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Lael Brainard: Safeguarding Financial Resilience through the Cycle

Speech by Lael Brainard, Governor of the Board of Governors of the Federal Reserve System at the Global Finance Forum, Washington, D.C., 19 April 2018

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I am honored to be here today to participate in the Global Finance Forum.

It is a good moment to take stock of the cyclical position of the economy and the health of the banking system. [1] In many respects, where we are today is the mirror image of where we were just a decade ago. The job market is strong, household balance sheets have improved, and business activity is solid. Banks are doing well--credit growth is robust, profitability is strong, and capital and liquidity buffers have been fortified. While this progress is heartening, we cannot afford to be complacent. If we have learned anything from the past, it is that we must be especially vigilant about the health of our financial system in good times, when potential vulnerabilities may be building. Safeguarding resilience through the cycle should be a critical consideration in our ongoing evaluation of the regulatory framework. With that in mind, I will spend a few minutes describing current conditions and then outline our ongoing work to ensure the financial system's buffers continue to sustain resilience over the cycle.

Current Conditions

Cyclical conditions have been strengthening. Our growth here at home has been bolstered by synchronized growth abroad as well as supportive financial conditions. Employment growth has been heartening, and we are seeing the strong labor market continue to draw prime age Americans back into the labor force from the sidelines. Sizable fiscal stimulus is likely to reinforce cyclical pressures at a time of above-trend growth and tightening resource utilization. There are few historical episodes of similar pro-cyclical fiscal stimulus to draw upon as we assess the outlook. But in the few cases where resource utilization has been near the levels we may soon be approaching, there have been heightened risks either of inflation, in earlier decades, or of financial imbalances more recently.

Currently, inflation appears to be well-anchored to the upside around our 2 percent target, but there are some signs of financial imbalances. Our scan of financial vulnerabilities suggests elevated risks in two areas: asset valuations and business leverage. First, asset valuations across a range of markets remain elevated relative to a variety of historical norms, even after taking into account recent market volatility. Corporate bond yields remain low by historical comparison, and spreads of yields on junk bonds above those on comparable-maturity Treasury securities are near the lower end of their historical range. Spreads on leveraged loans and securitized products backed by those loans remain narrow. Prices of multifamily residential and industrial commercial real estate (CRE) have risen, while capitalization rates for these segments have reached historical lows.

Second, business leverage outside the financial sector has risen to levels that are high relative to historical trends. In the nonfinancial business sector, the debt-to-income ratio has increased to near the upper end of its historical distribution, and net leverage at speculative-grade firms is especially elevated. As we have seen in previous cycles, unexpected negative shocks to earnings in combination with increased interest rates could lead to rising levels of delinquencies among business borrowers and related stresses to some banks' balance sheets.

Safeguarding Resilience through the Cycle

We continue to assess the overall vulnerabilities in the U.S. financial system to be moderate by historical standards in great measure because post-crisis reforms have strengthened the regulatory and supervisory framework for the largest U.S. banking firms. The crisis revealed a stark weakness in the capital and liquidity positions of many of our large banking organizations that left many of them incapable of dealing with financial stress and necessitated unprecedented government intervention. A primary focus of post-crisis financial reform has been strengthening capital and liquidity buffers at large banking institutions, which has bolstered the safety and soundness of these institutions and reduced systemic risk more broadly.

In terms of liquidity, not only do our largest firms now have the right kind and amount of liquidity calibrated to their funding needs and to their likely run risk in stressed conditions, but they also are required to know where it is at all times and to ensure it is positioned or readily accessible where it is most likely to be needed in resolution. Prior to the crisis, many of the largest firms did not even have a good handle on where their liquidity was positioned. For example, our largest banking firms have increased their holdings of high quality liquid assets from 12 percent of assets in 2011 to 20 percent of assets in 2017, and they have reduced their reliance on short-term wholesale funding from 37 percent of liabilities in 2011 to 25 percent of liabilities in 2017. [2] This, combined with critical reforms to money market funds and other vital short-term funding markets, have reduced the vulnerabilities in the financial system associated with liquidity mismatch and maturity transformation.

