# Sixth Joint Conference of the Deutsche Bundesbank, European Central Bank and Federal Reserve Bank of Chicago on CCP Risk Management

## Frankfurt am Main, 25 February 2025

## Summary of proceedings

### Introduction

On 25 February 2025, the European Central Bank (ECB) hosted the Sixth Joint Conference of the Deutsche Bundesbank, the ECB and the Federal Reserve Bank of Chicago on Central Counterparty (CCP) Risk Management. The conference takes place biennially in Frankfurt. The event, by invitation only and held under the Chatham House Rule, brought together participants from industry, regulatory bodies and academia. The full programme is available on the ECB's website.

### Opening speech

Dr Julian Reischle, Director General Payments and Settlement Systems of the Deutsche Bundesbank, opened the conference with a welcome address, providing an overview of the topics to be discussed at the conference, including new developments in securities clearing, the evolving clearing landscape in light of regulatory and commercial developments, as well as recovery and resolution. The speech emphasised the importance of cooperation and continuous learning, highlighting that collective efforts between authorities and industry are essential for ensuring the stability and integrity of the global financial system. The opening speech was followed by three panel debates, a keynote speech, a fireside chat and closing remarks, as summarised below.

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## Session 1: Current topics in securities clearing

The first panel addressed new mandates in securities clearing, the shortening of settlement cycles, and frontier technologies. Moderated by the Federal Reserve Bank of Chicago, the session began with a brief introduction to the key topics, emphasising that while each offer new advantages, they also pose potential risks if not properly managed.

The panel first discussed the **US Treasury clearing mandate and its implications for other regions**. In the US, the SEC requires central clearing of US Treasury cash and repo transactions by 2026 and 2027, aiming to boost efficiency, increase netting effects, and enhance stability. Over the past 15 years, clearing services have seen significant advancements, including improved intermediation and harmonised default management practices, creating a robust ecosystem. The panel suggested that Japan's high share of voluntary clearing of repos on government bonds could offer valuable insights to the discussion on whether central clearing should be mandated or rather incentivised. In the EU, discussions about incentivising central clearing for government bond markets are ongoing, having experienced similar episodes of market dysfunctions and balance sheet constraints of dealers as observed in the US. Although mandatory clearing has benefits, speakers deemed it premature for the EU's diverse market. Instead, incentivising central clearing through new types of access models and reviewing the risk mitigation measures of bilateral markets versus central clearing could be the preferred tool in the first instance. While sponsored access models are increasingly available, greater transparency is needed regarding their impact on clearing participants. Promoting new access models was generally seen as beneficial, enhancing transparency if more entities become clearing members.

When asked about the **optimal number of CCPs per jurisdiction for the clearing of government bonds**, one panellist elaborated that, economically, having a small number of CCPs per jurisdiction could be considered optimal, balancing liquidity, economic needs, and fostering competition and innovation while avoiding high concentration risks. This can, for example, be observed in the US where two additional CCPs are considering entering the US Treasury clearing market, currently served by a single incumbent CCP.

The panel also addressed **global efforts to enhance efficiency and reduce risks by shortening the securities settlement cycle**. Transitioning to shorter settlement periods like T+1 requires sophisticated risk management but significantly improves liquidity. The panel highlighted positive US outcomes, such as increased affirmation rates, decreased custodian fees, reduced margin requirements and stable settlement fail rates. Synchronisation among central counterparties, clearing participants and intermediaries is essential, driving innovation and necessitating new system investments. The historical progression from T+14 to T+5, T+2, and now T+1 was discussed, noting the significant preparation needed for the EU's and the UK's transition by 2027. A collaborative process involving stakeholders is underway to ensure a smooth transition in the EU and UK.

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Finally, the panel turned its attention to **frontier technologies**, including tokenisation and distributed ledger technology (DLT), and their benefits, risks, and challenges. The impact of T+0 settlement was debated, highlighting increased automation, speed, and onboarding efficiency. The industry's preference for speed was acknowledged, but settling in under a minute raises risk concerns. While reduced netting increases liquidity demands, one panellist argued that settling within an hour could still yield good netting effects. Intraday settlement may also become feasible within a few years. Attention was drawn to a CSD/CCP initiative of a so-called "digital launchpad" - a platform enabling seamless blockchain network interaction and experimentation with DLT concepts. Speakers further highlighted that the EU's 2023 DLT pilot regime, despite a slow start, now includes two authorised DLT financial market infrastructures (FMIs), with more in the pipeline. The panel called for faster progress to regulate such projects and where applicable to authorise them. In terms of progress to date, it was noted that real progress would be characterised by automated, self-executing networks, but that these would still take 10 to 20 years. Currently, the main advantage of DLT lies with the integrity of data that it can ensure. The high demand for cloud computing was discussed, with calls for regulatory support, while it was also suggested that DLT networks could offer similar efficiencies. The emerging role of artificial intelligence (AI) in trading was noted, however used less in post-trading at the moment.

