STRENGTHENING EU CLEARING

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Upgrading EMIR

Since its entry into force in 2020, EMIR 2.2 has endeavoured to respond to the high level of dependency of the EU on UK CCPs through an enhanced EU regulatory and supervisory approach, thanks to the creation of a new category of systemically important CCPs (so-called Tier 2) subject to direct supervision by ESMA and compliance with EMIR. However, EMIR also contemplated cases where a CCP or a clearing service may be of such systemic importance that the enhanced Tier 2 supervisory framework may still not be sufficient and required ESMA to conduct a comprehensive assessment on whether there are such risks inherent to certain of their services.

As part of this comprehensive assessment, ESMA identified three clearing services as being of substantial systemic importance, namely LCH Ltd SwapClear for euro and Polish zloty, ICE Clear Europe for credit default swaps and STIR services for euro products. While ESMA's assessment concluded that, at this point in time, the cost of no longer recognising these services in the EU would outweigh the benefits, ESMA also identified significant risks and vulnerabilities in connection with the continued recognition of these clearing services, in particular in times of distress. As a result, we proposed a number of measures to address the risks stemming from current exposure levels of EU participants to these clearing services.

The European Commission has added a new milestone to these reflections with the publication of its targeted consultation on the review of the central clearing framework, considering a broad array of measures to further build clearing capacity and liquidity in the EU, as well as to strengthen supervision.

In its high-level response, ESMA has put forward, amongst others, considerations regarding the scope and implementation of the clearing obligation, leveraging on recent workstreams and analysis such as the recommendation for pension scheme arrangements (PSAs) to clear as from June 2023, and also exploring new avenues, such as supporting voluntary central clearing by public entities at EU CCPs.

A significant shift in risk to the EU would require a robust and resilient supervisory system.

ESMA also finds that possible incentives for EU clearing participants to reduce their exposures to certain clearing services deemed of substantial systemic importance – such as prudential treatments of Clearing Member exposures, exposure reduction targets and active clearing accounts requirements – would warrant further work, noting that no single measure seems sufficient on its own. This would first require a thorough assessment of the risks and benefits of each measure or combination thereof to ensure that their costs are not disproportionate to the expected benefits for the financial stability of the Union and to avoid creating a shift of activities to other third-country CCPs, where the EU has limited oversight.

Reflections on potential incentives would of course not be limited to Clearing Members and should consider different routes to incentivise clients to clear at EU CCPs (such as reviewing counterparty exposure limits for funds), and to make EU CCPs more attractive.

Should these cumulative measures prove to be successful, a significant shift in risk to the EU would require a robust and resilient supervisory system. ESMA has identified possible routes to streamline supervisory procedures, and avoid duplicative and sometimes burdensome processes to ensure common supervisory outcomes. These proposals should also help shorten the time to market for EU CCPs, which need to be able to compete globally. However, this cannot and should not be perceived as a substitute for a necessary deeper and longer-term reflection as to how EU wide cross-border risk and fiscal responsibility should be addressed in the EU.

Last but not least, this process will not be completed instantaneously. In the meantime, ESMA and the CCP Supervisory Committee (CCP SC) need to be able to address the ongoing remaining risks within UK Tier 2+ CCP clearing services. This is why ESMA has made a number of proposals to ensure that the risks linked to the elevated exposure levels of EU participants to these clearing services are better addressed during this transition phase.

We at ESMA believe that it is essential to fully recognise the substantial systemic risks related the three services identified and to acknowledge that certain EMIR provisions (such as the current comparable compliance framework) may be ill-suited to address them.

More importantly, the EMIR framework caters primarily for business-as-usual situations and currently does not address crisis or distress scenarios, as the equivalence decision and the related Memorandum of Understanding between ESMA and Bank of England do not extend to the CCP Recovery and Resolution Regulation.

It is therefore vital to provide ESMA with related additional powers in order for the CCP SC to have access to timely information and to be able to intervene effectively in stress situations, in order to manage financial stability risks for the EU or individual Member States.

