

21 March 2022

This paper addresses only the final issue for the inquiry: The future of cross-border financial services in the absence of equivalence (*for example, why so few equivalence decisions have been forthcoming from the EU; why the EU made an exception for CCPs, and whether the recent three year extension is expected to be the last; the impact of the lack of equivalence on UK providers across the industry and how they have adapted; whether equivalence is still worth pursuing for the UK*).

## Conclusions

1. The current EU regulations flow directly from global standards initiated after the post-2008 crash. These were strongly influenced by the UK, and consistently supported by UK Prime Ministers at the G20. If the proposals were NOT positive for financial stability, then the UK Government should have opposed them at the time and requested the Governor of the Bank of England to cease chairing the Financial Stability Board – the key co-ordinating body.
2. After a decade of work on the risks posed by CCPs, the global regulatory community has just published (10 March) a report that recognises the risks accentuated by its policies but – crucially – they are unable to give a clean bill of health to their creature, do not even know how to measure the problem, or know whether adequate tools exist to deal with its risks. The implications for host states of systemically important CCPs are bleak.
3. The G20 policies have succeeded in bringing about 90% of OTC interest rate derivatives into ‘central clearing’. The notional amount of sterling and euro derivatives cleared in London are more than sixty times the UK’s GDP.
4. Since 2008, the EU has built up a body of detailed legislation to implement global standards. The UK assented to this legislation prior to Brexit. The EU signalled its concern about such key infrastructure being located outside a euro area jurisdiction as far back as 2011.
5. The ECB has NOT pre-committed to providing any emergency euro liquidity and the EU’s co-legislators have explicitly stated (in CCP RRR) that any ultimate use of public funds would be subject to democratic control procedures – so political.
6. ESMA, ECB and European Systemic Risk Board (ESRB) have undertaken detailed analysis of the risks to the EU’s financial stability arising from UK-based CCPs.
7. The European Commission has laid out the way forward and believes that extending the equivalence of UK-based CCPs until June 2025 will allow enough time for the EU to develop and implement a plan of action to reduce “risky over-reliance” on them. **It hopes to announce this plan in 2H 2022.**

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## Brexit referendum: TCA commitments on autonomy, financial stability, equivalence, and global standards

The treaty texts are massive – running to 1259 pages – but only about six pages are relevant to financial services and largely covered in just four Articles:

Article 3.5 – Most Favoured Nation provisions are specifically dis-applied to “prudential measures” as defined in GATS. This is the well-known “prudential carve out” – see below.

Article 5.38 Definitions. --- seems to be a comprehensive listing of most significant financial services activities embedded in existing EU regulations

Article 5.39: “Prudential carve-out”. The article is extremely specific that a Party can maintain “measures for prudential reasons... protection of investors, depositors... or ensuring the integrity and stability of a Party’s financial system”.

Article 5.41 commits both Parties to “make their best endeavours” to implement “international standards” agreed by the usual international fora: G20, Financial Stability Board etc.

The Commission provides a simple Q&A to illustrate that the TCA has treated financial services in much the same way as in the EU’s other Free Trade Agreements (FTAs). Crucially, it is very explicit about equivalence in an effort to dispel some illusions in the UK: *“The Agreement does not include any elements pertaining to equivalence frameworks for financial services. These are unilateral decisions of each party and are not subject to negotiation.”*

The TCA states that “equivalence” means the capability of different laws, regulations and requirements, as well as inspection and certification systems, of meeting the same objectives. So “equivalence” does not require word-by-word matching but an equivalent outcome. This is determined unilaterally by the European Commission itself and *“the EU will consider equivalence when they are in the EU’s interest.”*

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## What is the problem with CCPs?

