



BANK OF ENGLAND

OMFIF Speech



Lessons from the pandemic: Has the simpler post-2008 financial system held up? And where do we go from here?

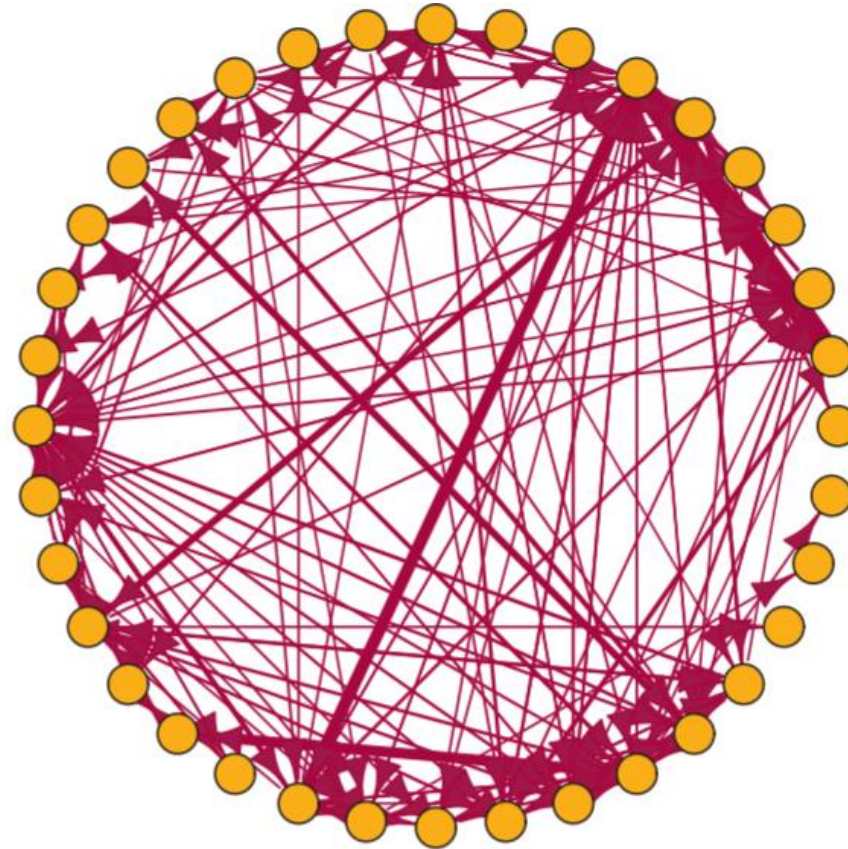
29 January 2021

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Bank of England



Rewind to 2008



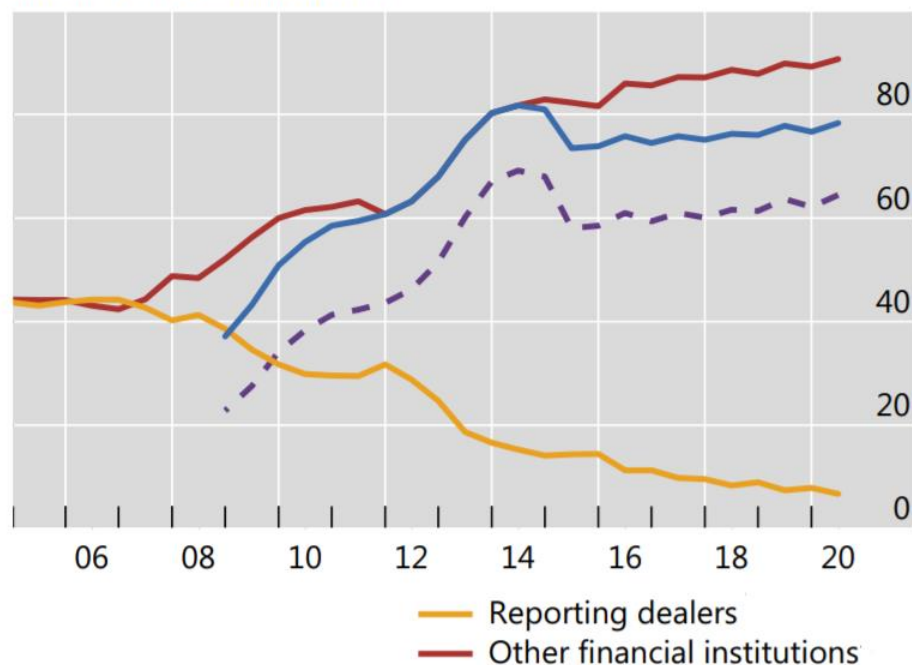
Trades executed on 20 February 2017 in sterling interest rate swaps referencing six-month Libor had they not been centrally cleared.
Sources: DTCC Derivatives Repository Ltd, Unavista Ltd and Bank calculations

Global clearing has grown significantly in the past decade.

