PRESS RELEASE

ESMA launches 2021 Central Counterparties Stress Test

The European Securities and Markets Authority (ESMA), the EU’s securities markets regulator, has today published the framework for its fourth Stress Test for Central Counterparties (CCPs). ESMA, as required by the European Markets Infrastructure Regulation (EMIR), initiates and coordinates this exercise to assess the resilience and safety of recognised European Union (EU) and Tier 2 Third Country CCPs (TC-CCPs) to adverse market developments and to identify any potential shortcomings.

The 2021 Stress Test addresses credit and concentration risks, and uses improved methodologies, including lessons learned from previous exercises, such as assessing the combination of concentration costs and credit losses when liquidating defaulting portfolios or including an intraday exercise for credit. For the first time, and in line with ESMA’s mandate, the exercise also covers operational risk.

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

“Last year demonstrated that financial systems are constantly evolving and subject to disruptions such as COVID-19 or Brexit. In that context, it is important to assess that EU CCPs, but also Third Country CCPs of systemic relevance to the EU (so-called Tier 2 CCPs), are resilient as key infrastructures for EU financial stability.

“In this respect, the ESMA CCP Stress Test is an essential supervisory tool that contributes to financial stability and supervisory convergence in the EU.

“In this 4th iteration of the CCP Stress Test, we have further developed the credit and concentration components from the last exercise to develop a more aggregated vision of both risks and introduced a new operational risk analysis with the aim of assessing risks from shared service providers.”
Scope and components of ESMA’s CCP Stress Test

ESMA, in cooperation with National Competent Authorities (NCAs) and the European Systemic Risk Board (ESRB), tests the resilience of recognised EU and Tier 2 TC-CCPs by exposing them to different stress scenarios comprising extreme but plausible market conditions. The new stress test exercise has the following components:

- **Credit Stress**: assessing CCPs’ resources ability to absorb losses under a combination of market price shocks and member default scenarios;
- **Concentration risk**: assessing the impact of liquidation costs derived from concentrated positions;
- **Reverse Credit Stress**: increasing the number of defaulting entities and level of shocks and/or liquidation costs to identify at which point CPPs’ resources are exhausted; and
- **Operational risk**: assessing the importance of shared service providers in the clearing industry and interconnections of CCPs.

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

Market Stress Scenarios

The ESRB General Board has approved the new adverse scenario for use in this year’s test. The European Central Bank (ECB), in close collaboration with the ESRB and ESMA, has developed a new narrative and calibrated the adverse scenario for the CCP Stress Test, involving triggering one or more sources of systemic risk to the EU financial system, as identified by the ESRB.

The CCPs will be exposed to stress shocks that are defined for numerous risk factors across all relevant asset classes. The purpose of the stress test is to assess a CCP’s resilience to macro-economic scenarios that can have a global impact.

CCPs Involved and Timeline

The new exercise covers the 13 CCPs authorised in the EU and the 2 UK CCPs classified as Tier 2 (LCH Ltd, ICE Clear Europe Ltd). The publication of the final report and results is scheduled to take place in H2 2022.
Notes for editors


2. Information on the ESRB Adverse scenario for the 2021 ESMA Stress Test Exercise for Central Counterparties is available [here](#).

3. More information can also be found on the ESRB Stress Testing [webpage](#).

4. ESMA is the European Union’s securities markets regulator. Its mission is to enhance investor protection and promote stable and orderly financial markets.

   It achieves these objectives through four activities:

   i. assessing risks to investors, markets and financial stability;

   ii. completing a single rulebook for EU financial markets;

   iii. promoting supervisory convergence; and

   iv. directly supervising specific financial entities.

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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