

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-CLearnnet.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-CLearnet.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-CLearnet.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?**