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ESRB response to ESMA's consultation on determining the degree of systemic importance of LCH Ltd and ICE Clear Europe or some of their clearing services

03 December 2021

Pursuant to Article 25(2c) of the European Market Infrastructure Regulation

Dear Mr Löber,

The General Board of the European Systemic Risk Board (ESRB) herewith responds to ESMA's consultation on determining the degree of systemic importance of LCH Ltd and ICE Clear Europe or some of their clearing services. This letter sets out the context to this response before summarising the ESRB's views. It also considers the publication of this letter and of a detailed report that informed the ESRB's views.

Context

In September 2020 ESMA temporarily recognised the UK CCPs LCH Ltd and ICE Clear Europe and classified them as systemically important or likely to become systemically important for the financial stability of the Union or of one or more of its Member States (i.e. Tier 2 CCPs, according to the EMIR 2.2 classification). The temporary recognition entered into force as per 1 January 2021 and is based on the provisions in Article 25(a) of Regulation (EU) No 648/2012 of the European Parliament and of the Council (the European Market Infrastructure Regulation or "EMIR"). The ESRB contributed to this process, by providing its views pursuant to the above-mentioned article. The ESRB took the view that LCH Ltd and ICE Clear Europe are of systemic importance, and therefore agreed with ESMA to classify the two CCPs as Tier 2. Under this category the CCPs can be recognised and the provision of services

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to EU clearing members is allowed under the condition that ESMA has a direct supervisory role at LCH Ltd and ICE Clear Europe.

The recognition of UK CCPs is temporary and valid until 30 June 2022, in line with the EU Commission time-limited decision on the equivalence between the EU and UK regimes for CCPs. Furthermore, as outlined in the EU Commission equivalence decision, ESMA is given the ... "time to conduct a comprehensive review of the systemic importance of UK CCPs and their clearing services or activities to the Union and take any appropriate measures to address financial stability risks in accordance with Article 25 of Regulation (EU) No 648/2012, including recommending to the Commission that a UK CCP should not be recognised or withdrawing its recognition.". According to this article, the review includes a fully reasoned assessment to examine whether a third country CCP (TC-CCP) or some of its clearing services are of such substantial systemic importance that this TC-CCP should not be recognised to provide certain clearing services or activities. EMIR foresees that as a part of this decision, ESMA consults the ESRB and seeks agreement from the relevant central banks of issue.

The ESRB was consulted by ESMA on 19 November 2021.

The ESRB agrees with ESMA's main findings. In particular, the ESRB agrees with ESMA that the following clearing services are of substantial systemic importance for the financial stability of the EU or one or more of its Member States: LCH Ltd SwapClear for products denominated in EUR and PLN, and short term interest rate (STIR) and credit default swap (CDS) services in EUR operated by ICE Clear Europe Ltd. It also agrees with ESMA that from a financial stability perspective the costs of a decision not to recognise the three clearing services mentioned above would at this point in time outweigh the benefits.

The ESRB takes note that ESMA does under the current circumstances not consider issuing a recommendation to the Commission in the sense of Article 25(2c) of EMIR. Instead, in light of the substantial systemic importance of the three clearing services and the identified risks and vulnerabilities, ESMA proposes that the adoption of follow-up measures be considered to address the risks and vulnerabilities identified in the assessment. In its own assessment, the ESRB arrived at the same conclusion as ESMA with regard to the need for follow-up measures to address vulnerabilities and risk to financial stability. A broad indication of such follow-up measures is provided below.

In addition to the comprehensive assessment report that formed part of ESMA's consultation of the ESRB, the ESRB's response to ESMA is informed by the ESRB's own detailed data analysis and by extensive discussion at expert, technical and policy level. This analysis includes an assessment of the degree of systemicness as well as the costs and benefits and other consequences of a decision not to recognise LCH Ltd and ICE Clear Europe or any of the services provided. The topic has been discussed extensively at the ESRB's Task Force on Central Counterparties, the ESRB's Advisory Technical Committee and the ESRB's Advisory Scientific Committee. Prior to reaching its conclusion at

its meeting on 2 December 2021, the topic was also discussed by the ESRB General Board at its meetings on 24 June 2021 and 23 September 2021.