*Central Counterparties (CCPs) interpose themselves between counterparties to contracts traded, becoming the buyer to every seller and the seller to every buyer. The growing systemic importance of CCPs and their inter-linkages to the financial system as a whole underline the critical nature of CCPs established in the Union and abroad for the financial stability of the Union. A default or disruption at a CCP can have substantial destabilizing effects on linked clearing members, their clients or on other financial market infrastructures (FMIs) established in one or more Member States and impair critical markets for the proper conduct of monetary policy in Union currencies. Source: ESMA*

The risk to financial stability flows from the sheer scale of these markets in relation to economies - in total, more than seven times world GDP (see Figure 1 below).. For the UK and EU, the problem is even more dramatic as all sterling

and around 90% of euro OTC interest rate derivatives are cleared in London. Accordingly, the UK has a “responsibility” for markets with a gross size that is about 66 times our GDP

In the event of a sharp move in relevant markets, participants must post additional “variation margin” rapidly (perhaps even intra-day) or their positions will be liquidated immediately – thereby creating a highly pro-cyclical liquidity squeeze. The post-GFC regulatory system has been designed to provide multiple layers of netting and liquidity to prevent such a squeeze creating instability throughout the entire financial system.

There are regular stress tests of individual CCPs and the European system – still including the two systemically important UK CCPs – LCH and ICE Clear. However, the recent publication of a global report from FSB, CPMI and IOSCO shows that it is not certain that a crisis could be contained by the CCPs alone. In that case, it is highly likely that the central bank of issue of the relevant currency might be called upon for emergency liquidity. But in the first hours, no-one could be sure that it was just a self-correcting liquidity problem or whether it masked a solvency issue where the central bank might face a real risk of eventual loss.

For euro liquidity, the Bank of England has set up a swap line with the ECB (see Timeline below) but the ECB is explicit that there is no pre-commitment to provide funds. Indeed, the very structure of the European System of Central Banks (ESCB) means that putting the assets of the national central banks at risk could - in some case – require Parliamentary approval. The ECB is constrained by its statutes to lend to banks only against good collateral – or with a member state guarantee. However, during the euro crisis a decade ago, the scale of unilateral Emergency Liquidity Assistance (ELA) was reduced.

**In the event of an existential crisis for the euro area economy stemming from a CCP failure in the UK (now a `third country`), could there be certainty that the UK would keep to any repayment commitments that could be ruinous to the country?**

#### Scale of the CCP problem

The Over the Counter (OTC) derivatives market began to expand dramatically in the early years of this century – from \$94 trn. in 2000 to nearly \$700 trn. as the Great Financial Crash exploded on the world. For reference, the global OTC market expanded from three times world GDP to about ten times at the onset of the GFC.

In principle, the risks were collateralised via private agreements between the market participants and backed by the equity of the participating dealer banks. However, no-one could be sure that - in the heat of the unfolding, existential crisis – the collateral agreements would be enforceable – especially cross-border.

The solution chosen by the G-20 countries was the (very strong) encouragement of central counterparties (CCPS) to step in and interpose themselves between the two parties to a derivative contract. The key decisions were taken at the

London Summit of the G20 nations in 2009 – forcefully chaired by UK Prime Minister Gordon Brown. That political decision triggered a string of advisory recommendations – first at the global level of the Financial Stability Board (FSB). This was followed up with a stream of legislation in the relevant jurisdictions. For the UK, this took the form of EU legislation until Brexit.

