



keler ccp

Dilemmas and possible solutions

15 June 2021
Budapest

1. Question No.1. What kind of a CCP do we need?
2. Question No. 2. Regional vs. Local solution in clearing?
3. Question No 3. How can a regional HUB be achieved?
4. Suggested steps to be taken

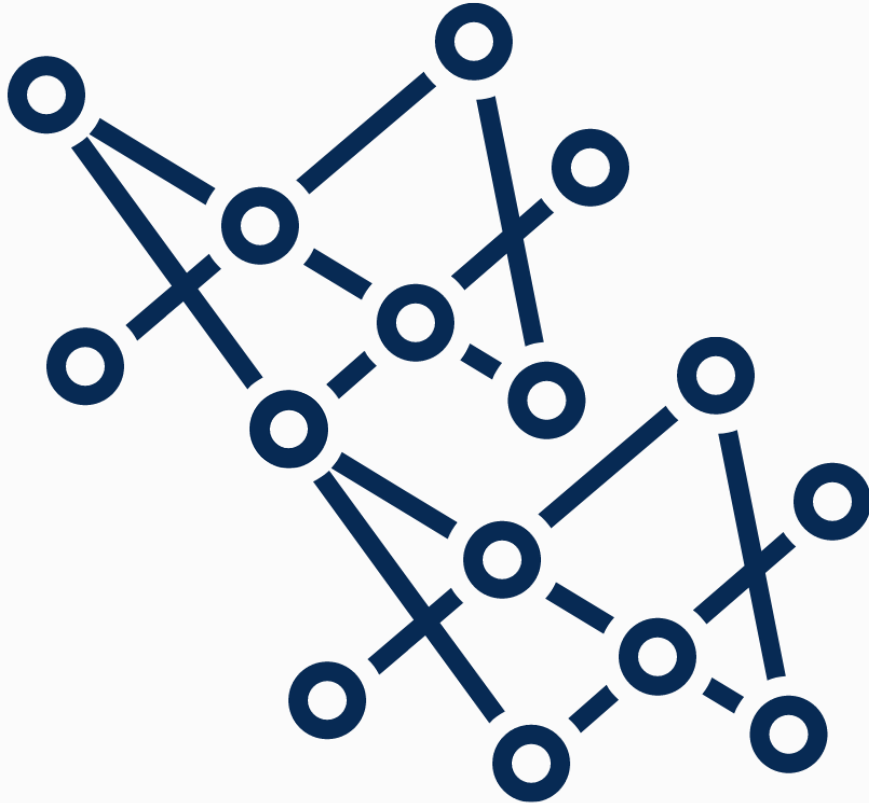
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Question No 1.

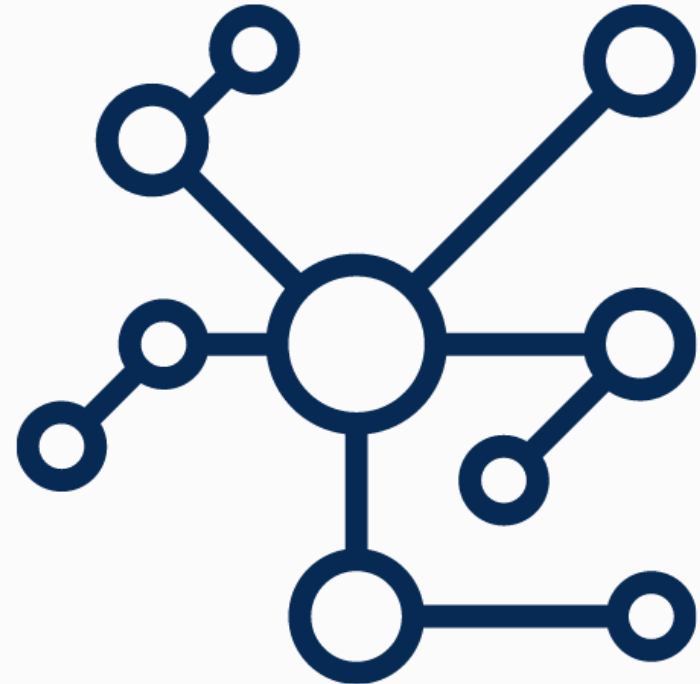


- I. Does the exchange need a clearing house?
- II. Shall we establish one or contract with an existing one?
- III. If we contract existing clearing house, do we need a real CCP (EMIR license) or just a „non-CCP” clearing house?

