European Commission

SAFER FINANCIAL INFRASTRUCTURE

#saferCCPs

Central Counterparties ('CCPs') increase stability in financial markets. They are critical in helping to reduce risks in the wider economy. They help financial firms and corporates manage their risks. The Commission wants to make them even more robust.

Central counterparties play a key role in international financial markets. They process big and increasing volumes of derivatives trades every day.

Almost EUR 500 trillion

Value of all 'over-the-counter' (OTC) derivatives currently held globally

17

Number of CCPs in the EU

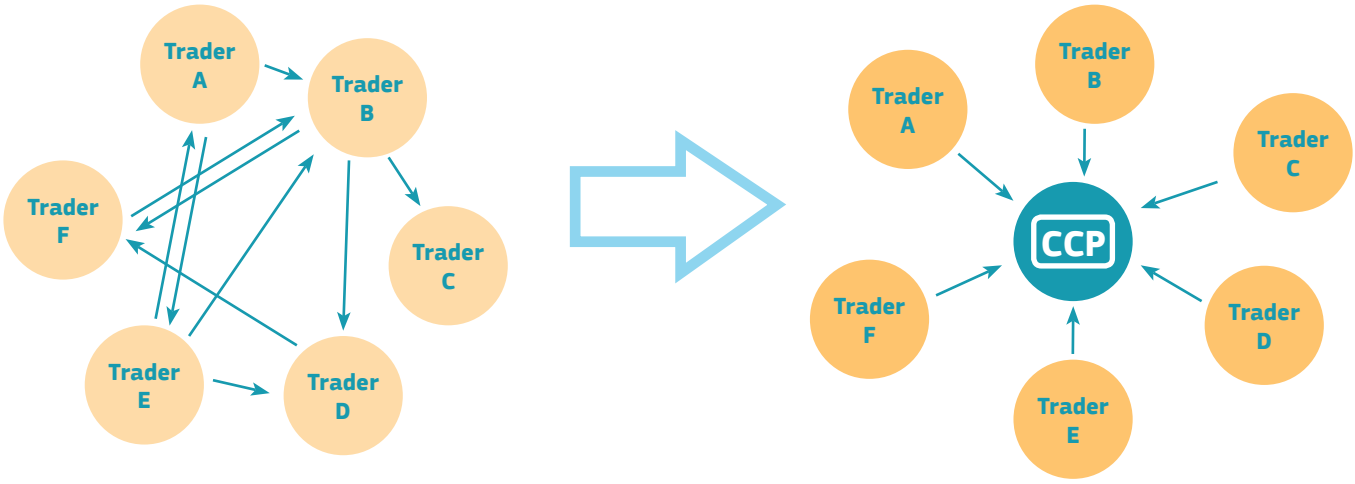
More than 15 times EU GDP

The global volume of derivatives currently cleared by CCPs

Valdis Dombrovskis Commission Vice-President in charge of Financial Stability, Financial Services and Capital Markets Union

Jyrki Katainen Commission Vice-President for Jobs, Growth, Investment and Competitiveness

Central counterparties stand between the buyer and the seller of a security, which are typically banks and other financial institutions. They reduce the risk that a trade falls through because the buyer does not pay or the seller does not deliver the purchased security ('counterparty failure').



Since 2012, the EU's European Market Infrastructure Regulation (EMIR) legislation has required CCPs to be more robust. Starting June 2016, certain standardised 'over-the-counter' (OTC) derivatives have to be cleared through authorised CCPs.

Derivatives help businesses manage risks linked to ...

... fluctuating currency exchange rates

... changing interest rates

... volatility in commodity prices

... non-payment of a debt ('credit default swap', CDS)

... changing equity prices

Derivatives can also be used as speculative investment

Proposed new EU rules for the recovery and resolution of central counterparties.

Preparation and prevention

- Each CCP draws up a recovery plan with measures to be taken in case of financial problems.
- National supervisors review and approve these plans.
- National authorities draw up a resolution plan for each CCP in the event of its failure.
- They can require a CCP to change specific business practices that could make resolution difficult.

Early intervention

- National authorities have powers to step in when a CCP faces financial difficulties.
- They can instruct a CCP to take actions in its recovery plan or other steps.

Resolution

- A failing CCP can be put into resolution by national authorities when it is in the public interest.
- National authorities apply resolution tools to protect financial stability and taxpayers.
- Tools include power to restructure or sell CCPs and distribute losses among owners and participants.

COOPERATION BETWEEN SUPERVISORS

CCPs operate cross-border and often **internationally**, so it is important that authorities cooperate across borders to ensure effective planning and orderly resolution. The proposal establishes so-called **resolution colleges** for each CCP containing all the relevant authorities including the European Securities and Markets Authority (ESMA) and the European Banking Authority (EBA).

Managing the risk of counterparty failure has been a major objective for the G20

To make trading in derivatives safer and prevent contagion in the financial system in the case of counterparty failure, the G20 agreed in 2009 that standardised 'over-the-counter' (OTC) derivatives contracts should be cleared through central counterparties.

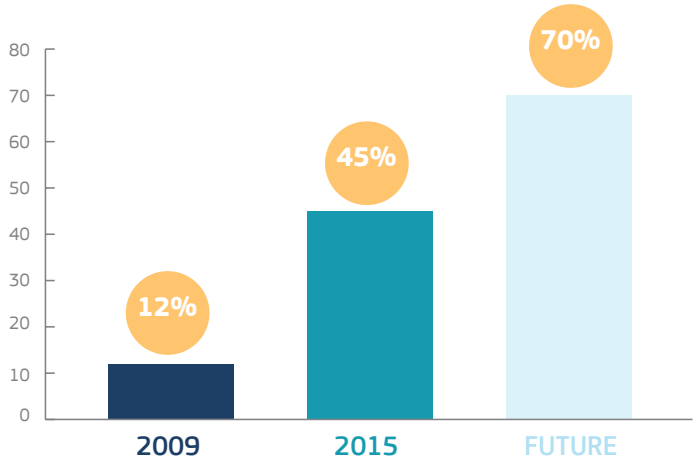
The EMIR legislation implements this commitment in the EU.

The Financial Stability Board (FSB) and the Committee on Payment and Market Infrastructures and the International Organisation of Securities Commissions (CPMI-IOSCO) agreed on global standards to ensure central counterparty resilience, recovery planning and resolvability in 2014.

G20 leaders endorsed the move towards global standards on central counterparty resilience, recovery planning and resolvability in September 2016.

Given their growing importance in financial markets, the failure of a central counterparty could affect banks and the wider economy. The Commission therefore proposes rules to require CCPs and national authorities to prepare for and deal with financial difficulties.

The EU clearing obligation for OTC derivatives has led to a large increase in clearing through central counterparties.

CCP clearing is likely to increase substantially in the coming years.

Share of global OTC derivatives market cleared through a CCP