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Press release

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FSB and standard-setting bodies consult 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 a consultative document on *Incentives to centrally clear over-the-counter (OTC) derivatives*.

Centrally clearing 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 consultative document evaluates how these reforms interact and how they could affect incentives.

The evaluation 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 evaluation, the second under the FSB framework for the post-implementation evaluation of the effects of G20 financial regulatory reforms, finds 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.

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 CCPs, dealers/clearing service providers and larger, more active clients, the incentives are less strong.

Analysis of quantitative and qualitative survey data and market outreach suggest 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.

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 FSB, BCBS, CPMI and IOSCO welcome responses to the questions set out in this consultative document by Friday 7 September 2018. Responses should be sent to fsb@fsb.org. Responses will be published on the FSB website unless respondents expressly request otherwise. The final report will be published at around the time of the G20 Summit at end-November 2018.

Notes to editors

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 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.