Basel Committee on Banking Supervision
BANK FOR INTERNATIONAL SETTLEMENTS

Committee on Payments and Market Infrastructures
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FSB FINANCIAL STABILITY BOARD

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# Press release

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## FSB and standard-setting bodies publish final report on effects of reforms on incentives to centrally clear over-the-counter derivatives

The Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS), the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) published today their final report on *Incentives to centrally clear over-the-counter (OTC) derivatives*.

The central clearing of standardised OTC derivatives is a pillar of the G20 Leaders' commitment to reform OTC derivatives markets in response to the global financial crisis. A number of post-crisis reforms are, directly or indirectly, relevant to incentives to centrally clear. The report by the Derivatives Assessment Team (DAT) evaluates how these reforms interact and how they could affect incentives.

The findings of this evaluation report will inform relevant standard-setting bodies and, if warranted, could provide a basis for fine-tuning post-crisis reforms, bearing in mind the original objectives of the reforms. This does not imply a scaling back of those reforms or an undermining of members' commitment to implement them.

The report, one of the first two evaluations under the FSB framework for the post-implementation evaluation of the effects of G20 financial regulatory reforms, confirms the findings of the consultative document that:

- The changes observed in OTC derivatives markets are consistent with the G20 Leaders' objective of promoting central clearing as part of mitigating systemic risk and making derivatives markets safer.
- The relevant post-crisis reforms, in particular the capital, margin and clearing reforms, taken together, appear to create an overall incentive, at least for dealers and larger and more active clients, to centrally clear OTC derivatives.
- Non-regulatory factors, such as market liquidity, counterparty credit risk management and netting efficiencies, are also important and can interact with regulatory factors to affect incentives to centrally clear.

- Some categories of clients have less strong incentives to use central clearing, and may have a lower degree of access to central clearing.
- The provision of client clearing services is concentrated in a relatively small number of bank-affiliated clearing firms and this concentration may have implications for financial stability.
- Some aspects of regulatory reform may not incentivise provision of client clearing services.

The analysis suggests that, overall, the reforms are achieving their goals of promoting central clearing, especially for the most systemic market participants. This is consistent with the goal of reducing complexity and improving transparency and standardisation in the OTC derivatives markets. Beyond the systemic core of the derivatives network of central counterparties (CCPs), dealers/clearing service providers and larger, more active clients, the incentives are less strong.

The DAT's work suggests that the treatment of initial margin in the leverage ratio can be a disincentive for banks to offer or expand client clearing services. Bearing in mind the original objectives of the reform, additional analysis would be useful to further assess these effects.

In this regard, the Basel Committee on Banking Supervision issued on 18 October a public consultation setting out options for adjusting, or not, the leverage ratio treatment of client cleared derivatives.

The report also discusses the effects of clearing mandates and margin requirements for non-centrally cleared derivatives (particularly initial margin) in supporting incentives to centrally clear; and the treatment of client cleared trades in the framework for global systemically important banks.

The final responsibility for deciding whether and how to amend a particular standard or policy remains with the body that is responsible for issuing that standard or policy.

The BCBS, CPMI, FSB and IOSCO today also published an overview of responses to the consultation on this evaluation, which summarises the issues raised in the public consultation launched in August and sets out the main changes that have been made in the report to address them. The individual responses to the public consultation are available on the FSB website.

**Notes to editors**

The five areas of post-crisis reforms to OTC derivatives markets agreed by the G20 are: trade reporting of OTC derivatives; central clearing of standardised OTC derivatives; exchange or electronic platform trading, where appropriate, of standardised OTC derivatives; higher capital requirements for non-centrally cleared derivatives; and initial and variation margin requirements for non-centrally cleared derivatives.

An earlier assessment of incentives to centrally clear OTC derivatives was published in 2014. In July 2017, the FSB published the *Chairs' Report on the Implementation of the Joint Workplan for Strengthening the Resilience, Recovery and Resolvability of Central Counterparties*, which noted that a Derivatives Assessment Team would be convened to undertake a review of the incentives for central clearing arising from the interaction of post-crisis reforms, to be completed by end-2018. As part of that workplan, the FSB has also recently published a discussion paper for public consultation on the financial resources to support CCP resolution and the treatment of equity in resolution.

The FSB published in July 2017 a *Framework for Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms* that guides analysis of whether the reforms are achieving their intended outcomes, and helps identify material unintended consequences that may have to be addressed, without compromising on the objectives of the reforms. The Framework provides the basis for dynamic implementation, and ensures that reforms remain fit for purpose amidst changing circumstances.

The evaluation on the effects of reforms on incentives to centrally clear OTC derivatives is one of the first evaluations under the Framework. The other initial evaluation under the Framework examines the effects of the G20 regulatory reforms on financial intermediation, covering the financing of infrastructure investment (to be published in the coming days) and of small and medium-sized enterprises (to be published in 2019). The FSB will also undertake an evaluation on the effects to date of reforms to end too-big-to-fail, which will be launched in early 2019 and completed in 2020.