PAULINA DEJMEK-HACK

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The EU clearing strategy

The United Kingdom hosts some of the most significant central counterparties (CCPs) in the world, which play a crucial role for clearing the trades of EU market players. Significant volumes of financial transactions denominated in Union currencies are cleared through UK-based CCPs. In this context, the withdrawal of the United Kingdom from the EU and, as a consequence, from the internal market and from the Union framework of regulation, supervision and enforcement in the financial sector, created some challenges.

In light of the importance of such infrastructures for EU market players, from the very beginning of the Brexit discussions, central clearing was identified as an area where financial stability risks could be significant in case of an abrupt disruption of access of EU market participants to UK-based CCPs. The Commission adopted temporary equivalence decisions, covering the UK framework for CCPs, to avoid such an abrupt interruption of access.

In parallel, the Commission has repeatedly called on EU market participants to reduce their exposures and reliance on UK CCPs that are systemically important for the Union, particularly OTC derivatives denominated in euro and other Union currencies. However, given the moderate changes witnessed so far, the possible risks to EU financial stability caused by this over-reliance remain. This was also confirmed in the analysis made by the European Securities and Markets Authority (ESMA) under the European Market Infrastructures Regulation (EMIR), published in December last year. ESMA examined the degree of systemic importance of the Tier 2 CCPs, LCH Ltd and ICE Clear Europe, and found that certain clearing services provided by those CCPs are of substantial systemic importance to the EU or its Member States.

With a view to reducing this over-reliance, in November 2021 Commissioner McGuinness highlighted the need for the EU to develop its own clearing capacity and the intention to come forward with measures to make EU-based CCPs more attractive to market participants. At the beginning of 2022, the Commission held a public consultation to collect the views of stakeholders on a broad array of options to increase the attractiveness of clearing in the EU, enhance infrastructure development and strengthen supervisory arrangements with regard to EU CCPs. While the main aim is to address financial stability risks related to the over-reliance on certain CCPs, further development of financial market infrastructures in the EU will also support the Capital Markets Union. The consultation allowed the Commission to gather the views of a broad range of market participants and authorities.

Building a path to enhance clearing in the EU and support financial stability.

Clearing can be further developed in the EU in various ways. The public consultation included options on both the supply and the demand side of clearing services. In assessing the options and the most appropriate way forward, the Commission will consider the best ways of enhancing liquidity at EU CCPs and creating the conditions for expanding the range of clearing solutions on offer from EU infrastructures. For example, on the supply side, several stakeholders suggested that it might be easier for CCPs in other jurisdictions to expand their business than is the case for EU CCPs, given that some EU procedures may be longer and more complex. A short approval time for new products or services is key for international competitiveness.

As regards the demand side, the public consultation explored various options, ranging from measures to disincentivise clearing in systemic third-country CCPs to measures imposing more specific obligations on market participants to increase the share of clearing in EU CCPs. For example, the possible role of bank capital requirements in favouring a reduction of exposures to systemic CCPs was explored, as was the possibility for clearing participants to have an active account at an EU CCP. A combination of demand and supply-side options may be necessary.

In addition, the consultation explored ways to ensure that the supervisory framework for EU CCPs is robust and fit for the future. The Commission will look at how to improve the efficiency of supervision in view of a deeper EU clearing market. An increased capacity for central clearing needs to be accompanied by appropriate EU supervision of the risks.

The Commission is currently finalising its reflections on the most appropriate solutions to enhance clearing in the EU and support financial stability, with a view to proposing measures by the end of the year.

JULIAN REISCHLE
Director General Payments and Settlement Systems - Deutsche Bundesbank

Building EU clearing capacity – the way forward

Last year, the European discussion about central clearing focused heavily on the question of whether it could be necessary, based on financial stability concerns, that UK CCPs relocate parts of their clearing business within the EU to continue servicing EU-based clearing members. A comprehensive assessment carried out by ESMA to answer that question concluded that three clearing services at LCH Ltd and ICE Clear Europe Ltd are of substantial systemic importance to the EU's financial stability. However, ESMA also determined that the costs and risks of derecognising these UK clearing services would actually outweigh the benefits to the EU.

