

The roadmap to international clearing is the debate itself. Let me start with an attempt to define the end-state: There will be a time where we will have a reasonably small number of globally connected central counterparties, dealing across all instruments, currencies and domiciles. Certainly that is a lofty objective, and not everybody inside or outside of this room may share this view. But the advantages, from a collateral and risk management standpoint, and the operational and cost efficiencies are there. In particular for the biggest global players who transact between 20% and 35% of the world's trading volume today. They are a minority, but a very significant one.

Let's look at the trend:

Our observations are that CCPs are increasing, in fact even proliferating: x-clear in Switzerland, CCG for Italian equities, the Australian equities CCP, the soon to be formed Austrian equities CCP, CCV in Mexico, DetNet for Canadian debt, a CCP at MEFF in Spain, the new Brazilian Mercantile and Futures Exchange CCP for Brazilian debt; there are projects in Taiwan and Korea, and elsewhere.

On the other side, we see consolidation going on at the same time. Andrew Lamb will have something to say about the LCH / Clearnet consolidation. We saw Eurex come to America and it did not create a new CCP but worked with what was then the Board of Trade Clearing Corporation (now The Clearing Corporation). That caused the merger of the Board of Trade Clearing Corp. and the Chicago Mercantile Exchange's clearing services into the CME Clearing House. If you believe in consolidation, there is also good news in Japan where there is a new unified CCP for all stock exchanges.

What are the drivers of proliferation?

One of the factors is that CCPs are aligning with exchanges. A March 2004 study indicates that of 37 exchanges, only 11 are not aligned with a clearing organisation in their market.

And, surprisingly, the number exchanges itself is increasing. We estimate that in 1990, there were about 50 exchanges for cash instruments. Today, there are at least 65 and that does not include all the ECNs and ATS's that have emerged in recent years, nor the new OTC derivative markets.

Lastly, exchanges are increasingly becoming publicly held organisations. Between 1998 and 2004, twelve exchanges became listed, ten in the cash markets. The World Federation of Exchanges in 2000 noted that 31 of 54 exchanges were either public or in the process of demutualising, and another 14 had plans to do so. Public ownership has some implications. First, there is the pressure of the quarterly profit statement. Second, there is the need to constantly expand service capabilities. Offering a CCP is one of the options for a publicly owned exchange to expand its franchise.

I looked at the US market where there is at least some competition. The regional exchanges and the ECNs compete with the major exchanges. Competition has emerged in some areas, but not in others and I need not tell you that the US is a market place whose regulator promotes competition.

If we take a look at the global environment, there is no global regulator who could create the kind of competitive environment one could hope for.

Is there an example for reaching global consolidation in our industry within reasonable time?

Ten years ago, the Bank for International Settlements and the leading central banks decided that the risk in the world's financial infrastructure, resulting from time zone differences, regulatory differences, differences in national clearing mechanisms etc., had to be addressed. In spite of the national clearing systems, operated by both the central banks and private sector organisations such as CHIPS in the US, the regulators determined that a new organisation had to be built. That was CLS, Continuous Linked Settlement, the "Bankers' bank" for foreign exchange settlements. Now some may say that CLS took a long time to materialise. But when you take a look into the future, and ask how long it will take to realise truly international clearing for securities and derivatives, the seven years it took to build CLS seem a rather short time. And if you look at the result, CLS has been quite a success!

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