
EACH Paper
CCP access to Central Banks' facilities

December 2021

Introduction

The objective of this document is to give an overview of the current level of access that CCPs have to Central Banks' deposits and liquidity. In order to do so, EACH conducted two internal surveys through 13 CCPs. The results of this survey are displayed throughout this note in illustrative charts and analysis.

The 13 CCPs that participated in this survey were:

- ATHEX Clear
- BME Clearing
- CC&G
- CCPA
- ECC
- Eurex Clearing
- EuroCCP
- KDPW CCP
- KELER CCP
- Nasdaq Clearing
- OMI Clear
- SIX x-clear
- Takasbank

This paper is divided into two overall sections:

- I. Central Bank deposits
- II. Central Bank liquidity

The section on **Central Bank deposits** examines the following elements at a more granular level:

1. Access to Central Bank deposits
 - How many CCPs have access to Central Bank deposits
 - How many CCPs have access to Central Bank deposits, per currency
2. Purposes for CCP access to Central Bank deposits
 - Purposes for which CCPs are allowed to use their access to Central Bank deposits
3. Provision of CCP access to Central Bank deposits in multiple currencies
 - Whether this facility is provided solely by their own respective Central Bank or by multiple Central Banks

The section on **Central Bank liquidity** examines the following elements at a more granular level:

4. Access to Central Bank liquidity
 - How many CCPs have access to Central Bank liquidity
 - How many CCPs have access to Central Bank liquidity, per currency

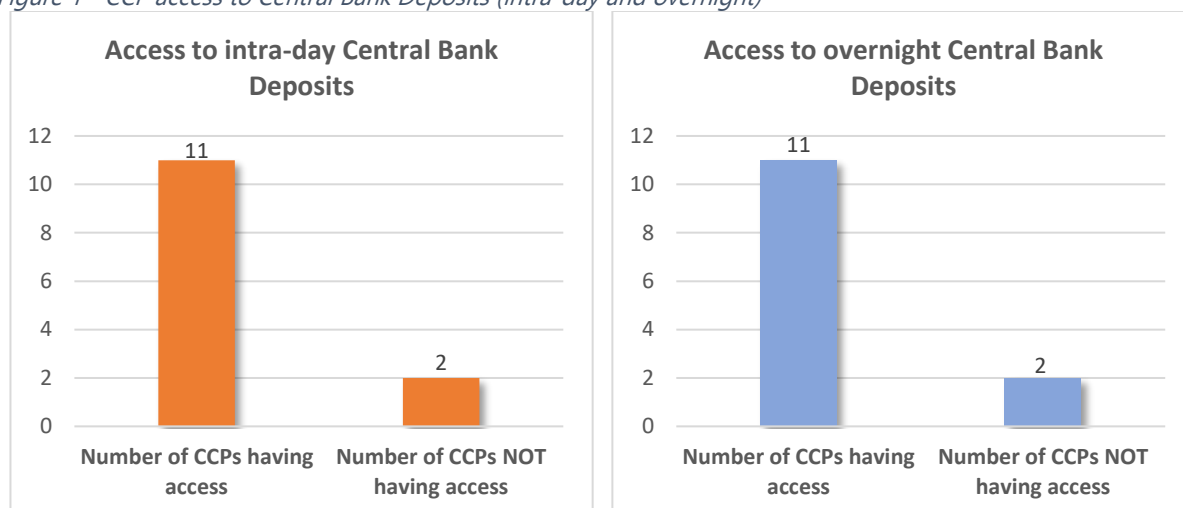
5. CCP access to overnight Central Bank liquidity in the context of a banking license
 - For CCPs with access to overnight liquidity, whether CCPs also have a banking license
6. CCP access to overnight liquidity without a banking license in the context of Eurosystem Central Banks
 - For CCPs with access to overnight liquidity without a banking licence, whether this facility is provided by any of the Eurosystem central banks

