

## Reality lesson for UK Conservatives

Control over clearing houses has to stem from ECB

by John Stevens

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George Osborne, UK chancellor of the exchequer, announced on 29 March that he was dropping the two outstanding cases before the European Court of Justice between the Bank of England and the European Central Bank. These concerned the location and oversight of the clearing houses at the heart of the financial system managing transactions in euro-denominated instruments.

This follows the generally anticipated finding by the ECJ on 4 March, in the first such case, in favour of the British plaintiffs, on the narrow point that the ECB would need to change its statutes to acquire the de jure authority to regulate central counterparties based outside the euro area, but within the single market.

The Chancellor's decision confirms what several commentators, including myself in a previous [OMFIF Briefing](#) on 25 March, have argued: that resorting to legal action on this matter was an error. Instead, Osborne has wisely chosen to accept the informal arrangement granting the ECB the access to information and the de facto supervisory authority over CCPs located in London that it had been seeking. This avoids the need for this politically contentious issue to be raised by European finance ministers in the European Council, where euro members command a qualified majority.

The question is whether rules governing the management of the single currency can be struck down as discriminatory against non-euro members under the principles of the single market. This lies at the heart of the UK Conservative party's fanciful hope that Britain can remain an EU member without eventually joining the single currency.

The agreement between the ECB and the Bank of England does not address the most critical point of the controversy: that a liquidity crisis in euro-denominated instruments can be properly met only by an institution which can, in extremis, print euros.

No swap arrangement between Frankfurt and London can conceivably be sufficient to meet the scale of the systemic risk now concentrated in CCPs. Nor can more moderate guarantees to secure normal market confidence be prudently granted without full legal safeguards that only a location inside the euro area could ultimately provide.

Let us hope it does not take a London clearing house liquidity crisis to prove that, from a regulatory point of view, there is no prudent half-way house between being inside or outside the euro. It does the interests of London no service to deny this for political reasons.

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