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Additional Information

Level 1 Regulation
Regulation 648/2012 - OTC derivatives, central counterparties and trade repositories (EMIR) - CCPs

Level 3 Regulation
ESMA Guidelines on Interoperability (ESMA/2013/322)

Topic
EU-CCPs

Additional Legal Reference
Guideline and Recommendation 3(b)(v) - old CCP question 21 dated 21/05/2014

Subject Matter
Prudential Requirements (old CCP question 21 dated 21/05/2014)

Question

Pursuant to Guideline and Recommendation 3(b)(v) of the ESMA Guidelines and Recommendations for establishing consistent, efficient and effective assessments of interoperability arrangements, interoperable CCPs are not allowed to contribute to each other's default funds or other financial resources (as such are defined in Article 43 of EMIR). However, Guideline and Recommendation 3(b)(iii) provides that CCPs should assess, collect or have access to, the required inter-CCP resources necessary to cover credit and liquidity risk arising from the interoperable arrangement, including in extreme but plausible market conditions.

How should a CCP meet Guideline and Recommendation 3(b)(iii) in the absence of requiring the interoperable CCPs to contribute to its default fund or other financial resources given that a CCP's default fund and other financial resources (as opposed to the margins it collects) are the means through which the CCP ensures that its financial resources are sufficient to cover extreme but plausible market conditions?

ESMA Answer

21-05-2014

Original language

On the basis that interoperable CCPs are not allowed to contribute to each other's default funds or other financial resources, it is not necessary that a CCP will include its credit exposures to the interoperable CCPs when sizing the default fund and other financial resources (i.e. the default fund of a CCP and the other financial resources are not required to enable the CCP to withstand the default of the interoperable CCPs under extreme but plausible market conditions where the CCP's exposures to those interoperable CCPs are greater than the CCP's exposures to the two clearing members to which it has the largest exposures in under extreme but plausible market conditions).

However, where the CCP does not include its credit exposures to the interoperable CCPs when sizing the default fund and other financial resources then it will need to have other arrangements (such as additional margin) in place in order to meet Guideline and Recommendation 3(b)(i) which requires that financial risks, including custody risks, arising

from the interoperability arrangement are identified, monitored, assessed and mitigated with the same rigour as the CCP’s exposures arising from its clearing members.