In terms of capital, the quality of capital has improved with a particular focus on common equity, the most loss-absorbing form of capital. The quantity of capital also has increased through higher minimum requirements and new capital conservation buffers that require banking firms to keep their capital levels well above the minimums in order to maintain full flexibility to allocate profits to capital distributions and employee bonus payments. These buffers increase the ability of banking organizations to absorb losses and continue to lend to households and businesses, including during times of stress. Indeed, the common equity capital to risk-weighted assets ratio of the bank holding companies participating in the Comprehensive Capital Analysis and Review has more than doubled from 5.5 percent in the first quarter of 2009 to 12 percent in the fourth quarter of 2017. [3]

We now regularly conduct comprehensive stress tests of the largest banking firms to help ensure that their capital distribution plans are consistent with their ability to lend and withstand severe macroeconomic and financial stress like that observed during the financial crisis. One key benefit of our stress testing program is that it promotes a dynamic forward-looking assessment of a bank's capital adequacy in the face of severe stress. It is critical to maintain a dynamic capital regime that anticipates rapidly changing risks and business conditions. Without such a dynamic focus, there is a risk that regulators and banking institutions end up spending too much time looking in the rear-view mirror and not enough time looking ahead for emerging risks. The stress testing capital regime applied to Fannie and Freddie before the crisis offers a sobering reminder of the dangers of failing to update stress tests in the face of changing market practices and emerging risks.

The Federal Reserve has also imposed risk-based and leverage capital surcharges on the most systemic banking firms to ensure they internalize the costs their failure would have on the financial system and to provide an incentive to reduce their systemic footprint. We have recently released a proposal for comment to introduce a "stress capital buffer" or SCB that would integrate the forward-looking stress test results into each institution's ongoing capital requirements.

Some observers contend that current capital requirements are too onerous and are choking off credit. But the evidence suggests otherwise: U.S. bank lending has been healthy over recent years and profits are strong. By any measure, U.S. banks appear very competitive relative to their international peers. In that regard, the current level of capital is a sign of strength. While there is a natural tendency to question the value of capital buffers when times are good, the severe costs associated with not having enough capital to absorb losses become all too evident in a downturn. By the time losses are rising, it is generally too late to start building buffers, which became all too clear with devastating consequences in some countries during the last crisis.

I support efforts to identify improvements that make regulations less burdensome. But it is vital to be prudent regarding any material changes to the core capital and liquidity framework, and not lose sight of the need to safeguard financial resilience through the cycle. Prudence would argue for waiting until we have tested how the new framework performs through a full cycle before we make judgments about its performance. At this point in the cycle, it is premature to revisit the calibration of core capital and liquidity requirements for the large banking institutions. [4]

History suggests that a booming economy can lead to a relaxation in lending standards and an attendant increase in risky debt levels. I would be reluctant to see our large banking institutions releasing the capital and liquidity buffers that they have built so effectively over the past few years, at a time when cyclical pressures and vulnerabilities in the broader financial system are building.

Indeed, if cyclical pressures continue to build and financial vulnerabilities broaden, it may become appropriate to ask the largest banking organizations to build a countercyclical buffer (CCyB) of capital to maintain an adequate degree of resilience against stress. The CCyB is an additional margin of capital that the nation's largest banks can be asked to build to sustain resilience when there is an elevated risk of above-normal losses, which often follow periods of rapid asset price appreciation or credit growth. This buffer is intended to be released as the economy weakens in order to allow banks to lend more when it is most needed. Countercyclical capital requirements can lean against rising financial vulnerabilities at a time when the degree of monetary tightening that would be needed to achieve the same goal would be inconsistent with the dual mandate goals of full employment and price stability. Moreover, countercyclical capital requirements build resilience, unlike monetary policy.

The CCyB framework, which was finalized in September 2016, requires the Federal Reserve Board to vote at least once per year on the level of the CCyB. While other jurisdictions have developed some experience with the use of countercyclical buffers, in the United States, the CCyB has so far not yet been activated. The condition set out in September 2016 for raising the CCyB above its minimum value of zero is that financial system vulnerabilities are meaningfully above normal.

When the CCyB rule was issued in September 2016, it was calibrated against the backdrop of the established levels of required U.S. structural buffers. Thus, it would be prudent to accompany any consideration of material adjustments to the calibration of the structural buffers held by the large banking institutions, with compensating adjustments to the countercyclical buffer in order to achieve the same overall level of resilience through the cycle.

