

CCP Interoperability

Andreas Schönenberger

DG-Payments and Market Infrastructure

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- I. Background
- II. Forms of interoperability
- III. Further aspects
- IV. Conclusions

CCP Interoperability

I. Background

Background

Scenario: Multiple CCP environment

How can dealers clear trades in this environment?

Option 1: Direct membership in all CCPs

- Difficult and costly to achieve
- Preference to use existing clearing arrangements

Option 2: Indirect access through GCM

- Competitive concern: concentration on few dealers
- Systemic concern: major dealers (even more) systemically relevant

Option 3: Interoperability

- Several issues at stake

Background

Central bank concerns:

- Safety and soundness: individual CCP, link arrangement, contagion, concentration
- Integration: effect on euro-area integration
- Cash settlement: central bank money versus commercial bank money

II. Forms of interoperability

Forms of interoperability

Two basic options

- One CCP is a “member” of the other (for some or all instruments), and subject to all CCP rules in same way as other members.
 - *Problem: This may be inconsistent with the subordinate CCP’s status as a CCP; is it “fully collateralised” for the purposes of its users’ regulators for capital requirements calculation?*
- The CCPs “interoperate” on an equal basis (peer-to-peer relationship)
 - *Problem: Asymmetry in inter-CCP collateralisation; no internationally-agreed standards for inter-CCP risk management*

III. Further aspects

Further aspects

1. Competition between CCPs: risk of race to the bottom?
2. Need for harmonising risk management philosophy and techniques (flexibility of ESCB-CESR RCCP)?
3. Timing
4. Commercial viability of interoperability (Code of Conduct)
5. Interoperability involving more than 2 CCPs
6. Legal issues: cross-border links
7. Regional versus global interoperability (regulatory issues)

IV. Conclusions

Conclusions

1. Interoperability may bring benefits and could be achieved
2. A number of great complexities and open questions
3. Protection of financial stability is main central bank concern
4. Interoperability is a medium-term objective, but should not be forced for financial stability concerns
5. Short-term focus is to ensure establishment of CCP facilities for products not yet centrally cleared
6. Indirect access through GCM may serve as interim solution
7. Segregation of client's assets gains in importance