I. Central Bank deposits

1. Access to Central Bank deposits

1.1 Overview of Results

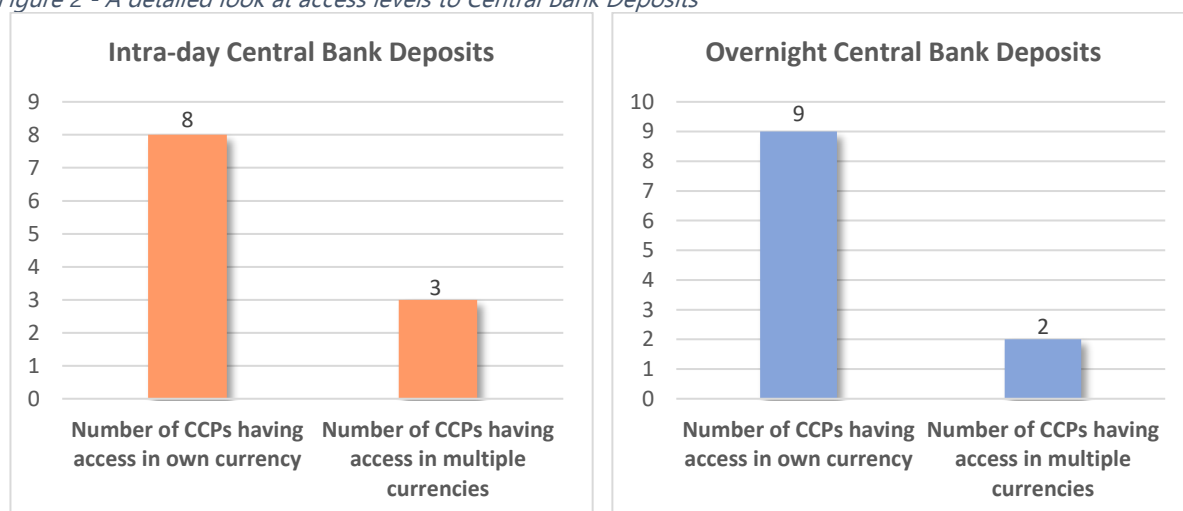
Figure 1 - CCP access to Central Bank Deposits (intra-day and overnight)



As per figure 1 above, out of the 13 CCPs that responded, 11 have access to intraday and overnight Central Bank deposits and 2 do not.