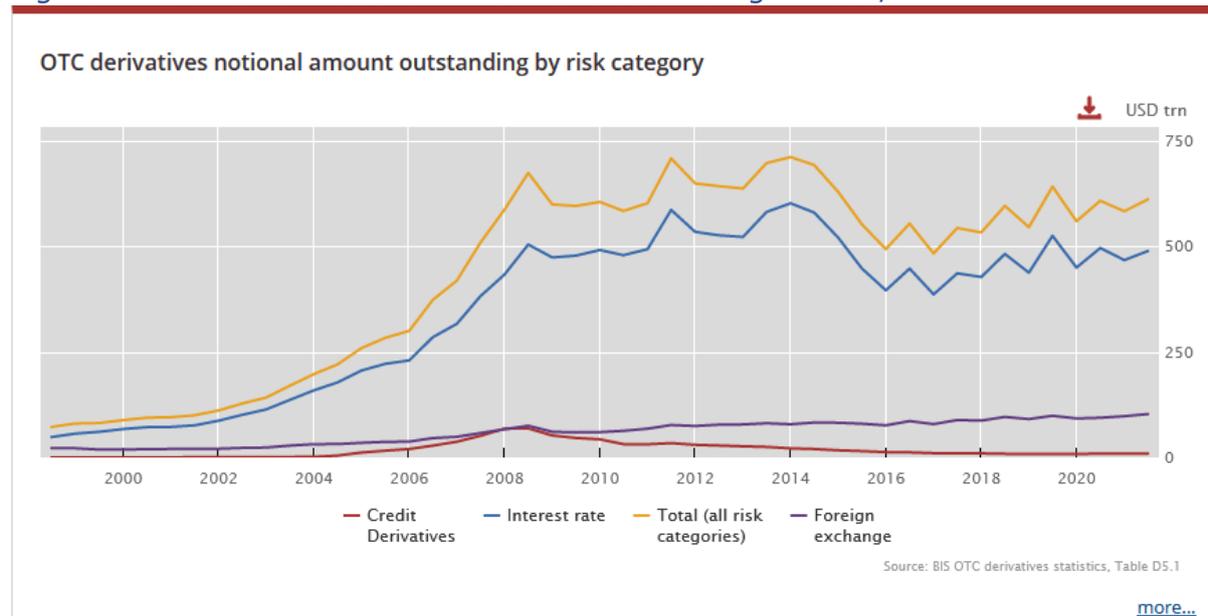
Interest rate derivatives are the key problem as they are about 80% of the total of Over the Counter (OTC) derivatives. Total Exchange-Traded derivatives `only' amount to \$80 trn., are just 13 % of the size of the total OTC market and do not have the potential for destabilising the entire financial system.

Figure 1: Size of Economies and OTC Derivative Markets

Year	2000	2010	2020	1H 2021
<b>Global OTC - total derivatives</b>				
World GDP - \$ trn.	34	66	85	
Total OTC - \$ trn.	94	604	558	610 (interest rate: 488 – 80%)
<i>Total OTC as % of world GDP</i>	<i>280%</i>	<i>920%</i>	<i>660%</i>	<i>720%</i>
<b>Euro OTC – interest rate derivatives</b>				
Euro OTC - \$ trn.				140 ( <i>11 x GDP</i> )
Euro area GDP - \$ trn.			13.0	
UK GDP - \$ trn.			2.7	
£ OTC - \$ trn.				53 ( <i>20 x GDP</i> )
<b>Memo 1: 90% of Euro OTC, as % of UK GDP – 47 x GDP</b>				
<b>Memo 2: 90% of Euro + £, as % of UK GDP – 66 x GDP</b>				

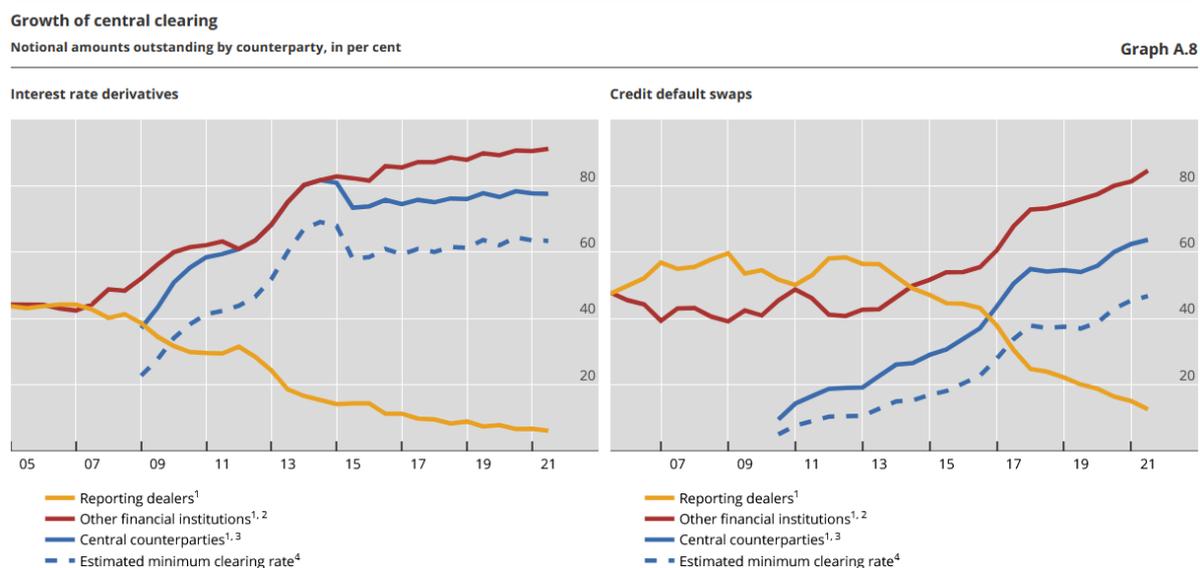
Sources: [BIS](#), [World Bank](#), [Google](#)