Completing the Agenda

While we have made important progress in our regulatory framework, we still have not implemented a few key elements. The list of remaining items is short but important and well anticipated.

First, we are close to finalizing the net stable funding ratio, or NSFR. This significant liquidity regulation is important to ensure that large banking firms maintain a stable funding profile over a one-year horizon. It will serve as a natural complement to our existing liquidity coverage ratio, which helps ensure firms can withstand liquidity strains over a 30-day time horizon. And by most estimates, our large complex banking institutions are in a position to meet the expected requirements with little adjustment.

Second, we need to finalize Dodd-Frank Act limits on large counterparty exposures. These limits will reduce the chances that outsized exposures, particularly between large financial institutions, could spread financial distress and undermine financial stability as we witnessed during the last financial crisis. Moreover, these large exposure limits will effectively update the traditional bank lending limits that proved useful for well over 100 years for today's challenges, by recognizing the many ways in which banks and their affiliates take on credit exposure beyond directly extending loans.

I support efforts to improve the efficacy of the Volcker rule while preserving its underlying goal of prohibiting banking firms from engaging in speculative activities for which federal deposit insurance and other safeguards were never intended. The interagency regulation implementing the Volcker rule is not the most effective way of achieving its very laudable and important goal. We are exploring ways to streamline and simplify the regulation to reduce costs without weakening the key objectives. We should be able to provide firms and supervisors with greater clarity about what constitutes permissible market-making. We should also identify ways to further tailor the Volcker compliance regime to focus on firms with large trading operations and reduce the compliance burden for small banking entities with limited trading operations.

I also support moving forward with minimum haircuts for securities financing transactions (SFTs) on a marketwide basis to counter the growth of volatile funding structures outside the banking sector. International agreement on a regulatory framework for minimum SFT haircuts was reached by financial regulators in 2015, and it is important to follow through on this work plan. While current market practices in this area may well exhibit much better risk management than pre-crisis, past experience suggests we cannot rely on prudent practices to remain in place as competitive and cyclical pressures build. Regulatory minimum haircuts calibrated to be appropriate through the cycle could help ensure that repo, securities lending, and securities margin lending and related markets do not become a source of instability in periods of financial stress through fire sales and run-type behavior.

Here, I have focused primarily on the reforms that are most important for the resilience of the large interconnected banking organizations at the core of our system. Outside of this group, I favor better tailoring the regulatory framework for our smaller banking firms so as to decrease regulatory burden. While we have taken some important steps to reduce burden on smaller banking organizations such as streamlining the Call Report for small, less complex community banks, increasing appraisal thresholds for CRE loans, and reducing the frequency of exams in certain circumstances, there is more we should do.

Conclusion

History and experience show that stable economic growth is aided by strong regulatory buffers that bolster the resilience of our large banking organizations and help reduce the severity of downturns. At a time when cyclical pressures are building, and asset valuations are stretched, we should be calling for large banking organizations to safeguard the capital and liquidity buffers they have built over the past few years. Maintaining resilience over the cycle can be accomplished through a combination of structural and countercyclical buffers whose calibrations are inherently linked. While we should carefully consider how to make our regulations more effective and better tailored, we must take great care to ensure that we do not inadvertently contribute to pro-cyclicality that would exacerbate financial conditions that are, on some dimensions, somewhat stretched. Although I believe it is too early today to reassess the calibration of existing capital and liquidity buffers because they have yet to be tested through a full economic cycle, I look forward to efforts that are planned in future years in the international standard-setting bodies to assess the framework quantitatively.

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1. I am grateful to Anna Harrington of the Federal Reserve Board for her assistance in preparing this text. The remarks represent my own views, which do not necessarily represent those of the Federal Reserve Board or the Federal Open Market Committee.

2. These statistics reflect the 18 advanced approaches bank holding companies subject to the standard Liquidity Coverage Ratio.

3. These statistics are for the 18 bank holding companies that participated in both the 2009 and 2017 stress tests. The risk-based capital statistics for 2009 report tier 1 common equity, and for 2017 report Basel III common equity tier 1.

