European CDS CCP: USER REQUIREMENTS

Positioning & Questions

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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%
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:

1. Legal / regulatory background
2. Infrastructure
3. Financials / Margining
4. Additional topics
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

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