

## ESMA MOVE TO DERECOGNISE CCIL

# RBI, foreign lenders talk alternative mechanisms

European banks have been making representations to offshore regulators

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Following the decision of European regulators to de-recognise the Clearing Corporation of India, Reserve Bank of India officials and executives of some foreign banks are said to have discussed the prospects of lenders seeking to establish alternative clearing mechanisms, according to sources.

Several European banks with a presence in India have been making representations to offshore regulators — the European Securities and Markets Authority (ESMA) and the Bank of England (BoE) — for the resolution of the matter, which has the potential to severely hamper trading operations, sources said.

The ESMA in late October de-recognised six Indian clearing houses including the CCIL, which hosts the trading platform for government bonds and overnight indexed swaps. The decision is said to have been taken after the RBI's refusal to permit the foreign body rights of audit and inspection of CCIL. The ESMA's decision comes into effect on May 1, 2023. The BoE took a similar step following the ESMA's decision.

"There have been continuous discussions with these offshore regulators, as well as talks with the RBI. The RBI's point is clear — it did not start this process and it is unwilling for an overseas regulator to demand jurisdiction over CCIL," a source said.

"One of the things now being discussed is whether the existing European banks can set up alternative clearing arrangements. For example, a European bank can set up an arrangement with a large Indian bank which handles custodian accounts. The issue is, however, that such arrangements shall come with a very high capital requirement. It may not be a viable

## ON THE TABLE

▶ **A European bank can set up an arrangement with a large Indian bank which handles custodian accounts**

▶ **The issue is, however, that such arrangements shall come with a very high capital requirement and may not be a viable option**

▶ **European banks with operations in India include BNP Paribas, Credit Agricole, Credit Suisse, Deutsche Bank, and Société Générale**

▶ **The decision of the European regulators implies that financial transactions will not be settled through CCIL, leaving scope only for bilateral transactions between banks**

▶ **The six organisations that have been de-recognised by ESMA are CCIL, Indian Clearing Corporation, NSE Clearing, Multi Commodity Exchange Clearing, IFSC, and NSE IFSC Clearing Corporation**



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option," the source said.

An e-mail sent to the RBI on the matter did not receive a response until the time of going to press.

European banks with operations in India include BNP Paribas, Credit Agricole, Credit Suisse, Deutsche Bank, and Société Générale. Other UK-based banks and foreign lenders, such as Standard Chartered, Barclays, and HSBC, also play a big role in bond and OIS trading.

According to current RBI norms, certain eligible entities may open constituent subsidiary general ledger accounts with the central bank on behalf of their constituents for transactions in government securities.

The decision of the European regulators implies that financial transactions will not be settled through CCIL, leaving only scope for bilateral transactions between banks. This will strip away the advantages and benefits of netting transactions that are provided by the clearing house, as well as lead to much higher capital requirements under Basel norms. Traders said the increase in capital requirement can be as high as 50 times.

"There will not only be a huge impact on government bond and OIS (overnight indexed swap) trading but also on equities because many of these European banks are custodians for overseas investment flows," a source said.