4. Cost-benefit studies support capital requirements at current levels or higher. See, for example, the review of evidence in Simon Firestone, Amy Lorenc, and Ben Ranish (2017), "An Empirical Economic Assessment of the Costs and Benefits of Bank Capital in the US (PDF)," Finance and Economics Discussion Series 2017-034 (Washington: Board of Governors of the Federal Reserve System, April).

Fonte: BRAINARD, Lael. Safeguarding Financial Resilience through the Cycle. Disponível em: <https://www.federalreserve.gov/newsevents/speech/brainard20180419a.htm> Acesso em: 26 de abril de 2018

Mario Draghi: IMFC Statement

Statement by Mario Draghi, President of the ECB, at the thirty-seventh meeting of the International Monetary and Financial Committee, Washington D.C., 20 April 2018

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The euro area economy has been expanding robustly, with growth broad-based across countries and sectors. The economy grew by 2.8% in year-on-year terms in the fourth quarter of last year, according to the latest estimate. This strong performance has translated into notable improvements in the labour market. The unemployment rate in the euro area has dropped to its lowest level since 2008, while the number of people employed has increased by almost eight million since mid-2013. Notwithstanding the latest economic indicators, which suggest that the growth cycle may have peaked, the growth momentum is expected to continue.

Domestic demand remains the mainstay of the ongoing recovery, underpinned by the ECB's monetary policy measures. Private consumption is supported by employment gains and increasing household wealth. Business investment has strengthened amid improvements in corporate profitability, very favourable financing conditions and solid demand. In addition, euro area exports are benefiting from the broad-based global expansion.

The latest ECB staff projections put annual real GDP growth at 2.4% in 2018, 1.9% in 2019 and 1.7% in 2020. While recent data releases have overall been weaker than expected, risks to growth remain broadly balanced. Downside risks continue to be related primarily to global factors, including rising protectionism. The latter may have already had some negative impact on global sentiment indicators. In this context, preserving free and open trade that is underpinned by multilateral cooperation is crucial to foster a favourable global economic environment.

While headline inflation in the euro area has been somewhat volatile in recent months, this largely reflects the impact of base effects in energy and food inflation. Measures of underlying inflation remain subdued overall, but are expected to rise gradually over the medium term, supported by the ECB's monetary policy measures and in line with the ongoing re-absorption of economic slack and rising wage growth. The latest ECB staff projections point to annual euro area headline inflation of 1.4% in 2018, 1.4% in 2019 and 1.7% in 2020. Exchange rate volatility and financial conditions represent sources of uncertainty which require monitoring with regard to their possible implications for the medium-term outlook for price stability in the euro area.

Looking ahead, while our confidence in the inflation outlook has increased, remaining uncertainties still warrant patience, persistence and prudence with regard to monetary policy. An ample degree of monetary stimulus remains necessary for underlying inflation pressures to continue to build up and support headline inflation developments over the medium term. Accordingly, our net asset purchases are intended to run at the current monthly pace of €30 billion until the end of September 2018, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. Furthermore, the ECB will continue to reinvest the principal payments from maturing securities for an extended period of time after the end of the net asset purchases, and in any case for as long as necessary. Finally, the Governing Council continues to expect the key ECB interest rates to remain at their present levels for an extended period of time, and well past the horizon of the ECB's net asset purchases.

The condition and resilience of the euro area banking sector has continued to improve. The aggregate Common Equity Tier 1 ratio of significant institutions in the euro area stood at 14.3% at the end of the third quarter of 2017, up from 13.7% a year earlier. Euro area banks also saw their profitability improve in 2017, in part supported by the robust economic expansion and the limited cost of risk. Continued efforts to address non-performing loans (NPLs) resulted in an overall decrease in the NPL ratio for banks under ECB supervision from 6.5% to 5.2% in the third quarter of 2017. Notwithstanding these positive developments, a number of structural challenges continue to dampen banks' profitability prospects. These include, to varying degrees across countries and banks, cost inefficiencies, excess capacity and a lack of income diversification, while NPLs still remain high in some countries. In this context, a comprehensive action plan for dealing with legacy asset quality issues has been adopted by the Council of the European Union and is now being followed up by EU and national authorities. The ECB has published guidance to banks on NPLs, including its supervisory expectations for the prudential provisioning of new NPLs. Furthermore, in cases where Level 3 assets are material for specific banks, we continue to devote significant attention to potential valuation issues through both our off-site and on-site supervisory processes.

