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News release

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European Central Bank (ECB) location policy for Central Counterparties (CCPs)

The Bank of England takes note of the EU General Court judgement on the ECB's location policy for CCPs. The judgement "annuls 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."

The G20 has mandated that CCPs take on an increasingly important role in the management of systemic risk internationally.

It is important for the safety and soundness of CCPs that they have access to liquidity arrangements in the currencies they clear. This is first and foremost the responsibility of the private operators. In addition, access to central bank liquidity can provide a backstop arrangement. The most efficient ultimate source of this backstop liquidity in the event of major market disruption is provided by the network of central bank swap-lines. This is already the case for a number of major foreign currencies.

The Bank of England recognises that the ECB has an interest in the safety and soundness of UK CCPs who clear significant amounts of euro-denominated contracts. The Bank and the ECB will continue to seek a coordinated and shared approach for achieving our common objectives of financial stability and the smooth functioning of financial market infrastructures.

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Notes to Editors:

1. A CCP places itself between the original counterparties to a transaction, effectively guaranteeing that if one counterparty fails the CCP will continue to perform on the transaction to the other party. A CCP protects itself by taking collateral (margin) from each party and by collecting a 'default fund' from its members to meet losses that exceed the margin it holds.

2. CCPs are becoming increasingly important in financial markets, in particular following a commitment by G20 Leaders in 2009 that all standardised over-the-counter (OTC) derivative contracts should be

cleared through CCPs. Around 50% of the global OTC interest rate derivatives market – the largest segment of the OTC derivatives market – is now centrally-cleared, compared to 16% in 2007.

3. Regulation No 648/2012 of the European Parliament and Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories, commonly known as the European Market Infrastructure Regulation (EMIR), allows a CCP established and authorised in one Member State to provide clearing services in multiple currencies throughout the EU. EMIR recital 47 states that "A CCP might be established in accordance with this Regulation in any Member State. No Member State or group of Member States should be discriminated against, directly or indirectly, as a venue for clearing services. Nothing in this Regulation should attempt to restrict or impede a CCP in one jurisdiction from clearing a product denominated in the currency of another Member State or in the currency of a third country." EMIR Article 14 states that "Once authorisation has been granted … [to an EU CCP], it shall be effective for the entire territory of the Union."

4. Under EMIR the Bank chairs supervisory colleges for UK CCPs. The ECB sits on the colleges of all four UK CCPs and is a voting member on three. These colleges act as a vehicle for the exchange of information between EU regulatory authorities and enable authorities to input to the supervision of CCPs in other jurisdictions. The colleges vote on the initial authorisation of the CCP and on any extension of the scope of authorisation and must be consulted, for example, on significant changes to the CCP's risk models. The Bank has also chosen to establish 'global' colleges consisting of EU and also non-EU authorities for the two largest UK CCPs, LCH.Clearnet Limited and ICE Clear Europe Limited.

5. The Financial Stability Board has identified four safeguards for a resilient and efficient environment for global central clearing. The four safeguards are: i) fair and open access by market participants to CCPs, based on transparent and objective criteria; (ii) cooperative oversight arrangements between all relevant authorities, both domestically and internationally, that result in robust and consistently applied regulation and oversight of global CCPs; (iii) resolution and recovery regimes that ensure the core functions of CCPs are maintained during times of crises and that consider the interests of all jurisdictions where the CCP is systemically important; and (iv) appropriate liquidity arrangements for CCPs in the currencies they clear.

6. In his Mansion House speech of 12 June 2014 the Governor announced that the Bank would widen access to its sterling monetary framework facilities to include CCPs (see http://www.bankofengland.co.uk/publications/Documents/speeches/2014/speech736.pdf); the implementation of this was announced by the Bank on 5 November 2014 (see http://www.bankofengland.co.uk/publications/Pages/news/2014/144.aspx). CCPs that operate in UK markets and which are authorised under EMIR (in the case of EU CCPs), or 'recognised' by ESMA to offer clearing services in the EU (in the case of non-EU CCPs) are eligible to apply. In the Mansion House speech, the Governor also stated that the Bank would "look into whether we should further develop our capacity to lend in currencies other than sterling".