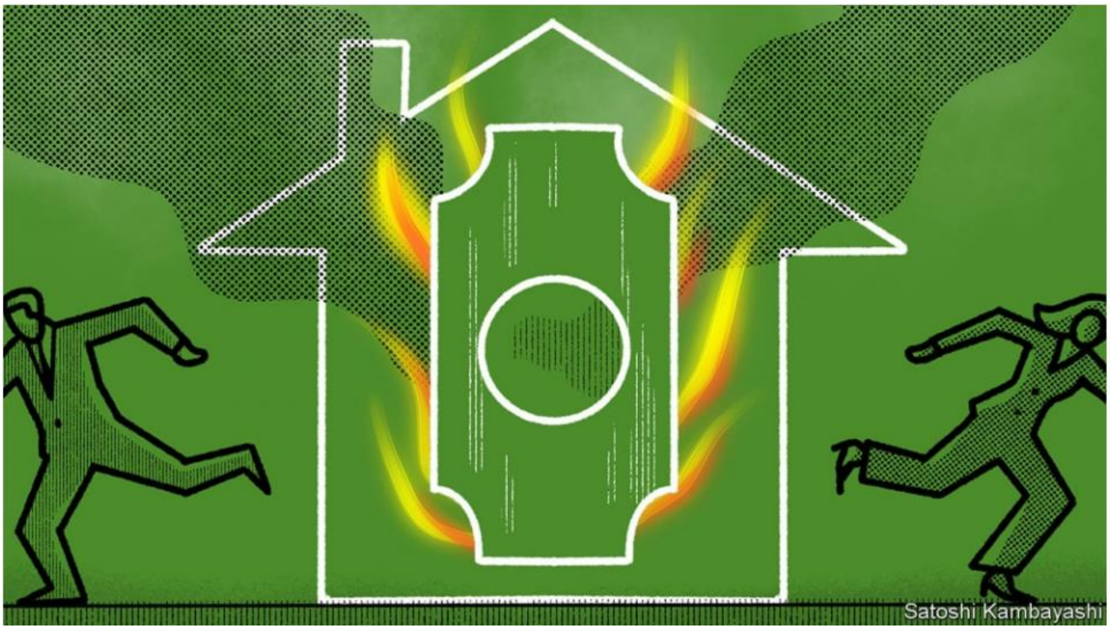
Have regulators created a new type of financial monster?

Clearing houses pose new perils for the global financial system



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Grimstad, norway, is an unlikely setting for financial-market shenanigans. But the fishing town is home to Einar Aas, a trader who took huge bets on Scandinavian energy markets. His 15 minutes of infamy came in September 2018, when his bets went spectacularly wrong. Unable to cover his losses, he blew a €114m ($133m) hole in the capital buffers of Nasdaq Clearing, which handled his trades. Other members of the clearing house—mostly banks and energy-trading companies—were called upon to replenish its buffers.

The affair sent shivers down regulators’ spines everywhere. In the midst of the global financial crisis in 2009, leaders at the g20 summit in Pittsburgh decided that the chaotic world of derivatives needed to be made safer by ensuring that they were centrally cleared. A decade later the notional value of all derivatives outstanding globally stands at a trifling $639trn, of which 68% are centrally cleared through a handful of clearing houses. Collectively these institutions contain one of the biggest concentrations of financial risk on the planet.