

Press Release

ESMA launches Fifth Stress Test Exercise for Central Counterparties

The European Securities and Markets Authority (ESMA), the EU's financial markets regulator and supervisor, today launched its fifth Stress Test Exercise for Central Counterparties (CCPs) under the European Markets Infrastructure Regulation (EMIR). The CCP Stress Test framework is complemented by an adverse market scenario provided by the European Systemic Risk Board (ESRB).

Fourteen CCPs authorised in the EU and two UK CCPs classified as Tier 2 (LCH Ltd, ICE Clear Europe Ltd) are included in this exercise.

Verena Ross, Chair, said:

“The CCP Stress Test is a key supervisory tool for ESMA. The Fifth Stress Test exercise examines core risk categories in light of ESMA's evolving mandates and takes a closer look at the impact of a possible spill over of risks to financial markets. We are not only stress testing CCPs, but also measuring potential risks to the broader financial eco-system”

Klaus Löber, Chair of the CCP Supervisory Committee, said:

“This year's exercise draws on experience from previous years as ESMA introduces additional stress scenarios and assesses the resilience of EU and Tier 2 Third Country CCPs to a wider range of risks. New in this exercise is the inclusion of climate risk, in addition to the assessment of liquidity, credit and concentration risks.”

Components of ESMA's CCP stress test framework:

ESMA, in cooperation with the National Competent Authorities (NCAs) and the European Systemic Risk Board (ESRB), developed the framework covering the following components:

Credit Stress: assesses the sufficiency of CCPs' resources to absorb losses under a combination of market price shocks and member default scenarios;

Concentration risk: assesses the impact of liquidation costs derived from concentrated positions;

Liquidity Stress: assesses the sufficiency of CCPs' liquid resources under a combination of market price shocks, member/liquidity provider default scenarios and additional liquidity stress assumptions;

Climate risk: assesses the degree to which the CCP's business model is affected by the transition to a carbon-neutral economy, the consequences of the transition on the collateral posted by clearing members, and explores the impact of physical risk on CCPs; and

Reverse Stress: increases the severity of the contemplated scenarios and identifies breaking points of the eco-system for credit, concentration and liquidity risks. "

Market Stress Scenarios

The resilience of CCPs is tested under stress scenarios reflecting extreme but plausible market conditions. The European Central Bank (ECB), in close collaboration with the ESRB and ESMA, developed a new adverse market scenario, including a macro-economic narrative and adverse market shocks.

ESMA will also carry out an analysis of CCPs' resources and participants.

Next steps

The data submitted by the reporting entities will first be validated by ESMA and the NCAs and later analysed. The results are scheduled to be published in a final report in H2 2024.

ESMA periodically assesses the resilience and safety of authorised EU and Tier 2 Third Country CCPs to adverse market developments with the aim of identifying any potential shortcomings in their set-up/risk management.

Notes for editors

1. [ESMA91-372-2557 - Framework for the 5th ESMA Stress Test Exercise for Central Counterparties.](#)
2. More information can also be found on the ESRB Stress Testing [webpage](#).
3. ESMA is the European Union's EU's financial markets regulator and supervisor. Its mission is to enhance investor protection and promote stable and orderly financial markets.
4. It achieves this objective through three strategic priorities:
 - a. fostering effective markets and financial stability,
 - b. strengthening supervision of EU financial markets,
 - c. enhancing protection of retail investors,and two thematic drivers:
 - d. enabling sustainable finance; and
 - e. facilitating technological innovation and effective use of data.
5. ESMA achieves its mission within the European System of Financial Supervision (ESFS) through active cooperation with the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Systemic Risk Board, and with national authorities with competencies in securities markets (NCAs).

Further information:

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