1.2 Results in detail

Figure 2 - A detailed look at access levels to Central Bank Deposits

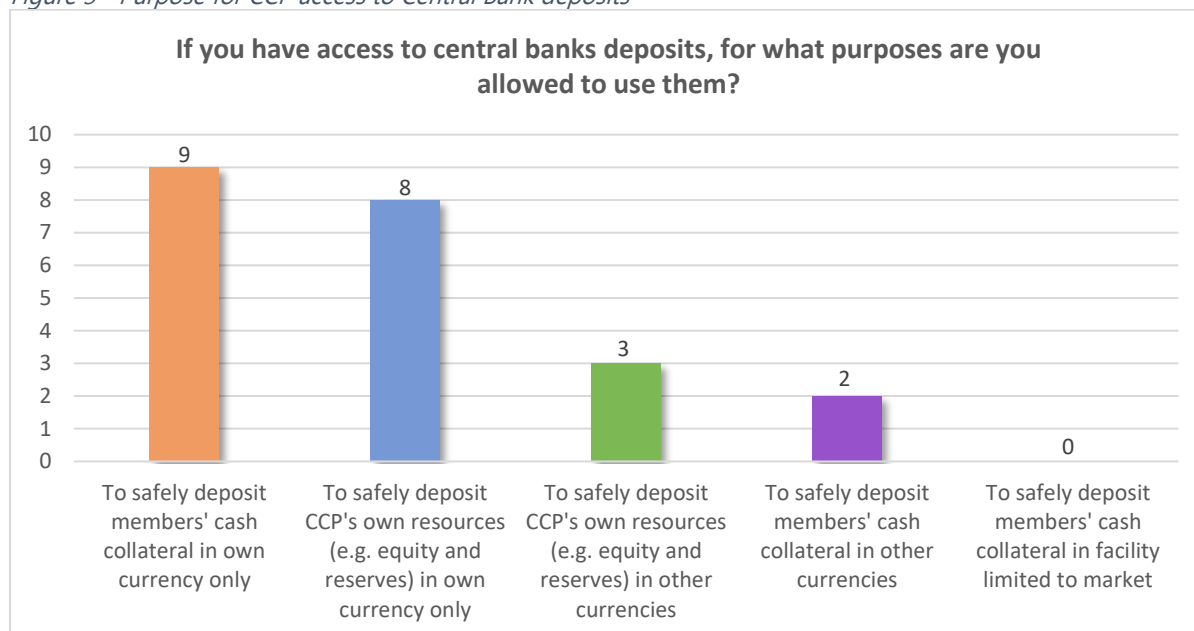


Of the CCPs with access to **intraday Central Bank deposits**, 8 of 11 have so only in their original currency, with 3 having access in multiple currencies. Of these 3 CCPs, 1 noted it has to multiple currencies in a limited capacity and at an unfavourable rate.

Of the CCPs with access to **overnight Central Bank deposits**, 9 of 11 have so only in their original currency, with the remaining 2 having access in multiple currencies. Of these 2 CCPs, 1 noted it has access to multiple currencies in a limited capacity and at an unfavourable rate.

2. Purposes for CCP access to Central Bank deposits

Figure 3 - Purpose for CCP access to Central Bank deposits



This section analyses for what purposes CCPs have access to Central Bank deposits.

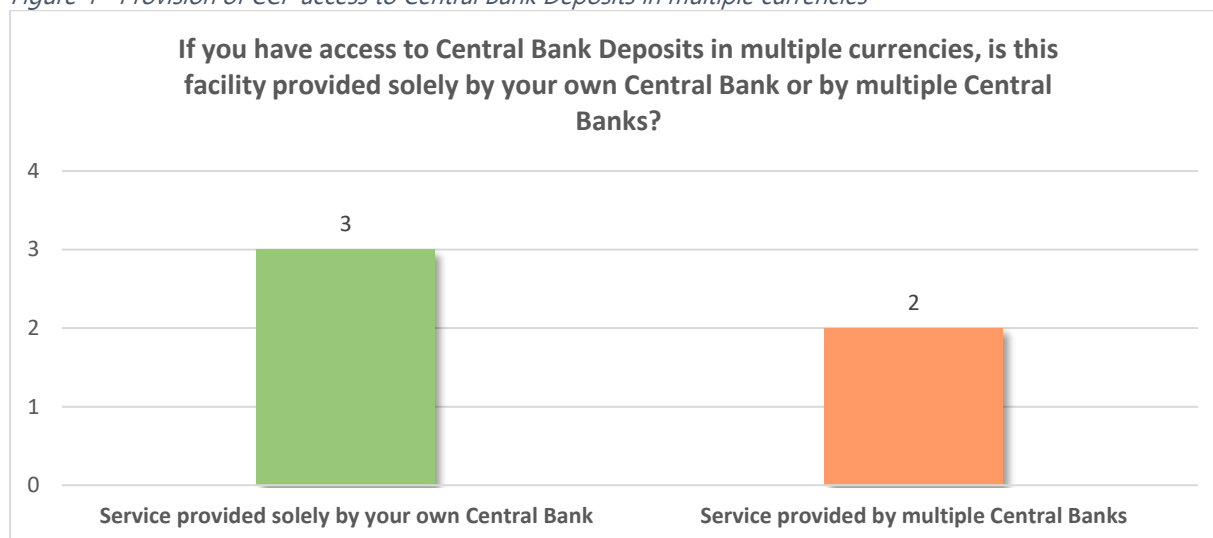
As per figure 3 above, the most common purpose for which CCPs have access to Central Banks' deposits is **to safely deposit members' cash collateral in their own currency only** – in this case 9 out of 10 responding CCPs have access for this function. 8 out of 10 CCPs also noted they have access **to safely deposit own resources (e.g. equity and reserves) in their own currency only**, making this the second-most common purpose for CCPs' access.

Figure 3 also shows that 3 CCPs have access for the purposes of safely depositing CCPs own resources (e.g. equity and reserves in other currencies), as well as that 2 CCPs also have access to safely deposit member's cash collateral in other currencies.

Two CCPs noted that they do not have access to Central bank Deposits at all.

