



**AFM, DNB & FSA  
Interoperability:  
Regulatory Expectations**

## **Regulators acknowledge the potential benefits of interoperability.**

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- Enhanced netting possibilities
- Greater market efficiency
- Reduced market fragmentation
- Improved market access
- Operational and technical efficiencies

## **But Interoperability introduces additional risk**

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### **Including:**

- Counterparty risk
- Operational risk
- Legal risk
- Settlement risk

**Regulators: CCP competition on risk management is not envisaged**

## **This additional risk must be subject to adequate mitigation**

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Most notably the counterparty exposures between CCPs must be mitigated by the holding of additional resources in the clearing system.

- this collateralisation must be in addition to the existing collateral and default protections against counterparty risk

# Source of additional collateral



**The FSA, DNB and AFM is not prescriptive on the form of model adopted by CCPs to source this additional collateral or holding of this collateral, subject to:**

- The arrangements for the model work in practice
- The arrangement is scalable (markets, instruments, CCPs)
- The arrangement is transparent to the CCPs' members
- The arrangement does not put a CCP's compliance with financial resource requirements at risk.

# Re-Use of Member Collateral



Each CCP must at all times hold sufficient collateral from its members to mitigate the counterparty risk that those members present to it.

The FSA, DNB & AFM have no objection in principle to a CCP requiring its members to lodge additional collateral which the CCP will use to meet its collateral requirement to cover for the inter CCP counterparty risks

# Form of Collateral



- **If CCPs exchange collateral sums, the form in which such collateral is provided must:**
  - Ensure the collateral can always be accessed by a 'surviving' CCP in the event of a default by the CCP which has lodged the collateral.
  - But the collateral must not be at risk of being trapped by a default of the CCP holding it.

# The potential impact of EMIL



- It is possible that new regulatory/legal frameworks may be placed around interoperability as a result of EMIL (and other global regulatory co-ordination or legislative programmes such as the revision of the CPSS-IOSCO Recommendations for CCPs).
- We do not currently foresee these international processes impacting on the principles set out by the regulators and will continue with our processing of requests to interoperate.

## Way forward



The FSA, DNB & AFM (and FINMA & SNB) will continue to co-operate to facilitate interoperability and create a pan-european level playing field.

The CCPs will have to present a suitable model, individually or preferably collectively.