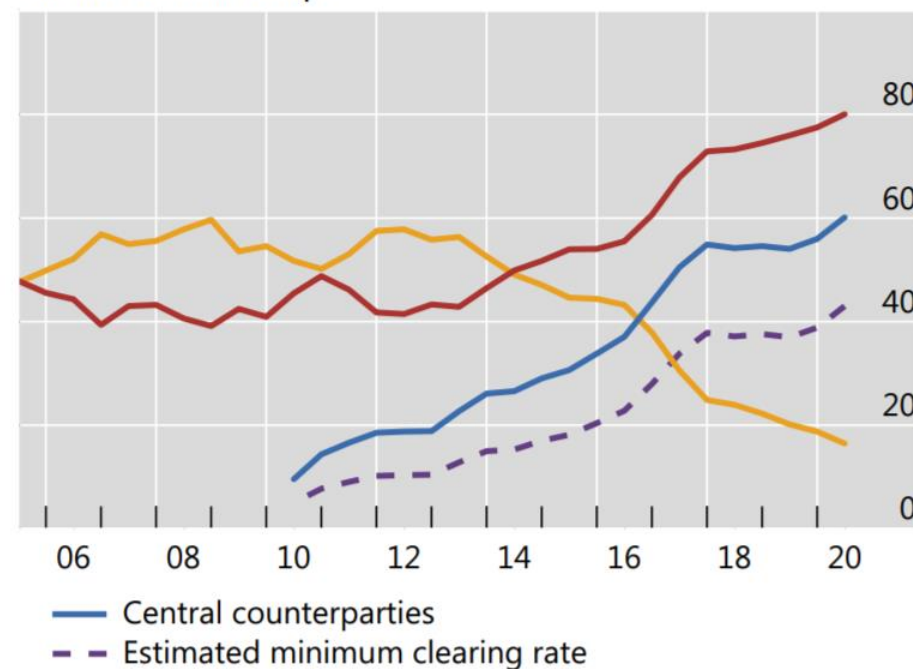
Growth of central clearing

Notional amounts outstanding by counterparty, in per cent

Interest rate derivatives



Credit default swaps



CCP margin protects against a Lehman-like scenario



Exchange of Gains and Losses

(variation margin)

Prevents build up of exposures

Determined by market moves (ie: mark-to-market)

Nets to zero across the CCP – passed between participants

Cash



Pre-Paid Self-Insurance

(initial margin)

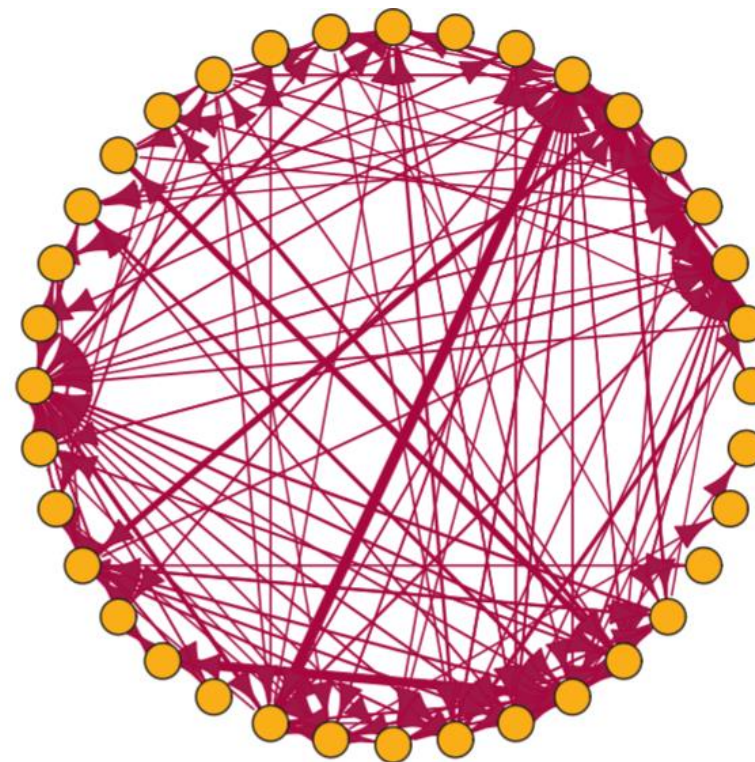
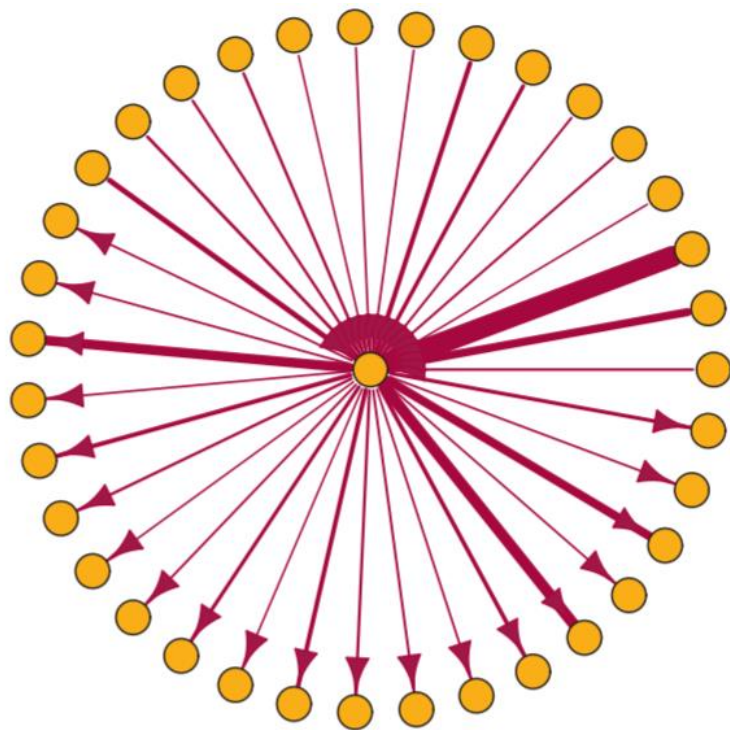
Protects against *most* market scenarios in a default event

