

# TRIALS AND TRIBULATIONS

Wolfgang Aubrunner, managing director, CCP Austria and Kalina Jarova-Müller, head of operations cash market clearing & risk management, look at the post-trade business in Central Eastern Europe.



Kalina Jarova-Müller



Wolfgang Aubrunner

**W**hat are the greatest challenges of the post-trade business in Central Europe and what opportunities are there?

Aubrunner: The markets of Central Europe are developing at different paces. Some structures are still fragmented but noticeable improvements have also been made, like the founding and separation respectively of the central counterparty (CCP) and central securities depository (CSD) business. The different international initiatives in the area of post-trade business, like European Market Infrastructure Regulation (EMIR), are increasing the pressure to improve the infrastructure of the capital markets in order to meet international standards. At the same time, regional capital markets need successful public offerings to become more widely accepted.

**What is the magnitude of CCP Austria in the European context?**

Jarova-Müller: CCP Austria (CCPA) is the central counterparty for the Austrian financial market for all derivative and cash market transactions at the Austrian Stock Exchange (Wiener Boerse AG). In European dimensions we are a typical small to medium-sized CCP with a clearing volume of about €100 bn per year.

**Is CCPA going to offer its services beyond the Austrian borders?**

Jarova-Müller: The merger of the stock exchanges - Vienna, Prague, Budapest and Ljubljana to CEE Stock Exchange Group (CEESEG) - makes it necessary to close the gap in the post-trade business: There are still markets without a CCP. CCP Austria noticed open options and will accompany its national

and international clients into these markets. It is our goal to apply our knowledge, and to strengthen and further develop the regional capital markets.

Aubrunner: CCP Austria will become a cross-market central counterparty (CCP CEE) and will thereby increase the efficiency of post-trading in these markets. We develop the necessary clearing and risk management services in line with the highest international requirements.

**What is your time frame for the CEE clearing house?**

Aubrunner: As a first step, CCP.CEE will start operating in Vienna in mid 2012 and subsequently it will be rolled out for Prague's cash market. CCP.CEE will apply the same standardised contracts and clearing conditions in all markets, which will also make the market access a lot easier for new participants. CCP Austria has already connected most national and international clients, therefore business with different stock exchanges can be cleared without any additional costs. This will put the capital markets of CEE in the spotlight and get the attention of international banks and brokers.

Jarova-Müller: That way there will be an increase in liquidity - a benefit for the entire local capital market.

**Which system will be implemented?**

Aubrunner: Investors will increasingly turn to markets that guarantee easy, state-of-the-art market access. We went for London Stock Exchange Group (LSEG) as the provider, because it was also essential to get a solution that was available quickly. They offer a sophisticated international solution that can be adjusted to the specific requirements of the individual

markets. The platform's software was designed by LSEG and developed by the leading global exchange technology provider, Millennium IT. It will be operated by LSEG from its IT facilities in London and Milan.

**What is the ideal number of CCPs for a well functioning post-trade industry in CEE?**

Aubrunner: At the moment the CEESEG markets are too small for multiple CCPs. Only Austria and Hungary have a CCP and the trading volumes of the local stock exchanges are manageable. CCP Austria has wide, first-hand experience in the CEESEG markets. Therefore we will offer these markets clearing and risk management.

**Who will profit from this central clearing solution?**

Jarova-Müller: The local markets, in other words, the stock exchanges and all other market participants will profit from the new infrastructure that will reduce costs and facilitate market access. And these advantages will make these markets more interesting for regional and international investors. Settlement will continue to take place locally, though integrated clearing will allow for a streamlining of collateral management. We will calculate the margin and collateral requirements across all markets so that you will have only one margin requirement.

**How will EMIR influence the market developments?**

Aubrunner: Even before the outbreak of the financial crisis in 2008, the infrastructure was subject to a harmonization and regulation mania. That this became even worse in the last years is astonishing, since all CCPs in

the context of the default of Lehman Brothers had been put to the test and had proven to be effective. EMIR generally maps out new clearing rules in order to get a grip on OTC derivatives.

Jarova-Müller: We agree with the EU Commission's approach to regulate these products and that they need to be traded on regulated markets, and - for transparency's sake - cleared only by CCPs. Consequently CCPs will be liable for the clearing, and admission procedures for these derivatives. Due to these new requirements it is necessary to improve and standardize the structures of the CCPs. So EMIR calls for considerable investments into infrastructure. Also because of this we have lined up to provide the other CEESEG-markets with our CCP.CEE solution.