The ESRB's analysis and considerations informing the ESRB's views are summarised in the appendix to this letter. A comprehensive technical report, which reflects the work of the ESRB Task Force on Central Counterparties conducted over one year, is attached as a separate document.

Overarching view of the ESRB

The ESRB's analysis showed that certain clearing services provided by the two UK Tier 2 CCPs might be of substantial systemicness of the EU or one or more of its Member States and should be considerd in detail, i.e. (i) Swapclear, operated by LCH Ltd; for all contracts denominated in EU currencies, i.e. CZK, DKK, EUR, HUF, PLN, and SEK; (ii) the Short Term Interest Rates (STIR) service, operated by ICE Clear Europe; for contracts denominated in EUR; (iii) the Credit Default Swap (CDS) service, operated by ICE Clear Europe; for contracts denominated in EUR. The ESRB is of the view that the main risks to financial stability associated with continued recognition of these clearing services relate to a situation where a UK CCP offering the service(s) would take procyclical measures during a period of market strain, or enter into a recovery phase or, ultimately, into resolution. The main risks to financial stability associated with the non-recognition of these services relate to cliff edge effects and operational and legal risk during and after a transition from the status quo. The ESRB's view reflects its assessment of the balance of these risks.

The ESRB is of the view that the SwapClear services in CZK, DKK, HUF, and SEK operated by LCH Ltd are <u>not</u> deemed of substantial systemicness for the EU and that they should therefore be allowed to be provided in the EU.

This assessment reflects *inter alia* lower volumes and/or less interconnectedness risks than for services in EUR and PLN such that for the SwapClear services in CZK, DKK, HUF and SEK the costs of non-recognition would clearly outweigh the benefits.

The ESRB is of the view that the STIR and CDS services in EUR operated by ICE Clear Europe Ltd and the SwapClear services in EUR and PLN operated by LCH Ltd, are of substantial systemicness for the EU, but that they should nevertheless be allowed to be provided in the EU.

This assessment is more finely balanced than for the SwapClear services in CZK, DKK, HUF and SEK; albeit that the ESRB still deems that the costs of non-recognition would outweigh the benefits.

The ESRB proposes that any extension of the current recognition of the two UK Tier 2 CCPs should be temporary, and that it should be supported by measures to increase the offer of clearing solutions from EU CCPs, and to reduce risks to financial stability linked to the substantially systemic services operated by ICE Clear Europe Ltd and LCH Ltd.

These measures respect the de jure binary setting of the decision process set out in EMIR. Reflecting this, they do not impose conditions on the legal process set out in EMIR. But the ESRB considers it important that such accompanying measures would be put in place.

The ESRB is of the view that a temporary recognition should go hand-in-hand with:

- the strengthening of ESMA's powers outside the EU. The ESRB proposes to revise the legal framework of Tier 2 CCPs to make ESMA's role more incisive, with particular regard to crises situations, i.e. a CCP's recovery or resolution, while enhancing the cooperation with UK authorities;
- identifying a set of credible measures that would enable EU authorities to achieve a
 gradual reduction in exposures of EU clearing members to Tier 2 CCPs and strengthen
 EU supervision commensurate with an increase in clearing activity at EU CCPs. As part
 of these measures the EU Commission might, for instance, wish to consider:
 - providing macro- and micro-prudential authorities with the power to impose higher risk-based capital charges on the exposures of EU intermediaries at Tier 2 CCPs, when deemed of substantial systemicness, and/or take other measures to incentivise a reduction of those exposures (the CRD/CRR review provides an opportunity to include such powers);
 - strengthening of ESMA's powers within the EU, such that, as exposures to EU CCPs grow beyond certain thresholds (including as part of any reduction of the UK CCP market shares to the clearing services identified), the legal and supervisory framework in the EU would adequately reflect the greater role of some EU CCPs.