Determined by a model based on historical observations

Held at the CCP

Cash or collateral

The derivatives market after central clearing reforms



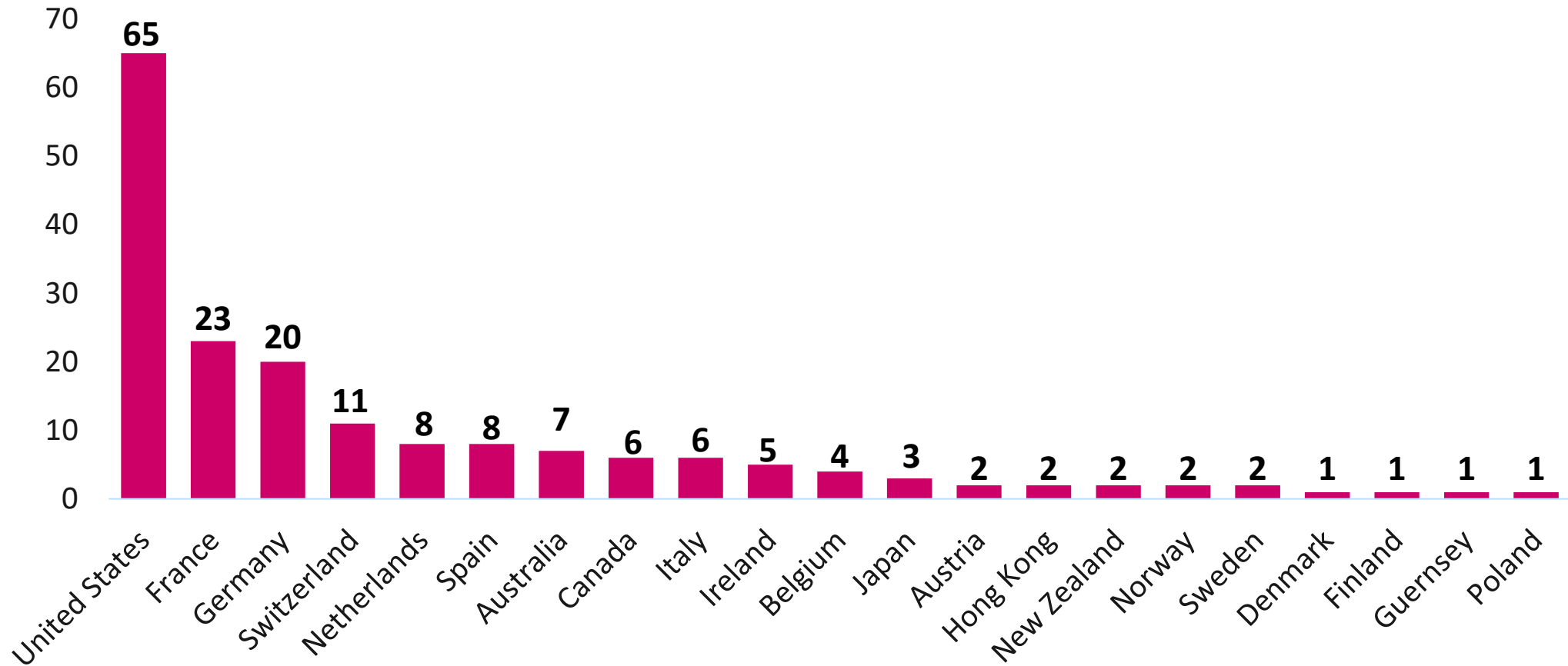
Left hand side: Centrally cleared trades executed on 20 February 2017 in sterling interest rate swaps referencing six-month Libor.

Right hand side: Illustration of same trades had they not been centrally cleared.