The European Commission also concluded that the EU would need more time to build strong and attractive central clearing capacity in order to reduce its overreliance on UK CCPs and consequently extended its time-limited equivalence decision for UK CCPs until June 2025. Despite the extension of the status quo, the current situation where the EU has large exposures to UK CCPs is not sustainable and continues to carry inherent financial stability risks that need to be addressed in the medium term. Consequently, targeted measures enabling EU CCPs to further expand their EU-wide clearing capacity are urgently needed.

To this end, the Commission publicly consulted stakeholders on possible measures that would help to improve the EU's central clearing framework. Summing up, it is true to say that there is no one measure that can single-handedly pave the way for a huge transfer of clearing volume to EU CCPs. However, some measures appear fairly promising when it comes to fostering the usage of EU-based clearing houses. In particular, a regulatory requirement in EMIR for clearing members to establish a clearing account at an EU CCP and to use it actively ("active account") could, depending on the final design, help steer clearing volume towards EU CCPs. Such a solution would also allow for the possibility of setting quantitative minimum levels of activity, which could be activated if the systemic overreliance on UK CCPs remains too high.

Moreover, further analysis is needed to ascertain whether explicit overall exposure reduction targets or guidelines could be set to help market participants and supervisors to monitor the progress made towards reducing the overreliance on UK CCPs. In addition, it is worth considering ending the current exemption with respect to the clearing obligation for pension scheme arrangements. This could further facilitate the use of central clearing in the EU and thus contribute to deeper market liquidity and lower costs for all market participants.

Policymakers should currently instead focus on how to streamline EMIR procedures and processes.

The second pillar of the Commission's strategy to strengthen central clearing in the EU is to improve its supervisory framework. While everybody will probably agree that current and future risks related to central clearing should be managed appropriately, there are different views on how best to achieve this. Since the introduction of EMIR there is a fairly broad consensus that various stakeholders need to be consulted on the supervision of EU CCPs. EMIR established supervisory colleges for each EU CCP, where stakeholders with different mandates of relevance to a CCP are represented (e.g. banking supervisors, national overseers, central banks of issue). This structure ensures that all relevant functional as well as European perspectives are reflected in the supervisory process for EU CCPs. This process has shown a positive track record and truly represents a joint European supervisory culture.

I do have doubts whether stronger EU-level supervision at the expense of the established college processes will positively contribute to the Commission's goal of building clearing capacity in the EU. Any shift in supervisory competencies away from the national competent authorities and the supervisory colleges towards ESMA runs the risk to render the already long and complex EMIR procedures even more costly for EU CCPs. In my view, policymakers should currently instead focus on how to streamline EMIR procedures and processes without endangering the high quality of supervision with respect to EU CCPs. For example, the process for determining which model changes and product introductions are classified as significant could be scaled back. At the moment, a lot of changes are classified as significant where this is not always warranted on pure risk management grounds.

Alternatively, more changes could be adopted by EU CCPs without a lengthy and costly procedure and then validated ex post by the national competent authority if necessary. This could help EU CCPs to be faster and more flexible when adjusting their products or currency offerings and thus to attract more clearing volume. These are vital components for building the EU clearing ecosystem, thereby offering viable alternatives to UK CCPs, and enhancing financial stability in the EU.

DANIEL MAGUIRE

Group Head, Post Trade & Chief Executive Officer - LCH Group

Resilience and competitiveness through open markets

Europe benefits from an effective clearing framework, based on high regulatory standards, openness, and cross-border cooperation. This model also supports the Euro as a global reserve currency. Leveraging it is critical for the EU's competitiveness. We believe there is scope to improve the current EU regulatory framework whilst avoiding exclusion and operational constraints for EU firms. Those improvements must, above all, come from within.

