PRESS RELEASE

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European Central Bank and Bank of England announce measures to enhance financial stability in relation to centrally cleared markets in the EU

The European Central Bank (ECB) and the Bank of England (BoE) are today announcing a series of measures aimed at enhancing financial stability in relation to centrally cleared markets within the EU.

- The ECB and the BoE have agreed enhanced arrangements for information exchange and cooperation regarding UK Central Counterparties (CCPs) with significant euro-denominated business.
- The ECB and the BoE are today extending the scope of their standing swap line in order, should it be necessary and without pre-committing to the provision of liquidity, to facilitate the provision of multi-currency liquidity support by both central banks to CCPs established in the UK and euro area respectively. CCP liquidity risk management remains first and foremost the responsibility of the CCPs themselves

This announcement follows the judgement on 4 March by the General Court of the EU. In light of these agreements the ECB and UK government, as set out in the UK government's announcement of today, have agreed to a cessation of all legal actions covering the three legal cases raised by the UK government.

Notes

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.
4. In its judgement on 4 March 2015 in case T-496/11 brought by the UK Government, the EU General Court "[annulled] 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". See links to press releases from the General Court of the EU, the Bank of England and the ECB. In these statements, both the Bank of England and the ECB said that they would "continue to seek a coordinated and shared approach for achieving the common objective of financial stability and the smooth functioning of financial market infrastructures".
5. Prior to their withdrawal today, the UK Government had two further cases outstanding at the General Court of the EU relating to the ECB's location policy: cases T-45/12 and T-93/13 respectively.
6. In June 2012, international central banks announced that they "are working towards a regime that ensures there are no technical obstacles for the timely provision of emergency liquidity assistance by central banks to solvent and viable CCPs, without pre-committing to the provision of this liquidity". See the 'Statement by the Economic Consultative Committee' in Appendix II here.
7. In principle these arrangements are reciprocal.

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