Regarding **legal changes**, speakers highlighted that US financial rules are mostly technology-neutral but might need minor adjustments for digital assets. In the EU, significant regulatory work such as the Markets in Crypto-Assets Regulation (MiCAR) and the Digital Operational Resilience Act (DORA) have been implemented, with further refinements anticipated for the future e.g. as entities increasingly use cloud service providers. Overall, the panel concluded that legislators face the challenge of maintaining technology-neutral laws while addressing specific issues. In response to audience questions, the panel emphasised the growing importance of setting standards at the global level.

## Keynote speech

Klaus Löber, Chair of the CCP Supervisory Committee at the European Securities and Markets Authority (ESMA) delivered a keynote speech on the role of the CCP Supervisory Committee, the impact of the revised European Market Infrastructure Regulation (EMIR 3), areas for enhancement of the supervisory framework for EU CCPs, EU competitiveness and resilience, and international cooperation.



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## Fireside chat

The fireside chat with Acting Chairman Caroline D. Pham of the Commodity Futures Trading Commission (CFTC) was moderated by the Federal Reserve Bank of Chicago and focused on recent key developments in the US regulatory and supervisory set-up for clearing.

The speaker observed an overall increased focus on US growth and competitiveness and noted the ongoing review of the relations of the US government with independent US agencies. In this context they pointed to a **prioritisation of basic supervisory issues**, such as the prevention of fraud, market abuse or market manipulation, and less focus on enforcement measures involving non-material operational or compliance issues without harm. In addition, supervisory activities are being re-evaluated in terms of their relevance for the regulatory and supervisory mission, their contribution to more resilient and liquid markets, and the need to keep an open mind vis-à-vis the perspectives of the affected stakeholders.

In terms of the supervisory response to the **emergence of new technologies**, it was emphasised that US regulation and supervision – like global standards – are traditionally technology-neutral. Because principles-based risk governance frameworks already apply to new technologies, the main issue from a supervisory perspective still remains addressing the specific risks presented by the type of underlying asset cleared. To facilitate innovation, regulators should focus on what is needed in terms of regulatory clarity and should also ensure that any new requirements are practical and implementable for the concerned firms. As an example of supervisory support for financial innovation, tokenised non-cash assets (specifically tokenised money market funds) may become eligible as collateral as this would help to make non-cash collateral more mobile and less procyclical.

The speaker also briefly discussed the envisaged **clearing mandate for US Treasuries**. While in principle a “big bang” approach in this area was viewed with caution, the willingness to extend the implementation timelines for the clearing mandate was welcomed to enable further engagement at practitioner level and foster better implementation.

As regards **global cooperation**, the speaker expressed their support for ongoing work in the field of global standards. Given the enhanced focus on US competitiveness, there may be a need to review derivatives clearing mandates and related market structure issues with EU counterparts as concerns level-playing field aspects.

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## Session 2: Evolving market structure in clearing

The second panel discussed the evolving market structure in the financial market infrastructure (FMI) landscape, including for CCPs, strategic and regulatory considerations in the provision of cross-border clearing services, and the question of one, few or many CCPs. The panel was moderated by the ECB.

First, the panel delved into discussing **consolidation trends among FMIs and FMI groups**, including in central clearing, and their effects on market efficiency and systemic risk. Panellists considered how consolidation efforts not only arose recently, but have developed over time, especially in Europe, starting with the shift of European market entities from national, private entities with a local focus to publicly-traded companies engaging in cross-border business. This transformation has also broadened firms activities beyond trading and clearing to encompass data and analytics services. The most recent consolidation efforts in Europe could be observed especially in the equities space, with panellists seeing further scope for consolidation in that area. Nonetheless, these recent efforts in the European FMI landscape revealed that such developments are driven by three large FMI groups, indicating that there are barriers, including commercial considerations, that do not allow these groups to consolidate further. In this context, one panellist referred to the Giovannini reports which in 2001 identified 15 barriers to European market integration; today, many of these challenges like diverse tax and corporate laws remain. The panel further touched upon recent debates in the EU surrounding the Capital Markets Union (CMU) which aims for deeper integration among FMIs, yet the market remains fragmented partly due to national silos and regulatory barriers. A speaker remarked that open access, or allowing free choice of CCP post-trade execution, could help in setting incentives for further consolidation. The panel also noted that past merger attempts of major exchanges have faced regulatory and political hurdles, also indicating that such endeavours may need more support from authorities. One speaker warned against the risk of inertia of authorities to act upon these regulatory and political obstacles.