Reflecting the distinction between EU currencies in the ESRB's assessment of the substantial systemicness of the clearing services of the two UK Tier 2 CCPs considered, the above views concerning the need for a reduction of exposures to UK Tier 2 CCPs via other mitigating measures focus on EUR and PLN and do not apply to CZK, DKK, HUF and SEK. Other proposals to mitigate systemic risk, such as a strengthening of ESMA powers, should, to the contrary, apply across the EU. In this respect, the EU Commission should identify the appropriate timeframe and conditions that would be needed for such a strengthening of ESMA's powers within the EU.

The ESRB stands ready to contribute to defining such measures. The progress with and the success of these measures would need to be reviewed ahead of the expiry date of the further temporary recognition.

Publication

Both the appendix to this letter and the technical report form an integral part of this response. The ESRB consents to publication should ESMA wish to make the letter and the appendix public. Prior of

doing so, ESMA is requested to liaise with the ESRB to establish if any parts need to be redacted to protect institution-specific information. The ESRB would not consent to ESMA making the technical report public in its current form. The reason is that the technical report contains data that may allow identifying individual institutions. Should ESMA decide to publish this letter and the appendix, the ESRB would also do so subsequent to ESMA's publication. At present, the ESRB does not plan to publish the letter and the appendix and/or a redacted version of the technical report at its own initiative. It may, however, at its own discretion, decide to do so at a later date, in which case it would inform ESMA in a timely manner.

Yours sincerely,

Francesco Mazzafen

Francesco Mazzaferro Head of the ESRB Secretariat

Cc.

Ms Verena Ross, Chair, European Securities and Markets Authority

Mr John Berrigan, Director-General for Financial Stability, Financial Services and Capital Markets Union, European Commission

Mr Ugo Bassi, Director for Financial Markets, European Commission

Encl.

Summary of analysis and considerations informing the ESRB's policy stance

Technical report on the analysis of systemic importance of UK CCPs

Appendix

Summary of analysis and considerations informing the ESRB's policy stance

Introduction

The netting of exposures is central to the risk reduction benefits associated with clearing at CCPs. This centrality is reflected in their name – central counterparties (CCPs) – and the greater the centrality of CCPs through the concentration of exposures, the greater the potential benefits from a financial stability perspective. During 'business as usual', this centrality reduces costs, as each clearing member can net across a larger set of positions than would otherwise be the case. This reduces exposures and thus collateral needs. During times of market strains, a benefit from a financial stability perspective is that losses that might arise from the default of one clearing member – and are not fully covered by the collateral posted by the defaulter at the CCP – can be shared amongst the large set of remaining clearing members. This is done according to a pre-agreed formula set out in the CCP's rule book, using the prefunded resources of the clearing members according to the so-called default waterfall.

Centrality can, however, create risks if the CCP becomes impaired and enters into a recovery phase or, ultimately, into resolution (a tail risk). CCP recovery and particularly resolution means that the CCPs own rules about how to share losses amongst clearing members are superseded by the regulatory rules governing recovery and resolution. In resolution, the resolution authority (or the CCP on instruction of the resolution authority) can take discretionary decisions regarding the tools used and their scope. For instance, the resolution authority / CCP might be able to demand that surviving clearing members provide further cash; reduce the amount of gains the CCP pays to those clearing members that are owed money (so-called variation margin gain haircuts); and/or apply partial or full tear-up to a specific scope of products. Risks may also arise in a time of market strain, where the CCP may impose sudden measures that could impact specific members and their economies more significantly, such as high increases in haircuts on sovereign collateral.