3. Provision of CCP access to Central Bank Deposits in multiple currencies

Figure 4 - Provision of CCP access to Central Bank Deposits in multiple currencies



The final part of this section looks at those CCPs that have access to Central Bank deposits in multiple currencies and analyses whether this access is provided by the Central Bank of the jurisdiction where the CCP is located (i.e. the CCP's 'own' Central Bank) or by Multiple Central Banks.

Between the 5 CCPs that have access to Central Bank deposits in multiple currencies, 3 have this service provided solely by their own Central Bank with the remaining 2 CCPs having this service provided by multiple Central Banks.

Additional comments received from 3 of the CCPs that do not have access in multiple currencies indicate that such access would be welcomed. One such CCP noted that to have such availability would provide significant stability benefits and in particular the ability in extremis to place funds at zero risk in the event of a dislocation in the repo markets.

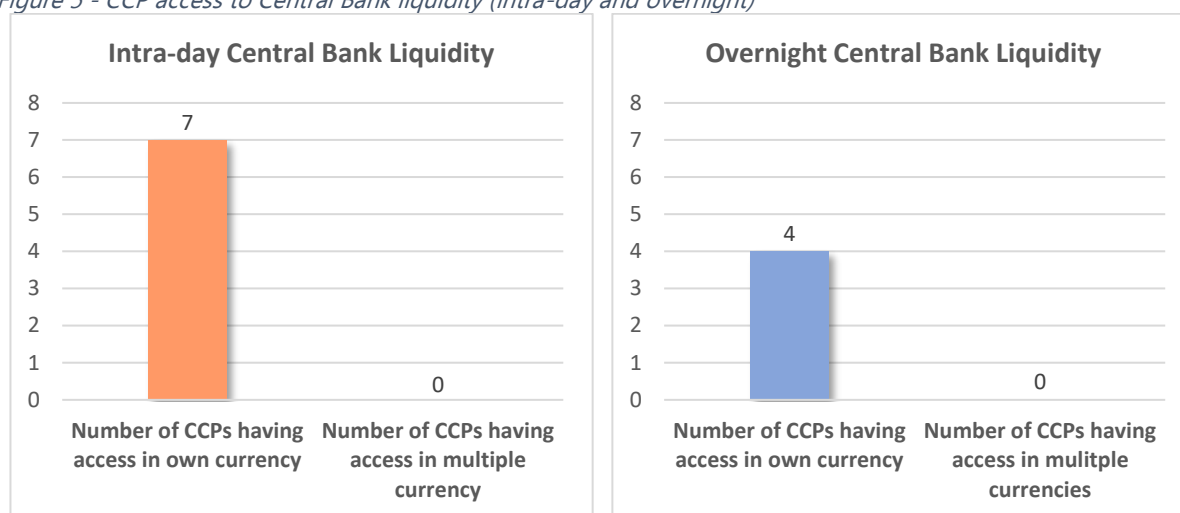
II. Central Bank Liquidity

4. Access to Central Bank liquidity

4.1 Overview of Results

Regarding access to **intra-day** Central Bank **liquidity**, figure 5 below shows there are currently marginally more CCPs that do have access (7) than CCPs that do not (6). This gap is far larger where access to **overnight** Central Bank liquidity is concerned: 4 CCPs have overnight access whereas 9 CCPs do not.

Figure 5 - CCP access to Central Bank liquidity (intra-day and overnight)

