CLEARING AND THE COORDINATION OF INTERNATIONAL FINANCIAL REGULATION

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Outline

1. Clearing models
2. Instances of regulatory divergence
   a) Capital requirements
   b) Scope
   c) Other issues
3. Possible solutions
Clearing models

CCP

House

Omnibus Client Segregation (net)

Clients A and B

Positions

Collateral

Client Segregation by Value (gross) (LSOC equivalent)

Client C

Positions

Collateral Value

Collateral (including CM Buffer and Unallocated Excess)

Client D

Positions

Collateral Value

Client Segregation by Asset (gross)

Client E

Positions

Collateral

CM Buffer and Unallocated Excess

Client F

Positions

Collateral

Direct Client Participation

Client G

Positions

Collateral

Clearing Member

Client A

Client B

Client C

Client D

Client E

Client F

Client G
CM’s trade exposures

Two possible regimes where qualifying CCP (Article 301(2) CRR)

- Articles 306 to 308 CRR (Method 1):
  - For house account, risk weight is generally 2%
  - For client account:
    - On the CCP leg, risk weight is zero assuming limited recourse
    - On the client leg, risk weight is the same as for uncleared transactions
- Article 310 CRR (Method 2)
Client’s trade exposures

Possible regime where qualifying CCP:

- Risk weight of 2% (Article 303(4) and Article 305(2)) if:
  - **Portable**
  - Positions and assets distinguished and segregated
  - **Bankruptcy remote** in effect requires direct recourse to CCP (via security, agency or statute)

- Risk weight of 4% (Article 305(3) CRR)
  - conditions as above, **except**
  - client not protected if both CM and other clients insolvent
Client’s trade exposures

> **Query where break comes?** Possibly as follows:

> - Individual Segregation by Asset – 2%?
> - Individual Segregation by Value/LSOC/gross omnibus (socialising of asset risk, but not position risk)
> - Net omnibus – 4% or as for **uncleared transactions**?

}\[ \begin{array}{c}
\text{2}\% \\
\text{or} \\
\text{4}\% \\
\end{array}\]
Regulatory divergence continued

- Mutual recognition and substituted compliance
- Scope: territorial and product
- Further issues
Possible solutions

- Bottom-up approach
- Common principles as to deference
- Advisory committees