Experience of using RCCPs:
Assessment of LCH.Clearnet S.A

Yvon LUCAS
Banque de France
A central counterparty

- Interposes itself between counterparties
- It has the potential to reduce significantly risks to market participants
- However it also concentrates risks
- Risk management is key
The RCCP

**Legal risk**
- R1 legal risk

**counterparty risk management**
- R3 credit exposures
- R4 margins
- R5 resources
- R6 default procedures
- R11 links between CCPs

**Custody and settlement risks**
- R7 custody risk
- R9 money settlement
- R10 physical deliveries

**Operational risk**
- R8 operational risk

**Other requirements**
- R2 participation,
- R12 efficiency
- R13 governance
- R14 transparency
- R15 regulation and oversight
LCH-Clearnet.SA

- Clearing of the Euronext markets: Paris, Amsterdam, Brussels, Lisbon

- Euronext’s exchange traded equities and derivatives, OTC bonds and repos

- In December 2003, new group LCH.Clearnet formed with the London Clearing House

- Linked to the Italian CCP: CCG
Assessment of LCH-CLearnnet.SA

- Assessment performed within BDF’s oversight framework
- Conclusions reflect the views of French authorities
- Co-operative approach under the MOUs
- Full sharing of information among authorities in the context of the MoUs
Assessment of LCH-CLearnnet.SA

- Analysis based on available data, supplemented by interviews

- Recommendations to improve compliance when needed, request for an action plan

- For most of the RCCPs: « assessor-friendly » straightforward methodology
Assessment of LCH-CLearnnet.SA

However some more complex aspects:

- R12 (efficiency) and R13 (governance): require interpretation (like other systems than CCPs)

- Risk management issues: combination of recommendations 3, 4, 5 and 11

- Rec. 3 and 4: definition of « normal market conditions »
A Few Lessons

- RCCPs: a good basis for future ESCB-CESR standards
- Oversight: the coordination of national authorities is effective
- Consolidation of CCPs: a complex undertaking that need to be carefully managed
- Interoperability versus or with consolidation?