

Professor Danuta Hübner

“Creating space for EU and UK financial hubs in a win-win situation”

Presentation of ECMI study

“Setting EU CCP policy – much more than meets the eye”

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The Report that has brought us here is good, timely and needed.

The authors put their collective finger on crucial elements of emerging reality, risks and consequences of choices to be made, they appreciate market forces and the space for policy makers, underline the importance of long term strategy of building competitive financial center, and interconnectedness between clearing and its other elements, bring the issue of competition between CCPs.

My reading of the report is that EMIR 2.2 is a strong and sophisticated supervisory framework that caters for different global financial interactions for both good and bad times, but it is not cast in stone.

It is true that EMIR 2.2 has not been tailor made for the time after the departure of the UK from the EU, but it is true that the joint group Sean Berrigan mentioned identified, rather early in the process, derivatives clearing as the most risky area requiring equivalence approach.

In this context, the EU found itself obliged to assess the best way to protect its interests both domestically and internationally, based on a high degree of coordination required across national authorities, central banks of issue and market infrastructures as well as on an effective oversight and powers over the third country CCPs.

Today, it is indeed hard to single out the issues arising in the area of clearing, from the general context of the EU-UK relationship. Ongoing problems look increasingly as a template for the future. There is an overwhelming lack of trust in this forming relationship. Numerous publicly made UK statements disappoint deeply. That is also, why one can easily see potential disruptions and crisis in the area of financial

cooperation. We build our future on the assumption that there will be divergence of the rules and systems between the UK and the EU. Not to mention, that there will be times of crisis.

Having said that, I still see the chances that the regulatory and supervisory framework for our cooperation as two separate jurisdictions can be based on shared values and interests. Both, the EU and the UK, can be globally recognised financial hubs that operate on the highest standards in a win-win situation. A cooperative approach is also needed in order to convince market participants that what we have is a credible relationship that does not aim at fragmenting the markets. For this reason, we need an enforceable EMIR, we need a rulebook and structures that are fit for times when things will not go well, and we need further strengthening of ESMA.

On the EU-side, a lot of legislative and regulatory work has been ongoing in the area of crisis management, with reforms of the Economic and Monetary Union (EMU) architecture, and also the banking sector, including the finalization of Basel III. These frameworks are of crucial importance, facilitating the work of supervisors and reducing the risks that come with national options and discretions.

Not least, I also think that it is obvious, legitimate and desirable for European financial powers and markets to grow based on an international mindset and global presence of our financial institutions.

Concerning the challenges that come with the excessive exposures of central counter parties, I believe that the conditions that are conducive to the voluntary reduction of exposures can be enhanced by policy, ensuring enforceability while making sure at the same time that the approach adopted would not undermine market confidence. While building up clearing liquidity should be market-driven, the appropriate rulebook can offer lowering barriers to market entry.

In my experience uncertainty, if it goes behind certain limits, can produce damage. It is therefore good news that the Commission has issued a statement about equivalence. Doing nothing, allowing the equivalence to lapse and watching whether clearing moves to Europe, should not be an option. ESMA is currently working on a comprehensive assessment of the systemic importance of the UK - based CCPs. I assume ESMA will provide the data and hopefully the methodology for better understanding the level and nature of excessive exposures and the risks emerging for financial stability.

Beyond these considerations, there is yet, also, another issue that requires clarification, which concerns what path we should take to develop the clearing capacities of the EU based CCPs. In this context, ESMA's opinion, based on good understanding of available data, will be fundamental to assess the feasibility of risk

handling, the costs of fragmentation of liquidity, but will also take us closer to answering a fundamental question on whether we can ensure a credible, stable, efficient financial system while having most market infrastructures in other jurisdictions.

The list of accompanying questions is long, including the one whether Europe can have a globally relevant currency without a powerful clearing system, but also whether you can have a stable, credible system based on a location policy.

In general, as I said at the beginning, I believe that the EU rulebook on clearing has created a system with strong safeguards against financial stability risks. I have no doubt that an economy of the size of EU has to build its own strong financial power and choose the best options. Its cooperation with a third country jurisdiction cannot be based on trust coming from politics but from shared interests and supervisory and regulatory cooperation. I continue to believe that a constructive dialogue between the EU and the UK leading to an agreement facilitating building European financial power would also benefit UK. There is space for both jurisdictions in the clearing business.

Of course on the EU side you might find some who would prefer to have relocation imposed, some would prefer further temporary extension of the equivalence, some would see a solution without a time restricted extension of equivalence. However, nobody wants a cliff edge solution. Nobody wants a disruption of the market.

It does not come as surprise that in a situation where the 'previously' European financial center has floated away creating unpredictable future, in all related discussions the issue of exposures and related risks have become fundamental. Especially that unfortunately COVID-19 induced crisis has provided evidence that good neighbors can become less good neighbors.

The European Commission, strongly engaged in the process through various forms of action, discussions on all options, and finally took publicly the voice last Wednesday. The market has received a message from this announcement.

We are now awaiting the assessment of ESMA, which will provide a more detailed evaluation of choices. I also trust that ESMA will tell us which data we don't know yet.

I can also imagine that while purely market-based option, when it comes to a balanced exposure, needs more time to materialise, a regulatory shift has its credibility risks.

I can also imagine that whatever the choice, this can be seen as a chance to have supervisory and regulatory adjustments and new elements in the approach to the supervision of the EU CCPs.

But in my view, the main objective of the EU clearing policy is not only financial stability, important as it is. This policy should improve the competitiveness of EU framework to allow European institutions to access global liquidity pool, to boost growth of EU companies through facilitating raising capital by making hedging less expensive and more effective. Clearing location policy has been designed as a last resort tool and should stay there. Experience of Australia and Canada, mentioned in the report is worth looking at.