The panel also highlighted the **transformative role of technology**, such as blockchain and cloud computing, in reshaping the FMI landscape, potentially reducing market frictions. Furthermore. **interoperability arrangements** were discussed as a means to achieve deeper market integration, though opinions on their risk implications varied. One panellist viewed interoperability arrangements in the equities market as a possibility for clients to diversify risk, while another argued that equities markets are relatively small from a risk perspective, making derivatives markets more significant in terms of systemic risk. However, the speaker cautioned against considering interoperability arrangements for derivatives markets and the idea of mandating interoperability beyond the current arrangements.

The discussion then shifted to **cross-border clearing services**, emphasising strategic advantages such as enhanced liquidity and risk diversification especially in the derivative space. Such cross-border provision of clearing services could be implemented, for example, via cross-margining partnerships, i.e. margining across CCPs, which would also provide opportunities for enhanced efficiency. In this context,



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it was noted that such arrangements exist today, in spite of regulatory hurdles in harmonising margin processes across CCPs, highlighting the ability of CCPs to coordinate where there is an opportunity for efficiency gains. In contrast, one speaker highlighted the opportunities of cross-product margining within the same CCP, which may prove to be a more robust set-up for default management in times of crises as compared to default management across CCPs. The speaker argued that the provision of cross-border clearing services should be discussed from the perspective of serving clearing participants outside local markets. In response, another panellist remarked that having a diversified international clearing membership is a benefit from a risk management perspective. However, international supervisory complexities and multiple licensing needs were considered challenging. In this regard, the panel stressed the importance of adherence to the CPMI IOSCO Principles for financial market infrastructures (PFMIs) for optimising cross-border risk management and international cooperation, including mutual recognition of regulatory and supervisory regimes and deference to home supervisors.

Finally, the panel addressed **CCPs' strategies to increase their competitiveness in global markets**. The panel agreed that they did not observe a "race to the bottom" in risk management practices and that there is general consensus in the market on the benefits of central clearing, in particular with respect to introducing a market discipline in collateralising exposures. It was however noted that clearing participants are now more mindful of the cost of clearing given less favourable funding conditions in light of the return to a positive interest rate environment.

Regarding the question of **how the share of cleared vs. uncleared transactions could be further increased**, one speaker remarked that legislation like the Dodd Frank Act in the US and EMIR in the EU were successful in establishing safer derivatives markets by imposing clearing mandates, and that other standards like the Uncleared Market Rules set the right incentives for further clearing. The panel considered the question of whether repo markets, often bilaterally cleared with low or zero haircuts, have the appropriate incentives to enhance safety, or whether similar measures as in derivatives markets could be warranted. Upon questions from the audience on the necessity of clearing mandates beyond OTC derivatives, the panellists expressed differing views. While efficiencies gained from clearing can reduce costs, some questioned the need for mandates, citing existing incentives like the risk-reducing benefits of CCPs. With respect to existing clearing mandates on OTC derivatives, it was noted that non-banks especially find it difficult to access clearing due to the related liquidity requirements and absence of access to central bank liquidity facilities. Cleared repo was suggested as a potential solution.

Towards the end, the panel discussed **policymakers' role in fostering a competitive yet stable landscape**. In the case of Europe, the importance of cooperation among supervisors to integrate diverse systems and players was stressed. Some speakers also advocated for strengthening European CCP supervisory authorities and equipping one single supervisory body with one rulebook to be applied

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consistently across the jurisdiction, similar to the EU Single Supervisory Mechanism (SSM) in banking. While the panel deemed it unlikely that the European market would consolidate to one CCP per asset class, and one CSD, regulators should still aim for achieving a cohesive and efficient market infrastructure akin to the one in the US.