Figure 2: Growth of Notional Amounts Outstanding – 2000/21



The G20 policy choice of moving OTC trading to central clearing – pushed by UK Prime Minister Brown - has been a success ( see Figure 3 below). The proportion of OTC trades held on the books of participating dealers has fallen dramatically – to about a fifth of its pre-crash “inter-connectedness”. **But that success has replaced the interconnectedness of the swap dealers with the potential systemic riskiness of CCPs.**

Figure 3: The Growth of ‘Central Clearing’



<sup>1</sup> As a percentage of notional amounts outstanding against all counterparties. <sup>2</sup> Including central counterparties but excluding reporting dealers. <sup>3</sup> For interest rate derivatives, data for CCPs prior to end-June 2016 are estimated by indexing the amounts reported at end-June 2016 to the growth since 2008 of notional amounts outstanding cleared through LCH's SwapClear service. <sup>4</sup> Proportion of trades that are cleared, estimated as  $(CCP / 2) / (1 - (CCP / 2))$ , where CCP represents the share of notional amounts outstanding that dealers report against CCPs. The CCP share is halved to adjust for the potential double-counting of inter-dealer trades novated to CCPs.

Sources: LCH.Clearnet Group Ltd; BIS OTC derivatives statistics (Table D7 and Table D10.1); BIS calculations.

## Timeline of Regulatory Response: Part I - Global Standards

### April 2009 – London [Summit](#)

The Lehman crisis of 2008 persuaded the Heads of the [G20](#) Governments to jerk their knees in unison and require that, as far as possible, all derivatives would be cleared through Central Counter Parties (CCPs). The aim was that risks flowing from the failure of a major bank could no longer cascade through the whole financial system because of the “inter-connectedness” created by derivatives. The natural result of this policy is that huge risks are now concentrated into these CCPs – potentially making them the nuclear power station of the financial system: brilliant in success, catastrophic in failure.

*“The G20 Leaders agreed in 2009 on a comprehensive reform agenda for over-the-counter (OTC) derivatives markets, with the objectives of improving transparency, mitigating systemic risk, and protecting against market abuse.*

*To achieve these objectives, the G20 agreed that:*

- *all OTC derivatives contracts should be reported to trade repositories (TRs);*
- *all standardised contracts should be cleared through central counterparties (CCPs);*
- *all standardised contracts should be traded on exchanges or electronic trading platforms, where appropriate; and*
- *non-centrally cleared (bilateral) contracts should be subject to higher capital requirements and minimum margining requirements.*

*To support the implementation of these reforms, the FSB and other international standard-setting bodies have developed standards and guidance on financial market infrastructures (FMIs) and market participants. The FSB has undertaken and continues to undertake work on the resolution of FMIs, in particular CCPs. This complements the work undertaken by the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) on the resilience and recovery of CCPs and other FMIs.”*

### 2011 onwards: [Setting global standards for CCP stability: Financial Stability Board \(FSB\)](#)

After the 2008 crash, global financial regulators published the first recommendations for the safety of CCPs. The latest comprehensive set of recommendations was published in April 2012 (and updated since) by CPSS-IOSCO “Principles for financial market infrastructures” (PFMIs). These were designed to remove any of the regulatory ‘underlaps’ exposed by the crisis. The working group’s membership included both Bank of England and FSA. Amongst the principles enunciated, a CCP should “manage its liquidity risk” and “should conduct its money settlements in central bank money where practical and available.” Responsibility B requires that “Central banks, market regulators... should have the powers and resources to carry out effectively their responsibilities in regulating, supervising, and overseeing [CCPs]...including the ability to obtain timely information and to induce change or enforce corrective action.”

