

Is participants' capital requirements going to be a driver for the consolidation of clearing houses? Can they save contributions to clearing funds if CCPs consolidate?

Bob McGrail: Clients put up lots of margin in a lot of different organisations and oftentimes, margin deposits work against them rather than for them. If they are active on the cash and the derivatives markets, they often have to put up double margin. If you were able to manage margin across both markets, you might need to post none, as the underlying positions net out. So, consolidation clearly has advantages for the customers; collateral management advantages, and streamlined operating advantages. From the CCP standpoint, the ability to look across all products of a particular customer gives it a much better sense, beyond the positions, of what shape the customer is in.

Andrew Large: I assume you meant the risk resources the CCP collects to cover the residual risk of CCP default. The sensitivity varies very much according to the type of CCP member. Local traders, proprietary traders and global traders are very different. We do a lot of clearing business for repo trading. Repo traders do not typically see themselves as a profit centre, but more as conducting a type of asset and liability management. Other customers we speak to are very sensitive to the amount of risk resources we collect from them. The broker clearers in futures and options are not so sensitive about that because for them, there is a direct connection between the amount of margin they collect from their clients and what they have to deposit with us. But it is an issue that larger clearing houses have to be very sensitive to. I firmly believe we are on the verge of introducing a new portfolio based approach to margining. In most cases today, margining is not portfolio based, but position based. I know that Eurex is looking into this, so is the Options Clearing Corporation. A multi-product clearing house has a risk diversification which may legitimately and prudently allow it to collect less margin than five or six clearing houses that are gathered around particular asset classes only. So, we can and should do more than what we have done so far to make sure that we are not absorbing excessive resources from our member firms.

You said that the markets could consolidate more, but are actually hindered by the national regulators. So would a European directive on clearing and settlement offer new opportunities to clearing houses?

Orlando Chiesa: The chance is there, but the regulators would have to address two things which are not covered in directives today: First, national regulators have to protect their national interests, some of which are driven by national insolvency laws. So the lawmakers are quite restricted in their flexibility to enable pan-European clearing. With settlement it is even worse. The second aspect is that all those recommendations issued by various working groups, (CPSS/IOSCO etc.) will bring some harmonisation to regulatory oversight. But as they stand at the moment, they also cause a lot of legal conflict, many cannot even be implemented as they stand today. Many recommendations would actually break national laws. Once the affected laws were changed, consolidation in Europe could make progress. But is that always the right thing to do? We will probably end up with two or three large pan-European CCPs which may be in fierce competition. Besides, you will have national CCPs which will cover a domestic market, because there may be no value proposition for an international CCP to cover a certain national market; it might be too expensive. Maybe this will emerge into something like a "Hub and Spokes" model in the end.

Andrew Large: I believe that a directive, together with harmonising standards, is necessary to break down some of the national protectionism that is reflected in regulatory attitudes. There may be some natural softening arising from the fact that national regulators are now much more interested in clearing and settlement and are spending much more time together in exploring the issues. That may help. It has helped in the supervision of banks.

Could the process of collateral optimisation be outsourced to a third party, thereby avoiding the need to have mergers between CCPs?

Orlando Chiesa: The CCP-12 (they are actually 21now!) may have an answer. Within that group we talked about a global concentration of collateral management. Yes, in theory it is possible. But is also a question of how far we can agree between the CCPs to do that. In Europe it might be relatively easy. If you wanted to do that efficiently, you would need to use a limited number of custodians or CSDs to operate that outsourced collateral management.

Andrew Lamb: I do not think that the risk managers of the CCPs would like to outsource all of their collateral management. That would lead to a new concentration of risk which would probably be opposed by the regulators quite legitimately. On the other hand, there are examples for the outsourcing of some of the collateral management. For example within the LCH.Clearnet group: The Dutch members' collateral in LCH.Clearnet is managed by the Dutch central bank and the National Bank of Belgium. They meet their margin and clearing fund contributions through collateral which is held in their domestic central banks.

Bob McGrail: We are now mixing up collateral management and risk management! Collateral can be moved around the world easily. But the decision on the part of the CCP as to "how much collateral?" is a function of what they are actually managing. If they only manage a segment of the customer's entire portfolio, they will only calculate and collect margin for that particular segment. I do not know of any organisation that has ever outsourced risk management, I cannot imagine doing that.

Last question: Are you standing behind consolidation at all? What are you doing to get it done?

Bob McGrail: We do what our customers want. Many of our customers are global and they are looking for more efficient ways to manage their business. Consolidation is a good thing from their standpoint as well as from ours.

Peter Sami: We want competition. So for us, consolidation can make sense. The question is with whom and what are you merging. We do not see drastic consolidation happen in the next five years.

Orlando Chiesa: We also go for competition and that will automatically bring about consolidation, in the long run. Not everyone will survive. Consolidation to just one or two CCPs globally will not happen.

Andrew Lamb: I can not see the prospect for further consolidation in the short term. There have to be changes in the external environment first. The CCPs of newly demutualised exchanges might consolidate. That could be the next driving force in clearing house consolidation.

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