

Relevance and systemic importance of CCPs

Opening remarks of the Conference of the CNMV on Recovery and Resolution of Central Counterparties

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Good morning to all. Welcome for the first time to the CNMV's day of recovery and resolution of central counterpart chambers. First of all, I would like to thank Antonio Romero, as Cecabank's representative at this event, for allowing us to use their facilities to hold this conference of the CNMV on the Recovery and Resolution of Central Counterparties.

It is not possible for me to be physically there, but I did not want to miss the opportunity of welcoming everyone and thanking you for your participation.

The objective of this conference is to raise awareness of the new regulation on central counterparties as well as to facilitate debate with industry, competent authorities and academia.

The timing also seems to me to be particularly opportune because, from next August, the European Regulation on recovery and resolution of central counterparties¹ becomes effectively applicable and we also expect the CNMV to be designated as the resolution authority.

Background and context

Central counterparties have gained in weight and relevance since the great financial crisis of 2008. These market infrastructures, by standing between the seller and the buyer, play a key role in the reduction and management of counterparty risk and, well ordered, make the system of buying and selling securities safer and more efficient.

But it is also true that their systemic importance has been increasing, especially after the incorporation of OTC derivatives into central clearing, which has reinforced the role of infrastructures as critical entities or, as they say, as entities that are "too big to fail".

The regulation I mentioned, on recovery and resolution of CCPs, completes the set of regulatory reforms in the EU that derive from the G20 agreement after the 2008 crisis, to make these key infrastructures more resilient in crisis situations.

¹ Regulation (EU) 2021/23 of the European Parliament and of the Council of 16 December 2020 on a framework for the recovery and resolution of central counterparties.

And, as could hardly be otherwise, given the global nature of clearing and the high degree of interconnection, we start out from a globally harmonised regulation based on the international principles adopted after the financial crisis.

I am referring, on the one hand, to the Principles for Financial Market Infrastructures (PFMI),² agreed by CPMI-IOSCO in 2012. And, in addition, to the *Key Attributes*³ of the effective resolution regimes for financial institutions approved by the Financial Stability Board (FSB) in 2011 for the banking system and adapted in 2014 to market infrastructures.

The former, which address the prudential and risk management regime of European central counterparties, had their reflection in Europe in the EMIR Regulation⁴.

The latter, the attributes, address the problem I mentioned of "too big to fail". To do this, in case of having to manage the lack of viability of these entities, they define an orderly resolution framework, maintaining the continuity of critical functions and avoiding having to resort to taxpayer funds.

Thus, **the resilience, recovery and resolution** of CCPs are the three essential 'R's, which are closely linked to each other: having robust mechanisms helps to reduce the likelihood of having to enter the recovery and resolution phase. And the recovery and resolution agreements maintain the incentives to ensure resilience in the continuity phase.

The approval and implementation of the European Recovery and Resolution Regulation completes the framework and gives systemically important central counterparties in more than one jurisdiction,⁵ including Spain's BME Clearing, a **recovery and resolution framework in line with international standards**.

CCP R&R Regulation

And what are the pillars of this regulation? I just want to highlight the following three features:

- First, the need for recovery plans, prepared by the entity itself, and resolution plans is set out. These are the plans that help us foresee and be prepared to react to financial difficulties and in my opinion they are the most important pillar underpinning the whole framework.
- Secondly, it defines the ability of the supervisory authority to **intervene at an early stage**, before problems become critical and the financial situation deteriorates irreparably.
- And, finally, if all of the above fails, and if it is considered to be in the public interest, the possibility of implementing **resolution** measures to absorb losses and to restructure or sell the entity or part of its business is specified.

² [Principles for Financial Market Infrastructures \(PFMI\) \(bis.org\)](https://bis.org/principles).

³ [Key Attributes of Effective Resolution Regimes for Financial Institutions - Financial Stability Board \(fsb.org\)](https://www.fsb.org/key-attributes).

⁴ [Regulation \(EU\) 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories](https://eur-lex.europa.eu/eli/reg/2012/648/oj).

⁵ 13 SPCs worldwide, of which 6 are from the EU: BME Clearing (Spain - EU), CC&GB (Italy - EU), CME Inc. (US), Eurex Clearing (Germany - EU), EuroCCP (Netherlands - EU), HKFE Clearing Corporation (Hong Kong SAR), Clear Credit (US), ICE Clear Europe (UK), LCH Ltd (UK), LCH SA (France - EU), Nasdaq Clearing (Sweden -EU), Options Clearing Corporation (US), SIX x-clear (Switzerland).

The CNMV as resolution authority

This regulatory framework will be complemented by a set of technical developments and the **designation of the CNMV as the resolution authority for central counterparties**. And here I want to emphasise that the CNMV has maintained a high degree of involvement in the development of these standards, at both the European and the international level and, in fact, co-chairs the market infrastructure resolution group of the Financial Stability Board.

Objective and content of the Conference

Today's conference seeks to take an in-depth look at the implications of the regulation, and I believe that it is of interest to the entire financial industry that develops its activity through the various clearing houses, whether as members, clients or service providers.

And to talk about all these issues we are fortunate to have representatives of Spanish, European and international authorities (the CNMV, the Ministry of Economy and Digital Transformation, the FSB and CMPI-IOSCO) as well as the financial industry (with associations, BME Clearing itself, financial and academic entities of recognised prestige in the financial world). The session will be closed by the Director General of the Treasury and Financial Policy, Pablo de Ramón-Laca. Thank you, to all participants in this event.

Conclusion

In conclusion, the resolution of CCPs is a complex and challenging issue in legal, economic and operational terms, where there are multiple interests, sometimes divergent, that require a complicated incentive structure.

It is, in any case, a necessary work, the aim of which must be to help us never to have to actually apply it. But crises happen. And convulsive events occur, such as those stemming from the pandemic, or the recent Ukraine crisis and its effects on energy markets. We do our best to avoid their happening, but once they are triggered, the important thing is to be prepared and to have orderly frameworks to act accordingly.

All the more so when we take into account the fact that we are at a crucial and challenging moment for the world of centralised clearing, not only because of the risks I just mentioned, but also because of the uncertain impacts that global trends such as technological innovation can have. I refer here to the application of distributed ledger technology or DLT, the clearing of new types of digital assets, the risks related to cybersecurity and the integration of the risks deriving from climate change, among others.

In the EU, in addition, after Brexit, the most important CCPs for EU markets have become extraterritorial, which can bring additional challenges.

All this underlines the importance of effective risk management and strengthening the lines of defence and resolvability in the world of centralised clearing.

I trust that today's session will help us all to deepen our knowledge and understanding.

Thank you very much.