

EP Hearing

Elke König, Chair of the Single Resolution Board

22 March 2017 – Brussels

(JAN 4Q2 - 09h00 – 9 minutes – 971 words)

[Ms König will be giving her opening statement from 9h00 to 9h08. After her speech, Steven Maijoor will also make a statement of 7-8 minutes. There will be a Q&A session of 30 minutes to conclude.]

Mr Chairman,

Honourable Members of Parliament,

I am delighted to be addressing you all in this first appearance of 2017, concretely regarding such an important matter as the recovery and resolution of central counterparties (CCPs), and welcome the opportunity to contribute in this topic.

Our interest in CCPs

CCPs are a cornerstone of the post-crisis reforms of OTC derivatives markets. They reduce risk in the financial system, in particular the interconnectedness of the large banks. CCPs should be robust and therefore this includes sound risk management, stress testing and also appropriate recovery and resolution regimes.

The SRB has an interest in the development of a CCP resolution framework because many of the banks under our remit are clearing members of these CCPs and are therefore exposed to their tail-risk. Should a CCP be failing or likely to fail, it would certainly affect its clearing members. The reverse is also true.

This is why we have been working with the European Commission in this matter, as well as actively participating in the working groups of the Financial Stability Board addressing (i) CCP resolution, and (ii) interdependencies between CCPs and major clearing members. The final

guidance on CCP resolution is expected to be published by the G20 Summit in July 2017. Moreover, there is an international commitment to establish crisis management groups (CMGs) for CCPs by the summer of 2017.

General comments on the Commission's proposal

Let me turn, however, to the reason why we are here: the European Commission's proposal on CCP recovery and resolution published in November 2016. We generally welcome both the proposal and the fact that it ensures that bank resolution authorities (including the SRB) will be invited to participate (i) as observers to the (still to be created according to the new regulation) ESMA Resolution Committee and (ii) as members in CCP Resolution Colleges.

It is of the outmost importance that the interaction between all relevant authorities is coordinated, and we appreciate that the proposal provides clarity not only on those authorities who should be part of the Resolution College, but also guidance as to who should act as binding mediator in case of disagreement (in this case ESMA).

Areas that warrant further consideration

There are three areas, nevertheless, that could warrant further consideration by the honourable MEPs in this room.

The **first** area that I would like to focus on is the treatment of clearing members, particularly when they themselves might be experiencing difficulties. Currently the proposal suggests that the allocation of additional losses and positions should be borne exclusively by clearing members.

Nevertheless, one of the most likely "default-loss scenarios" for the failure of a CCP would be the failure of one or more significant clearing member(s).

CCP resolution is not another too-big-to-fail problem; it rather shows that the risk of interconnectedness has shifted from being an inter-bank topic to being a CCP topic. The problem arises in particular if a bank resolution cannot be successfully implemented, for example due to lack of sufficient bail-in-able liabilities. Hence, the CCP default-loss scenario is by its very

nature inherently linked to successful bank resolution. We could consider that they are basically the two sides of the same coin.

Therefore, maybe a waiver for certain obligations for clearing members that are already in resolution should be considered. Notably, there could be (i) waivers from taking on additional positions. Taking on additional portfolios implies more risk and, therefore, higher capital and liquidity requirements - at a time when the bank in resolution is struggling to de-risk, potentially does not have enough capital, and will not have enough liquidity from any perspective; or (ii) waivers from meeting additional CCP cash calls for the purpose of absorbing losses, for the exact same reasons. There clearly is not a miracle wand to make losses disappear; thus the other clearing members will have to bear a higher share of losses.

The **second** issue that I would like to raise is that of entry into resolution. While flexibility with regard to entry into resolution could be helpful in such a tail event scenario as a CCP resolution, it is clear that entry should happen before it is too late. This implies, from our point of view, that resolution should happen before the end of the CCP's default waterfall, and when there are enough resources to ensure an orderly resolution. This is particularly relevant given that CPPs are thinly capitalised and are, therefore, also likely to fail as a result of non-default losses.

The **third**, and last, area that could warrant further consideration regards the means in which the co-legislators will decide to harmonise the CCP framework in the EU. As already mentioned, it is clear that CCPs are extremely interconnected and are basically all competing with each other cross-border.

The harmonisation of CCP supervision, recovery and resolution across the European Union could be done (i) through a national network of CCP supervisory/resolution authorities ; or (ii) through replicating the "Banking Union" approach, with a single supervisor and a single resolution authority for "Banking Union" CCPs.

From our perspective, having European institutions dealing with the supervision and resolution at supranational level would make perfect sense.

This approach would ensure a level playing field and a truly “single rule book” in the EU, which is crucially important. Moreover, the 17 EU CCPs under the remit of the proposal are concentrated in only a handful of Member States, which could be a further argument for having a European solution well aligned with bank supervision and resolution.

Nevertheless, our collective efforts should now primarily be focused on making sure that the content of the proposal ensures the financial stability of the system which is one of the main objectives of the proposal, and on which I would be happy to further elaborate in the session of questions and answers.

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