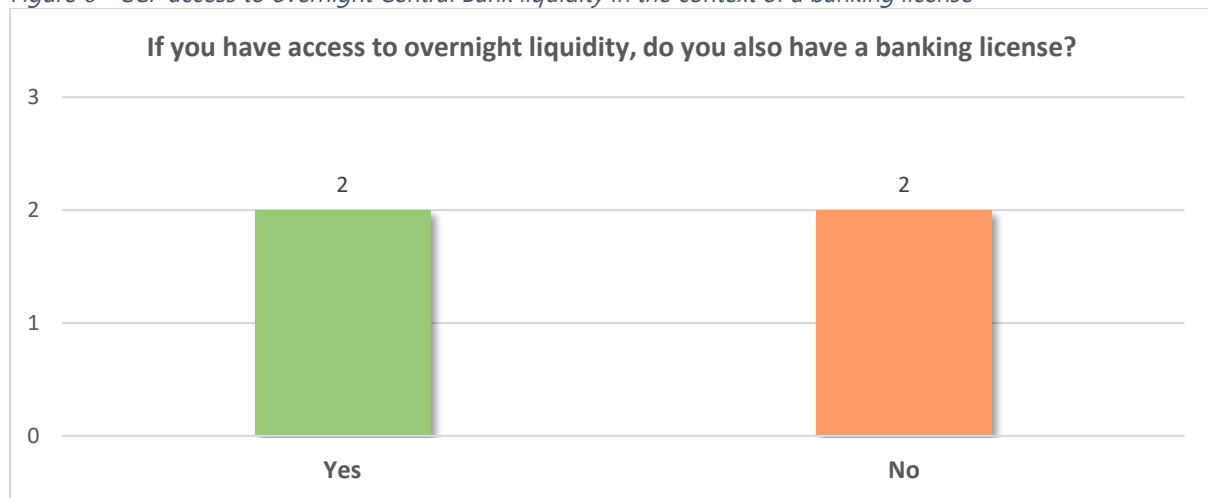


4.2 Results in detail

The 7 CCPs that have access to **intraday Central Bank liquidity** have so in their own currency and on a regular basis, with 1 of these having access in emergency situations too. Regarding **overnight Central Bank liquidity**, 4 CCPs have access in their own currency on a regular basis, with 2 of these also having access in emergency situations. None of the responding CCPs noted any access to Central Bank liquidity in multiple currencies.

5. CCP access to overnight Central Bank liquidity in the context of a banking license

Figure 6 - CCP access to overnight Central Bank liquidity in the context of a banking license

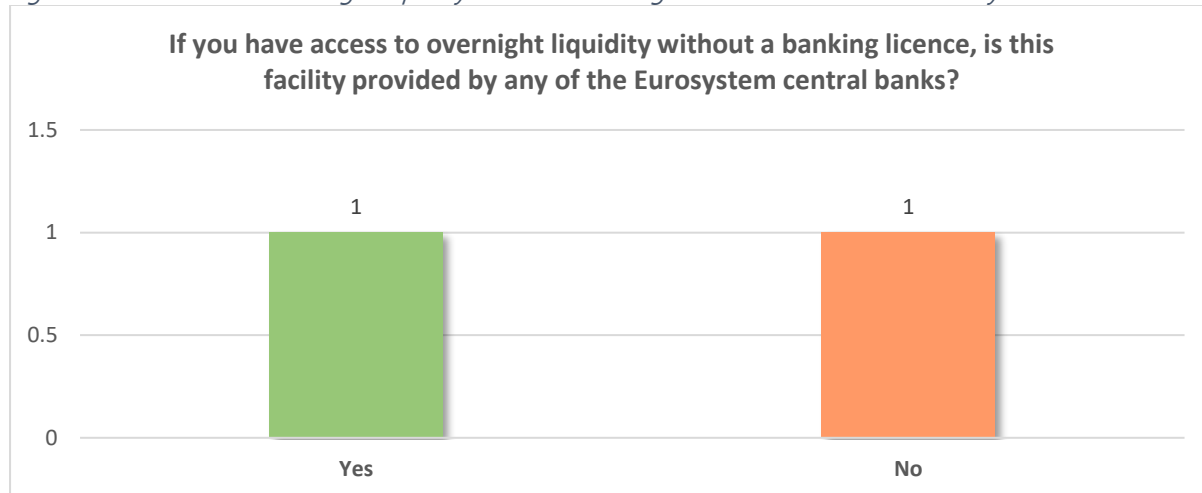


The aim of this section is to establish how many CCPs have a banking license out of those that have access to overnight Central Bank liquidity. This number is indicated in Figure 6 above.

Figure 6 shows that a total of 4 CCPs have access to overnight Central Bank liquidity. Out of the former, 2 have access to overnight liquidity with a banking license with the remaining 2 CCPs not having a banking license.

6. CCP Access to overnight liquidity without a banking license in the context of Eurosystem Central Banks

Figure 7 - CCP Access to overnight liquidity without a banking license in the context of Eurosystem Central Banks



Part 6 of this section examines those CCPs with access to overnight liquidity without a banking license and asks whether this facility is provided by a Eurosystem Central Bank.

