



Leibniz Institute for Financial Research SAFE  
Sustainable Architecture for Finance in Europe (<https://safe-frankfurt.de/>)

## SAFE Finance Blog

### Regulation of the European Clearing Market

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02/02/2017

Jan Pieter Krahen suggests a single European authority supervising all central counterparty clearing houses



Would the collapse of some central counterparty clearing houses (CCP) endanger the stability of the financial system? And how can the fragmented European clearing market be regulated? These questions are subject to discussion in politics and academia.

Jan Pieter Krahen (<https://safe-frankfurt.de/de/forschung/wissenschaftler/details/showauthor/14-krahen.html>), Director of the Research Center SAFE and Professor of Finance at Goethe University Frankfurt, highlighted in the daily newspaper *Börsen-Zeitung* on 1 February the need for a single EU-wide

supervisory agency to coordinate and control the fragmented European clearing market. A single authority would be able to overview the entire CCP market and to interfere in case of market instability.

New regulation, introduced in the USA and in Europe after the financial crisis, obliges market participants to trade standardized contracts via central counterparties in order to foster financial stability. This step led to a considerable growth of clearing houses in recent years. However, this mutual dependence could develop to a systemic risk, warns Krahen. The increasing competition between clearing houses may induce them to decrease margin requirements below healthy levels.

The question of supervision is of relevance in particular in view of the Brexit and the planned merger of London Stock Exchange (LSE) and Deutsche Börse which both own clearing activities (LCH.Clearnet and Eurex). Krahen demands that clearing activities either run by the merged entity or – in case it may not come to a merger - run by the British CCP, should be domiciled within the borders of the Eurozone and be supervised by a single authority. The reason is that a distressed CCP would have immediate impact on the banks in the Eurozone.

### More on this topic:

Jan Pieter Krahen / Lorian Pelizzon: “Predatory” Margins and the Regulation and Supervision of Central Counterparty Clearing Houses (CCPs), SAFE White Paper No. 41 (<https://safe-frankfurt.de/policy-center/policy-publications/policy-publ-detailsview/publicationname/predatory-margins-and-the-regulation-and-supervision-of-central-counterparty-clearing-houses-ccps.html>)


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