Mark Carney – Governor of the Bank of England – was the second Chair of the FSB from 2011-2018, thus overseeing all the key work on creating its global standards. According to Wikipedia, “ At the [2011 G20 Cannes summit](#), the G20 called for a strengthening of the FSB's capacity resources and governance by establishing the FSB "on an enduring organizational basis". In its 2012 report to the [G20 Los Cabos summit](#), the FSB set out concrete steps to strengthen the organization's capacity, resources, and governance as well as establish it on an enduring organizational footing. The G20 endorsed the FSB's restated and amended charter.”

Much of the detailed work is carried out by the Committee on Payments and Market Infrastructures (CPMI). Paul Tucker – then Deputy Governor of the Bank of England for Financial Stability – chaired the CPMI in the crucial period as it developed its standards on Resolution. CPMI describes itself as “*an international standard setter that promotes, monitors and makes recommendations about the safety and efficiency of payment, clearing, settlement and related arrangements, thereby supporting financial stability and the wider economy.*”

Accordingly, there can be no doubt that senior UK officials – encouraged by the Prime Ministers of the day - played a key role in designing the global response to the OTC derivative problem, and therefore to the subsequent EU rules that turned this ‘guidance’ into binding legislation.

#### 5 July 2017: Recovery of financial market infrastructures - Revised report

“CPMI and IOSCO have published further guidance on the principles and key considerations in the [Principles for Financial Market Infrastructures \(PFMI\)](#) that relate to recovery planning. This further guidance revises the 2014 recovery report, and is intended to further strengthen recovery arrangements for financial market infrastructures.

*Compared to the 2014 recovery report, the revised guidance provides additional clarifications in four areas: (i) operationalisation of the recovery plan; (ii) replenishment; (iii) non-default related losses; and (iv) transparency with respect to recovery tools and how they would be applied.”*

#### 7 December 2021: Resolution Report: “Glass half-full or still half-empty?”

Ten years since the adoption of the “Key Attributes of Effective Resolution Regimes”, how far have we come and where do we go from here? This [report](#) stated that “*Central Counterparties (CCPs) – Uncertainty remains around the resolvability of CCPs given their systemic role in the financial system. A preliminary analytical report on CCP financial resources will be published in early 2022 and will inform options for potential new or revised international policy on the use, composition or amount of financial resources for CCP recovery or resolution.*”

#### 10 March 2022: FSB/CPMI/IOSCPO Central Counterparty Financial Resources for Recovery and Resolution

“*The Financial Stability Board (FSB), the Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements, and the*

International Organization of Securities Commissions (IOSCO) have today published a [report analysing existing financial resources and tools for central counterparty \(CCP\) recovery and resolution](#), which confirmed the need for further work on CCP financial resources.

Recent periods of market turmoil have demonstrated the benefits that central clearing brings for global financial stability. However, the shift to central clearing has also further increased the systemic importance of CCPs....

The analysis was subject to a number of limitations and assumptions that suggest the results should be interpreted cautiously. In particular, the system-wide, aggregate effects could not be considered due to data availability and confidentiality constraints.

The FSB has agreed to continue to:

- Review the sufficiency of the existing toolkit for CCP resolution, focusing in particular on non-default loss scenarios. Further work will consider the need for, and costs and benefits of, potential alternative financial resources and tools for CCP resolution. This further work will be initiated in Q2 2022.
- Monitor whether resolution authorities have access to an adequate set of resolution tools. This will be undertaken through continued efforts to conduct and enhance implementation monitoring of the FSB guidance on CCP resolution.

In addition, CPMI-IOSCO are currently analysing CCP non-default losses in resilience and recovery and will continue monitoring the implementation of the [Principles for Financial Market Infrastructures](#) (PFMI), including CCP financial resources and tools for resilience and recovery."