Markets without CCP



CCP cleared market



Setting up a CCP from scratch



- Highly flexible solution,
- National interest can be asserted best,



- Capital intensive,
- Know-how is needed,
- Long and complicated licensing procedure,
- Whole system of connections, IT solutions, legal and operational set up is needed,
- Higher execution risk,

Using an existing CCP




- More cost and time efficient,
- License and know-how is given,
- Operational set-up, infrastructure is given,
- Potential of benefitting from reaching existing Clearing Members of the CCP,
- Bigger „trust” of the market,
- In case of EU based CCP, market might value the transfer of EU legislation to the clearing procedures,





- Must accept and adapt to existing standards,
- In several markets of SEEGAS, this means a CCP outside the „national” borders (foreign service provider)


EMIR licensed CCP

„Non-CCP model” (non-EMIR licensed clearing house)

- 
- Complying with EU standards,
 - Ability of standing in the international competition,
 - Possibility of launching derivative products (regardless of their interpretation as financial products or not),
 - High level of transparency,
 - Expectedly bigger trust from the market,

- 
- Flexibility in risk management and prudential set-up in case of spot commodity products,
 - Easier licensing procedures in case of newly launched products and markets,
 - Fixed costs of CCP is smaller (capital as well as requirements are less strict)

- 
- Strict standards for spot commodities also,
 - Fixed cost of CCP is high, therefore relatively expensive solution (in case of „single market” view)

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- Not allowed to clear financial instruments pursuant to MIFIR,
 - Obstacle developing markets further (i.e. launching derivative markets),
 - Less transparency and lower level of safety → lower level of trust from market participants

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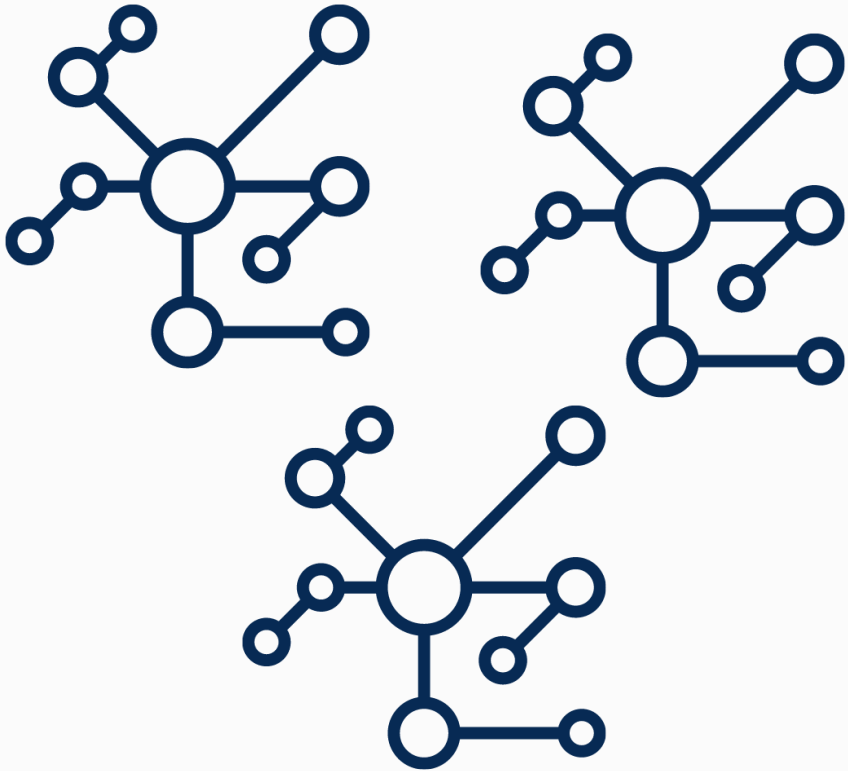
Question No 2.

Shall the exchanges go for a single REGIONAL clearing house?