Sources: DTCC Derivatives Repository Ltd, Unavista Ltd and Bank calculations

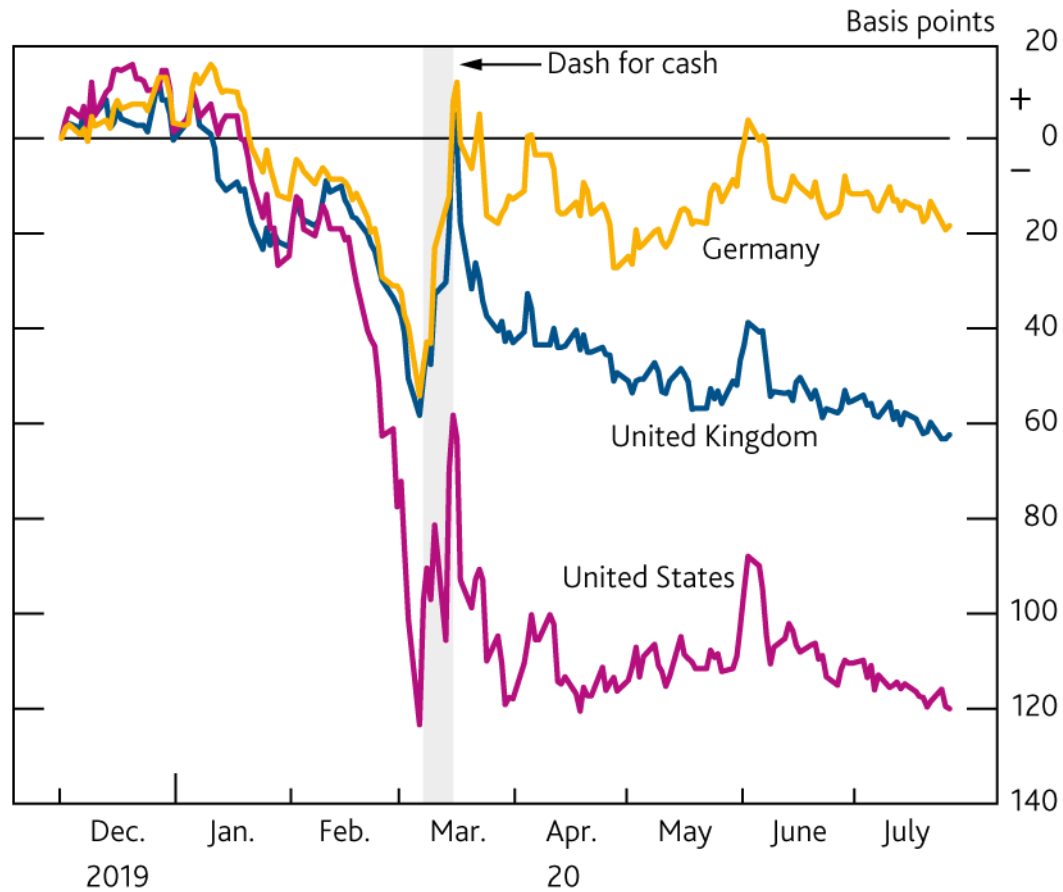
Derivatives clearing is global

Clearing members at UK CCPs per jurisdiction

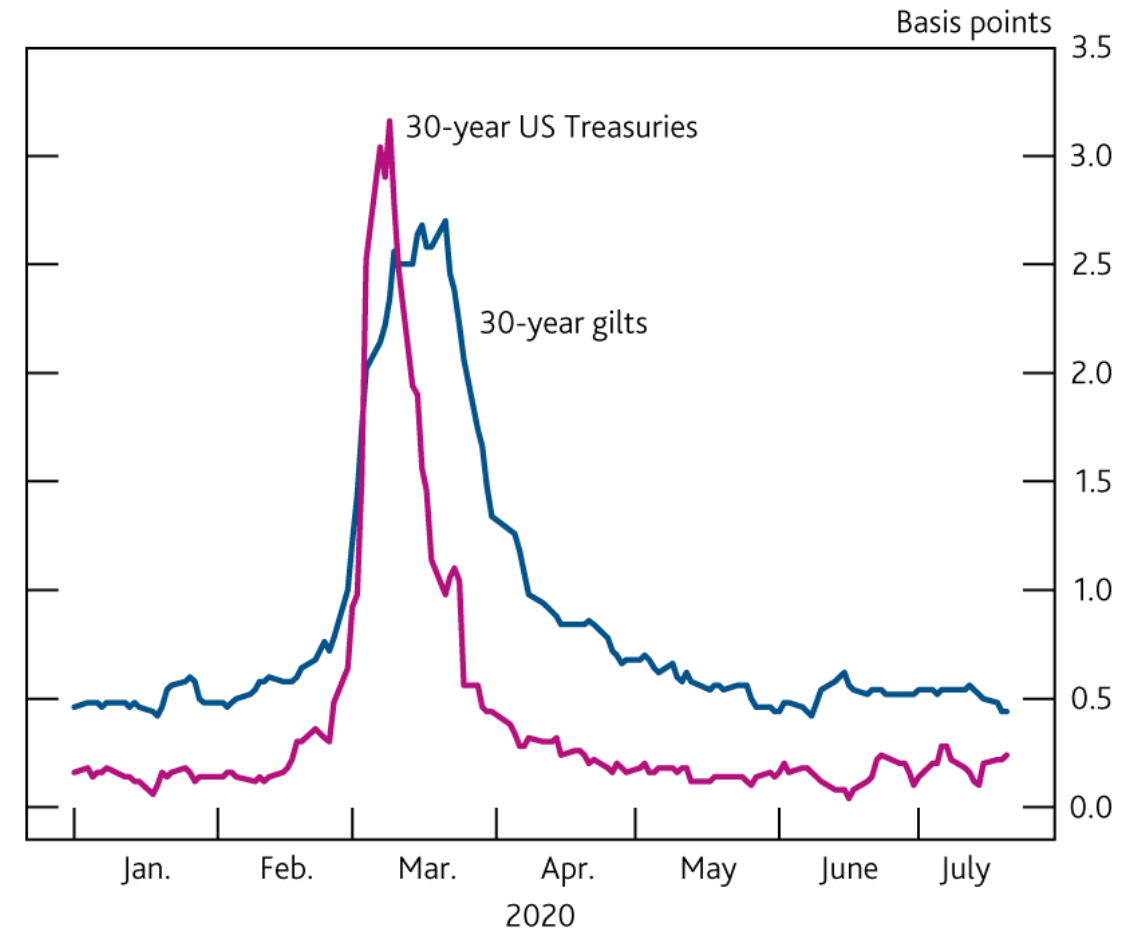