LSEG has a strong presence in the EU with over 2,200 people across 20 member states, including France, Germany, Italy, the Netherlands, and Ireland, making us one of the biggest Financial Markets Infrastructure (FMI) groups in the EU. LSEG operates LCH SA in Paris and LCH Ltd in London, two prominent EU and non-EU CCPs, which puts us in a unique position to support the EU's competitive agenda on both EU and third-country aspects.

LCH CCPs lead in several markets, including Interest Rates Derivatives (IRD), Credit Default Swaps (CDS), equities and government debt repos, where we clear most of the Euro denominated debt from 13 Member States, but also SURE and NextGenEU programs, which are of strategic importance to the EU. LCH SA's CDSClear is the only EU-based service clearing CDS and has increased its market share in recent years, clearing 49% of EU single names and 34% of the iTraxx© Index market from 5% over a period of five years. Meanwhile, LCH Ltd is a leading clearer for the global Interest Rate Swaps (IRS) market, where EU firms represent 14% of its business in IRD notional registered.

When it comes to EU CCPs, LSEG supports streamlining the supervision and approval processes, including by centralising the supervision at EU-level. This would make the current construct more efficient, reduce time-to-market and create a more efficient ecosystem in which EU CCPs can compete globally more effectively. The EU clearing ecosystem needs dynamic CCPs able to deliver new products, adapt risk models seamlessly, and capitalise on global opportunities in a timely manner.

A competitive clearing ecosystem also needs to enable a level playing field for all EU participants and CCPs compared to their non-EU peers. The Derivatives Trading Obligation (DTO) is a direct impediment to the competitiveness of EU CCPs and the further development of an OTC derivative clearing service in the EU. Existing restrictions under the EU DTO pushed the CDS interdealer trading and clearing subject to the DTO to the US. We believe it is important for the EU to holistically consider the DTO and similar regulatory initiatives that may impede the development of the EU clearing.

The best approach is evolving the current system rather than fragmenting it.

With regards to cross-border access, EU firms need access to global pools of liquidity (86% provided by non-EU firms). The European Commission's efforts to further enhance the EU's resilience and competitiveness should focus on greater cross-border supervision of Tier 2 CCPs. ESMA's proposal to increase its powers over the recovery and resolution process for Tier 2 CCPs could address the perceived risk stemming from EU firms' activities at those CCPs while ensuring undisrupted access to global pools of liquidity. Accessing global pools of liquidity in Euro and other currencies would maintain a level playing field for EU firms, supporting the Union's real economy ability to hedge its risks effectively and remain competitive, especially as EU firms tend to clear more IRD in non-Euro than in Euro.

Prudential tools would implement a gradual denial of access, have detrimental effects on both EU firms' competitiveness and the EU's financial stability. Attempting to place strict thresholds on EU firms' clearing activities would limit their ability to compete and negatively impact the execution and management of trades, with significant impacts on market transparency, price discovery and liquidity. In addition, capital requirements constraints would eventually lead to a fragmentation of the market, increasing costs for EU firms due to the loss of multi-currency efficiencies, the weakening of financial stability and increasing counterparty risk across the EU. This would also raise risk issues from a CCP perspective as EU firms would be limited in their ability to manage a default alongside non-EU members.

The EU has a non-restrictive system that works, and one which has guided its financial markets through recent storms unscathed. The latest thinking around improvements to the existing supervisory framework of CCPs would strengthen that EU ecosystem further and we support them. To deliver these improvements for Europe's businesses and consumers, we believe the best approach is evolving the current system rather than fragmenting it.

