

Central Clearing and Derivatives Markets

Topics Course in Financial Economics

Christian Kubitza, University of Bonn

Summer Term 2019

This course studies derivatives markets, focusing particularly on counterparty credit risk and financial market regulation in the form of central clearing. The aim of the course is (a) to provide an overview of the research frontier about the role of derivatives for financial stability and current financial market regulation and (b) to generate research ideas.

The following is a suggested reading list. Depending on the number of participants, we can include more or less papers.

Textbooks, particularly for introduction:

- Gregory (2014). Central Counterparties – Mandatory Central Clearing and Initial Margin Requirements for OTC Derivatives.
- Pirie, Kritzman (2017). Derivatives.

Introductory papers:

- Duffie (2015). Resolution of Failing Central Counterparties.
- Faruqui et al (2018). Clearing risks in OTC derivatives markets: the CCP-bank nexus. BIS Quarterly Review December 2018.

Empirical studies on derivatives markets and central clearing:

- Armakolla, Laurent (2017). CCP resilience and clearing membership. Working Paper
- Abad et al (2016). Shedding light on dark markets: First insights from the new EU-wide OTC derivatives dataset. ESRB Occasional Paper Series No 11.
- Bellia, Panzica, Pelizzon, Peltonen (2017). The demand for central clearing: to clear or not to clear, that is the question. ESRB Occasional Paper Series No. 62
- Boissel, Derrien, Ors, Thesmar (2017). Systemic risk in clearing houses: Evidence from the European repo market. JFE 125:511-536.
- Cenedese, Rinaldo, Vasios (2018). OTC premia. Working Paper
- Loon and Zhong (2014). The impact of central clearing on counterparty risk, liquidity, and trading: Evidence from the credit default swap market. JFE 112:91-115
- Bignon and Vuilleme. The Failure of a Clearinghouse: Empirical Evidence. Working Paper
- Capponi, Cheng, Giglio, Haynes. The Collateral Rule: An Empirical Analysis of the CDS Market. Preliminary Draft

Theoretical studies:

- Duffie and Zhu (2014). Does a Central Clearing Counterparty Reduce Counterparty Risk? Review of Asset Pricing Studies 1:74-95
- Acharya and Bisin (2014). Counterparty risk externality: Centralized versus over-the-counter markets. JET 149:153-182
- Biais, Heider, Hoerova (2016). Risk-Sharing or Risk-Taking? Counterparty Risk, Incentives, and Margins. JF 71:1669-1698.

- Bolton and Oehmke (2014). Should Derivatives Be Privileged in Bankruptcy? JF 70:2353-2394.
- Capponi and Cheng (2018). Clearinghouse margin requirements. Operations Research 66
- Ferrara, Li, Marszalec (2017). Central counterparty auction design. BoE Staff WP 669
- Huang (2019). Central counterparty capitalization and misaligned incentives. BIS WP 767

If you wish to suggest a paper that is not on the list, please let me know. Participants present (potentially in groups) on a theme that they choose and may be related to one or several papers. In addition, participants contribute to the discussions when others present. Written essays about one of the “other” presentations have to be handed in. The first couple of meeting will provide an introduction into the field and objectives.