Dysfunction spread to some of the worlds' most liquid markets

Changes in 10-year nominal yields since December 2019

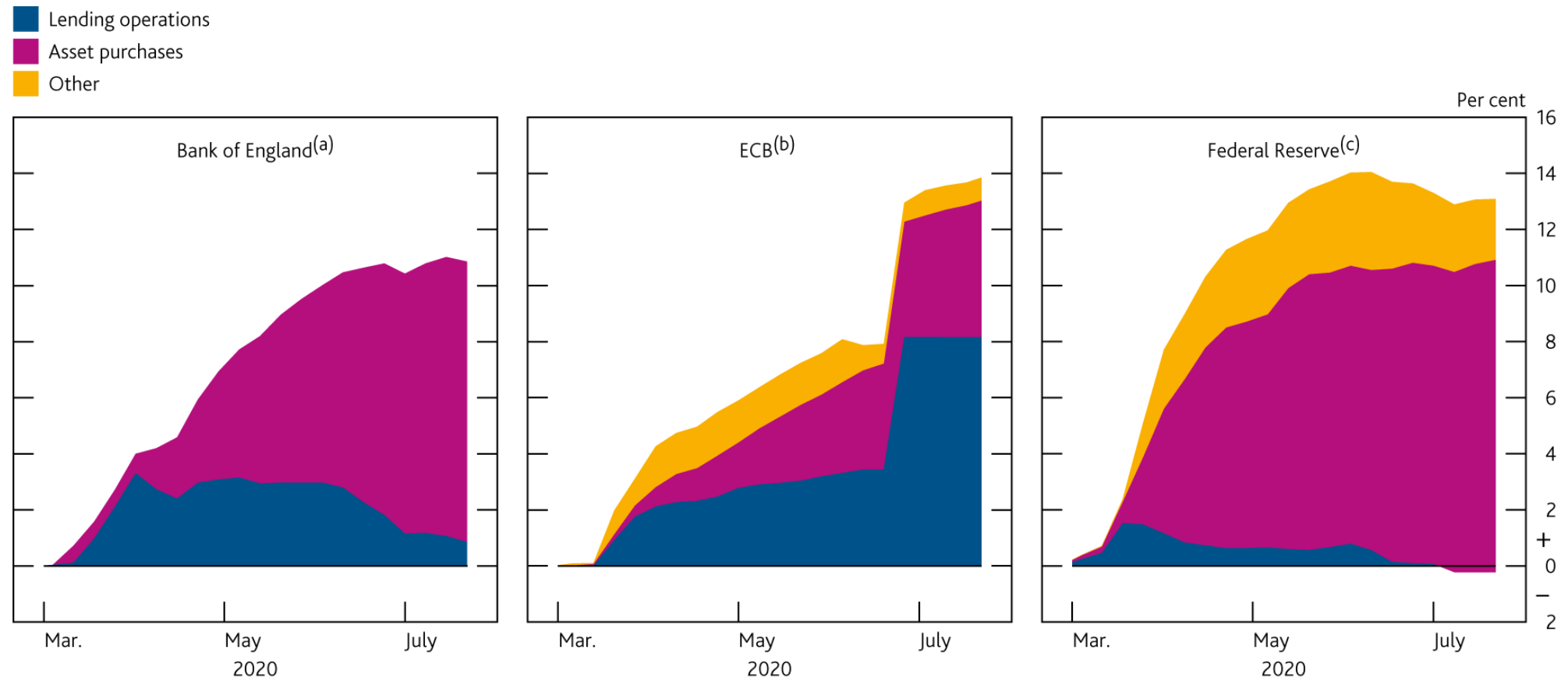


Bid-offer spreads on gilts and US Treasuries