ERIK TIM MÜLLER

Chief Executive Officer - Eurex Clearing

A market-driven approach in symbiosis with the EU clearing roadmap

In light of the current geopolitical and macro-economic instability, the envisaged EU strategic autonomy agenda has been prioritized. Member States are increasingly aware of the EU's vulnerabilities in critical sectors and taking steps towards improving resilience. European Commissioner Mairead McGuinness emphasized that the EU's strategic autonomy considerations particularly apply to financial market infrastructures. EU finance ministers in turn expressed their backing of the Commission's efforts to reduce reliance on third-country infrastructures and build a competitive clearing ecosystem within the EU. Against this background, the Commission aims to utilize the time until the prolonged equivalence for Tier 2 UK CCPs expires in June 2025 to structurally strengthen and promote clearing within the Union. This is where the review of the EU clearing framework comes in.

Eurex Clearing welcomes the Commission's efforts to foster the Union's clearing ecosystem and the competitiveness of EU CCPs. From the launch of our partnership program five years ago, we have consistently advocated for a market-driven approach. Looking ahead, we believe the focus should be on broadening the clearing participant base, providing clearing incentives, and generating additional activity within the EU, whilst avoiding broad regulatory intervention which could undermine EU market participants' global competitiveness.

That is why we support in particular the idea that EU market participants maintain an active account with an EU CCP. From a risk management perspective, an active account would mitigate the risk of a reoccurring cliff-edge situation when equivalence elapses and ensure progress in building exposure in the EU. Clear communication by the EU regulators on active accounts could help to overcome the "first mover disadvantage" situation in which many firms already have the necessary arrangements in place to clear with an EU CCP but remain hesitant to use them without regulatory guidance. However, only if the market-driven approach does not deliver the envisaged results by mid-2025, regulators could consider setting target levels of business to be held in the EU. Any usage targets should be calibrated carefully with due regard to EU dealer's market making business and client clearing services for non-EU clients.

It is high time to "rethink and repower" the EU central clearing framework.

In addition, a broader scope of clearing participants could prove valuable to further boost the EU clearing ecosystem. Some pension scheme arrangements and public entities already clear at EU CCPs. If more of them cleared their business in the EU, it would contribute to a healthier and more balanced ecosystem of fixed payers and fixed receivers, and increase liquidity within the Union. As a result, there could be pull effects for other market participants, too, further increasing efficiency gains and progressing on the financial stability end.

Last but not least, temporary incentives to make the EU clearing environment more attractive should be considered as part of demand-side policies. These could include, for instance, a lowering of the capital charges for EU market participants facing an EU CCP or conceded rates by the ECB for funding initial margin or depositing cash collateral.

We note that EU policymakers are also contemplating a review of the supervisory framework to enhance the EU clearing ecosystem. From a process perspective, we would welcome targeted amendments to streamline the supervisory approval procedures for new services or model updates. Such streamlining would not just be about supporting the business development of EU CCPs. If EU CCPs are slowed down in bringing their offering to the market due to lengthy or complex approval procedures, markets of strategic relevance may be established off-shore, posing oversight challenges to EU supervisors. Limiting the scope of fully-fledged approval procedures to significant cases and letting less significant changes go through a simplified non-objection process would decrease CCPs' time-to-market significantly without lowering the quality of supervision.

Time is of the essence. The prolonged equivalence for Tier 2 UK CCPs provides a reasonable timeframe to implement the measures above and make progress on the EU's regulatory objectives. If market participants and CCPs contribute to the upcoming EU clearing roadmap constructively, a significant increase of clearing activities and sufficient rebalancing of exposures to the continent can be achieved. In the spirit of the Czech Council Presidency's motto, "rethink, rebuild, repower", it is high time to "rethink and repower" the EU central clearing framework to ensure a robust EU financial system contributing to the resilience of the whole economy.

CHRISTOPHE DELAFONTAINE
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Clearing: an EU strategic autonomy relying both on actors and infrastructures

The Capital Markets Union's (CMU) ambition is to create a single, unified EU capital market and improve the EU financial ecosystem – but how exactly will this be achieved? More specifically, regarding clearing infrastructures – an important piece of this ecosystem – what developments and measures could positively contribute to these efforts?