**After a decade of work on the risks posed by CCPs, the global regulatory community recognises the risks accentuated by its policies but – crucially – it is unable to give a clean bill of health to its creature, does not even know how to measure the problem, or know whether adequate tools exist to deal with its risks. The implications for host states of systemically significant CCPs are bleak.**

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## Timeline of Regulatory Response: Part II - EU legislative implementation

### 2011: ECB localisation policy

In July 2011, the ECB stated that "it is clear that the Eurosystem has a keen interest in ensuring the proper functioning of clearing and settlement systems across the euro area. This stems from the importance of clearing and settlement systems for the smooth conduct of monetary policy, from their close links to payment systems and from their relevance for the stability of financial systems in general". As a result, the ECB wished to have such infrastructure within a euro area jurisdiction. This was challenged by the UK at the ECJ: should the ECB

be allowed to require that LCH move its euro activities into a eurozone jurisdiction on the mainland? The ECB argued that only then can it oversee these activities and understand exactly what is happening if, say, LCH should unfortunately need emergency euro-denominated liquidity during a future crisis.

Reading the globally-accepted CPSS-IOSCO Principles, it is easy to see why the ECB would argue that, as a direct consequence of the Principles, such crucial parts of the Eurozone's financial infrastructure should be within the Eurozone's own jurisdiction.

#### 2011: ESMA founded

ESMA was founded as a direct result of the recommendations of the 2009 [de Larosière report](#) which called for the establishment of a European System of Financial Supervision (**ESFS**) as a decentralised network. ESMA began operations, under its [Founding Regulation](#) on 1 January 2011. The soundness and robustness of CCPs is at the heart of ESMA's mission to safeguard financial stability in the Union and promoting stable and orderly financial markets.

The [European Markets Infrastructure Regulation \(EMIR\)](#) introduced a harmonised set of organisational, business conduct and prudential requirements for clearing service providers. Its subsequent reviews have continuously enhanced the regulatory and supervisory arrangements for CCPs to mitigate the negative systemic effects, potentially EU-wide, of such disruption. This framework was complemented subsequently by the [CCP Recovery and Resolution Regulation \(CCP RRR\)](#) to ensure the continuity of critical clearing services in the remote case of a CCP failure.

#### 2012: EMIR adopted

*"In accordance with the September [2009 G20 Pittsburgh agreement to reduce the systemic risk linked to the extensive use of Over-The-Counter \(OTC\) derivatives](#), the EU adopted [Regulation \(EU\) No 648/2012 \(EMIR\)](#) in 2012. A key pillar of EMIR is the requirement for standardised OTC derivatives contracts to be cleared through a CCP. Mandatory clearing for certain asset classes, as well as an increased voluntary use of central clearing amid growing awareness of its benefits among market participants, have led to a rapid growth of the volume of CCP activity since the adoption of EMIR – in the European Union (EU) and globally."*

#### October 2013: European Central Bank decision on swap line with Bank of England

*"The Governing Council of the European Central Bank (ECB) decided on this conversion into standing arrangements in cooperation with the other five above-mentioned central banks. This will enable the Eurosystem to continue to provide euro to those central banks when required ... **The operations take the form of repurchase transactions against eligible collateral** ..." [Editor's emphasis]*

March 2015: ECB and BoE announce measures to enhance financial stability in relation to centrally cleared markets in the EU

"The European Central Bank (ECB) and the Bank of England (BoE) are today announcing a series of measures aimed at enhancing financial stability in relation to centrally cleared markets within the EU.

- The ECB and the BoE have agreed enhanced arrangements for information exchange and cooperation regarding UK Central Counterparties (CCPs) with significant euro-denominated business.
- The ECB and the BoE are today extending the scope of their standing swap line in order, **should it be necessary and without pre-committing to the provision of liquidity**, [Editor's emphasis] to facilitate the provision of multi-currency liquidity support by both central banks to CCPs established in the UK and euro area respectively...

*This announcement follows the judgement on 4 March by the General Court of the EU. In light of these agreements the ECB and UK government, as set out in the UK government's announcement of today, have agreed to a cessation of all legal actions covering the three legal cases raised by the UK government."*

**Notes**

**to**

**Editors**

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"4. In its judgement on 4 March 2015 in case [T-496/11 Opens in a new window](#) brought by the UK Government, the EU General Court "[annulled] the Eurosystem Oversight Policy Framework published by the ECB in so far as it sets a requirement for CCPs involved in the clearing of securities to be located within the Eurozone". See links to press releases from the [General Court of the EU Opens in a new window](#), the [Bank of England](#) and the [ECB Opens in a new window](#). In these statements, both the Bank of England and the ECB said that they would "continue to seek a coordinated and shared approach for achieving the common objective of financial stability and the smooth functioning of financial market infrastructures".