As indicated previously in Figure 7, 2 out of 4 CCPs have access to overnight liquidity without a banking license. Between these 2 CCPs it is an even split with 1 having this facility provided by a Eurosystem Central Bank and one not.

7. Why is CCP access to Central Banks important for financial stability?

CCPs' access to Central Bank facilities constitutes a critical key component that should be supported from a policy making perspective in the interest of financial stability and integrity.

Historically there has been an increased regulatory support for the use of Central Bank money as a settlement asset in systemically important payment and securities systems, including CCPs. The argumentation is that the use of the Central Banks as settlement institutions minimises the risk of a failure of these institutions and consequently leads to less systemic risk.

A standardized regime for CCP access to Central Banks would be a good mechanism to promote financial stability because:

- **Limitation of exposure to insolvency risk of commercial banks** - Such regime would assist CCPs in limiting their exposure to commercial banks and risk associated with potential insolvency or technical outages of market infrastructures the CCP uses for the purpose of investment and/or generating liquidity. When settlement in Central Bank money is not available, CCPs commonly rely on commercial banks to function as concentration banks and enable settlement. Credit exposure to commercial banks increases the risk of contagion from the banking sector towards CCPs particularly during stressed periods when intra-day flows of margin are substantially greater. Even though CCPs take all steps to limit cash settlement risks, from a systemic risk point of view, settling in commercial bank money involves the additional credit exposure to those entities.
- **Better management of investment risk** - Access to Central Bank facilities would allow CCPs which collect margins intra-day in multiple currencies to operate in a time window highly aligned with the markets operating hours reducing operational complexities. In addition, it would enable CCPs accessing a risk-free asset in which to invest clearing members' margins, which is particularly important in a stressed period where margins may grow and other opportunities for risk-free investment may be less liquid, or other channels are unavailable because of limited settlement hours.
- **Limitation of exposure to settlement risk** - Access to Central Bank facilities would limit settlement risk, in particular those related to the inability of CCPs becoming settlement agents in most of the relevant securities settlement systems.
- **Align domestic and foreign CCPs** – Access to Central Bank facilities would address risk issues in relation to commercial bank exposures, which are relevant to the local central bank and currency, regardless of the CCP's location.
- **Subject to the independence of central banks and their right to provide access to liquidity facilities at their own discretion¹, ensuring emergency liquidity in times of extreme market conditions** – A liquidity shortage may occur in the case of extreme market conditions, where it would be difficult for CCPs to provide any liquidity in the shortest possible time. In such severe market conditions it may be impossible to rely on liquidity provided by commercial banks or other financial market participants. Hence, the access for CCPs to emergency liquidity provided by Central Banks would

¹ As included in EMIR Article 85(1) <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32012R0648&from=EN>

help avoid aggravating negative consequences of extreme market shocks, such as preventing fire sale of assets.

The benefits of CCPs accessing Central Bank facilities have been noted in different fora such as the EMIR legislation, the Principles for Financial Market Infrastructures (PFMIs), the International Monetary Fund (IMF) or the European Union's High-Level Forum on the Capital Markets Union (See Table 1 below).

Table 1 – References to the benefits of accessing central bank facilities in different fora

Forum	Reference
EMIR legislation	<p>EMIR Article 47(4) states that 'Cash deposits of a CCP shall be performed through highly secure arrangements with authorised financial institutions or, alternatively, through the use of the standing deposit facilities of central banks or other comparable means provided for by central banks.'</p> <p>EMIR Article 50(1) states that 'A CCP shall, where practical and available, use central bank money to settle its transactions. Where central bank money is not used, steps shall be taken to strictly limit cash settlement risks.'</p> <p>EMIR Article 44(1) states that 'A CCP shall at all times have access to adequate liquidity to perform its services and activities. To that end, it shall obtain the necessary credit lines or similar arrangements to cover its liquidity needs in case the financial resources at its disposal are not immediately available. A clearing member, parent undertaking or subsidiary of that clearing member together shall not provide more than 25 % of the credit lines needed by the CCP.'</p> <p>Moreover, according to recital 71 of EMIR 'Access to adequate liquidity resources is essential for a CCP. It is possible for such liquidity to derive from access to central bank liquidity, creditworthy and reliable commercial bank liquidity, or a combination of both. Access to liquidity could result from an authorisation granted in accordance with Article 6 of Directive 2006/48/EC or other appropriate arrangements. In assessing the adequacy of liquidity resources, especially in stress situations, a CCP should take into consideration the risks of obtaining the liquidity by only relying on commercial banks credit lines.'</p>
PFMIs	<p>Principle 7 – Liquidity Risk</p> <p>One of the key considerations of Principle 7 of the PFMIs on Liquidity Risk is that an 'FMI with access to central bank accounts, payment services, or securities services should use these services, where practical, to enhance its management of liquidity risk.'</p> <p>Principle 9 - Money settlements</p> <p>An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should</p>

