



Financial stability: Commission adopts time-limited decision giving market participants the time needed to reduce exposure to UK central counterparties (CCPs)

Brussels, 21 September 2020

The European Commission has today adopted a time-limited decision to give financial market participants 18 months to reduce their exposure to UK central counterparties (CCPs).

A CCP is an entity that reduces systemic risk and enhances financial stability by standing between the two counterparties in a derivatives contract (i.e. acting as buyer to the seller and seller to the buyer of risk). A CCP's main purpose is to manage the risk that could arise if one of the counterparties defaults on the deal. Central clearing is key for financial stability by mitigating credit risk for financial firms, reducing contagion risks in the financial sector, and increasing market transparency.

The heavy reliance of the EU financial system on services provided by UK-based CCPs raises important issues related to financial stability and requires the scaling down of EU exposures to these infrastructures. Accordingly, industry is strongly encouraged to work together in developing strategies that will reduce their reliance on UK CCPs that are systemically important for the Union. On 1 January 2021, the UK will leave the Single Market. Today's temporary equivalence decision aims to protect financial stability in the EU and give market participants the time needed to reduce their exposure to UK CCPs.

Valdis **Dombrovskis**, Executive Vice President for an Economy that Works for People said: "*Clearing houses, or CCPs, play a systemic role in our financial system. We are adopting this decision to protect our financial stability, which is one of our key priorities. This time-limited decision has a very practical rationale, because it gives EU market participants the time they need to reduce their excessive exposures to UK-based CCPs, and EU CCPs the time to build up their clearing capability. Exposures will be more balanced as a result. It is a matter of financial stability.*"

Background

On the basis of an analysis conducted with the European Central Bank, the Single Resolution Board and the European Supervisory Authorities, the Commission identified that financial stability risks could arise in the area of central clearing of derivatives through CCPs established in the United Kingdom ("UK CCPs") should there be a sudden disruption in the services they offer to EU market participants. This was addressed in [the Commission Communication of 9 July 2020](#), where market participants were recommended to prepare for all scenarios, including where there will be no further equivalence decision in this area.

For more information

[Link](#) to today's decision

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