

European banks urge for structural deficiencies in OTC derivatives markets to be addressed

European banks believe that, given the importance of the over-the-counter (OTC) derivatives markets to underpin the activities of the real economy, it is paramount that the structural deficiencies in those markets are addressed as a matter of urgency. The European Banking Federation (EBF) believes that Central Counterparties (CCPs) certainly have a role to play in addressing those deficiencies, as explained in a paper it published today.

“The EBF acknowledges the benefits of central-clearing for mitigating counterparty risk and is, therefore, supportive of extending the use of central clearing for as many CCP-clearing eligible OTC derivative contracts as possible” said Guido Ravoet, EBF Secretary General. He added: “The EBF considers, nonetheless, that central clearing should be market driven as market participants avail of the relevant capital incentives. The strengthening of collateralisation in bilateral clearing is also crucial to reduce counterparty risk”

The EBF paper summarises the views of the European banking community on the upcoming European Commission proposals on OTC derivatives markets and their market infrastructures. The document covers four topics: (i) issues around clearing of OTC derivatives contracts; (ii) Central Counterparties; (iii) Trade Repositories; and (iv) interoperability.

The EBF stresses that, as the key infrastructure in the post-trading environment, CCPs must have robust governance arrangements in place and must ensure they operate on a sound and safe basis. CCPs should ensure the permanent fulfilment of their obligations in order to reduce the sources of operational risks, for them and for their participants. The EBF further calls for CCPs to have Risk Committees composed of participants in the CCP whose decisions would be binding to that market infrastructure. In addition, the EBF would be in favour of authorising the operation of CCPs at European level while the supervision of CCPs would remain at domestic level.

European banks agree with the regulatory community that transparency in OTC derivatives markets needs to be reinforced; they see the establishment of Trade Repositories as crucial in this regard.

Finally, the EBF calls for a carefully considered approach in defining the scope and conditions for open access and interoperability between market infrastructures.

The Federation will further contribute to the upcoming debate and formal consultation to follow the publication of a European Commission paper on OTC derivatives and market infrastructures later this month.

The EBF Paper can be found on the EBF website at: <http://www.ebf-fbe.eu/>

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Note to the Editor

Set up in 1960, the European Banking Federation is the voice of the European banking sector (EU and EFTA countries). The EBF represents the interests of some 5000 European banks: large and small, wholesale and retail, local and cross-border financial institutions