	<p>minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.</p>
<p>International Monetary Fund (IMF)</p>	<p>The Eurosystem should further develop a harmonized policy for CCP access to central bank accounts and liquidity provision. There could be extreme circumstances in which CCPs' liquid resources turn out to be insufficient or unavailable, in which case a central bank must step in. Access for all CCPs authorized under EMIR to central bank accounts and liquidity arrangements, under certain conditions, would reduce CCPs' dependence on commercial banks and repo markets for liquidity. The availability of such a safety net in times of market strain is critical to financial stability. Currently the Eurosystem may offer account facilities to European Economic Area (EEA) and non-EEA clearing and settlement entities and may provide liquidity to euro area CCPs. A further harmonized policy is needed for all CCPs, with and without a banking license, addressing also third country CCPs, to ensure a level playing field.</p>
<p>European Union's High-Level Forum on the Capital Markets Union</p>	<p>The 2020 Final Report of the High-Level Forum on the Capital Markets Union, in its recommendation on the review of the CSDR, suggests strengthening the CSD passport and facilitate the servicing of domestic issuance in non-national currencies invites the ECB and national central banks " <i>to consider facilitating access to non-domestic central bank money within the European Economic Area, after taking due account of the implications of such access (Article 40(1) and Article 59(4)(h))</i>".</p>

Conclusion

EACH Members continue to highlight that CCP access to Central Bank facilities is an important additional asset in the risk management context, underpinning financial stability in the interest of society, especially in situations of market stress.

EMIR Articles 47(4)² and 50(1)³ specifically recognise this and European jurisdictions should continue on its path of structurally supporting and furthering CCPs' resilience and their ability to fulfil the entrusted regulatory role as neutral and independent risk managers of financial markets to avoid public bailouts and a socialisation of potential defaults and costs.

However, as illustrated by this survey, evidence shows that there is still no common approach and that many CCPs cannot have any access to Central Banks or only with significant additional hurdles, such as obtaining a banking license. On top of that, it can be observed that only very few CCPs have access in multiple currencies and that the ability to ensure this access is also varying as far as the question is concerned if such access to multiple currencies is being ensured via one or multiple Central Banks.

Access to Central Bank liquidity varies even more at the top level, with CCPs' level of access varying depending on whether it is for intra-day or overnight purposes. However, this access is in own currency only with no CCP having access in multiple currencies. Lastly, there occurs to be an even split between CCPs with access to overnight liquidity with and without a banking license, and out of the latter, 50% of them have this service provided by non-Eurosystem Central Banks.

With these concrete findings, EACH continues to emphasise that no level playing field can be observed. Given that CCPs' access to Central Banks is in the interest of financial stability and broader society as a whole, EACH calls upon policy makers to ensure that CCPs can generally access Central Bank facilities – notably without having to obtain a banking license. Especially in the context of the Eurosystem, this would put CCPs again at a global level playing field if compared to other major financial jurisdictions,

EACH calls for a technical rather than political discussion about central bank access by CCPs, to put this whole topic on a more consistent footing, in line with the PFMI and EMIR.

-END-

² Cash deposits of a CCP shall be performed through highly secure arrangements with authorised financial institutions or, alternatively, through the use of the standing deposit facilities of central banks or other comparable means provided for by central banks. (<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32012R0648&from=EN>)

³ A CCP shall, where practical and available, use central bank money to settle its transactions. Where central bank money is not used, steps shall be taken to strictly limit cash settlement risks. (<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32012R0648&from=EN>)