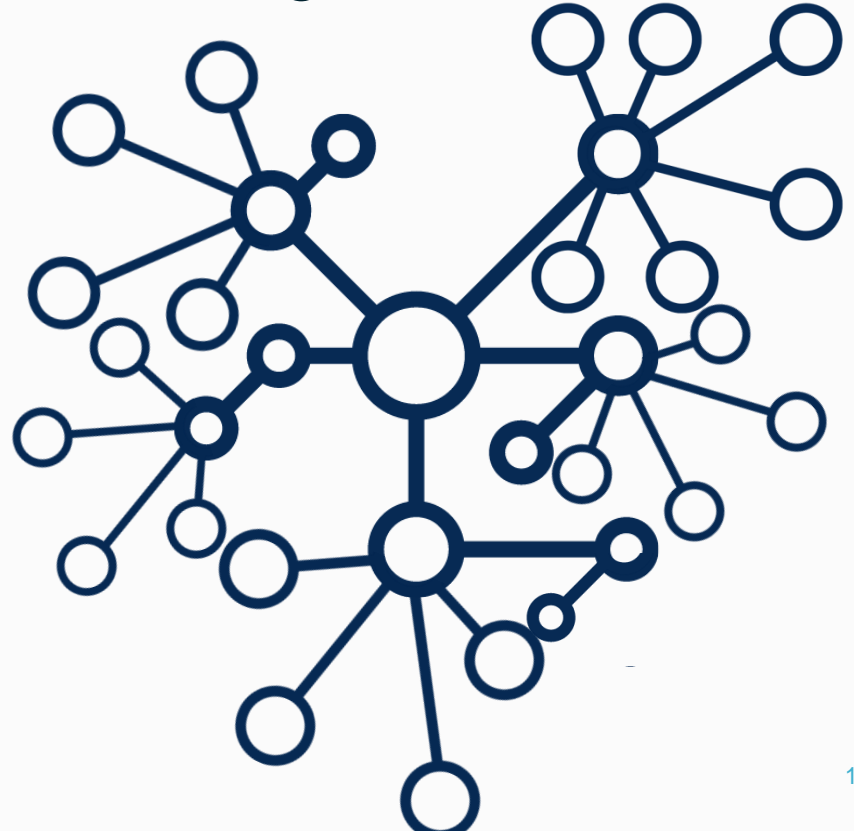
- Shall the exchange choose the clearing house, that the others choose?
- What is my benefit?
- How long this will take?
- Is it possible at all?



Markets with separate CCPs



Regional CCP



Local CCP

Regional CCP



- Highly flexible solution,
- National interest can be asserted best



- Potential of benefitting from reaching international Clearing Members of the CCP,
- Able to attract a broader clearing membership to local markets compared to national CCPs,
- Can achieve economies of scale,
- Cross-market potentials,
- Can drive significant expansion in market liquidity,
- Ability of standing in the international competition,



- Capital intensive,
- High fix operating costs,
- Know-how is needed,
- Connection to other markets would be difficult,
- No opportunities to benefit from cross-market potentials



- Must accept and adapt to single standards,
- Less possibility for individual markets to introduce special own market based needs during clearing (e.g. own currency)

A regional CCP has a more compelling proposition in an increasingly competitive central clearing market than national CCPs

Regional CCP could achieve significant economies of scale through more cost effective capital expenditure and operating cost synergies

A regional CCP, by providing clearing services through members in multiple geographies across products, has a more compelling proposition to market participants

Regional CCP has a broader set of clearing members and more flexibility on pricing than national CCPs

By reducing counterparty credit risk, a regional CCP would also increase the attractiveness of local CEE markets to international investors, which drives up trading and listing volumes

Rational for regional CCP emerging market CCP



Cost synergies in terms of risk management capabilities, staffing and IT infrastructure



Lower upfront investment costs if a regional CCP can build upon existing CCPs rather than building a green field



Serve smaller markets where establishing a separate CCP would be cost prohibitive



More competitive pricing and product offering as larger scale attracts more entrants



Reduce counterparty risk, because larger CCPs can attract more international investors

Practical implications of establishment a regional CCP

High-level approach: Build out of existing CCP

- 1) Take advantage of existing regulatory approval
- 2) Leverage risk infrastructure (IT, processes, etc)
- 3) Enable broad participation across local markets
- 4) Start with achievable goals and build upwards



Key risk/ challenges to address

- ❖ Identify lead CCP infrastructure and governance structure
- ❖ Establish appropriate ownership and governance structure
- ❖ Complexities of regional default fund and risk contagion
- ❖ Political stances over regional vs national impacts
- ❖ Cross-country venue connectivity and IT requirements

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Question No 3.

