

Brussels, 27/09/2017

Jakob von WEIZSÄCKER:
**"Creating stronger incentives for prudent risk management
in order to safeguard taxpayer's interest"**

Today, the co-rapporteurs **Jakob von WEIZSÄCKER (S&D)** and **Kay SWINBURNE (ECR)** published their draft report on the Commission's proposal for the recovery and resolution of Central Counterparties (CCPs).

The co-rapporteurs' main focus is on maintaining systemic stability while minimising the risk that any taxpayer's money has to be used for the bail-out of a failing CCP. This requires sound incentive structures for prudent risk management and increased private loss-absorption capacity. The co-rapporteurs also propose strengthening the powers and legal position of the resolution authority.

Jakob von WEIZSÄCKER comments: "The first important goal for recovery & resolution is to create sound ex ante incentives for prudent risk management. When push comes to shove, losses are to be borne by the sector to the fullest extent possible, with CCPs first on the line, clearing members second and clients third in order to protect taxpayers. To achieve this, we are significantly more prescriptive than the Commission in the sequencing of tools to be applied in recovery. CCPs should also have less discretion in diverging from the plan. If and when recovery fails, the resolution authority must be able to come in quickly and forcefully. We therefore strengthen the legal position of resolution authorities when taking resolution action and do not exclude any tools ex-ante. We also make sure the no-creditor-worse-off rules permit a realistic allocation of losses to private participants by the resolution authority."

In recovery, the co-rapporteurs' proposal entails a clear hierarchy of tools in order to set incentives right and increase overall loss-absorption capacity. The allocation of losses between CCPs, clearing members and their clients thereby reflects their ability to control the risks. Loss absorption begins with a prescribed obligatory bail-in of the CCP's capital and includes an obligatory cash call on clearing members of an amount at least equivalent to the default fund before any losses are attributed to clients. The credibility of the incentive structure is strengthened by requiring CCPs to obtain explicit approval from the competent authority for every deviation from the recovery plan.

Where recovery is likely to fail, transition to resolution must be swift. Therefore, the co-rapporteurs propose to increase the legal protection of resolution authorities in triggering resolution and applying tools by means of setting a higher bar for legal challenges. Once the resolution stage is reached, the full range of loss allocation tools needs to be available in order to protect taxpayer's interests and preserve systemic stability. This means that no resolution tools are to be excluded ex ante. In order to safeguard the interest of the taxpayer against problematic private sector claims for compensation after resolution, the co-rapporteurs propose to include the value of continuity of the CCP to market participants in the calculation of the No Creditor Worse Off (NCWO) counterfactual.

Jakob von WEIZSÄCKER further comments: "Beyond this draft report, and as we move forward with the file and the EMIR review, I would hope that the more systemic cross-border nature of large CCPs as compared to the average bank subject to single supervision in Banking Union will be fully appreciated. Ideally, this would lead to the creation a single supervisory as well as recovery & resolution architecture for CCPs, including the creation of a CCP resolution fund."