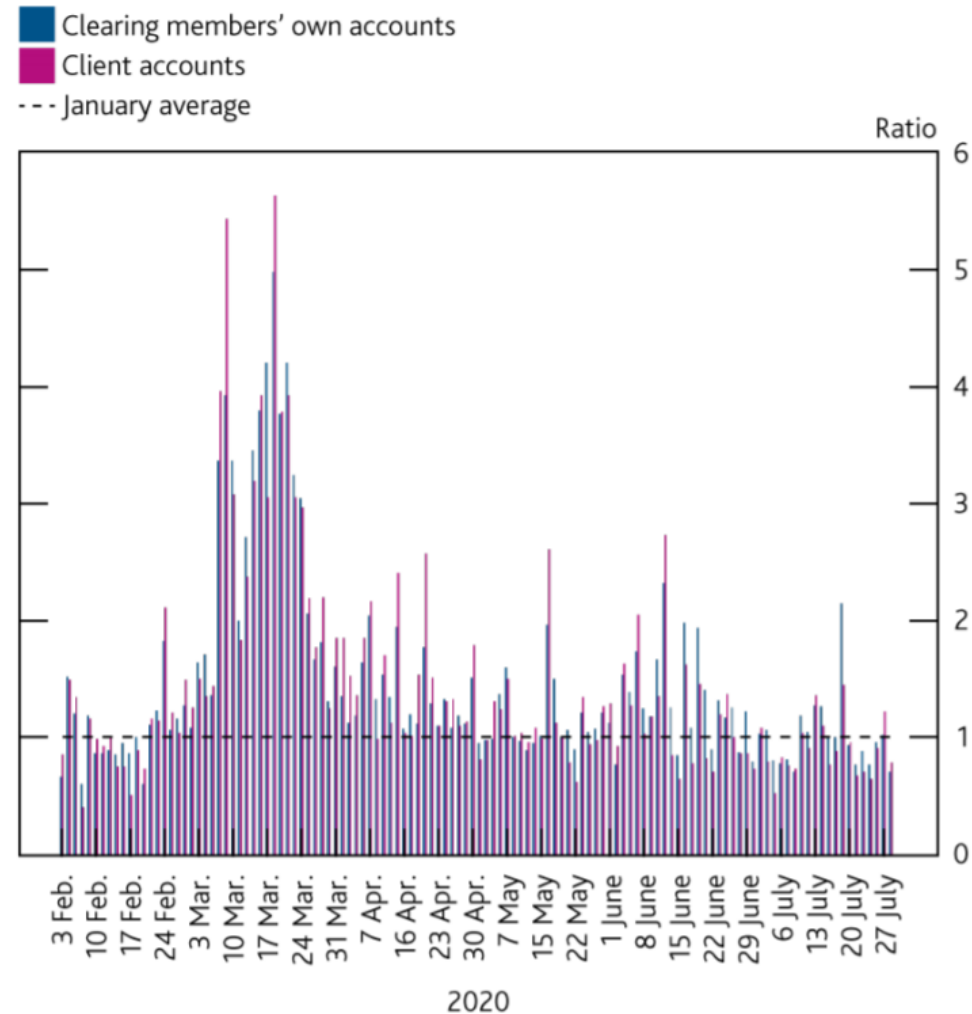
Central banks stepped in in a big way

Changes in components of central banks' balance sheets since the end of February 2020 as a proportion of 2019 nominal GDP in their home jurisdictions