**Do measures of regulation like EMIR make clearing more expensive?**

Jarova-Müller: The EU Commission would like to define stricter requirements concerning the capitalization of CCPs. The increased equity requirements for banks are not conducive, as the risks and the business models of CCPs are fundamentally different from those of banks. The CCP's equity neither plays a role in daily risk management nor as a last line of defense in settling liability cases. The safety net of CCPs is extremely efficient and includes a number of independent lines of defense. On top of calculating security requirements sever-

al times a day (Intraday Margin Calculation), which already covers over 99% of the potential risk, CCPA manages a Mutual Guarantee Fund. The excellence of this fund lies in the extended obligations for subsequent payments by the members. Because of this extremely robust safety net, CCP Austria can fulfill its stabilising function without ever having to risk spending equity for crisis management. The requirements for own capital-resources are meant to guarantee that operations always clear properly and, if required, can be reduced, as for example in the case of a closure, in which a CCP (even without current earnings) must transfer positions, securities etc. of the members quickly and efficiently to other CCPs. In our opinion, there are plenty of efficient regulations in the respective national general frameworks, which one should refer to when drafting EMIR.

So, yes, if one settles for these regulations, clearing will inevitably become more expensive, as this leads to higher capital requirements. Paying interest for capital inevitably raises the costs of clearing. This is surely not in the market participants' interest.

**Can risk committees increase security?**

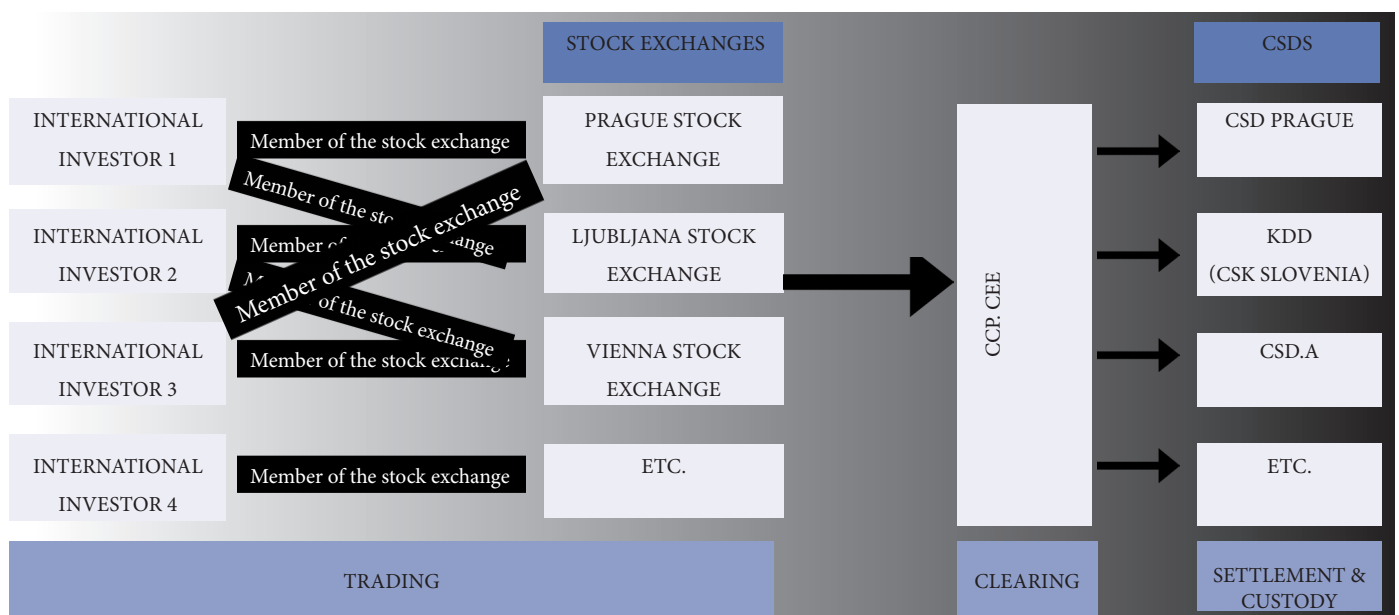
Aubrunner: Risk committees in the role of consultants could be useful. CCPA has already implemented a risk committee consisting of the extended management of CCPA. We particularly need to avoid a mandatory

involvement of market participants in risk committees. It would lead to conflicting interests and distort competition if those, who are subject of risk management and must provide collateral, can influence the kind and amount of collateral that need to be provided.

Jarova-Müller: One option would be the involvement of independent consultants (e.g. academics or experts from the regulatory authorities) or existing boards (e.g. advisory boards or audit committees of stock companies).

**Could a change in the ownership structure of CCPs contribute to more efficiency?**

Jarova-Müller: A mandatory participation of market participants would result in immediate negative implications for most CCPs, which mostly do not have market participants as co-owners yet. The possible influence of market participants on the central business model and the strategy of CCPs become problematic when such market participants are also competitors. The big international investment banks that are possibly interested in such participations usually operate clearing systems themselves and are therefore competitors. There is a risk of such co-owners obstructing the strategy of the CCPs - the introduction of measures to increase efficiency or impeding their development considerably. This kind of influence is more likely to drive up the costs of clearing than to cut them.



*Only one clearing institution – to facilitate the post trade process*