

Interoperability Breakthrough: The Preferred Interoperable Clearing Service

How does the Preferred Interoperable Clearing Service work?

BATS has given trade feed access to 3 CCPs that will be interoperating: EuroCCP, LCH, x-clear. A trading firm can designate one of the 3 interoperating CCPs as its “Preferred CCP” for all trades or only for a specific market segment. EMCF remains a CCP for BATS but will not interoperate with the others.

If both parties to a trade executed on BATS have selected one of the Preferred CCPs, the trade will be cleared by each party’s chosen CCP (Scenarios 1 and 2 in the table below).*

If one or both parties do not select one of the Preferred CCPs, the trade will by default go to the incumbent non-interoperating CCP, EMCF (Scenarios 3 and 4).

Which CCP will Clear the Trade

Scenario	Firm A’s Preferred CCP	Firm B’s Preferred CCP	Firm A’s Side Cleared by	Firm B’s Side Cleared by
1. Firms A& B both select EuroCCP as Preferred CCP	EuroCCP	EuroCCP	EuroCCP	EuroCCP
2. Firm A & B select different Preferred CCPs (e.g. EuroCCP & LCH)	EuroCCP	LCH	EuroCCP	LCH
3. Firm A selects a Preferred CCP, whilst Firm B does not	EuroCCP	None	EMCF	EMCF
4. Neither Firm A nor B selects a Preferred CCP	None	None	EMCF	EMCF

* Due to Spanish market practices, Spanish equities will continue to be solely cleared by EMCF.

What are the benefits of the Preferred Interoperable Clearing Service?

Trading firms finally have a choice of the CCP that clears their trades, and are no longer confined to the incumbent CCP. The introduction of competitive clearing through interoperability is expected to bring the usual benefits of competition: lower costs, better service, and innovation – all under a risk management framework approved by regulators.

What distinguishes EuroCCP’s offering from the other Preferred CCPs?

EuroCCP has a track record of excellence as a pan-European CCP, with reliable and efficient risk management and operation models, a responsive customer service team and dedicated relationship management.

As a user-governed and non-profit organisation, EuroCCP is also known for its consultative approach and its commitment for a better clearing environment in Europe.

Trading firms should also consider settlement costs in their decision of a Preferred CCP. If firms elect EuroCCP as Preferred CCP, they can have trades executed on BATS netted with trades executed on the same day and in the same ISIN on venues already cleared by EuroCCP (except UK stocks). However, if a firm chooses another Preferred CCP, it could incur additional settlement costs – for example, a firm with 1000 obligations a day not netting across platforms could incur as much as €900,000 additional settlement costs per annum.¹

¹ Using an average settlement cost of €3.5 - comprised of a) the firm’s own settlement and CSD costs, and b) CCP’s settlement and CSD costs passed through to firm - 1000 net obligations on Turquoise cleared by EuroCCP and 1000 net obligations on BATS cleared by a different CCP.