

EIOPA ADVICE ON THE STANDARD FORMULA CAPITAL REQUIREMENTS FOR DIRECT EXPOSURES TO QUALIFYING CENTRAL COUNTERPARTIES (CCP)

Workshop on technical advice on direct CCP exposures and on
proportionality

10 October 2024

INTRODUCTION

- **Mandate:** COM asked EIOPA for technical advice on the standard formula capital requirements for direct exposures to qualifying central counterparties (CCP) by January 31, 2025.
- **Background:**
 - in 2018 EIOPA advised on indirect clearing (for derivatives) but no advice on direct clearing due to lack of interest and participation from European insurers/reinsurers.
 - Currently, there are higher capital requirements for direct CCP derivative exposures vs. indirect derivative exposures, potentially disincentivizing CCP membership.
 - New access models were introduced to facilitate direct clearing, potentially changing the landscape.

ANALYSIS

- Direct exposures to CCP can either be through being a “traditional” member of a central counterparty, or via a hybrid model whereby an undertaking is “sponsored” by another member.
- Both the “traditional” and “sponsored” model have direct exposure to the CCP. The main difference between the two models is the exposure to contributions to the default fund of the central counterparty, being a fund controlled by the CCP to mitigate the impact of the default of any direct member.
- Direct CCP exposures, in relation to specific transactions, are treated by the SCR standard formula as if they are bilateral transactions. For derivatives, this creates an inconsistency with indirect exposures that have lower capital requirements.
- Direct CCP exposures in relation to derivatives appear to have similar risks to indirect CCP exposures. They are also treated similarly by banking rules (CRR).
- Contributions to the default fund of a central counterparty should be captured by the counterparty default risk module.

DRAFT ADVICE

Option 1

- **Option 1 is no change.**
- The current treatment of direct exposure to CCP is maintained.
- Default fund contributions remain subject to counterparty default stresses.
- Prefunded contributions are included in type 2 counterparty default risk, while unfunded contributions are included in type 1.

Option 2

- **Option 2 is to extend treatment of indirect exposure to direct exposure to CCP.**
- In option 2, direct exposures to CCP are treated in the same way as Indirect exposures.
- There is no change to the treatment of default fund contributions.

Option 3 - PREFERRED -

- **Option 3 is to further align the treatment of default fund contributions to CRR.**
- Direct exposures to CCP are treated in the same way as indirect exposures (as in option 2).
- Additionally, and as per CRR treatment for qualifying central counterparties, prefunded contributions to the default fund are treated in the same way as direct exposure to CCP and unfunded contribution to the default fund is not stressed.
- To achieve this, all contributions to the default fund should be brought into the scope of “type 1” counterparties.

QUESTIONS TO STAKEHOLDERS

1. EIOPA is exploring to extend the proposed approach for derivatives to repurchase transactions and possibly other securities. Would you consider such an extension appropriate?
2. Do you have comments on the current treatment of direct exposures to CCP in Solvency II?
3. Do you have comments on the treatment of liquidity risk faced by insurance and reinsurance undertakings when they are members of a CCP?
4. Do you have any other comments?

THANK YOU!

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