

22. OTC Derivatives markets

ABI Contact: Danka Starovic 020 7216 7319

ABI Lead Committee: Investment Committee

Other interested committees: Financial Regulation and Tax

Issue: Commission consultation on initiatives to enhance the resilience of the OTC Derivatives markets.

Status: On 3 July the European Commission published a consultation document. In September the G20 conclusions covered derivatives markets. In December EU Finance Ministers published substantive conclusions on the issue.

ABI Action: ABI members are significant users of derivatives. Although the major interest lies with the banking community, and the best advocates are non-financial users such as the oil majors and industrial companies, we will follow the debate closely.

Our initial views are to welcome central clearing for eligible products but acknowledge that it will not be possible for all products, and that regulators should not force standardisation in cases where it would limit flexibility.

Our views on trading of derivatives on organised markets instead of over the counter are similar: if a product is standardised enough to be traded on an exchange or a trading platform, there is no reason why this should not be possible. But users of derivatives should have the choice of how they wish to trade. We also do not believe that costs of either central clearing or exchange trading should simply be passed on to end investors.

Background: The Commission communication proposes a number of tools to strengthen the derivatives markets:

- Further standardisation of contracts
- Strengthening bilateral collateral management for contracts not eligible for central counterparties
- Greater use of central data repositories
- Standardised contracts to be cleared through central counterparties
- Increased transparency of prices, transactions and positions
- Part or all trading to be moved to public trading venues

Finance Ministers' conclusions advocated "a more ambitious and comprehensive regulatory policy", covering all users of derivatives, while recognising different classes of users and contracts. They call for substantial improvement in the mitigation of counterparty risk, requesting legislative proposals from the Commission on conduct of business and governance, risk standards, legal protection to collateral and positions, authorization, and recognition of third-country CCPs. They recommend higher capital charges for bilaterally cleared derivatives.

Useful documents

[Commission consultation document](#)