INTRODUCTION

1. The London Stock Exchange Group (LSEG) welcomes the opportunity to respond to ESMA’s consultation paper on ‘Guidelines for establishing consistent, efficient and effective assessments of interoperability guidelines’. This submission represents the views and experience of London Stock Exchange plc, Borsa Italiana, CC&amp;G and other market operators and investment firms within the LSEG.

2. As a supporter of an open and competitive approach to market infrastructure, LSEG is well qualified to respond to this consultation. The Group supports and promotes interoperability and successfully operates interoperability in the following markets:

Cash equities

- UK and Irish cash equities (SETS) – (LCH.Clearnet Ltd, SIX x-clear);
- Pan-European cash equities (Turquoise) – (LCH.Clearnet Ltd, SIX x-clear, EuroCCP, EMCF);

Fixed income

- Fixed income in Italian MTS and Brokertec markets – (CC&amp;G, LCH.Clearnet SA);

Equity derivatives – index and single stock futures and options

- Equity derivatives in Norwegian contracts (Turquoise) – (LCH.Clearnet Ltd, Oslo Clearing).

3. We acknowledge our comments may be published on the ESMA website.

COMMENTS

4. We welcome, and support, the guidelines proposed by ESMA. We believe that, on the whole, they are clear, sensible and form the basis of a usable framework for assessing interoperability arrangements. However, we would like to highlight one or two areas where further clarification may be useful.
A) ASSESSMENT OF A CCP’S OPERATIONS

5. We agree that a CCP should assess and understand the risk management models of the other interoperating CCPs. However, there is a risk that the guidelines seek to require a CCP, in effect, to duplicate the assessment that the regulators/supervisors have already made in authorising a CCP under EMIR. EMIR provides the framework for CCP requirements, including risk management, conduct of business, governance etc and, in our view, a CCP should be able to rely on this to satisfy itself that the required standards are being complied with, without duplicating this due diligence. We see the setting of such standards as a core aim of EMIR.

6. In addition, we question whether a CCP is in any realistic position to carry out the detailed review of another CCP’s operations, where the information required to do this is likely to be commercially confidential. Competent authorities should have the comprehensive information on the operations of the respective CCPs without requiring CCPs to exchange sensitive or confidential information.

7. In this context, we therefore suggest that the assessment of the operations of an interoperating CCP, including any outsourcing arrangements, and the assessment of interdependencies as proposed under guideline 3(e)(ii) would be more appropriately undertaken by the relevant competent authority which has access to all of the necessary sensitive or confidential information. It would be more appropriate (under guideline 3(e)(ii), for example) for a CCP to assess different risk profiles of another interoperating CCP (through coordinated tests on common participants to assess concentration risk) based on the information available to it.

8. The cost-benefit analysis in Annex II (paragraphs 18 and 19) supports the aim that the guidelines should not force interoperating CCPs to exchange sensitive or confidential information. We believe that this should be more clearly reflected in the guidelines themselves. It would be useful, for example, to specify that guidelines 3(a)(ii) and 3(e)(ii) should not require CCPs to exchange sensitive or confidential information that would place them at a competitive disadvantage.

B) HARMONISATION OF RISK MANAGEMENT MODELS

9. EMIR recognises that different risk management models may exist between interoperating CCPs and requires those CCPs to assess, and mitigate, any impact of this on an interoperability arrangement. This is recognised in the guidelines (3d). However, we note that guideline 3(a)(vii) proposes a process to “assess the need for harmonisation” of risk management models. We agree that this could be a useful process in terms of improving and challenging CCPs’ respective risk models. However, to reflect the provisions of EMIR, it should be clear that there is no requirement to pursue or implement harmonisation.
C) CHANGES TO CCP RULES

10. We agree that it is appropriate that any rule changes of a CCP that directly impact an interoperability arrangement should be agreed with the other interoperating CCPs, per guideline 3(a)(v)(b). However, for all other rule changes, it should be clear that there is no need to require notification to the interoperating CCPs earlier than other participants/clearing members.

11. We would be happy to discuss these issues with ESMA in more detail.

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