5. Prior to their withdrawal today, the UK Government had two further cases outstanding at the General Court of the EU relating to the ECB's location policy: cases [T-45/12 Opens in a new window](#) and [T-93/13 Opens in a new window](#) respectively.

6. In June 2012, international central banks announced that they "are working towards a regime that ensures there are no technical obstacles for the **timely provision of emergency liquidity assistance by central banks to solvent and viable CCPs, without pre-committing to the provision of this liquidity**"." [Editor's emphasis]

October 2019: EMIR 2.2

"The review of the European Markets Infrastructure Regulation (EMIR 2.2) enhanced the role of ESMA. ESMA received direct supervisory responsibilities for systemically important third country CCPs. Both LCH Ltd and ICE Clear Europe Ltd have been recognised by ESMA as systemically important third country CCPs (so-called Tier 2), based on pre-defined criteria, and following the equivalence decision of the European Commission on the regulatory and supervisory

framework of the UK for CCPs. **The objective of the increased role for ESMA is to ensure an adequate monitoring and management of the risk that Tier 2 CCPs may pose to the EU.**" [Editor's emphasis]

February 2021: CCP Recovery and Resolution (CCPRRD) came into force

The [CCP Recovery and Resolution Regulation \(CCP RRR\)](#) Preamble sets out the background and some extracts give the flavour of the concerns, noting that Ministries of Finance should be closely involved with any decision on the ultimate use of public funds. So it will not be just a technocratic decision:

*"...As a significant amount of the financial risk of the Union financial system is processed by and concentrated in CCPs on behalf of clearing members and their clients, effective regulation and robust supervision of CCPs are essential..."*

*Currently, there are no harmonised provisions for the recovery and resolution of CCPs across the Union. Some Member States have already enacted legislative changes that require CCPs to draw up recovery plans and that introduce mechanisms to resolve failing CCPs*

*In light of the consequences that the failure of a CCP and the subsequent actions might have on the financial system and the economy of a Member State, as well as the **possible ultimate need to use public funds to resolve a crisis, the Ministries of Finance or other relevant ministries in Member States should be able to decide, in line with national democratic procedures, on the use of public funds as a last resort** [Editor's emphasis] and should consequently be closely involved, at an early stage, in the process of recovery and resolution..."*

10 November 2021: Commissioner McGuinness announced the Commission's proposed way forward for central clearing.

*"The Commission remains of the view that over-reliance on UK-based central counterparties (CCPs) for some clearing activities is a source of financial stability risk in the medium term and will pursue its work to develop the capacity of EU-based CCPs as a means to reduce such over-reliance. However, in order to address possible short-term financial stability risk, linked to an abrupt interruption in access to clearing services, the Commission will soon propose an extension of equivalence for UK-based CCPs.... This proposed way forward strikes a balance between safeguarding financial stability in the short term – which requires taking an equivalence decision to avoid a cliff-edge for EU market participants - **and safeguarding financial stability in the medium term – which requires us to reduce this risky over-reliance on a third country...** The extension of equivalence should be long enough to allow us to revise the EU supervisory system for CCPs" [Editor's emphasis]*

17 Dec 2021: ESMA publishes results of its assessment of systemically important UK Central Counterparties

The European Securities and Markets Authority (ESMA), the EU's securities markets regulator, today published a [Statement](#) and Report ([part 1](#) and [part 2](#))

on the conclusions from its assessment of Tier 2 Central Counterparties (CCPs) established in the United Kingdom (UK).

