



Financial stability aspects of CCP clearing

NCMF event in Stockholm 2010-11-19
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The Riksbank's view

**CCP clearing enhance market
efficiency and financial stability**





Agenda

1. Derivatives have an important function
 2. Main weaknesses of OTC derivatives markets
 3. CCP clearing
 4. Financial stability considerations
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Derivatives are important

- Contribute to enhanced risk management
- Broaden investment opportunities
- Support overall market efficiency by exploiting price differences between derivatives and cash markets





But may be a source of systemic risk

- No central place where OTC trades are captured and handled
- Instruments tailored to the needs of the relevant counterparties
- The use of OTC derivatives has grown substantially



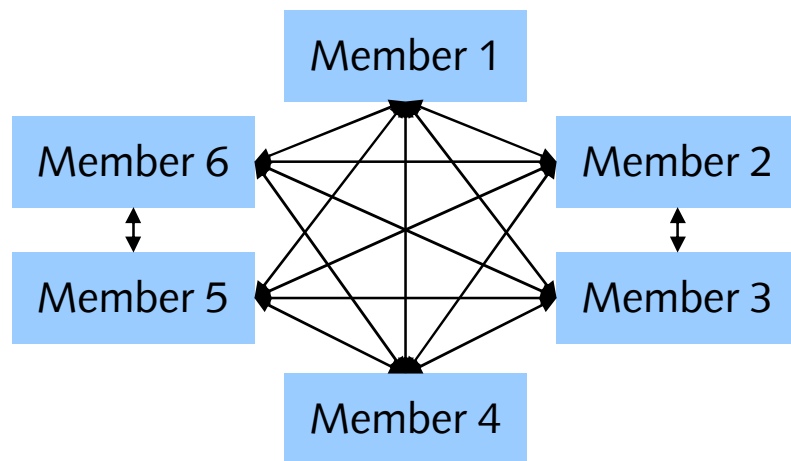
Main weaknesses of OTC derivatives markets

- Transparency
- Risk management
- Liquidity runs

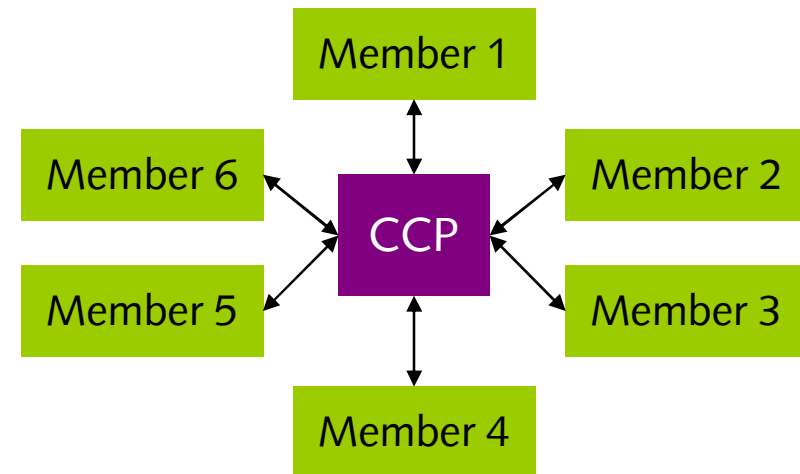


A CCP interposes itself between the two parties in a securities trade

Bilateral Settlement



CCP cleared settlement





Financial stability considerations

- A CCP improves the management of counterparty risk
- A CCP allows its participants to benefit from multilateral netting
- A CCP increases transparency



A CCP concentrates and manages credit risks

- Counterparty risk is concentrated at the level of the CCP
- A potential single point of failure



Therefore CCPs must be robust

- Active risk management including stress tests
 - Adequate financial resources for normal and stressed situations
 - Access to sufficient liquidity even in turbulent markets
 - Plans to manage default in extreme market situations
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Current initiatives

- CCPs are subject to oversight and supervision
 - The Riksbank oversees CCPs active in Sweden
 - Based on international standards
 - Currently being revised
 - Forthcoming legislation is also dealing with the issues
 - CCPs and central banks
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CCPs are good, but their risks must be handled properly

