

# WHERE ARE THE « WEAKY LINKS » IN CENTRAL CLEARING ?

Identifying and Assessing Risks in  
the Shadow Banking System

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# Systemic Risk and Central Clearing

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

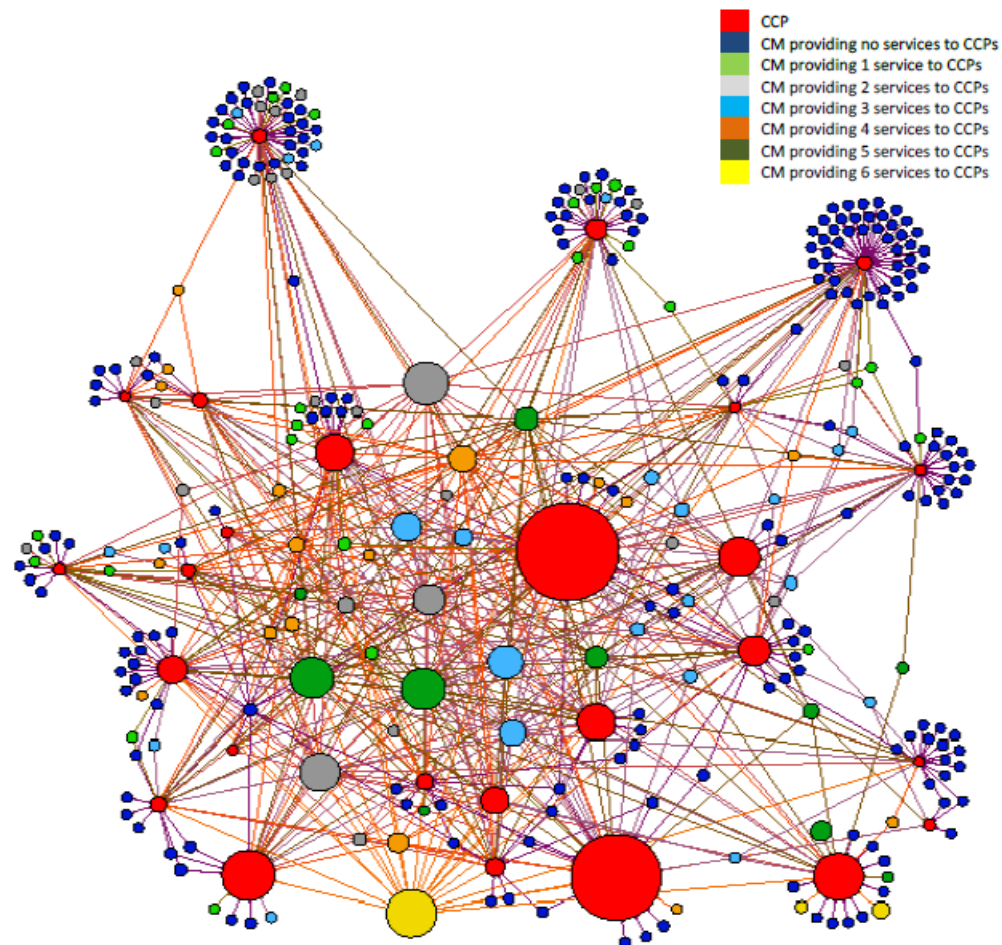
- ▣ Concentration:
  - Main CCps Globally Systemic
    - 2 largest account for 40 % of prefunded resources
    - 10 largest account for more than 80 %
  - Main Members Globally Systemic
    - 2017 : 30 G-SIFI
    - 1 CCP has 29 G-SIFI clearing members
    - 7 CCPs have at least 16 G-SIFI CM

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



# 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 ?