From an EU perspective, these risks are especially important if the CCP is located outside the EU and if exposures of EU clearing members to the CCP are large. When deciding on the tools to be used, a foreign resolution authority might be incentivised to use tools that ultimately minimise losses for domestic clearing members at the expense of non-domestic clearing members, including those from the EU. This risk arises from the fact that neither the discretion given to resolution authorities outside the EU is governed and constrained by the provisions in the EU recovery and resolution framework for CCPs, nor can EU authorities intervene during the resolution process. If the exposures of EU clearing members at CCPs outside the EU are large, and/or if there is little alternative to clearing products at the foreign CCP, this can pose risks to financial stability in the EU. This raises the question of whether it might be safer not to allow certain foreign (third-country) CCPs to provide (some of) their services in the EU, when they are substantially systemic for the EU or some of its Member States.

Following the exit of the UK from the European Union (Brexit), these considerations apply to two UK CCPs (LCH Ltd and ICE Clear Europe) that have previously been assessed to be systemic for the EU. In addition to the previous assessment of systemicness of LCH Ltd and ICE Clear Europe, the EU recovery and resolution framework was finalised after Brexit and it is therefore not transposed into UK law. This means that although UK CCPs are subject to the EMIR 2.2 supervisory framework for third country CCPs, they are not subject to the EU requirements for CCP recovery and resolution. The UK has its own CCP recovery and resolution framework that differs slightly from the EU framework. Further regulatory divergence between the EU and UK cannot be ruled out as the UK might scale back regulation to improve the international competitiveness of UK financial markets. Moreover, during times of crisis, *ad hoc* changes to, or application of, the UK provisions cannot be ruled out.

The economic and policy questions considered by the ESRB are whether – from a financial stability perspective – certain clearing services provided by LCH Ltd and ICE Clear Europe are of such substantial systemicness for the EU that the costs of allowing them (or not allowing them) to be provided in the EU outweigh the benefits. The identification of clearing services to which this might apply (see part 1 below) can be quantified. In contrast, the assessment of costs and benefits (see part 2 below) is difficult to quantify, mainly because some of the effects are behaviour-dependent and are difficult to predict. Not allowing LCH Ltd and ICE Clear Europe to provide certain services in the EU also carries risks. These risks relate to cliff-edge effects and operational and legal risk during the transition from the status quo. For example, a transition involving existing contracts, would likely require to close out positions at UK CCPs and to reopen them at EU CCPs. This might also create liquidity risk, as clearings members might need to temporarily hold double positions, resulting in double margining requirements.

Part 1 - Clearing services provided by LCH Ltd and ICE Clear Europe that are of such substantial systemicness that they warrant a costs-benefit analysis of allowing them (or not allowing them) to be provided in the EU

This assessment has been performed at the level of the clearing service, as LCH Ltd and ICE Clear Europe operate a range of such services for different underlying assets across different currencies. Reflecting the variety of services used, their systemic importance to the Union as a whole or individual Member States, or monetary areas might differ. Clearing services in currencies other than those issued by EU Member States were also considered (USD, GBP, JPY and CHF). The assessment – which is detailed in the technical background report – is based on four indicators. They are size, market structure/substitutability, interconnectedness, and alignment of incentives in case of crisis and/or disruption in the functioning of a clearing services provided by LCH Ltd and/or ICE Clear Europe.

Measured in terms of notional outstanding, the size of SwapClear operated by LCH and the Short-Term Interest Rates (STIR) and Credit Default Swap (CDS) services operated by ICE Clear Europe are considered of substantial systemic importance for EUR and PLN (the latter being relevant only for SwapClear).

It shows that the SwapClear service operated by LCH Ltd clears contracts denominated in six EU currencies, whereas ICE Clear Europe clears STIR and CDS contracts denominated in EUR only (chart 1 right).

