

# EC extends UK CCP equivalence and consults on EU clearing framework

## AT A GLANCE

February 2022

### What's new?

- The European Commission (EC) confirmed an [extension](#) of its equivalence determination for UK central counterparties (CCPs) on 8 February 2022.
- On the same day, the EC published a [targeted consultation](#) paper (CP) on measures which aim to improve the competitiveness of EU CCPs and clearing markets, in an attempt to reduce reliance on UK CCPs.

### What does this mean?

#### *Extension of equivalence*

- The decision means that EEA clearing members will be able to continue clearing through recognised UK CCPs after the current equivalence decision expires on 30 June 2022, until 30 June 2025. The EC has taken this decision in recognition of the systemic risks that removing equivalence at short notice would have entailed, due to the dominance of UK CCPs in a number of markets.
- The EC notes that some transactions cleared in UK CCPs cannot, at present, be cleared elsewhere and the EU needs to build its clearing capacity.
- The extension of the equivalence decision removes the cliff edge risks from EU firms not being able to access UK CCPs from 30 June 2022.
- The EC states that the duration of the extension should give EU CCPs enough time to develop their clearing capacity and for EEA clearing members to significantly reduce their exposures to UK CCPs.

#### *Consultation on EU CCPs*

- The CP seeks views on measures to improve the competitiveness of EU CCPs and clearing activities, in an attempt to build capacity and reduce reliance on UK CCPs. The CP explores a broad range of options and it is unlikely that the EC will proceed with all or even a majority of them.
- The EC notes one way to improve the attractiveness of EU CCPs would be to increase the **scope of clearing participants and products** in an attempt to build liquidity. The CP explores a number of ways in which this could be done. These include making easier for pension scheme arrangements (which are currently exempt from clearing) to clear, encouraging a range of public sector entities to clear and broadening the scope of private sector firms which access CCPs directly.
- The CP also seeks views on **measures to allow EU CCPs to expand their product offerings or change their risk models in a timely manner**. It asks, for example, how ex-post approval processes for the extension of CCP services could be designed, keeping in mind the need to ensure adequate supervision and risk controls.

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- The CP also explores a range of **measures aimed at market participants**, designed to encourage them to reduce their exposures to UK CCPs. These include increasing the risk weights for banks' 'excessive exposures' to CCPs of systemic importance (Tier 2 CCPs), a macro-prudential buffer for exposures to these CCPs, exposure reduction targets for clearing members and prohibiting clearing in any Tier 2 CCP.
- The EC states that it would be helpful to conduct a **data collection exercise** to get a comprehensive risk picture regarding **EU market participants' exposure to Tier 2 CCPs**, particularly for those services identified as being substantially systemically important by ESMA: Swapclear by LCH Ltd (for both euro and Polish zloty-denominated products), and STIR futures and CDS Service respectively by ICE Clear EU (for euro-denominated products).
- **On supervision of CCPs**, the EC states that as the EU builds capacity and market scale in clearing, the related risks should be appropriately managed.
- It adds that EU-level supervision of EU CCPs should be given a stronger role. The EC states that the benefits of this may include reduced costs for CCPs and improved supervision.

## What do firms need to do?

- The extension of the equivalence determination means UK CCPs and EEA clearing members will not have to prepare for offboarding at this stage. This is a positive development as it removes the potential for significant financial instability and losses for EEA clearing members.
- EEA clearing members are however likely to face significant supervisory scrutiny regarding their exposures to UK CCPs, particularly around euro and other EU-currency denominated OTC derivatives.
- There is likely to be increasing supervisory and political pressure on EU banks to show progress in reducing exposures to UK CCPs, something which will pose operational and business challenges.
- The EC is also likely to proceed with some of the measures designed to encourage a reduction in exposures to UK CCPs. Initiatives such as increased capital requirements for these exposures would impact on the competitiveness of EU banks compared to peers.

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## Next steps

The EC's decision to extend temporary equivalence for UK CCPs will apply from 1 July 2022.

The consultation on the review of the CCP framework in the EU closes on 8 March 2022. The EC plans to put forward measures to develop central clearing activities in the EU in the second half of 2022.



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