



Commissioner McGuinness announces proposed way forward for central clearing

Brussels, 10 November 2021

Today, Commissioner for Financial Services, Financial Stability and Capital Markets Union Mairead **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.

The Commissioner stated:

"Before Brexit, the City of London became the main financial hub for the trading and clearing of derivatives in the European Union. The departure of the United Kingdom from the European Union was a fragmenting event, with consequences in terms of financial stability. UK-based CCPs now operate outside of the Single Market and the EU's regulatory framework and over-reliance on these CCPs implies financial stability risks, notably in the event of stress. Accordingly, the EU's own clearing capacity must be expanded.

From the very start of Brexit discussions, central clearing was identified as an activity, where financial stability risk could be significant in the event of an abrupt disruption in the access of EU participants to UK-based CCPs. That is why, in September 2020, the Commission adopted a time-limited equivalence decision for UK-based CCPs until 30 June 2022 to avoid such a cliff-edge scenario.

In the meantime, the Commission established a Working Group (together with the European Central Bank, the European Supervisory Authorities and the European Systemic Risk Board) to explore the opportunities and challenges involved in transferring derivatives from the UK to the EU. The Commission learnt from this group that a combination of different measures – to improve the attractiveness of clearing, to encourage infrastructure development, and to reform supervisory arrangements – are needed to build a strong and attractive central clearing capacity in the EU in the years to come. The Commission also found that the timeframe of June 2022 was too short to achieve this.

That is why I will propose an extension of the equivalence decision for UK CCPs in early 2022.

But this extension of equivalence does not address our medium-term financial stability concerns. I also intend to come forward next year with measures to make EU-based CCPs more attractive to market participants, taking into account the results of the assessment currently being undertaken by ESMA on the systemic importance of UK-based CCPs. These measures should be built on two pillars:

Firstly, building domestic capacity. Measures to make the EU more attractive as a competitive and cost-efficient clearing hub, and so incentivise an expansion of central clearing activities in the EU, will be needed. In this context, we will explore ways to enhance liquidity in EU CCPs and to expand the range of clearing solutions on offer from EU infrastructures

Secondly, supervision. If the EU is to increase its capacity for central clearing, it is essential that the related risks should be appropriately managed. We must strengthen the EU's supervisory framework for CCPs, including a stronger role for EU-level supervision.

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.”

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