*"The Report identifies three clearing services, one provided by LCH Ltd and two by ICE Clear Europe Ltd, as being of substantial systemic importance for the European Union's financial stability and posing risks that may not be fully mitigated under the current EMIR regulatory framework. It concludes that the costs and risks of derecognising these services would outweigh the benefits to the EU **at this time**. [Editor's emphasis]"*

ESMA Chair Ross said: *"CCPs are at the heart of the financial system. Clearing services provided to EU market participants by non-EU CCPs continue to be important for European financial markets. As a result of our comprehensive assessment, ESMA does not recommend that the European Commission derecognise the UK-based Tier 2 CCPs or their services at this time. However, we propose measures that aim to strengthen our approach to systemically important third country CCPs and contribute to the ongoing stability of EU financial markets."*

Klaus Löber, Chair of the CCP Supervisory Committee, said: *"ESMA, following a comprehensive assessment, has formulated a range of measures that should be considered by relevant bodies as a response to the identified weaknesses and vulnerabilities. These measures include considering appropriate incentives for reducing the size of EU exposures to Tier 2 CCPs, reviewing the EMIR framework for comparable compliance, expanding ESMA's supervisory and crisis management toolbox and enhancing cooperation with UK authorities on CCP recovery and resolution."*

*The objective of ESMA's assessment was to determine the risks posed by the two systemically important UK CCPs to the financial stability of the EU, or one of its Member States, as well as to consider the costs, benefits and consequences of a potential decision not to recognise the CCP or some of its clearing services, as required by Article 25(2c) of EMIR."*

#### 8 February 2022: Targeted consultation on the review of EU's central clearing framework

*"The aim of this consultation is to seek feedback on possible measures, legislative and/or non-legislative, to improve the competitiveness of EU CCPs and clearing activities as well as ensure that their risks are appropriately managed and supervised. This is part of the [way forward for central clearing announced by Commissioner McGuinness on 10 November 2021](#) and takes into account the reflections made by the European Commission over the last months on the risks associated with over-reliance on third-country infrastructures and the need to increase clearing capacity in the EU."*

#### 7 March 2022: DG FISMA [article](#) setting out plans – for delivery 2H 2022

*"As part of a move to expand central clearing activities in the EU and reduce the overdependence on non-EU Central Counterparties (CCPs), the European Commission in February launched a [targeted public consultation](#), which closes on*

22 March 2022. The aim of this consultation is to put the EU in a better position to propose meaningful legal changes to EU rules in this area to enhance liquidity in EU CCPs and expand the range of clearing solutions on offer from EU infrastructures. At the same time, the Commission also extended the time-limited equivalence for UK CCPs.

**Developing the CMU by making EU CCPs more attractive**

*In the second half of 2022, the Commission plans to come forward with legislative or non-legislative measures to build the EU’s capacity for clearing and make European CCPs more attractive to market participants. First, measures to make Europe an attractive, competitive and cost-efficient clearing hub should help drive an expansion of central clearing activities in the EU. Second, if the EU is to increase its capacity for central clearing, any related risks will need to be properly managed and the EU’s framework for CCPs strengthened, including through a stronger role for EU-level supervision.*

**Extending time-limited equivalence for UK CCPs**

*UK CCPs now operate outside of the Single Market and the EU’s regulatory framework. In September 2020, the Commission adopted a time-limited equivalence decision for UK CCPs until 30 June 2022. It did this to avoid the risks to financial stability that a sudden disruption in EU participants’ access to UK CCPs would have brought. Market participants were urged to take action and reduce their exposures to UK CCPs. However, the move so far has been marginal and mostly concerned low-risk products rather than the more complex and risky positions still cleared in the UK. A working group was set up in 2021 by the Commission (together with the European Central Bank, the European Supervisory Authorities and the European Systemic Risk Board) to explore the opportunities and challenges involved in reducing the EU’s exposures to the UK. It found that the original timeframe of June 2022 was too short to achieve this and that an extension of the equivalence decision for UK CCPs would be necessary. Consequently, the Commission has extended equivalence until 30 June 2025, in order to avoid any short-term financial stability risks.*

**Safeguarding financial stability**

*The decision to extend equivalence temporarily avoids a cliff-edge for EU participants. The path the Commission is proposing strikes a balance between safeguarding financial stability in the short term – by extending the equivalence for UK CCPs – and safeguarding financial stability in the medium term – by reducing a risky over-reliance on a non-EU country. "*

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10 May 2022