

PRESS RELEASE

ESMA announces EU-wide stress tests for CCPs

The European Securities and Markets Authority (ESMA) has announced today the publication of its first EU-wide stress test exercise regarding Central Counterparties (CCPs) on 29 April 2016. ESMA is mandated to conduct stress tests of CCPs under the European Markets Infrastructure Regulation (EMIR). The stress test assesses the resilience and safety of the European CCP sector and aims to identify possible vulnerabilities.

Steven Maijoor, ESMA Chair, said:

“CCPs offer significant benefits to the market and play a key role in making derivatives markets safer. CCPs are also highly interconnected – both with financial institutions and markets – and the increasing volumes cleared through CCPs make them even more important for the financial system. Therefore, it is essential to test the sufficiency of their resources, not only individually but also at an EU-wide level. These stress tests are a crucial supervisory tool to ensure the sector is safe and resilient to shocks.”

Scope of ESMA's CCP stress tests

ESMA, in cooperation with National Competent Authorities (NCAs) and the European Systemic Risk Board (ESRB), test the resilience of European CCPs by exposing them to adverse market scenarios. ESMA's stress test focuses on the counterparty credit risk that CCPs would face as a result of multiple clearing member (CM) defaults and simultaneous market price shocks.

Clearing member default scenarios

ESMA's stress test exposes CCPs to three different CM default scenarios, which include the default:

- of the two CMs with the largest exposures per CCP, taking into account the common membership across CCPs;
- the default of the two groups of CMs EU-wide with the largest aggregate exposures; and
- the default of the two groups of CMs EU-wide with the largest aggregate exposures weighted by their probability of default.



Market price shock scenarios

ESMA's exercise combines the CM default scenarios with extreme market price shocks. These consist of a range of historical and hypothetical scenarios made up of defined minimum price shocks and a set of hypothetical modelled stress scenarios.

Knock-on effect and other analysis

The overall exercise is complemented by an analysis of the inter-dependency of CCPs through common CMs, the concentration of CCPs exposures and the potential spill-over effects to non-defaulting CMs triggered by the loss absorption mechanism of CCPs. CCPs are also tested against a set of reverse stress scenarios by further increasing the number of defaulting CMs in order to look for extreme but plausible scenarios that could have a significant impact on the resilience of EU CCPs.

Publication

The results of ESMA's EU-wide CCP stress test will be presented in an aggregated and anonymised manner. The publication of the final results is scheduled to take place on 29 April 2016 after markets have closed.



Notes for editors

1. The European Market Infrastructure Regulation (EMIR) mandates CCPs to apply different sets of stress tests in order to ensure safe and sound risk management. In addition, EMIR also requires ESMA to conduct a pan-European stress test to assess the reliance of the European CCP sector.
2. EU-based CCPs are supervised by supervisory colleges made up of different NCAs and ESMA.
3. ESMA's mission is to enhance investor protection and promote stable and orderly financial markets.

It achieves these objectives through four activities:

1. assessing risks to investors, markets and financial stability;
 2. completing a single rulebook for EU financial markets;
 3. promoting supervisory convergence; and
 4. directly supervising specific financial entities.
4. 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).

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