To meet these objectives we must:

- Ensure EU actors (clients and clearing members) subject to the clearing obligation have - for EUR and PLN derivative instruments identified as substantial systemic importance for the EU ("derivatives in scope") - a reliable and live clearing solution in the EU.
- Increase the intrinsic liquidity of the EU clearing market to make it more attractive to both EU and non-EU actors and generate a new competitive equilibrium between EU and non-EU CCPs.

However, forcing the relocation and liquidity shift from non-EU to EU CCPs would fail to reach this objective in the absence of extra territorial measures binding on non-EU actors. In fact, it could have the opposite effect and harm the international role of EU banks in the efficient functioning of EUR markets, resulting in missing both EU strategic autonomy objectives.

As such, following measures proposed by the Commission could help develop EU clearing services for derivatives in scope:

- Develop 'active accounts' at EU CCPs for EU actors, i.e. with daily margin calls, but without any minimum quantitative threshold in absolute or relative terms: we favor a market led approach, i.e. a guidance set by the regulator rather than a legislative measure. Not only a guidance could be announced without delay, but both approaches could be combined, the legislative process being launched concurrently and the implementation of the mandatory measure being contingent to the lack of a meaningful impact of the market led approach, to be assessed before the end of the temporary equivalence extension.
- Not renew the Pension Funds ("PSAs") temporary clearing exemption, subject to the appropriate accompanying measures to ensure PSAs would have, at all (including stressed) times, a smooth conversion tool of their securities holding into cash in order to face their clearing margin calls (Leverage Ratio exemption for banks of EGBs repos, dedicated fall back ECB repo facility available to banks under stressed markets).

Building a vibrant financial center : developing and attracting key actors, and strengthening post trade services.

- Encourage, mandatorily or not, EU public entities to clear at EU CCPs. Public support would contribute to the liquidity of, and confidence in, the EU clearing system.
- Address some technical blocking points, such as facilitating transfer of contracts from one CCP to another; payment in EUR currency in T2S system over an extended time range (possibly 24h); regulatory approval process when CCPs are extending their offer/amending their rulebook; or streamlining the accounting rules in case of transfer of cleared portfolios.

On the other hand, punitive capital charges targeting EU banks only should be absolutely avoided, as they will miss the objective of strengthening the EU clearing system. This would also impair the competitiveness of EU banks both on international markets and in the Union regarding activities with EU and non-EU clients. Losing competitiveness would question the ability of EU banks to stay in EUR derivatives market making and clearing activities, where they already face fierce competition from non-EU banks. If EU banks exit those activities, the EU market for end-users and the EU CCPs would end up relying fully on non-EU banks.

We must remember that market making and client clearing activities are 'client driven' activities: the client has the choice where to clear and EU banks cannot impose a clearing location.

If/whenever it is introduced, any prescriptive measure limiting the access to UK CCPs, or making it more expensive, should exclude these client driven activities with actors which are not in scope of these measures.

Finally, we believe that a stronger, simplified role granted to ESMA in the supervision of EU CCPs can significantly help grow the EU clearing system.

There are two last points to consider - not strictly speaking amongst the measures under review by the Commission - but which are critical developments:

- EU CCPs must expand and enrich their clearing offer. Successful relocation depends greatly on their capacity to be more attractive than non-EU CCPs. For EU CCPs to be successful they need to be credible competitors at the global scale, especially for US investors. It requires full capabilities to service US clients: extended hours (operations, risk management), proper regulatory licences, compatible legal framework, etc.
- Building a vibrant financial center is about attracting key actors at the heart of financial services - Clients (especially buy side, end investors), Sales and Traders – as much as strengthening the post trade services. The latter should be seen in conjunction with the other major components of the financial ecosystem. The post-Brexit rebalancing of the Sales and Trading forces to the EU – well advanced but still under completion – will be a key contributor to the new equilibrium in the clearing space.