With respect to financial stability more broadly, the economic recovery has improved the resilience not only of banks but also of the non-financial sector in the euro area. Private sector debt ratios have declined in recent years. There are so far no indications of excessive credit growth or broad-based asset price misalignments in the euro area. However, developments in asset prices require close monitoring as risk-taking continues to gain momentum in financial markets and valuations are becoming stretched in some market segments. The ECB expects the national macroprudential authorities in the euro area to remain vigilant and continue to use the macroprudential policy instruments at their disposal to counteract any emerging risks when necessary. On its part, the ECB will contribute within its macroprudential mandate.

The positive developments in the euro area are not independent of the global growth momentum. Open trade, investment and sustainable financial flows play a key role in the cross-border diffusion of new technologies that drive forward efficiency improvements. They need to be underpinned by effective multilateral cooperation, both in the field of trade and in financial regulation and supervision, to help avoid major disruptions in global financial stability. Preserving openness is crucial if the global economy is to thrive and to secure its growth potential.

In the euro area, decisive contributions from areas beyond monetary policy remain necessary to raise the longer-term growth potential and reduce vulnerabilities. The current favourable economic conditions, in a politically stable environment, should help euro area countries to step up the implementation of reforms and thereby spur innovation and investment, further creating new jobs and reducing unemployment. A full and consistent application of the EU's economic governance framework, including the European Semester and the macroeconomic imbalance procedure, remains crucial to effectively incentivise national ownership of structural reforms. The current solid economic expansion also calls for fiscal buffers to be rebuilt in line with the requirements of the Stability and Growth Pact. The full and consistent implementation of the Pact is essential to ensure credibility and confidence in the EU fiscal framework, to rebuild fiscal buffers in national budgets for potential challenges ahead and to safeguard public debt sustainability. This is particularly important in countries where government debt remains high. In addition, all euro area countries would benefit from intensifying efforts towards achieving a more growth-friendly composition of public finances.

The Economic and Monetary Union (EMU) should be strengthened, first by implementing what has already been agreed and finishing the common projects we have started: completing the banking union, strengthening the governance and the operational capacity of the European Stability Mechanism and building a capital markets union. At the same time work needs to continue on designing and establishing a time frame for an effective and incentive-compatible euro area stabilisation function. A more complete EMU will be the foundation for a stable and resilient euro area economy contributing to global economic growth and financial stability.

Fonte: DRAGHI, Mario. IMFC Statement. Disponível em: <https://www.ecb.europa.eu/press/key/date/2018/html/ecb.sp180420.en.html> Acesso em 26 de abril de 2018

Benoît Cœuré: A cooperative approach to CCP recovery and resolution

Panel intervention by Benoît Cœuré, Member of the Executive Board of the ECB, at the ILF Conference on “Resolution in Europe: the unresolved questions”, Frankfurt am Main, 23 April 2018

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The order of the topics at today’s conference on “resolution in Europe” was well planned.[1] The fact that we are discussing central counterparty (CCP) resolution after discussing bank resolution echoes the fact that CCP resolution is, by and large, an event that occurs only when all other safeguards, including bank resolution, have failed.

There are a number of reasons for this.

One is that the ways in which CCPs are set up makes them particularly resilient. CCPs are not banks, they are (financial market) infrastructures.

They manage the risk of a matched book and rely on the strength of their membership to provide margin and to share losses if this proves insufficient. Bail-in is integral to CCPs’ operational set-up, as clearing members are required to share losses. In this way, their resilience is further strengthened by banking supervision and recovery and resolution arrangements which help ensure that clearing members meet their obligations.

Another reason for CCPs’ resilience is the implementation of international standards. [2] The Principles for Financial Markets Infrastructures of the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) have recently benefitted from more granular guidance providing clarity to CCPs and their regulators. [3]

This also includes risks other than financial ones. The adoption of the CPMI-IOSCO guidance on cyber resilience for financial market infrastructures, for example, is an important step towards operational resilience. [4]

Yet, while CCP resolution remains a very unlikely event, the disorderly failure of a major CCP would be disastrous.