## Session 3: CCP Recovery and Resolution planning

The third panel was chaired by the Deutsche Bundesbank and focused on the current state and future outlook of recovery and resolution planning for CCPs. The discussion was structured around the following key themes: (i) achievements and current priorities; (ii) past experiences and key developments in Europe and the US; and (iii) practical considerations around tools and testing.

The session commenced with an **overview of the progress made regarding CCP recovery and resolution planning**. It was noted that significant strides have been made in the EU, particularly with the introduction of the CCP Recovery and Resolution Regulation (CCPRRR), which supplemented the existing provisions of EMIR regarding recovery planning while also incorporating resolution planning. However, the process has been a lengthy and complex one, with varying levels of maturity across different CCPs. A thematic review conducted by ESMA revealed differences in recovery plans and prompted efforts to increase coordination and harmonisation. In the UK, comparable progress has been achieved with the establishment of enhanced resolution tools for the Bank of England in 2023. These tools are vital to provide a robust framework for crisis situations, part of which is facilitating early intervention focused on financial stability. The significance of operationalising these tools through internal testing and close cooperation with supervisory bodies has been emphasised. Consultations with industry stakeholders have also been regarded as beneficial in this context. One panellist highlighted the shared responsibilities among various agencies in the US, including the FDIC, CFTC and SEC, with the former serving as a special resolution authority. The interconnection between agencies requires collaborative efforts, and the panel noted the substantial progress achieved in this regard. This is also reflected in the progress made in terms of resolution planning, which also leveraged on the recovery and wind-down plans previously prepared by CCPs. The panel further discussed whether the adoption of certain elements from the EU approach could be advantageous for the US. It was acknowledged that each jurisdiction introduced specific tools with resolution in mind within its own regulatory framework, which was considered advantageous. The common element, however, is the overarching objective to ensure financial stability.

The discussion then shifted to looking at the situation from the **perspective of CCPs and clearing members**. The increased complexity and detail required by the CCPRRR in the EU were noted, with

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recovery plans becoming significantly more comprehensive. One panellist elaborated on the drafting process, which is a resource-intensive task and has become lengthier, partly due to challenging factors such as the involvement of the EMIR risk committee and the need to involve all departments of the CCP. One additional challenging aspect mentioned was the definition of scenarios that remain plausible while simultaneously being sufficiently severe. Concerning the clearing members of CCPs, the potential procyclicality of certain tools, such as cash calls and variation margin gains haircutting (VMGH), and their impact on market participants, was also discussed. It was noted that clearing members express particular concern regarding tools that may exacerbate market stress by drawing resources from market participants. In this context, the panel also discussed the importance of aligning incentives and ensuring that CCPs can continue to provide services during crises. The objective is to avoid reliance on taxpayer funds and to ensure that CCP resources are utilised effectively.

Thereafter, panellists discussed **whether a wind-down is a realistic option and how the number of CCPs within each jurisdiction might affect such a decision**. It was argued that in situations where a wind-down could be an option, having a toolkit and options available is crucial, as stress can emerge rapidly, leaving little time for response. For this reason, the panel also discussed the necessity for the established plans, whether for wind-down, recovery or resolution, to be feasible from an operational perspective. Additionally, familiarity with the CCP and the specific circumstances was deemed important. Concerning the number of CCPs, this was considered not to necessarily simplify or complicate the process; rather, to render it different. Subsequently, the panellists expressed their views on the significance of international cooperation and the sharing of best practices. The need for more detailed guidance on resources and the operationalisation of the toolbox approach described in the FSB's 2024 report was highlighted. One panellist also acknowledged that while the toolbox is now established, further efforts would be required to enable authorities to operationalise it effectively. Panellists generally agreed that there is no "golden bullet" resolution tool. The effectiveness of tools depends, among other things, on the specific characteristics of the CCP, whether it might be part of a larger group, and the crisis scenario; the latter was considered a considerable driver in the impact on market liquidity.

As a final point, panellists offered their concluding thoughts on **desired future developments**. Key suggestions included greater alignment among CCPs regarding recovery planning, increased international cooperation, including the sharing of best practices, the removal of barriers to resolvability, and the establishment of loss-absorbing capacity reserved for resolution, as well as enhanced collaboration in resolution efforts, in particular considering their cross-border implications.

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## Closing remarks

Fiona van Echelpoel, Deputy Director General Market Infrastructure and Payments, European Central Bank, delivered the closing remarks on the future of CCPs and financial market resilience.

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