Measured in terms of 'capital at risks' in case of the CCP entering recovery or resolutions, clearing members active in EUR-derivatives clearing have the highest exposure to LCH SwapClear and ICE Clear Europe¹ relative to their capital, while members active in HUF-derivatives, SEK-derivatives and DKKderivatives clearing have the lowest exposure. The total value of the default resources posted by clearing members is a better measure of the amount of risk managed by a CCP and the exposure to clearing members to the CCP than the notional amount. The reason is that the relationship between the notional amount and the cash flows exchanged for a contract varies across products. For example, for interest rate swaps, only the interest calculated on the notional amount is exchanged, whereas for CDS the notional is exchanged only in case of credit

¹ ICE Clear Europe services considered are CDS Clearing and Futures and Options (F&O) Clearing. ICE Clear Europe F&O Clearing includes STIR derivatives clearing.

events of the referenced entity or underlying security. In contrast, the value of default resources posted at the CCP is a proxy for clearing members' credit exposures in case a CCP enters recovery or resolution. Chart 2 shows the exposures of EU members of ICE Clear Europe and LCH SwapClear. The exposure is displayed as a percentage of clearing members' total regulatory capital. In the chart clearing members are grouped by currency of activity. The exposure of clearing members active in EUR-derivatives is the highest, **Sector Control** The exposure to SwapClear of clearing members active in DKK-derivatives is the third lowest **Sector**. Clearing members active in PLN-derivatives clearing have an exposure to SwapClear similar to that of members active in EUR and CZK-derivatives



For products subject to the clearing obligations, EU alternatives to SwapClear operated by LCH Ltd. and the Short-Term Interest Rates (STIR) and Credit Default Swap (CDS) services operated by ICE Clear Europe exist. As shown in Table 1, for CDS, OTC Interest Rate derivatives (IRDs) and STIR derivative products denominated in EU currencies that are subject to the clearing obligation, an alternative clearing service in the EU (which is sufficiently liquid) exists. OTC IRDs referencing BUBOR and PRIBOR are not subject to the clearing obligation. In case of non-recognition of LCH Ltd SwapClear, centrally cleared OTC IRDs referencing BUBOR and PRIBOR might move to the bilateral sphere.

L	LCH Ltd SwapClear - (OTC) Interest Rate Derivatives				ICE Clear Europe - CDS				
	Underlying	Currency	Clearing Obligation*	Alternative in the EU		Underlying	Currency	Clearing Obligation*	Alternative in the EU
	EURIBOR	EUR	~	~	\bigcirc	iTraxx	EUR	~	~
	EONIA	EUR	~	~		Single Name NFC	EUR	×	~
	WIBOR	PLN	~	~		Single Name FC	EUR	×	~
Þ	STIBOR	SEK	~	~	*	Single Name Banks	EUR	×	~
	BUBOR	HUF	×	×		Single Name Insurance C.	EUR	×	~
-	PRIBOR	CZK	×	×		ICE Cle	ar Europe	(ETD) STIR	
	CIBOR	DKK	×	~		EURIBOR	EUR	-	~

Table 1: Substitutability by Product

Source: EMIR data, ESMA

Notes: *Clearing obligation is ticked in case the clearing obligation applies to at least one tenor or maturity for the product class. An alternative is a clearing service that is deemed capable of offering a sufficiently liquid alternative or able to develop one in the near future.

The Tier 2 framework provides room for UK CCPs and UK authorities to adopt rules and practices that are less conservative than those in the EU. This is shown in table 2. Moreover, Regulation 2021/23 on the recovery and resolution framework of CCPs, was finalised after Brexit and is therefore not transposed to the UK. The UK has its own CCP recovery and resolution framework that differs slightly from the EU framework.

Table 2: EMIR and Tier 2 Comparable compliance requirements

Requirement	EMIR and regulatory technical standards	Comparable compliance ²
Margin calibration	Confidence interval > 99.5% for OTC derivatives	Confidence interval >99%
Default fund calibration	Historical data should include past 30 years	No such requirement
Liquidity resources	Limitative list of liquid resources	No such requirement
Skin in the game	Mandatory "skin in the game"	No minimum amount
Collateral concentration	No more than 10% of collateral is guaranteed by a single credit institution.	No such requirement.
Anti-procyclicality requirements	Requirement to implement at least one of the APC tools listed	No such requirements.

