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The need for a diversified clearing ecosystem

CCPs are an integral part of the financial ecosystem. They support financial stability through robust and resilient risk management frameworks and diversified memberships spanning multiple jurisdictions, forming deep pools of liquidity. CCP membership is a key feature that contributes to making a CCP resilient to market shocks and defaults.

This has been illustrated during the Covid-19 associated market stress, where CCPs have successfully preserved financial stability. The anti-procyclicality measures enshrined in LCH's risk management framework ensured that margin increases were highly predictable with limited impact on our members' liquidity requirements. For e.g. the largest daily increase in total margin called during March 2020 was only at 3.5% despite the volatility observed on markets.

LCH's SwapClear serves customers in 62 different jurisdictions, has registered services in 11 jurisdictions and clears products in 27 different currencies. Internationally integrated businesses bring material benefits to users across jurisdictions, especially in the case of OTC derivatives markets which are truly global. They should be supported by consistent global and supervisory oversight based on cooperation and proportionate deference mechanisms.

Jurisdictions approach to supervision varies from direct registration requirements to full deference. Some impose the use of local settlement systems and require CCPs to deposit collateral in their local currency on local central banks deposit accounts, giving them visibility on all flows in the currency they manage. EMIR 2.2 introduces the direct supervision of systemically important CCPs and direct application of EMIR requirements. As such, a Tier 2 CCPs (such as LCH Limited) is subject to requirements at least as demanding as EMIR. This further enhances cross-border supervision of third country CCPs (TC CCPs) and ensures EU firms remain competitive by accessing to global markets and CCPs supporting these.

Accessing global markets is key for EU firms, as **the Euro market is predominantly traded outside EU borders (75%)** but also because **EU firms' clear more non-Euro currencies than Euros**. EMIR ensures that EU Firms' hedging activities are supported by a strong supervisory framework. It enables them to access global pools of liquidity and compete with their international peers on a level playing field.

Unfettered access to global markets by EU participants and financial stability are the principles for a successful economic recovery and EMIR provides the foundations upon which market participants and CCPs can operate on a cross-border basis in an open manner leading to economic growth and prosperity.

Market fragmentation would only increase financial stability risk and costs. The EU could draw inspiration from its peers and some of the requirements of EMIR. For example, it could require TC CCPs of systemic importance to the EU to use local settlement systems and deposit local currency cash at the local Central Banks. This would further improve financial stability through increased oversight capabilities over international Euro flows, ensuring continuous monitoring of market activity but also an additional liquidity tool to be used in case of market stress.