



## European Commission adopts equivalence decision for CCPs in USA

Brussels, 15 March 2016

The European Commission has determined that the U.S. Commodity Futures Trading Commission (CFTC) has the equivalent requirements as the EU in regulating central counterparties ('CCPs'). This follows the [announcement of 10 February 2016 by Commissioner Hill and CFTC Chairman Timothy Massad](#) on a common approach for transatlantic CCPs.

This decision will ensure that both EU and US CCPs operate to the same high standards and at a comparable level of cost to their participants. It also alleviates the regulatory burden for US and EU CCPs, allowing compliance with only one set of rules. This will encourage market certainty and cross-border activity, avoiding fragmentation of markets and liquidity.

Commissioner Jonathan **Hill**, responsible for financial stability, financial services and capital markets union said: *"This is an important step forward for global regulatory convergence and implementing our agreement with the CFTC. It means that US CCPs, once recognised by ESMA, can continue to provide services to EU companies. We look forward to the CFTC's forthcoming decision on substituted compliance which will allow European CCPs to do business in the United States more easily"*.

CCPs are entities that sit in the middle of derivatives contracts, becoming the buyer to every seller and the seller to every buyer. Following the financial crisis, the G20 encouraged the clearing of derivatives trades, to reduce risk in the financial system.

### How will this work?

The European Commission begins its assessment for equivalence if a CCP from a third country seeks recognition from the [European Securities and Markets Authorities](#) (ESMA). Equivalence assessments are undertaken using an outcome-based approach. This means that the authority in the third country must be able to show that its rules achieve the same objectives as in the EU, i.e. a robust CCP framework promoting financial stability through a reduction in systemic risk. It does not mean that identical rules are required to be in place in that country.

This assessment is undertaken in cooperation with the regulators in the country concerned. If a determination of equivalence is made, it is given effect through a legally binding implementing act in accordance with Article 25(6) of the European Market Infrastructure Regulation (EMIR) ([Regulation \(EU\) No 648/2012](#)). These decisions follow previous determinations of equivalence made in October 2014 for: Australia, Singapore, Japan, Hong Kong, Canada, Switzerland, South Africa, Mexico and the Republic of Korea.

### Why is it important?

CCPs registered with the CFTC will be able to obtain recognition in the EU. Market participants will be able to use them to clear standardised over-the-counter derivative trades as required by EU legislation, while the CCPs will remain subject solely to the regulation and supervision of their home jurisdictions. CCPs that have been recognised under the EMIR process will also obtain qualifying CCP (QCCP) status across the European Union under [the Capital Requirements Regulation \(CRR\)](#). This means that EU banks' exposures to these CCPs will be subject to a lower risk weight in calculating their regulatory capital.

Although rules may differ in the detail, international regulators are pursuing the same objectives to promote financial stability by promoting the use of CCPs that are subject to robust prudential requirements. Through the use of deference, as agreed by the G20, regulatory gaps, duplication, conflicts and inconsistencies which can lead to regulatory arbitrage and market fragmentation are limited.

### What next?

A CCP wishing to obtain recognition must apply to the European Securities and Markets Authority (ESMA). ESMA will then process the application in cooperation with the relevant regulators of the CCP that has applied for recognition. Under this equivalence decision, US CCPs seeking recognition in the EU will need to confirm that their internal rules and procedures meet certain conditions set out in the decision relating to the calculation of initial margins and the default fund.

**For more information:**

[http://ec.europa.eu/finance/financial-markets/derivatives/index\\_en.htm#160315](http://ec.europa.eu/finance/financial-markets/derivatives/index_en.htm#160315)

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