



Financial stability: New EU rules on central clearing for certain credit derivative contracts

Brussels, 1 March 2016

Today's decision implements the clearing obligation under the European Market Infrastructure Regulation ('EMIR'). It refers to some types of credit default swaps.

The European Commission has adopted a new set of rules that requires certain over-the-counter (OTC) credit derivative contracts to be cleared through central counterparties (CCPs). Mandatory central clearing is a vital part of the response to the financial crisis; it follows commitments made by world leaders at the [G-20 Pittsburgh Summit in 2009](#) to improve transparency and mitigate risks.

Jonathan Hill, EU Commissioner for Financial Stability, Financial Services and Capital Markets Union, said: *"Today's decision marks another step towards making good on our G20 commitments to bolster financial stability, reduce risks and boost market confidence."*

Today's decision takes the form of a [Delegated Regulation](#) and implements part of the clearing obligations set out in the European Market Infrastructure Regulation ('EMIR').

The Delegated Regulation refers in particular to certain credit default swaps (CDS) that are denominated in Euro covering some European corporates. By requiring these types of credit default swaps to be cleared through CCPs, financial markets become more stable and less risky. This creates an environment that is more conducive to investment and economic growth in the EU.

This clearing obligation will enter into force subject to scrutiny by the European Parliament and the Council of the EU. It will be phased in over three years to give extra time for smaller market participants to comply.

Background

Derivatives play an important role in the economy but are associated with certain risks. Recent financial crises have highlighted that these risks are not sufficiently mitigated in the over-the-counter (OTC) part of the market, especially in regards to credit default swaps (CDS). Since the beginning of the financial crisis, the Commission has been working to address these risks.

CCPs clear the transactions between two parties, helping to manage the risk that can arise if one party defaults on its payments. Financial markets become more stable and less risky by making it necessary for some classes of credit derivative contracts, or 'credit default swaps', to be cleared through CCPs. This in turn creates an environment more conducive to investment and economic growth in the EU.

At the 2009 Pittsburgh meeting, G20 leaders agreed that standardised OTC derivative contracts should be centrally cleared through CCPs.

The European Parliament and the Council enshrined these commitments in [Regulation \(EU\) No 648/2012](#) on OTC Derivatives, Central Counterparties and Trade Repositories (EMIR). According to Article 5 of EMIR, the European Commission, on the basis of a proposal from the European Securities Markets Authority (ESMA), should determine the types of OTC contracts that should be subject to mandatory clearing by a CCP. On the basis of this mandate, the European Commission is adopting a delegated Regulation introducing a clearing obligation for OTC credit default swaps.

EMIR mandates the European Securities and Markets Authority ([ESMA](#)) to review clearing eligible contracts and, with the overarching aim of reducing systemic risk, to propose clearing requirements for products meeting certain criteria.

This is the second clearing obligation that has been proposed by ESMA and it is expected that ESMA will propose obligations for other types of OTC derivative contracts in the near future. The first clearing obligation on OTC interest rate swaps was adopted on [6 August 2015](#) and entered into force on 21 December 2015.

While mandatory clearance through CCPs brings many benefits, it also increases the systemic importance of those CCPs within the financial system, and the consequences if a CCP were to fail. The Commission 2016 Work Programme includes a commitment to legislate for a European framework for the recovery and resolution of CCPs.

For more information on the regulation of derivatives: http://ec.europa.eu/finance/financial-markets/derivatives/index_en.htm

IP/16/463

Press contacts:

[Vanessa MOCK](#) (+32 2 295 61 94)

[Letizia LUPINI](#) (+32 2 295 19 58)

General public inquiries: [Europe Direct](#) by phone [00 800 67 89 10 11](#) or by [email](#)