The degree of systemicness varies across Member States and the currency of denomination of the trades cleared by the two CCPs. For euro-denominated contracts the assessment indicators markedly point towards a substantial systemicness of the three clearing services. Elements of substantial systemicness emerged also for contracts in PLN; for the other EU currencies the assessment is much less conclusive. As none of the indicators points consistently towards the absence of substantial systemicness, the cost-benefit analysis is conducted for all currencies.

² See also the Delegated Regulation on Comparable Compliance - https://eur-lex.europa.eu/legalcontent/EN/TXT/?toc=OJ%3AL%3A2020%3A305%3ATOC&uri=uriserv%3AOJ.L_.2020.305.01.0013.01.ENG

Part 2 – Costs and benefits relevant from a financial stability perspective that might arise if the above clearing services operated by LCH Ltd and ICE Clear Europe were to be allowed (or not allowed) to be provided in the EU.

The analysis of costs and benefits is multidimensional, considering continued recognition and the nonrecognition of the services identified above across two stages and three scenarios. The case of non-recognition is considered for the two stages of (a) transition and (b) post transition. The scenarios considered are (i) business as usual; (ii) market strain, operational disturbance and/or member default; and (iii) CCP resolution. The reason for this multidimensional assessment is that the costs and benefits may differ a lot depending on the situation.

In a 'business as usual' scenario, the largest cost of a relocation consists of increased collateral requirements that would arise from the breaking of netting sets. Industry estimates arrive at a margin increase of approximately 15-20% if euro-denominated interest rate swaps (IRS) had to be cleared at a EU CCPs.³ But these estimates were made prior to Brexit and do not reflect changes in clearing activity that have taken place since. Moreover, costs will differ across the different categories of market participants. For example, clients and end-users would typically hold directional positions with little scope for netting. For these categories of users, a fragmentation of clearing would matter less in terms of splitting of netting sets. The benefits of a relocation are even harder to quantify since they are inherently behaviour-dependant. For example, the willingness of clients to clear in

the EU – an important condition for the creation of a large liquidity pool at EU CCPs – cannot be taken for granted, in particular for clients not subject to capital requirements. It would also depend on the willingness and ability in the short to medium term of EU CCPs to provide alternative solutions. EU CCPs would have to identify a business case to justify the investments needed to offer new and/or enhanced clearing services.

In a scenario of market strain, operational disturbance and/or member default or in a scenario of CCP resolution, the costs and benefits analysis of a relocation are hard to quantify. In the "tail risk" linked to a resolution scenarios, there is "room for manoeuvre" for a resolution authority, allowing it to take discretionary decisions to favour domestic participants, albeit that this room is limited by the "no creditor worse off principle". However, such principle applies only ex-post. As such it does not eliminate the possibility that during a crisis financial instability is "exported" to another jurisdiction. In the case of resolution, the estimated benefits of relocation are also difficult to quantify since (like in the business as usual scenario) they are highly dependent on the behaviour of different stakeholders (primarily market participants and their clients). Yet, relocation to EU CCPs would provide power to local resolution authorities to manage the CCP's resolution, instead of relying on a third country authority.

These considerations are reflected in the table below, which shows costs and benefits relative to the alternative, rather than in absolute terms. The table considers the case of recognition and the case of non-recognition across the three scenarios and two stages identified above. As this analysis focusses on costs and benefits that are relevant from a financial stability perspective, benefits are presented in terms of risk reduction, whereas costs are presented in risk terms of risk increases. Reflecting this, benefits are identified in green; costs are in red; and risks mitigants in blue.

