



# Central clearing in fixed income markets

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# The dynamic CCP landscape

- Regulation is a key driver of changes in the organisation and behaviour of CCPs and the markets they serve
- Recent SEC rules on clearing of US Treasury securities have opened the discussion on the structure and functioning of fixed income cash and repo markets across the globe

# The European fixed income market

- The European fixed income market is characterised by a larger degree of fragmentation and is more reliant on primary dealers (especially for government bonds) compared to the US market
- The role of NBFIs in liquidity provision is seemingly less important – yet more data on this would be welcome
- The European repo market is also essentially different from the US repo market, with a sizeable share of trading executed on venues and cleared by CCPs, and a limited triparty segment

# Recent stress events and margin procyclicality



- Margins are procyclical by nature as they increase in periods when volatility is high and risks grow, so that to protect clearing members from the consequences of a future default by other members
- European regulation includes provisions aiming at mitigating excessive margin procyclicality
- In addition, global initiatives such as the recent work by BSBS, CMPI and IOSCO aims at increasing transparency of margin requirements as a policy measure to avert destabilising spirals between margin calls and market liquidity

# CCPs acting as market players in the European repo market

- CCPs are central to financial markets in various ways including by an interplay between central clearing and funding (repo) markets, which highlights the importance of European CCP supervision
- This is also relevant to the discussion on granting CCPs access to central bank facilities raised by the CCP industry
- ESMA uses a number of supervisory tools to examine risks relevant to CCPs including CCP stress tests, which examine the resilience of EU and Tier 2 CCPs to a wide range of risks, while also taking a look at the impact of a possible spillover of risks to the wider CCP ecosystem