How is it possible to have a regional CCP for the whole SEEGAS community?

1. Expecting CCPs to „merge” or cooperate
2. Merger or Holding on the Exchanges’ side
3. Establishing a basis to have a real regional CCP



1. Expecting CCPs to „merge” or cooperate

1. SEEGAS coordinates and makes suggestions / best practices available for clearing
2. Each exchange selects and contracts with a CCP (one or other), based on those common standards
3. CCPs are expected to somehow cooperate or merge



- Power of decision making remains local
- The Regional Clearing solution is left fully to CCPs



- CCPs can not „cooperate” (benefits of regional CCP is not possible with some linkage of CCPs)
- Regional CCP is only possible, if the chosen CCPs merge or create holding themselves

Despite common standards agreed, all the exchanges need to work on clearing solution „alone” (lot of effort and time), the regional solution will be delayed and all depends on CCPs. Merger of CCPs is also very difficult (capital market example!)

2. Merger or Holding on the Exchanges' side

1. Merger or creating a Holding of local exchanges
2. Legally and technically creating one single market
3. Select a single CCP for the Holding



- Simple, clean, transparent situation,
- Economies of scale,
- Competitive power in Europe



- Local, national exchanges' transformation to a holding / merged regional exchange is a pre-requisite,
- Might be very complicated and long process legally, politically,

Most straight forward, but probably impossible due to different „local” interest of exchanges

3. Establishing a basis to have a real regional CCP



- Process if centralized (SEEGAS and EBRD), but partners are not obliged to use the full outcome
- All participant can use the „Market Service Design)
- Chance to have regional CCP



- Mandate, roles and responsibilities of SEEGAS and EBRD must be agreed on (legal entity?)
- For the sake of the regional solution (if following the RFP winner), single exchanges might need to give up part of their individual needs in respect of clearing

1. Creating an agreed **Clearing Market Design**, that all SEEGAS member can accept as „regional standard” (*can be used later by all exchanges*)
2. Authorising SEEGAS to issue a **Request for Proposal** (tender) among CCPs to see, who is able to meet the Market Service Design requirements most
3. Selecting a single CCP for the region, creating the „**MASTER AGREEMENT**”
4. Exchanges are still free to decide whether to choose the RFP winner or not

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1. Giving SEEGAS and EBRD mandate for issuing a procurement for the CLEARING MARKET SERVICE DESIGN
2. Advisory study / Market Service Design for an „ideal” CCP (two levels: EMIR and basic non-CCP model)
3. Common decision making based on the study by SEEGAS members for common preferential clearing solution (EMIR, non-CCP model, any other details)
4. Issuing an RFP for a potential regional CCPs
5. Decision by individual exchanges one by one (whether use the „master agreement” and contract with the suggested CCP or go in a different route)

1.

Giving SEEGAS and EBRD mandate for issuing a procurement for the CLEARING MARKET SERVICE DESIGN

- ❖ SEEGAS / EBRD mandate
- ❖ SEEGAS shall have a „legal form” (association)?
- ❖ Defining budget (what will be the cost of the study, who will pay)
- ❖ Who shall be invited?
 - ❖ Big4
 - ❖ Other clearing experts and advisors (e.g. Ponton)
 - ❖ CCPs themselves
 - ❖ Or the mix of the above

2. Advisory study / Market Service Design for a CCP

Defining the must have / joint requirements for clearing, that all SEEGAS exchanges define as „target” requirements, including:

