European Securities and Markets Authority

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PRESS RELEASE

ESMA identifies areas for improvement in EU CCP supervision

The European Securities and Markets Authority (ESMA) has presented today the results of a peer review, it conducted into how national competent authorities (NCAs) ensure that central counterparties (CCPs) comply with margin and collateral requirements under the European Markets Infrastructure Regulation (EMIR). The report identified a number of areas where supervisory approaches differ between NCAs and includes recommendations to improve consistency in supervisory practices.

ESMA compared the supervisory approaches of the 16 NCAs supervising the 17 CCPs established in the EU at the time of the launch of the review, on 1 September 2015. The review focused on margin and collateral requirements but also identified areas for improvement regarding risk model validation and regular reviews under on-going supervision.

ESMA identified certain areas where divergences emerged in NCAs' supervisory approaches, these included:

- *Supervision*: differences in both the frequency and depth of the supervision of CCPs which are similar in terms of size, systemic importance, nature and complexity; and
- *Margin requirements*: differing supervisory approaches regarding the frequency and proactivity of NCAs' assessments and reviews, including on:
    - CCPs' back testing and sensitivity analysis reports;
    - the adequacy of CCPs' confidence levels; and
    - the liquidation period and the efficiency of counter-cyclical tools used by CCPs.

Recommendations to enhance supervisory convergence

ESMA identified the following areas for improvement in order to enhance supervisory convergence, including:

- identifying new services requiring an extension of the CCP's authorisation as specified by ESMA's opinion in November 2016;

- determining significant changes to CCPs' risk models as specified by ESMA's opinion in November 2016;
- coordination of the focus of NCAs' supervisory activities, including desk-based reviews and/or on-site inspections; and
- further converge NCAs' supervisory approaches towards portfolio margining, including the conditions considered to allow margin reductions between instruments and the application of the 80% threshold.

With respect to collateral requirements, ESMA has identified areas where supervisory convergence could be further enhanced, including the on-going review of CCP collateral policies, such as the level of risk of eligible collateral, its liquidity, wrong-way risk requirements, and the potential pro-cyclical effects of changes in collateral haircuts.

ESMA's review also identified a number of good practices, including having direct access to supervised CCPs data and requesting the CCPs to verify the marketability of collateral and reliability of prices.

Next steps

ESMA will use the findings of its peer review to enhance supervisory convergence between NCAs. ESMA has a coordination role between NCAs and across CCP colleges with a view to building a common supervisory culture and consistent supervisory practices, ensuring uniform procedures and consistent approaches, and strengthening consistency in supervisory outcomes.

Notes for editors

1. [2016-1683 Peer Review under EMIR Art 21. On supervisory activities on CCPs' margin and collateral requirements]
2. [2016-1574 ESMA Opinion on common indicators for new products and services under Article 15 and for significant changes under Article 49 of EMIR]
3. [European Market Infrastructure Regulation (EMIR)]
4. ESMA's mission is to enhance investor protection and promote stable and orderly financial markets.
5. It achieves these objectives through four activities:
    a. assessing risks to investors, markets and financial stability;
    b. completing a single rulebook for EU financial markets;
    c. promoting supervisory convergence; and
    d. directly supervising specific financial entities.
6. ESMA achieves its mission within the European System of Financial Supervision (ESFS) through active cooperation with the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Systemic Risk Board, and with national authorities with competencies in securities markets (NCAs).

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