



FOCUS

CCP R&R

Updated in August 2019

REGULATORY EVOLUTION

Safeguarding of the Financial Stability: Central Counterparties (CCPs) play an essential role in the global economy so that their default could severely impact the financial stability; thus they require a dedicated regime other than the insolvency / bankruptcy process which rather focuses on the creditors

Continuity of critical functions: the protection financial stability as well the protection of public funds may imply to focus the intervention the CCP's critical functions to the detriment of others

Protection of Taxpayers: they shall not be exposed to the losses incurred by a CCP due to its default

Early intervention in order to remedy the deterioration of a CCP before the resolution remains the only way available

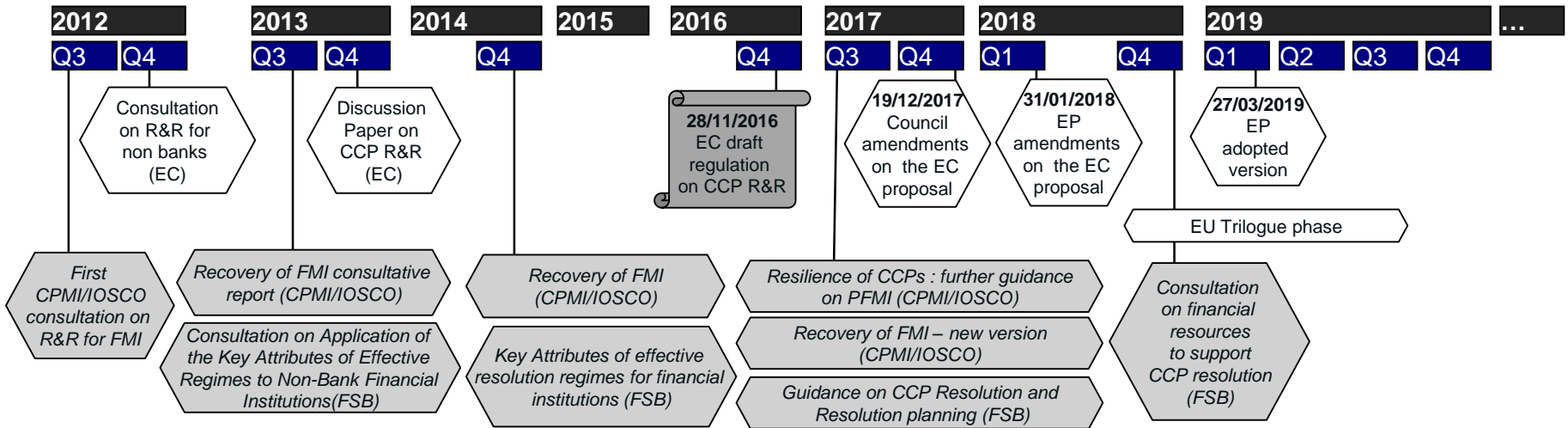
FOCAL POINTS

The process is two folds : recovery where the CCP will use dedicated tools to restore its financial situation and resolution should the recovery failed (in the latter the resolution authority will take over the CCP). Recovery and resolution plans shall be established ex ante. In addition, for each CCP a resolution authority is designated, a resolution college is created and provided with extra powers.

Critical functions can be maintained while winding down the remaining activities through normal insolvency proceedings.

The use of public financial support should be avoided; an effective resolution regime should be able to minimize the costs borne by the taxpayers; however the text includes a "No Creditor Worse Off" principle and other safeguards,

CCP's competent authorities (instituted by EMIR) are granted early intervention powers



CPMI: Committee on Payments and Market Infrastructures within the Bank for International Settlements (BIS). IOSCO: International Organization of Securities Commissions bringing together the world's securities regulators. FSB : Financial Stability Board

Updated on 30th of August 2019

- Safeguarding of the financial stability
- Continuity of the critical functions
- Protection of the taxpayers
- Anticipation

STATEMENT

❑ **At the EU level:**

- The EC's proposal (issued on the 28 November 2016) has been submitted to the European Parliament (EP) and the European Council.
- They have issued amendments:
 - Both add administrative penalties / sanctions and other administrative measures against CCPs, clearing members or parent undertakings
 - Both require a real distinction in the two plans between a default event and a non-default event
 - The EP deeply details the recovery plan (objectives, content, ...) and suggests recompensing under certain conditions clearing members / clients at the recovery stage in case of a non-default event
- Some delay may appear since there are divergences of opinion at the European level about the powers ESMA may benefit of
- Moreover a link might be made between the R&R topic and the review of EMIR with regards to the supervision of CCPs
- The EP has adopted its version on the 27th of March 2019

❑ **At the international level :** both FSB and CPMI/IOSCO pursue their work on recovery and resolution

FOR YOUR CONSIDERATION

❑ **At the EU level:**

- Identification of each CCP's critical functions, content of the recovery plan and identification of the recovery tools, the link between EMIR (the waterfall process) and the recovery phase, the full allocation of losses, the haircut of margins ... are some of the main topics that will need to be followed and scrutinized
- The European text will have to follow international recommendations

Contact SGSS/IMP/SIR: Sylvie Bonduelle



Sylvie.bonduelle@sgss.socgen.com

If you want to know more , click on

"This document is for informational purposes only. Under no circumstance should it, in whole or in part, be considered as an offer to enter into a transaction. This document is not intended to have an advisory character or intended to represent an investment recommendation or a recommendation regarding a certain strategy, product or service. Although information contained herein is from sources believed to be reliable, Société Générale makes no representation or warranty regarding the accuracy of any information and is not responsible for errors of any kind. Any reproduction, disclosure or dissemination of these materials is prohibited. The products and services described within this document are not suitable for everyone. This document is not intended for use by or targeted at retail customers. All of the products and/or services described may not be available in all jurisdictions"