- ❖ All functional requirements needed to start the IT-development for delivery of the clearing and settlement solution;
- ❖ The main non-functional requirements (*currency, place of settlement, risk management structure, etc.*);
- ❖ All other actions which must be performed in order for a regional CCP to effectively start clearing the respective SEEGAS markets;
- ❖ The key topics to be addressed in order for a regional CCP to obtain regulatory approval for clearing the SEEGAS markets
- ❖ Design to be drawn on basic and developed level, as well (EMIR or non-CCP model)

3. Common decision making based on the study by SEEGAS members for common preferential clearing solution
(from scratch/existing, local/regional, EMIR/non-EMIR)
4. Issuing an RFP for potential CCPs
 - RFP shall be put together based on the above „common decision” and the Market Service Design
 - Evaluation of RFP by SEEGAS -> SEEGAS to choose *ONE regional provider* that would be „suggested” for use for each exchange in SEEGAS

5. Decision by individual exchanges one by one:

- ❖ Signing of the MASTER AGREEMENT (covering all standards, regional topics) by SEEGAS
- ❖ MASTER AGREEMENT forms the basis of the „obligations of CCP” to offer for each exchange (standardisation is possible)
- ❖ MASTER AGREEMENT forms the basis of the „developments” that the CCP needs to do (one for „all”) no or very limited country-by-country negotiation is possible (to make it fast and simple)
- ❖ Each exchange to decide on its own decision making authority,
 - whether to finally follow the SEEGAS „suggestion” or
 - follow an own route (still benefitting from the Market Service Design)



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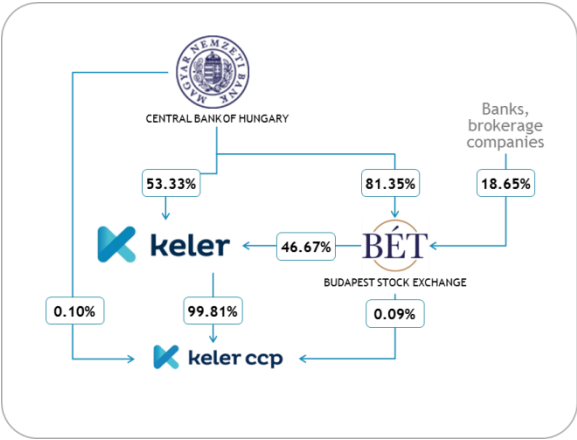
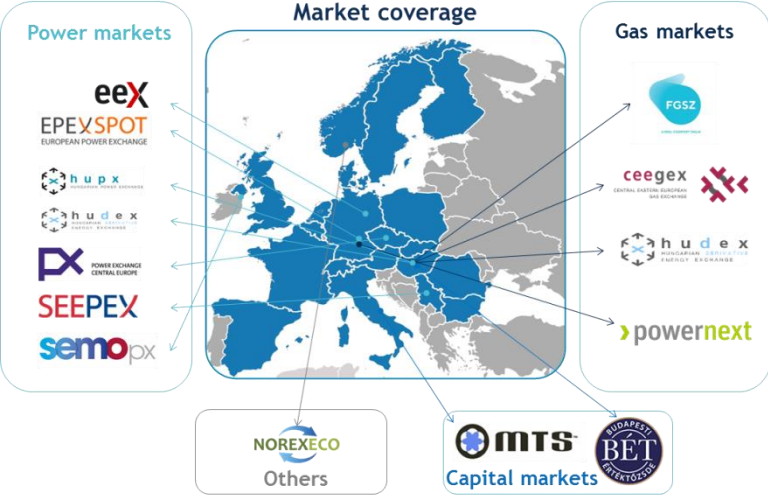
would be glad to support EBRD and SEEGAS already in the advisory work of the Market Service Design (service to be offered in official procurement of course)



would be interested to become a potential regional service provider (if the Master Agreement and requirements of SEEGAS will match KELER CCPs capabilities)

KELER CCP

11 years of experience in energy market clearing - spot, balancing and derivative as well



EMIR license valid throughout the EU for authorized asset classes

Financial instruments		Other	
Securities	Derivatives	Derivatives*	Assets*
<ul style="list-style-type: none"> Equity Debt 	<ul style="list-style-type: none"> Equity Debt Interest rate Currencies Commodities 	<ul style="list-style-type: none"> Commodities 	<ul style="list-style-type: none"> Commodities



* That are not MIFID financial instruments

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