³ https://www.isda.org/a/U8iDE/brexit-paper-1-final1.pdf



ESRB European Systemic Risk Board European System of Financial Supervision

	Recognition	Non-recognition – During transition	Non-recognition – After transition
Business	Continued access to global netting pool	Reduce reliance of EU on UK CCPs;	Reduce reliance of EU on UK CCPs;
as Usual	Maintain constructive relation with UK	Supervisory risk: activity could move to TC	Supervisory risk: activity could move to TC
	authorities;	CCPs not under ESMA supervision;	CCPs not under ESMA supervision;
	Excessive credit and liquidity exposures;	Fragmentation of liquidity pools;	Fragmentation of liquidity pools;
	Risk of some regulatory and supervisory	Operational risk: closing and opening	Reduction of interest rate risk hedging;
	divergence under the Tier 2 framework;	positions, changing IT systems;	Ending exemption of pension scheme
	Reducing footprint, voluntary or mandatory.	Reduction of interest rate risk hedging;	arrangements from clearing, to increase
		Adaptation period; limiting to new contracts.	liquidity pool within the EU;
			Stricter rules and supervision.
Market	Larger user base in the event of default	EU authorities have ex-ante supervisory	EU authorities have ex-ante supervisory
strain	management (loss distribution, defaulted	power;	power;
	portfolios auctions, etc.);	Prioritising financial stability in the EU;	Prioritising financial stability in the EU;
	TC CCPs can take discretionary risk	CCPs decisions on access, margins and	CCPs decisions on access, margins and
	management measures, without considering	default management supervised by EU NCAs	default management supervised by EU NCAs
	EU financial stability (e.g. off-boarding EU	and EU supervisory college;	and EU supervisory college;
	clearing member in case of a default or other	Bifurcation of portfolios might result in liquidity	Bifurcation of portfolios might result in liquidity
	risk-based grounds without the involvement of	challenges for clearing members.	challenges for clearing members.
	ESMA or NCA of the CM or applying sudden		
	and high increases in collateral haircuts);		
	Review of comparable compliance		
	requirements, for instance removal of the		
	waiver to comply with the EMIR RTS		
	quantitative requirements;		
	Amend the regulatory framework to require		
	ESMA sign-off for changes in the rulebooks of		
	TC-CCPs (similar to SEC);		
	Alignment of functioning and prerogatives of		
	global colleges with EMIR colleges by UK		



	NCAs, thereby providing ex-ante binding		
	power to EU authorities, CBIs and NCAs;		
	Swap lines between ECB and Bank of England		
	facilitate the provision of multi-currency		
	liquidity to UK and euro area CCPs;		
	MoU between ESMA and Bank of England		
	provides for significant information sharing and		
	cooperation, notably in crisis situations.		
Resolution	The TC NRA could choose tools to minimise	Convergence of supervisory practices and	Convergence of supervisory practices and
	losses for domestic clearing members, and	regulatory alignment if activity moves to EU;	regulatory alignment if activity moves to EU;
	disadvantage EU clearing members;	Prevents the build-up of unmonitored risks that	Prevents the build-up of unmonitored risks the
	EU financial stability concerns might not be	could materialise in a crisis; (equivalence and	could materialise in a crisis; (equivalence and
	considered (sufficiently);	comparable compliance cannot achieve the	comparable compliance cannot achieve the
	UK keeps CCP Recovery and Resolution	same level of convergence or monitoring);	same level of convergence);
	(R&R) framework aligned with EU and allows	Discretion of NRA in resolution is constrained	Discretion of NRA in resolution is constrained
	for joint decision making between UK	in a comparable / predictable way across EU;	in a comparable / predictable way across EU;
	resolution authorities and ESMA;	Even within the EU the interests of NRA (a	Even within the EU the interests of NRA (a
	EU CCP R&R framework is enhanced with	national competence) and pan-European	national competence) and pan-European
	more supervisory powers of ESMA;	authorities may not always be fully aligned.	authorities may not always be fully aligned.
	EU R&R provisions could be made part of		
	EMIR to ensure Tier 2 CCPs adhere to the EU		
	R&R framework.		