Issues related to Central Counterparty Clearing

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What can the Commission do and what cannot do?

- **Internal market rules / Competition policy rules**

  - The scope of competition rules is narrow; it is aimed at specific types of abuses between individual companies and abuses of dominant position.
  - It requires lengthy investigations using a very high level of concrete evidence. Its remedies are produced ex-post.
  - In specific situations, merger control may require divestment ex-ante. In anti trust which intervenes ex-post such powers have never been used. The remedies need to be proportionate to the abuse under investigation.
  - Internal market rules may address the framework for a pro-competitive environment, however they cannot set up new institutions (e.g. the Commission does not have the power to establish a single CCP)
Possible models

• Full consolidation
• Interoperability
Full consolidation

• Consistent with:
  – Economies of scale and scope (within limits)
  – Network effects
  – Connection costs
  – Actual experience in domestic markets and in the Euronext Markets (Clearnet SA)
Full consolidation (2)

- What model?
- What costs?
- What time to market?
- How? Big bang or evolution?
- What regulator?
- Many uncertainties....
Interoperability

• Pragmatic (efficient) solution:
  – Investment costs are sunk
  – Benefits of full consolidation can be realised
  – Examples:
    • CCG – LCH.CLEARNET SA for MTS
    • LCH.CLEARNET Ldt – SIS X-CLEAR for Virt-X
Interoperability

• To be effective, some costs need to be incurred:
  – Technological arrangement to implement interoperability among several CCPs, e.g.
    • verification
    • Choice of the CCP
    • Link between trading platforms (OTC) and SSSs
Interoperability

– Need to manage the risks linked to reciprocal exposures
– Costs / benefits of that
In any case…

• Harmonisation of risk management procedures and admission requirements?
What Industry and Commission should do?

• The industry should decide between « full consolidation » and « interoperability – provided prudential requirements are satisfied.

• Community intervention – if there is one – should help by acting as a facilitator.