European Securities and Markets Authority

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PRESS RELEASE

ESMA publishes results of the second EU-wide CCP stress test

The European Securities and Markets Authority (ESMA) has published today the results of its second EU-wide stress test exercise regarding Central Counterparties (CCPs) established in the European Union (EU). The CCP stress test assesses the resilience and safety of the EU CCP industry and helps to identify possible vulnerabilities. The results of the second EU-wide stress test show that overall the system of EU CCPs is resilient to multiple clearing member (CM) defaults and extreme market shocks. In addition, the report also highlights individual CCP-specific results.

The stress test builds on the first CCP stress test conducted in 2016, which focused on counterparty credit risk only, with the second exercise including liquidity risks – examining whether CCPs would meet their liquidity needs under different stress scenarios. ESMA tested the resilience of 16 European CCPs with approximately 900 CMs EU-wide. The aggregate amount of collateral held by CCPs on the test date in the form of margin requirements and default fund contributions was approximately €270bn.

Steven Maijoor, Chair, said:

> "CCPs are considered to be low-risk entities, but as market infrastructures at the heart of the financial system, the failure of a CCP has the potential to cause serious systemic risk. Therefore, testing whether CCPs can withstand extreme scenarios involving clearing member defaults and simultaneous market price shocks is an important supervisory tool in mitigating systemic risk.
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> "I am pleased to see that EU CCPs have responded well to the rigorous scenarios used in conducting this second EU-wide stress test and are overall fit for purpose with sufficient resources to withstand severe market conditions. The expansion of the stress test to include liquidity risk in addition to counterparty credit risk has provided added reassurance on their resilience. The CCP stress test will remain an indispensable supervisory tool in contributing to systemic resilience, financial stability and orderly markets."

ESMA's stress test exercise highlights individual CCP-specific results

The second CCP stress test finds that EU CCPs are overall resilient, however, with a more developed stress methodology, this year's exercise allowed ESMA to highlight some individual CCP-specific results for the credit stress test. Under one of the scenarios tested, and in order to assess the resilience of each individual CCP to the default of its most relevant clearing members under harmonised price shocks, ESMA assumed the default of the top-2 groups of CMs selected for each individual CCP.

The defaulting CMs could be different for each CCP under this particular scenario, but still using the common market stress scenarios. This scenario produced the following results:

- For one CCP (BME Clearing), this scenario lead to a minor shortfall of required prefunded resources. The shortfall is only marginal and with no systemic impact, considering also that the CCP had access to surplus collateral of the defaulting members in other default funds and excess margin that could be used to cover this very small shortfall; and
- For another CCP (ICE Clear Europe), the required prefunded resources would be enough, but these would only marginally cover the simulated stress losses. The excess margin held on top of the minimum required, could also significantly reduce the consumption of prefunded resources. The reverse stress analysis was used to capture the sensitivity of the credit stress results to small changes of the underlying assumptions. It showed a high sensitivity to relatively small increases of either the number of defaulting groups (to 3) or the shocks (to 120% of the baseline stress shocks) that could lead to material breaches of its prefunded resources.

For the liquidity part of the stress tests, ESMA did not detect any major systemic risk concerns. CCPs use different tools to cover their liquidity needs, such as access to the short term FX markets and the use of highly reliable central bank repos or others, but ESMA found no particular deficiency in the management of liquidity risks by EU CCPs.

Market price shock scenarios

As CM default scenarios alone are in principle not deemed to endanger the resilience of CCPs, extreme market price shocks were also applied to CCPs. These are based on a set of pre-defined and internally consistent market stress scenarios that have been provided by the European Risk Board (ESRB) and are common across all CCPs. The same market stress scenarios are used for both the credit and liquidity stress tests.

CCP concentration and inter-connectedness analysis

The participating CCPs provided for the purpose of this exercise detailed data on their exposures and financial resources. This data was used to run the credit and liquidity stress tests, as well as providing an overview of the size of the European CCP market, the concentration of CCPs' credit and liquidity exposures as well as their interdependency through common CMs, custodians or liquidity providers.

The European Market Infrastructure Regulation (EMIR) requires ESMA to conduct EU-wide stress tests of EU-based CCPs on an annual basis. The exercise is conducted in cooperation with national competent authorities (NCAs), which supervise CCPs through supervisory colleges, and the ESRB. The stress test used reference data provided by CCPs which was validated and calculated by the NCAs based on the common scenarios and instructions.

ESMA has also issued a Question and Answers (Q&A) document which explains in more detail the overall scope of the stress test exercise, the different scenarios and methodologies applied as well as how the results should be read.

Notes for editors

1. Final Report on ESMA's second EU-wide CCP stress test

2. Questions and Answers (Q&A) regarding ESMA's second EU-wide CCP stress test

3. ESMA Framework for CCP stress tests

4. The European Markets Infrastructure Regulation (EMIR)

1. ESMA's mission is to enhance investor protection and promote stable and orderly financial markets.

   It achieves these objectives through four activities:
   - assessing risks to investors, markets and financial stability;
   - completing a single rulebook for EU financial markets;
   - promoting supervisory convergence; and
   - directly supervising specific financial entities.

2. ESMA achieves its mission within the European System of Financial Supervision (ESFS) through active cooperation with the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Systemic Risk Board (ESRB), and with national authorities with competencies in securities markets (NCAs).

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