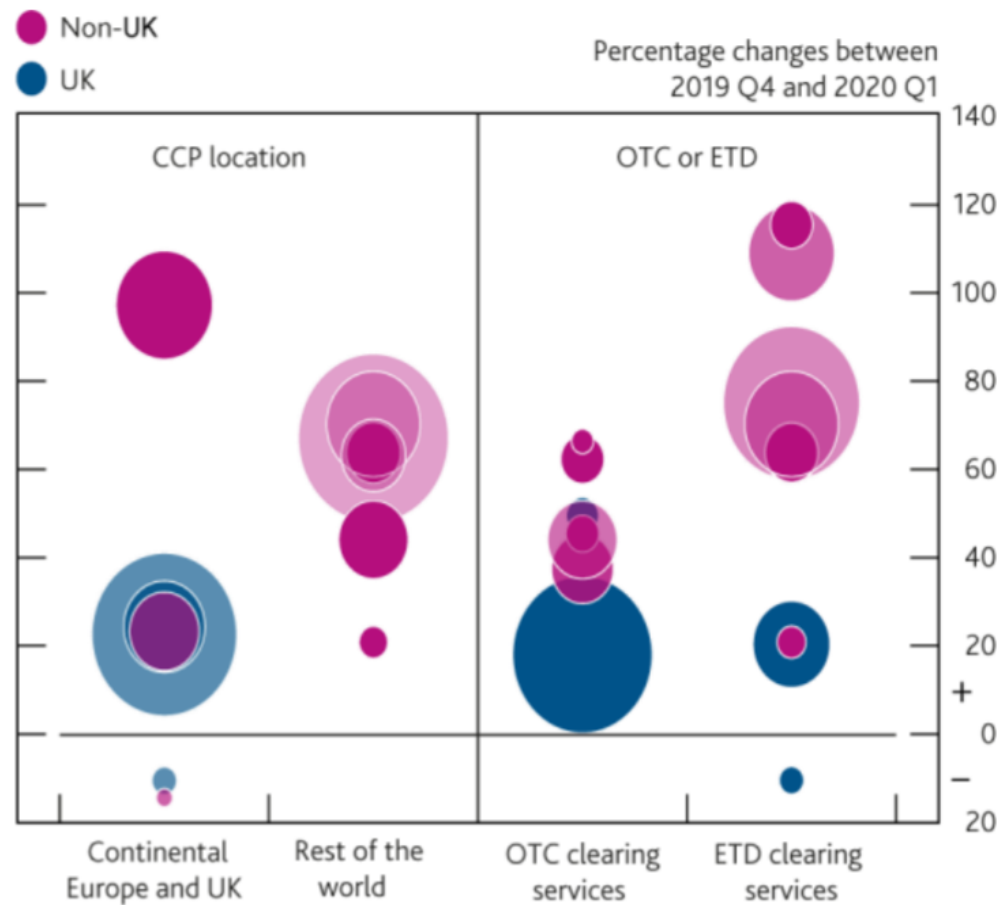
CCP margin calls grew significantly in response to market volatility

Variation margin on centrally cleared derivatives, as a ratio to the January average



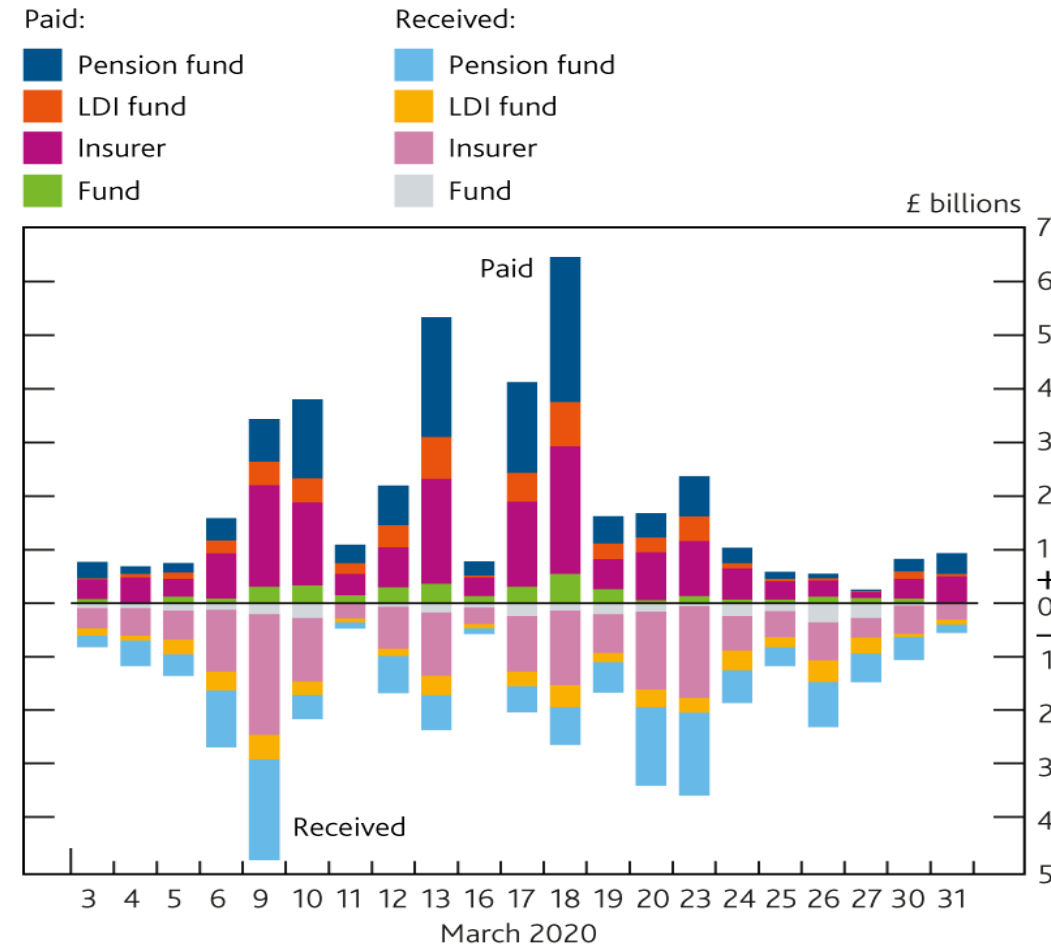
All CCPs turned out not to be created equal