Many CCPs are globally systemic, responsible for clearing global markets and with participants from across the world. This is why the Financial Stability Board (FSB) guidance on central counterparty resolution, and its focus on planning and cooperation between authorities, is important.

Cooperation in resolution planning, and co-ordination between recovery and resolution planning, is essential to ensure that a CCP is always able to continue performing its systemically relevant functions across all concerned jurisdictions. I will return to this in a minute.

I also welcome the fact that policy discussion is now scrutinising seriously the wisdom of increased top-down prefunding requirements for CCP resolution. It is doubtful that such requirements would be effective or proportionate, given the very low probability of CCP resolution and the marked differences between CCPs' risk profiles.

What is more, increasing funding requirements could discourage the use of CCPs and instead push counterparties towards riskier and more opaque bilateral clearing. And while I would not exclude cases where additional financial resources should be available for both recovery and resolution, ring-fencing resources for resolution only may distort the incentives of all stakeholders to support a successful recovery.

That said, the resolution authority should have flexibility to determine the optimal choice of available tools, as well as the best point in time for entry into resolution, as long as the "no creditor worse off" principle is respected.

It is helpful to assess how further guidance could support authorities in assessing potential resolution funding needs for individual CCPs, taking into account, for example, the specific risk characteristics of the products they clear, the types of market they serve and the concentration in CCP memberships. I fully support work currently under way in the FSB in this respect.

Today, I would like to focus on three key areas where more work is needed.

First, more international cooperation is needed.

Authorities responsible for several major cross-border CCPs have not yet embarked on resolution planning and no cross-border crisis management arrangements are yet in place. [5]

This could be because of barriers to sharing confidential information, including different approaches as to what is considered confidential and what timely. If that is true, then these barriers need to be removed.

Likewise, authorities may be reticent to engage with others while legislative frameworks are still evolving. Assessing the cross-border implications of a CCP resolution takes time and discussions should get under way as soon as possible.

CPMI and IOSCO are conducting some work in this respect.

Second, authorities need to better understand how a CCP resolution might look like.

CCP resolution scenarios cannot be defined in absolute, quantitative terms given the nature of market events causing resolution. There will always be considerable uncertainty around CCP resolution and related funding needs.

Nevertheless, further steps should be taken to improve the analytical foundation of CCP resolution planning and to better prepare authorities.

While the FSB is addressing this issue in its report, I see two steps in particular.

First, CPMI and IOSCO have recently published guidance for supervisory stress testing, which includes guidance on how multiple authorities can conduct stress tests. [6] Testing a CCP's recovery plan by authorities may help to assess the market conditions under which recovery – and potentially resolution – may be necessary, as well as the potential funding required. Internationally coordinated stress-testing is essential to foster a better understanding of the aggregate amount and quality of committed funding that is available across major CCPs.

Co-ordinating CCP and banking stress testing will provide additional understanding on how resolution plans would work in case of extreme scenarios.

Second, recent analysis of central clearing interdependencies carried out by the standard-setting committees has revealed the limited number of banking groups that are members of CCPs across the world, thereby closely linking CCPs themselves. [7]

Even without stress testing, it is easy to understand that a CCP under stress would send a liquidity shockwave across its participants and beyond as it requires additional margins and/or passes on losses. This is especially important for central banks. With stress testing, potential funding strains can be further explored, and useful information for CCP and bank supervisors as well as resolution authorities can be gleaned.

Third, European arrangements for CCP recovery and resolution must be coordinated.

The significant interdependencies between CCPs globally are also present in the Single Market. Resolution planning should therefore be coordinated across all European Union CCPs. [8] This is crucial to preserve financial stability within the Union in the event of a crisis.

Critics of EU-wide coordination claim that the fiscal risks of central clearing arise primarily in CCPs' respective home countries. But given that cross-border membership of EU banks in EU CCPs is widespread, this argument is flawed.

The losses faced by a CCP during default management and recovery and resolution are mostly borne by its clearing members, rather than by the CCP itself. Even though a CCP's home country may choose to provide temporary public funding during resolution, such support would be recouped from clearing members, in line with their obligations to contribute to comprehensive loss absorption.

Therefore, fiscal risks would in fact appear to arise in countries in which major CCP participants are located. Domestic authorities may need to provide these participants with financial support if they are faced with large payment obligations due to CCP losses.

