

EACH Feedback – ESMA preliminary data report on MCM

1. Introduction

The European Association of CCP Clearing Houses (EACH) represents the interests of Central Counterparties (CCPs) in Europe since 1992. CCPs are financial market infrastructures that significantly contribute to safer, more efficient and transparent global financial markets. EACH currently has 19 members from 15 different European countries. EACH is registered in the European Union Transparency Register with number 36897011311-96.

EACH appreciates the possibility of providing feedback to the ESMA preliminary data report on the introduction of the market correction mechanism (MCM)¹. EACH Members would also like to put at Authorities' disposal their expertise on this topic for further discussion.

2. EACH feedback

EACH **supports the ESMA conclusions concerning the introduction of the MCM**, which started applying on 15 February 2023.

EACH supports in particular the following considerations:

- By artificially limiting the key price discovery function of regulated markets, the MCM will **impact market participants' trading behaviour**, and may have an effect on the ability of all market participants to effectively manage their risks.
- It is **correct that market participants are expected to redirect their trading activity to those contracts / venues / execution types not affected by the MCM**. As none of those alternatives would provide for a perfect substitute for the affected contracts, disruptive effects may materialise, in particular regarding the ability of non-financial counterparties to adequately manage the risks associated with their business activity.
- In order to avoid a potential increase of margin calls, **users of TTF products may opt to trade in bilateral over-the-counter (OTC) markets** where there are no central, neutral and transparent market infrastructures that treat all participants equally. Supply and demand may move outside of exchanges and therefore the liquidity in the exchange market could deteriorate or even disappear.
- A significant shift by utilities and energy firms towards the OTC space would imply **greater risks for counterparties and the financial system**.

¹ https://www.esma.europa.eu/sites/default/files/library/esma70-446-775_preliminary_data_report_on_mcm.pdf

- Despite the exemption for CCP's default management as outlined in Art. 12. 4 (c), the **clearing ecosystem may be impacted through an increase in margin calls**, a potential overall reduction of market liquidity, as well as a potential reduction of hedging opportunities.