JOSÉ MANUEL ORTIZ
Head Clearing & Repo Operations - SIX

Strengthening EU clearing. Key issues and priorities

Last February, the European Commission (EC) confirmed a three-year extension of the UK CCP equivalence. This confirmation came alongside a targeted consultation on measures to improve the competitiveness of EU CCPs and promote their usage among European participants. This consultation is the preamble of an ambitious package potentially affecting a very broad range of players in the private and public space.

Before discussing the details of the proposal, it is important to consider the potential unintended consequences of public intervention in the capital markets industry. Recent examples are restrictions in short-selling or dividend pay-outs adopted in Europe during the pandemic that resulted in a reduction of volumes and liquidity in the EU derivatives markets at the advantage of the US clearing industry. It must not be forgotten that we are part of a globalized environment where similar products are substitutes for each other independently of the origin of the investors.

Diving into the details of the EC's proposal, some measures could have a more positive impact on the competitiveness of EU clearing. The planned requirement for banks to have an active account in a EU CCP could become a sensible compromise solution, providing a real choice to diversify their CCP exposures, or to clear in the EU. The EC is also exploring how to extend the choice to client clearing by imposing obligations on clearing intermediaries. This is a relevant discussion, as client clearing is as crucial to the OTC derivatives business as the inter-broker activity.

Moreover, the EC is considering additional measures to attract new players into the clearing space, especially on the buy-side (funds, insurance companies, and MMF). The EC has exposed some inconsistencies in pre-EMIR legal pieces that limited or penalized the exposure of buy-side to CCPs. Therefore, it is likely that the legislative package will address these shortcomings too. Regarding public institutions' role in EU CCPs, a clarification on how to deal with public bodies' restriction to taxpayer money being exposed to private sector's default loses must be provided, rather than imposing non-expedient obligations.

Diversification is core to the EU CCPs strategy. Agile consistent supervision is key for innovation.

Although the initial proposals to explore product-widening plans have not been significantly supported by respondents to the EC's consultation, diversification is at the core of CCP's growth strategy. Investor appetite toward new assets is increasing and market providers are catching up. Let's consider for instance ETFs, which started as basic index-replication products and have evolved toward sophisticated structured and leveraged investments, or ETPs that have been designed to deliver exposure to digital assets. Some investors are particularly reluctant to get involved with unregulated products or service providers. Regulated market infrastructures add value and safety by managing the risks associated with these new volatile assets, providing solutions through sound, reliable systems, connectivity, and risk management processes that are highly valued by market participants and their clients.

At the same time, we are witnessing an increasing demand for voluntary clearing solutions beyond the OTC derivatives space. Some providers aim at freeing balance sheets from client exposures in traditional cash equity markets by channelling their internalized order book into CCPs. Others are looking into traditional digitalization (not DLT) to enable the representation into shares of any type of valuable property. Others are seeking to reduce funding costs by optimizing collateral and treasury management through central clearing, areas in which CCPs have been contributing with proven efficiency. To enable this, fostering innovation is required. New participation types, access profiles, or account structures may be needed. EU CCPs also need to be able to provide services at late hours and weekends, which requires support from central banks and regulators to facilitate collateral management beyond RTGS working hours. If the solution cannot come from central banks themselves, then regulators may need to alleviate the costs of commercial bank collateral deposits for banks and market infrastructures. Support to alternative innovative digital transfer of collateral may be an alternative too.

EU CCPs are currently competing with third-country CCPs under different supervisory frameworks, and with unregulated newcomers providing services that often mimic those of regulated infrastructures in the eyes of the unqualified investor. At the same time, market participants expect regulated infrastructures to cover new innovative access types, assets coverage, or trading flows.

EU regulators must support the innovation and diversification by providing agile supervisory and approval processes and avoiding those measures impacting the competitiveness of clearing participants and CCPs such as the anti-procyclicality measures or margining practices are taken without a critical global outlook.