Thus, EU-wide coordination in resolution planning is necessary to ensure that system-wide risks are fully identified and mitigated in a fair and effective manner.

At the same time, a resolution is not a discrete event. The boundaries between default management and recovery and resolution are blurred, so it is important to align responsibilities and control measures throughout the potential lifecycle of EU CCPs.

The resolution of a CCP relies, to a large extent, on the recovery process. Under the legislative proposal for a regulation on CCP recovery and resolution, authorities will be required to enforce CCPs' contractual obligations before using any resolution tools, subject to limited exemptions.

Another aspect to keep in mind is that systemic risk for the Single Market may arise not only from EU CCPs, but also from non-EU CCPs with substantial activities in the EU. This aspect will become increasingly important after the United Kingdom's departure from the EU.

Against this background, current efforts to strengthen the EU arrangements for third country CCPs are very important. In particular, if a third country CCP is systemically important for the EU, it is not enough to focus on regulatory equivalence alone.

While deference to home country rules and supervisors should be used to the extent possible, EU authorities also need to have tools for direct liaison with a third country CCP to identify, clarify and address issues that may pose specific concerns from an EU financial stability perspective. This is fully in line with the set up in other major jurisdictions.

Similarly, as regards CCP resolution, the development of home country arrangements in line with international standards must be complemented with the involvement of relevant EU authorities in resolution planning in line with international standards, to ensure that their systemic risk concerns are fully taken into account.

To sum up, CCPs are systemically important across border and across the EU. Any recovery and resolution planning for individual CCPs therefore requires an EU wide systemic risk assessment and a strong co-ordination at global level.

At EU level, this could involve, for instance, aggregated data collection, joint stress-testing and crisis simulation exercises, and the closer coordination of related supervisory assessments and recovery and resolution planning. And given the financial stability, macroprudential and liquidity issues a CCP resolution raises, central banks must be involved in all aspects of this work.

Thank you.

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[1] I would like to thank Corinna Freund for her contributions to this speech. I remain solely responsible for the opinions contained herein.

[2] At all times, CCPs are required to hold prefunded, high quality collateral to cover 99% of current and potential losses that may arise from their participants defaulting. On top of this, they need to hold additional resources to withstand a range of extreme but plausible stress scenarios. These could include, for instance, the two largest participants in a major cross-border CCP defaulting. To prepare for situations of even more extreme market distress, CCPs also need to formulate recovery plans that show how they intend to absorb losses and restore business viability. See Cœuré, B. (2015), "Ensuring an adequate loss-absorbing capacity of central counterparties," Remarks at the Federal Reserve Bank of Chicago 2015 Symposium on Central Clearing, Chicago, 10 April.

[3] See CPMI-IOSCO (2017), "Recovery of financial market infrastructures – Revised report", July.

[4] See CPMI-IOSCO (2016), "Guidance on cyber resilience for financial market infrastructures", June. The Eurosystem recently established the Euro Cyber Resilience Board (ECRB) for pan-European Financial Infrastructures, which will help raise awareness and provide a platform for discussing issues related to cybersecurity. See Cœuré, B. (2018), "A Euro Cyber Resilience Board for pan-European Financial Infrastructures", introductory remarks at the first meeting of the ECRB, Frankfurt, 9 March.

[5] Under the FSB Key Attributes of Effective Resolution Regimes, FSB members have committed to establish crisis management groups for CCPs that are systemically important in more than one jurisdiction.

[6] See CPMI-IOSCO (2018), "Framework for supervisory stress testing of central counterparties (CCPs)", April.

[7] See BCBS, CPMI, FSB and IOSCO (2017), "Analysis of central clearing interdependencies", 5 July.

[8] See also ECB (2017), Opinion of the European Central Bank on a proposal for a regulation of the European Parliament and of the Council on a framework for the recovery and resolution of central counterparties and amending Regulations (EU) No 1095/2010, (EU) No 648/2012, and (EU) 2015/2365 (CON/2017/38), 20 September.

Fonte: CŒURÉ, Benoît. A cooperative approach to CCP recovery and resolution. Disponível em: < https://www.ecb.europa.eu/press/key/date/2018/html/ecb.sp180423.en.html> Acesso em 26 de abril de 2018

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