



Crowded Trades, Systemic Risk, and Central Clearing

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Outline

Measure CCP exposure (macro-prudentially)

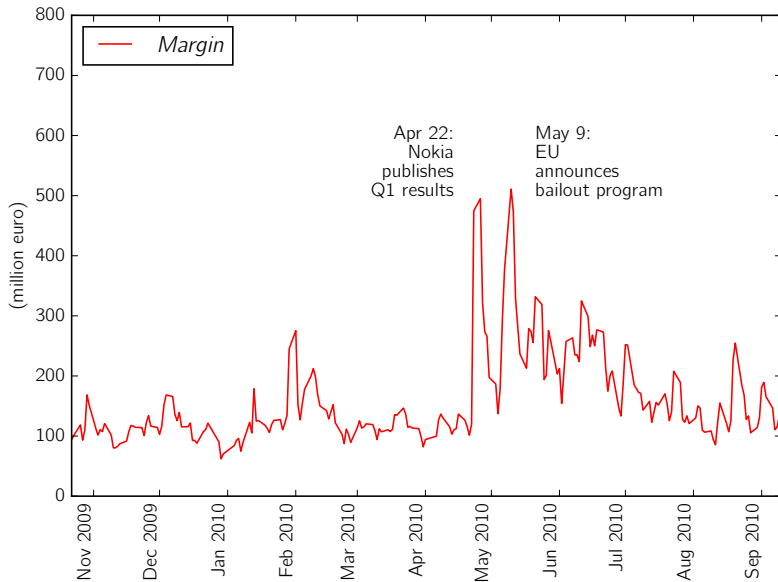
Track CCP exposure in realtime

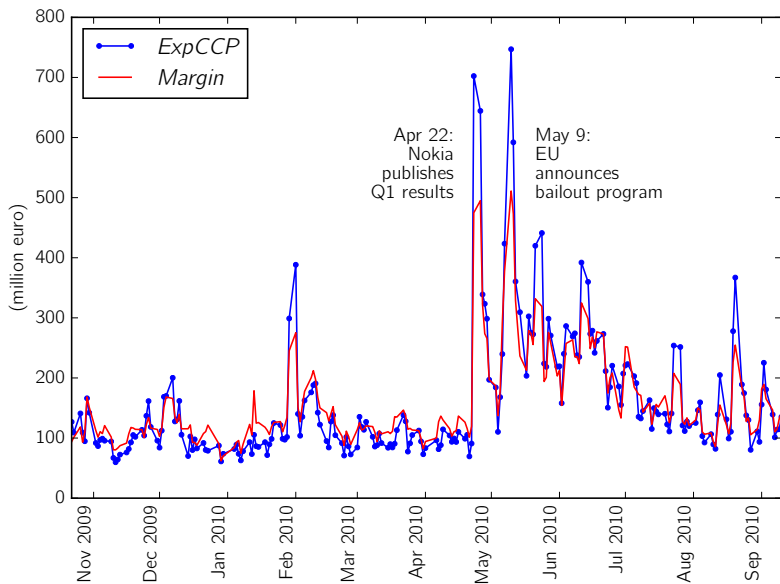
CCP exposure and collateral

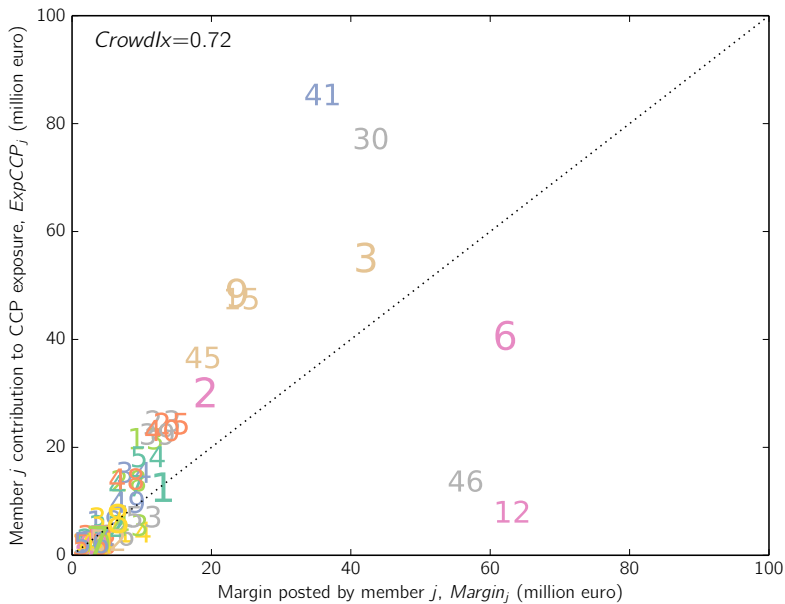
Measure CCP exposure

(Menkveld, 2016a)

$$ExpCCP = VaR(\sum_j L_j)$$







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Track CCP exposure in realtime

CCP exposure and collateral

Track CCP exposure realtime

(Huang and Menkveld, 2016)

Compute ΔExp_{CCP}

Track CCP exposure realtime

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Compute $\Delta ExpCCP$

Decompose it into

- *RetVola*
- *RetCorr*
- *PrLevel*

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Decompose it into

- *RetVola*
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- *TrPosition*

Track CCP exposure realtime

(Huang and Menkveld, 2016)

Compute $\Delta ExpCCP$

Decompose it into

- *RetVola*
- *RetCorr*
- *PrLevel*
- *TrPosition*
 - *CICI*
 - *HoCI*
 - *HoHo*

Track CCP exposure realtime

(Huang and Menkveld, 2016)

Compute $\Delta ExpCCP$

Decompose it into

- *RetVola*
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- *TrCrowding*
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CCP exposure and collateral

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(Menkveld, 2016b)

Analysis of fire sale prices in equilibrium shows

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Analysis of fire sale prices in equilibrium shows

1. Crowded trades reduce fire sale premium, thus lowering default fund and freeing up capital for liquidity supply

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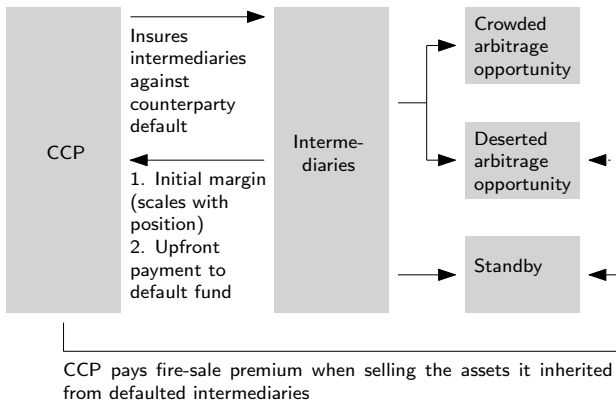
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2. Crowded trades concentrate capital (inadvertently), thus costly in terms of foregone opportunities



CCP exposure and collateral



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- Huang, Wenqian and Albert J. Menkveld. 2016. “Systemic Risk in Real Time: A Risk Dashboard for Central Clearing Parties (CCPs).” Manuscript, Vrije Universiteit Amsterdam.
- Menkveld, Albert J. 2016a. “Crowded Trades: An Overlooked Systemic Risk for Central Clearing Counterparties.” Manuscript, Vrije Universiteit Amsterdam.
- . 2016b. “Systemic Risk in Central Clearing: Should Crowded Trades Be Avoided?” Manuscript, Vrije Universiteit Amsterdam.