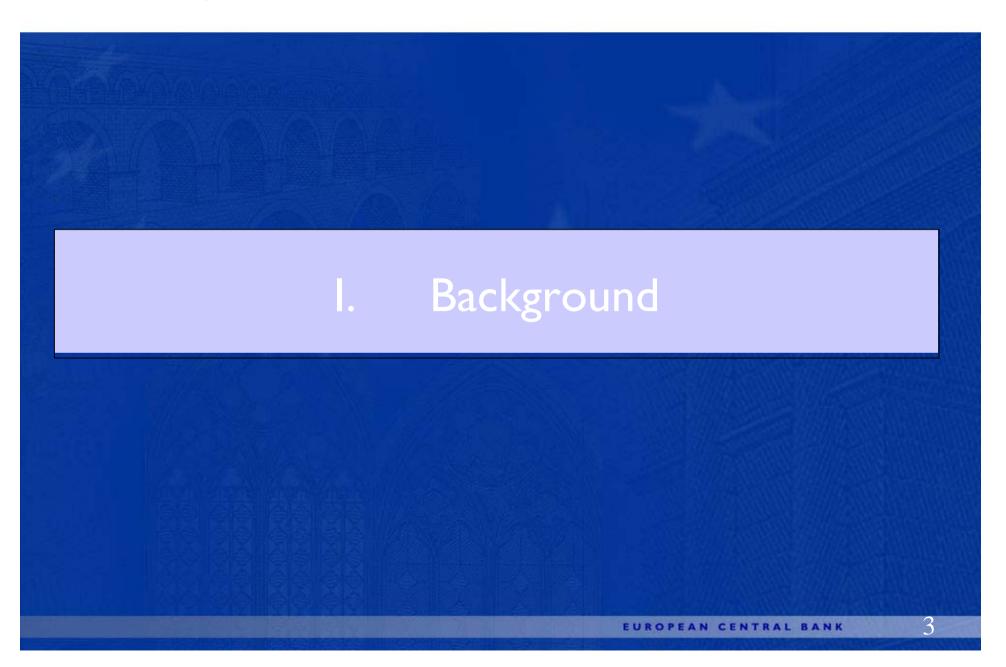
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Frankfurt am Main, 9 July 2009

EUROPEAN CENTRAL BANK

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



Background

Scenario: Multiple CCP environment

How can dealers clear trades in this environment?

Option I: 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:

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



Forms of interoperability

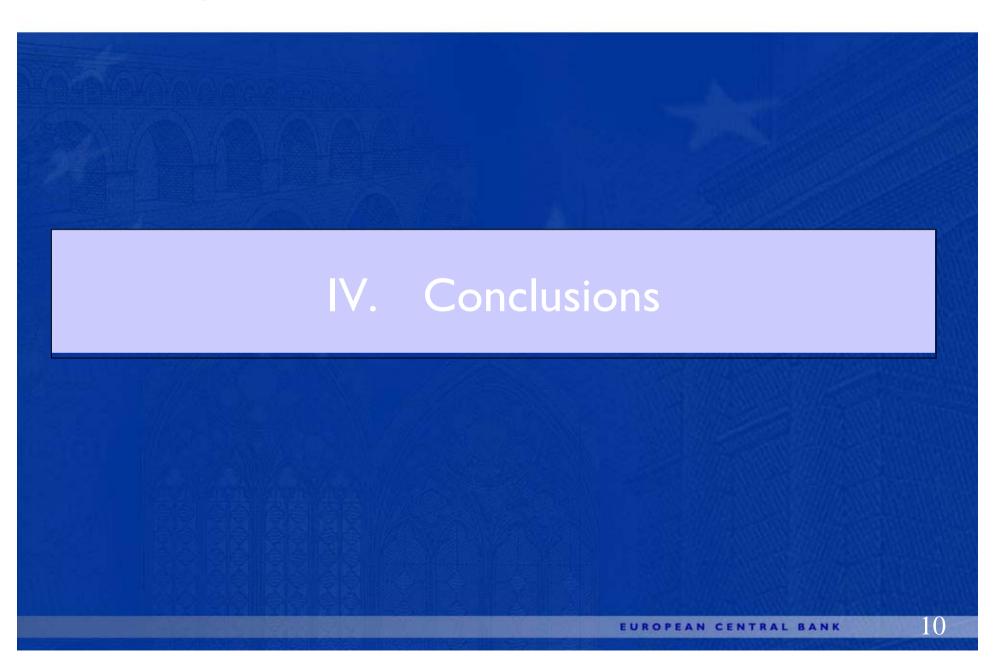
Two basic options

- 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



Further aspects

- I. 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)



Conclusions

- I. 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