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Central Counterparties: the agenda – remarks by Paul Tucker

In remarks delivered at the European Commission's Conference on the Post Trading Landscape, Paul Tucker – Deputy Governor Financial Stability, member of the Monetary Policy Committee and member of the Financial Policy Committee – discusses four issues essential in contributing to the safety and soundness of central counterparties (CCPs):

1. Trading, clearing and settlement infrastructure has over time coalesced into vertically integrated groups. As a result, Paul Tucker emphasises the importance of CCP risk managers having clear and independent reporting lines to group boards in order to remove any incentive for exchanges to seek to influence their behaviour. Nor should CCPs look to outsource their risk management function.
2. He says that market participants must be given broad access to global CCPs. And that the EU should ensure that exchange-traded derivatives and vital cash markets also clear through CCPs.
3. He stresses the need for effective resolution regimes for CCPs (and other financial market infrastructure). He says there is a big gap in the regimes for CCPs – “what happens if they go bust? I can tell you the simple answer: mayhem. As bad as, conceivably worse than, the failure of large and complex banks.” Resolution regimes should, where possible, preserve the CCP's essential services and minimise disruption and value destruction. He adds, as bond holders and other unsecured creditors should bear the losses of a failed bank, clearing members should probably bear the brunt of ‘recapitalising’ CCPs as their contribution to keeping it going.
4. Paul Tucker concludes by calling for an extension of Timothy Geithner's demand for minimum initial margin requirements for uncleared OTC derivatives contracts: policies should apply across markets and beyond OTC contracts. These margin requirement minima should, he says, remain flexible to account for changes in the economic climate. And he calls on those drafting European Market Infrastructure Regulation (EMIR) to contribute in this area by making explicit provision for such macroprudential tools.

Key Resources

Central Counterparties: the agenda – Full speech