WHERE ARE THE « WEAKY LINKS » IN CENTRAL CLEARING?

Identifying and Assessing Risks in the Shadow Banking System

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Systemic Risk
Size, Interconnectedness, Complexity

Central clearing
Less interconnectedness between banks

CCPs: market infrastructures – financial market utilities but
Size, Interconnectedness with banks & shadow banking, Complexity
Systemic Issues with Central Clearing

Concentration:

- Main CCps Globally Systemic
  2 largest account for 40 % of prefunded ressources
  10 largest account for more than 80 %

- Main Members Globally Systemic
  2017 : 30 G-SIFI
  1 CCP has 29 G-SIFI clearing members
  7 CCPs have at least 16 G-SIFI CM

Source : BIS, FSB & CPMI-IOSCO Report , August 2018
- Largest G-SIFI connected to most CCPs
- Amplification loops: clearing members & members service providers
- Procyclicality of margins (avoid endogeneity)
- Liquidity: Central Banks LLR
- Cover 2 scenario: Max 2 biggest members
Analysis of Central Clearing Interdependencies
BIS, FSB & CPMI-IOSCO Report, August 2018

Figure 4: Clearing members providing multiple roles

- CCP
- CM providing no services to CCFs
- CM providing 1 service to CCFs
- CM providing 2 services to CCFs
- CM providing 3 services to CCFs
- CM providing 4 services to CCFs
- CM providing 5 services to CCFs
- CM providing 6 services to CCFs
Questions for policy makers

- CCPs as utilities « too important to fail » (Duffie 2014) ; which optimal shareholder structure ?
- Mitigate interconnection CM / service provider
- Granting licences or foster consolidation of CCPs ?
- Equivalence or interoperability ? Uneven playing field or increased propagation ?