Speech on the Future of CCPs and Financial Market Resilience

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Introduction

At the outset, I would like to express my sincere gratitude to all of you for your presence and active participation in today's Sixth Joint Conference on CCP Risk Management. The insightful discussions that took place highlight the continuing pivotal role of CCPs in the financial system, the many benefits they bring as well as the challenges they may face.

As you well know, central clearing is consistently expanding. Looking at data as of mid-2024 compared to 2021, the cleared notional outstanding of global IRDs and CDSs increased by 17,5% and by 9% standing at USD 445 trillion and USD 6 trillion respectively. Cleared repo markets and more specifically euro-denominated repos also grew, with the outstanding cleared amounts having increased by 38% during the same period, standing at EUR 1.6 trillion at the end of 2024.

And today's discussions show that further expanding central clearing across all products is a solution for both public authorities and market participants, in order to enhance market efficiency and stability.

The increasing importance of CCPs leads to two crucial conclusions that I would like to emphasize. First, the central role of CCPs necessitates **ongoing reflection on ways to enhance the efficiency of the clearing sector**, both by CCPs and their participants, as well as by their regulators. Second, as CCPs face an ever-evolving risk environment and are expanding their cross-border footprint, **public authorities must adapt supervisory approaches and bolster cooperation efforts**.

Improving the Clearing Market Structure

Given the growing importance of CCPs, it is imperative to ensure that the central clearing sector delivers optimal outcomes. Today's discussions provide valuable insights into promoting more competitive clearing systems. Public authorities bear a dual responsibility in this regard.

As authorities, we must continue to reflect on the **appropriate balance between competition and concentration**. We also need to evaluate whether the market is progressing in the right direction or if public intervention is needed – and if so, whether the benefits of intervention outweigh the costs. In any case, our actions should be prudent, and tailored to the specificities of each market.

To illustrate this point, let me start with the interest rate derivatives clearing sector as it pertains to the currencies of the 27 Member States of the European Union. This market is highly concentrated, with most transactions denominated in EU currencies cleared at two non-EU CCPs. After thorough assessment, EU authorities concluded that this market structure was suboptimal. They also determined that public intervention was necessary to mitigate risks arising from excessive concentration in foreign CCPs, and to support the development of clearing capacity in the EU, and the competitiveness of the EU liquidity pool. Contrary to what we saw in the CDS market, market led initiatives on the interest rate derivatives side did not allow for a sufficient rebalancing of activity towards the EU. To achieve this goal therefore, it has been essential to identify an appropriate means of de-concentrating off-shore clearing activity, while minimizing the costs of public intervention. The active account requirement set out in EMIR 3 is that "appropriate means", and represents a first step towards achieving this balance. However, the success of this policy will require strong involvement from EU authorities in supervising the implementation of this new requirement and assessing its effectiveness.

The European securities clearing market poses different, but equally important challenges. Today's discussions reveal a consensus on the high fragmentation of the European market. However, further reflection is needed on whether greater integration is necessary and how it might be achieved. Although consolidation is primarily market-driven, the EU can consider the opportunity and methods for fostering greater integration. EU authorities have a role in convening market players and facilitating their collaboration or integration efforts by identifying and removing potential regulatory barriers.

EU authorities also have a role to play in supporting an increase of the efficiency and resilience of the securities clearing market. The shortening of the settlement cycle presents a significant opportunity to enhance market efficiency. In addition, expanding repo clearing is an option to bolster the resilience of the sovereign bond and repo markets, particularly against liquidity shocks. In the US, the SEC has decided to expand the clearing obligation, while EU authorities are exploring whether central clearing of government bond cash and repo markets could be further incentivised[1]. There is also interest from market participants to make central clearing more widely accessible, including for non-banks, leading to the development of sponsored access models for buy-side entities.

[1] See ESRB, A system-wide approach to macroprudential policy November 2024

Enhancing CCP Supervision and Cooperation of Relevant Authorities

Public authorities should reflect, not only on the evolution of the clearing market structure, but also on whether their supervisory and oversight approaches are suited to the ever-evolving risk environment and to the growing importance of clearing.

First, it is crucial to assess whether CCPs and authorities are adequately prepared for tail risk scenarios. Authorities must closely monitor whether CCP risk management remains robust against competitive pressures and potential future, often unknown, risks. At the international level, significant progress has been made in developing new guidance to refine the identification of risks and to define appropriate supervisory practices, such as the global workstreams on margins and on general business risk. Further work will be necessary to implement these standards. In the area of recovery and resolution planning, authorities must cooperate to agree on common practices and implement, test and adapt recovery and resolution plans.

Second, the cross-border footprint of CCPs necessitates that public authorities adapt their supervisory approaches. Striking the right balance between cooperation and integration is crucial.

In the EU, this balance has continually evolved to account for the expanding cross-border footprint of EU CCPs. While the EU supervisory framework has traditionally relied on national authorities, cooperation mechanisms have been progressively strengthened, and the role of EU authorities has been enhanced. EMIR 3 further advanced cooperation between national and EU authorities. Nonetheless, as the systemic role of clearing continues to grow, a supervisory approach with stronger central steering may be more needed. In the EU, this could take the form of a two-tier approach, whereby the most significant entities would be supervised at the EU level. This model would be particularly relevant for systemic EU CCPs that provide services to clearing members throughout the Union, given that losses would be allocated throughout the Union in case of recovery and resolution.

In this context, central banks of issue should continue to be adequately involved. To recall, central banks of issue for a particular currency are potential providers of settlement and deposit accounts as well as liquidity to clearing participants or CCPs. Central banks play a key role in ensuring CCP safety, particularly in scenarios of systemic liquidity stress. While liquidity risk management should remain the responsibility of CCPs, central banks can provide a safe haven for safeguarding cash collateral. Furthermore, in emergency situations, central banks may provide liquidity, thereby contributing to stabilise the financial system under specific crisis scenarios.

Over the past years, the Eurosystem – being the ECB and the central banks of the euro area - has further developed its policies in relation to access for CCPs to central bank facilities. To recall, CCPs in the European Economic Area (EEA) have access to settlement and deposit accounts with the Eurosystem. The guarantee funds held by EEA CCPs on such deposit accounts are remunerated at the euro short-term rate (€STR)[2]. Normally non-monetary policy deposits are remunerated at the euro short-term rate **minus 20 basis points,** however the approach for CCP guarantee funds was granted as an exception to the uniform rule due to the relevance of these deposits for the smooth operation of payment systems, financial stability and market functioning in the euro area.

Regarding liquidity provision under crisis scenarios, the Eurosystem's work is nearing completion. Without prejudging the decision of the Eurosystem, at this stage I would only recall that such liquidity provision under crisis scenarios must not be taken for granted by CCPs and, in general, must be conditioned upon strong safeguards, especially concerning financial soundness and liquidity self-insurance of CCPs. Moreover, with respect to those safeguards, the close cooperation between the Eurosystem as the central bank of issue for the euro and relevant CCP supervisors is considered essential.

Farewell

Let me conclude.

Ladies and gentlemen, esteemed colleagues, thank you again for your participation in today's conference and for contributing to its success.

I would like to express my gratitude to the Chicago Fed (Federal Reserve System), the Deutsche Bundesbank and my colleagues at the ECB (European Central Bank) for all their work and efforts in the organisation of this conference over the last months.

Thank you all for your engagement and on behalf of the Chicago Fed, the Bundesbank and the ECB, let me say that we look forward to welcoming you to our next CCP conference in two year's time.

[2] Press release, 17 April 2024: ECB confirms remuneration ceiling for euro area government deposits and adjusts remuneration of other non-monetary policy deposits