Central counterparties in counterparty and liquidity risk mitigation: The case of derivatives market in Colombia

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AUTHORS AND/OR EDITORS Mariño-Martínez, Jorge Ricardo León-Rincón, Carlos Eduardo Cadena-Silva, Carlos Alberto Publication Date: Tuesday, 4 of February 2020 Abstract
A central counterparty (CCP) interposes itself between buyers and sellers of financial contracts to extinguish their bilateral exposures and –thus- to reduce counterparty risk. Therefore, this interposition should affect the way market participants engage in financial markets. Based on transactional data corresponding to the Colombian Peso non-delivery forward market and network analysis basics, this article compares transactions agreed to be cleared and settled by Cámara de Riesgo Central de Contraparte de Colombia (CRCC, the sole CCP in Colombia) with those to be cleared and settled bilaterally. The effect corresponds to what is expected. Networks of transactions to be cleared and settled by CRCC show significantly higher connectivity (i.e. higher density, reciprocity and transitivity), along with a lower distance among participating financial institutions. This suggests that agreeing on clearing and settlement by CRCC reduces liquidity risk. With the interposition of CRCC the resulting exposures networks show lower connectivity and higher distances, which concurs with counterparty risk mitigation. Differences in the structure of networks are significant. Results are important as they enable to visualize and quantify the effect of clearing and settlement by CRCC in risk management.

Fuente: https://d1b4gd4m8561gs.cloudfront.net/en/publications-research/working-papers-economics/central-counterparties-counterparty-liquidity-risk