



**BANK OF ENGLAND**

# News release

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## **Quarterly Bulletin pre-release article: ‘Central counterparties – what are they, why do they matter and how does the Bank supervise them?’**

Financial market infrastructures lie at the heart of the financial system. They settle transactions and, by stepping in between buyers and sellers, ensure that financial obligations are met. As such, they play a crucial role in helping the economy and financial markets to function.

Central counterparties (CCPs) – also known as clearing houses – are one type of financial market infrastructure. Central counterparties: what are they, why do they matter and how does the Bank supervise them? sets out in simple terms the important role that CCPs play in the financial system.

The context is twofold. First, the Bank of England has new responsibilities for the supervision of securities settlement systems and CCPs in the United Kingdom, as part of a wider reform of financial regulation that came into force in April 2013. And second, the systemic importance of CCPs will increase further after G20 leaders mandated in September 2009 – in response to the financial crisis – that standardised over-the-counter derivatives should be cleared through CCPs.

Compared to a world of bilateral trades, a key benefit of central clearing is that it simplifies the network of exposures across different trading parties. In addition, since CCPs place themselves between the buyer and seller of an original trade, they effectively guarantee the obligations under the contract agreed between the two counterparties. This means that, in the event that one counterparty fails, the other is protected via the default management procedures and resources of the CCP.

Clearing trades centrally means that CCPs themselves become crucial nodes in the financial network. So it is essential for CCPs to manage the risks they face since the failure of a CCP can pose a systemic risk to financial stability. As supervisor of these infrastructures, the Bank seeks to ensure that they are managed and operated effectively to support its financial stability objective. The last section of the article describes the Bank’s approach to supervising CCPs as well as some current policy issues.

## **Note to Editors**

Copies of the Quarterly Bulletin are available from:

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