Quarterly change in total initial margin received at CCP and service level, size of the bubble denotes total initial margin in 2020 Q1

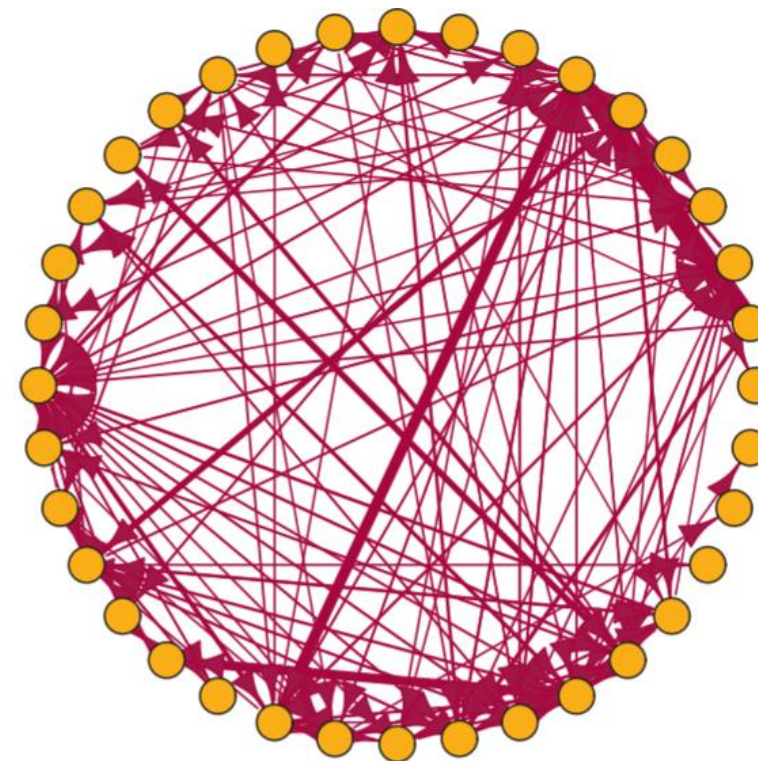
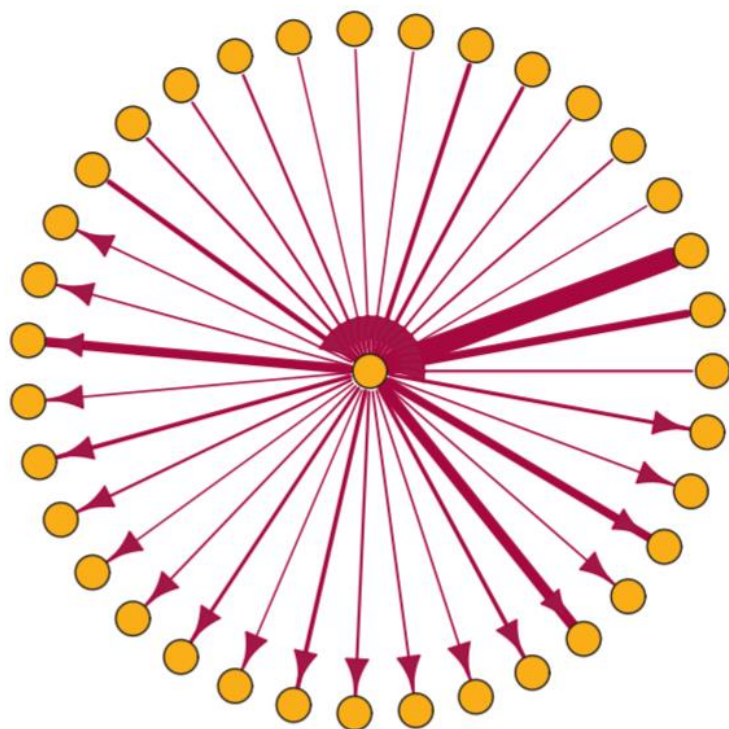


We need to examine how well prepared firms were.

Total estimated variation margin payments on some interest rate and FX derivatives for some UK non-banks



Sources: Sources: Trade Repositories — DTCC Derivatives Repository plc, ICE Trade Vault Europe Ltd, Regis-TR S.A and UnaVista Limited Trade Repositories; Bloomberg Finance L.P. and Bank calculations.



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