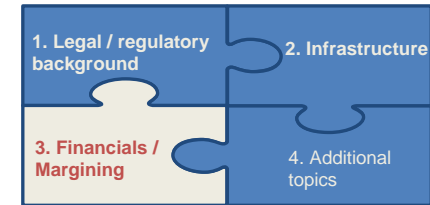


- Usability of existing infrastructure is essential (DTCC Trade Information Warehouse, T-Zero, Tradeweb, etc.)
- Trade data feed from / to CCP(s) via DTCC Trade Information Warehouse should be supported
- CCP(s) should do all the clearing & settlement of an eligible trade
- To reduce operational risk CCP(s) should either provide net-off-cycles or participate in TriOptima (TriReduce)



User Requirements III

Financials / Margining – Positioning & Questions

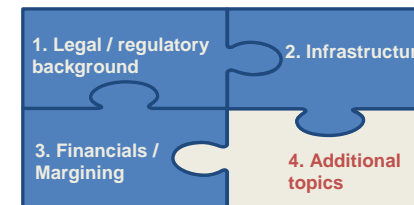


- Gold-Record in DTCC Trade Information Warehouse is required to allow for reliable connectivity and cross-margining between the CCP(s):
 - Open-architecture approach is key in this context
- Usage of one market-data source for all CCP(s) in order to avoid differences in valuations in respect of margining
- Where will the settlement of cash flows take place – on the CCP(s) side or on the DTCC/CLS-level?
- The CCP(s) should be granted access to central bank liquidity provision



User Requirements IV

Additional topics – 1

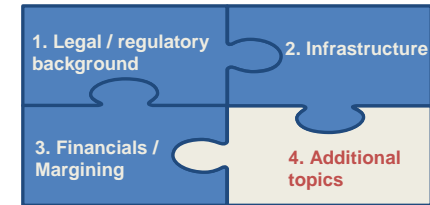


- Shall a minimum requirement regarding the CCP(s)‘ default fund be established?
- A differentiation in the default arrangements based on the credit rating of participants is desirable.
- A quick publication of all relevant admission criteria for different Clearing Member types is needed.
 - Will all banks (regardless of the admission criteria) be asked by regulators to participate in the CCP-clearing, e.g. via General Clearing Member?
- Should the definition of the Determinations Committees be amended in order to add one or more CCP(s)?



User Requirements IV

Additional topics – 2



- Will the CCP(s) become legal counterparty of the transaction or will it solely take the economic and settlement risk?
- How can transactions be early terminated / novated during the term of a transaction?
 - Novations: Will the CCP be able to grant consent as the remaining party?
 - Early Terminations: Will the CCP be the trading counterparty for any early termination?



Contacts



Alessandro Schwarz European Association of
Cooperative Banks

Phone + 32-2-289 68 52
Facsimile + 32-2-230 06 49
a.schwarz@eurocoopbanks.coop



Norbert Bielefeld European Savings Banks Group

Phone + 32-2-211 11 21
Facsimile + 32-2-211 11 99
norbert.bielefeld@savings-banks.com



Walburga Hemetsberger European Association of Public
Banks

Phone + 32-2-286 90 68
Facsimile + 32-2-231 03 47
walburga.hemetsberger@eapb.eu