EACH

European Association of CCP Clearing Houses

EACH response to the European Commission consultation document on 'Review of the EU Macro-prudential Policy Framework'

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1. Introduction 3
2. General approach and scope of the review 3
3. Institutional setting 5

1. Introduction

The European Association of CCP Clearing Houses (EACH) represents the interests of Central Counterparties Clearing Houses (CCPs) in Europe since 1992. EACH currently has 20 members from 15 different European countries and is registered in the European Union Transparency Register with number 36897011311-96.

EACH appreciates the opportunity to provide feedback to the European Commission consultation on the 'Review of the EU macro-prudential policy framework'. Below we include our responses to several questions that we thought were relevant from a CCP point of view.

2. General approach and scope of the review

Q1: Do you consider the degree of coordination between the different authorities in the current framework (i.e. ESRB, national macro-prudential authorities, Commission, Council, etc.) appropriate?

- ( ) 1 (fully appropriate)
- (•) 2
- ( ) 3
- ( ) 4
- ( ) 5 (not appropriate at all)
- ( ) Don't know / no opinion / not relevant

EACH welcomes the flexibility included in the consultation and its proposed approach with regards to the role of national and international regulatory bodies. We agree that national regulatory authorities should maintain sufficient power to apply macro-prudential tools if they deem it necessary for their markets and participants. Notifying the ESRB as and when macro-prudential measures are implemented is appropriate to meet the mandate of the ESRB, who is charged with overseeing and monitoring macro prudential policy internationally.

When developing new regulatory standards, it is critical that the innovation and prompt response of CCP regulators is not hindered by layers of additional authorities, creating administrative hurdles to action. As such, we would ask to confirm that the ESRB not be required to explicitly approve macro prudential policies set by national authorities before they are finalised, as this would overstep the ESRB's mandate of oversight and monitoring.

Q2 a): Would you consider appropriate to expand the macro-prudential framework beyond banking? b): If deemed appropriate, what kind of systemic risks should be targeted and how?

- ○ 1 (fully appropriate)
- ○ 2
- ○ 3
- ○ 4
- ◉ 5 (not appropriate at all)
- ○ Don't know / no opinion / not relevant

Please note that EACH's response is specific to our business as CCPs.

From that perspective we consider it is unnecessary to apply macro-prudential tools to CCPs and we do not believe that a proportionate case has been presented or reasoned. These tools are intended to limit financial instability, rightly brought to greater attention after the financial crisis of 2008, in particular through the risk taking of banks and their broad and direct interface with the non-financial economy through retail loans and payments. Regulatory changes have required greater reliance upon CCPs in comparison to bilateral trading, because of their demonstrable success mitigating and limiting systemic risk in their markets they serve. CCPs themselves are not risk takers and their business model has the effect of reducing systemic risks, therefore we believe CCPs and macro-prudential policy ultimately pull in the same direction.

Further, the regulatory oversight of CCPs has expanded dramatically in recent years. This includes under the EMIR framework in Europe, which sets prudent risk management standards for CCPs. This framework ensures that in fulfilling their mandate of netting and collateralising risk, CCPs do so without imposing excessive requirements that could limit market liquidity and create unnecessary hurdles to market access.

To ensure that CCPs meet these standards, they provide significant transparency, including meeting international requirements for quantitative[1] and qualitative[2] disclosures.

The '*CPMI-IOSCO Public quantitative disclosure standards'* for central counterparties have resulted in CCPs making close to two hundred fields of **quantitative data** publicly available every quarter. While CCPs are working with regulators to further refine the disclosures, feedback on the publication of this data has been positive and EACH understands that both private and public institutions have begun using this information[3]. The EACH website

[1] '*CPMI-IOSCO Public quantitative disclosure standards*' http://www.bis.org/cpmi/publ/d125.pdf
[2] '*CPMI-IOSCO Principles for financial market infrastructures: Disclosure framework*' www.bis.org/cpmi/publ/d101a.pdf
[3] https://www.clarusft.com/ccp-disclosures-1q2016-trends-in-the-data/

includes a central hub of public quantitative disclosure information which provides links to the quantitative disclosure information of EACH members[4].

In addition to the quantitative data described above and in line with the international guidance of CPMI-IOSCO, CCPs also disclose a substantial amount of **qualitative data** to the public through public rulebooks and the CPMI-IOSCO '*Principles for financial market infrastructures: Disclosure framework*'.

EACH believes that the quantitative and qualitative information already disclosed by CCPs strikes the **right balance between transparency and confidentiality** and provides sufficiently comprehensive stakeholder disclosure.

The European regulatory framework, along with this expanded public reporting, ensures that CCPs are already meeting the goals of macro-prudential policy. We believe that this is sufficient to protect the market from the systemic risks this consultation seeks to examine. We believe also that the transparency framework recently established for CCPs will yield useful information to regulators that will ultimately serve macro-prudential objectives, among others.

3. Institutional setting

Q29: Do you think that the ESRB's mandate and tasks are appropriately formulated to ensure efficient coordination of macro-prudential policies in the EU? If not deemed fully appropriate, what changes would you suggest to ensure such efficient coordination?

- ○ 1 (fully appropriate)
- ○ 2
- ○ 3
- ○ 4
- ○ 5 (not appropriate at all)
- ◉ Don't know / no opinion / not relevant

As CCPs we are not best placed to comment on the formulation of ESRB's statutory framework. We ask that the ESRB recognises the extensive coordination framework already in place with specific regard to CCPs. This includes the EMIR regulatory colleges which ensure that the oversight of CCPs appropriately takes into account macro considerations, through the involvement and consideration of the views of markets authorities, central banks, and other interested regulators, including on a cross-border basis. Furthermore, the international standard setting bodies for CCPs (CPMI-IOSCO and the FSB) include regulators and macro-prudential authorities from multiple jurisdictions across the globe. Through these structures,

[4] http://www.eachccp.eu/cpmi-iosco-public-quantitative-disclosure/

we consider there is sufficient macro-prudential consideration included in the oversight and regulation of CCPs. There is no need to create additional coordination frameworks to supplement existing CCP regulation.

Q32: What do you consider to be the best ways to ensure that the macro-prudential perspective is sufficiently reflected in EU policy making where systemic risk considerations are involved?

Again, from the specific point of view of CCPs we believe that current regulatory frameworks are sufficient to ensure a macro-prudential perspective is appropriately taken into account. Furthermore, broad international projects are underway to collect relevant CCP data to analyse interconnectedness across the industry. It is important to note that these projects will only provide a limited scope of the market, due to the minimal liquidity requirements of CCPs as compared to other financial market participants (as recently articulated by the Payments Risk Committee[5]). Additionally, data regarding CCPs is insufficient to capture the interconnectedness of clearing members, as CCPs are just one of many counterparties for banks.

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[5] https://www.newyorkfed.org/medialibrary/microsites/prc/files/prc_120329.pdf