

SUERF BAFFI Bocconi

panel on

Financial Markets: Systemic Risks in Plumbing?

Nicholas Vause, Bank of England

Any views expressed are solely those of the presenter and so cannot be taken to represent those of the Bank of England or to state Bank of England policy. They should therefore not be reported as representing the views of the Bank of England or members of the Monetary Policy Committee, Financial Policy Committee or Prudential Regulation Committee.

Agenda

1. Central clearing and dealer balance sheets
2. Reducing reliance on dealer balance sheets
3. Reducing systemic risk in OTC markets

1. Effects of central clearing on dealer balance sheets: case study for gilts and gilt repo

- Data on UK dealers' gilt and gilt repo trades in 2020 Q1
- Switch *various* trading counterparties to *common* CCP
- What reduction in (Basel III Leverage Ratio) exposures?

- Gilts: 80% (but same effects now under Basel III)
- Gilt repo: 40%
- Gilt repo + maturity standardisation: 55%

2. Options for reducing reliance on dealer balance sheets

- Clearing (mandate or encourage via bilateral haircuts)
- All-to-all trading
- Post-trade transparency
- Central bank backstops
- Countercyclical leverage ratio

3. Further reducing systemic risks in OTC markets

- OTC derivatives clearing now widespread
 - Counterparty risk ↓
 - Liquidity risk ↑
- Reduce margin reactivity
- Increase margin preparedness