ESMA data analysis values EU derivatives market at €660 trillion with central clearing increasing significantly

The European Securities and Markets Authority (ESMA) today publishes its first Annual Statistical Report (Report) on the European Union’s (EU) derivatives markets. The Report, based on data submitted under the European Markets and Infrastructure Regulation (EMIR), provides the first comprehensive market-level view of the EU’s derivatives markets, which in 4Q17 amounted to €660tn of gross notional outstanding transactions.

The primary objective of this data analysis is to contribute to ESMA’s risk assessment, to facilitate entity oversight by supervisory authorities, both national and European, and enhance supervisory convergence.

Steven Maijoor, Chair, said:

“The data gathered by ESMA as part of its EMIR responsibilities provides us with an unprecedented level of detail on derivatives transactions and exposures. In addition to allowing us to quantify the size of the market, at €660tn, it also allows us to observe that derivatives clearing rates are increasing significantly, showing that the EMIR clearing obligation works and is having the desired impact.

“ESMA's analysis of this data provides, for the first time, new information about this market which will facilitate oversight and enhance supervisory convergence, thereby contributing to orderly markets and financial stability in the EU.”

Highlights

At the end of 2017, trade repositories reported a total of 74mn open transactions amounting to a gross notional outstanding of around EUR 660tn, including both over the counter (86% of the total) and exchange traded derivatives (14%).

In notional terms, interest rate derivatives dominate the market, with 69% of the total amount outstanding, followed by currency derivatives, at 12%, while all other asset classes i.e. equity,
credit and commodity derivatives, account for less than 5% of the total amount outstanding.

Central clearing rates for new transactions have been increasing significantly, demonstrating the effectiveness of the EMIR clearing obligation. For all outstanding contracts in 4Q17, central clearing rates were around 27% (25% in 1Q17) for credit derivatives and 58% (40% in 1Q17) for interest rate derivatives, including also contracts concluded before the clearing obligation came into force.

The report includes three sections on:

- market monitoring providing an analysis of structures and trends in European derivatives markets during each reporting period, building on the indicators developed for risk monitoring;
- statistical methods dedicated to topical issues in developing and exploring derivatives data; and
- derivatives market statistics offering a full list of indicators and metrics currently monitored by ESMA.
Notes for editors


2. Collecting data on derivatives market activities and making operational use of them has been one of the important policy initiatives in response to the Global Financial Crisis. In 2008, G20 leaders identified derivatives markets as a potential source of financial stability risks and subsequently agreed to require mandatory reporting of derivatives contracts. In the EU, this commitment was translated into reporting requirements under the European Markets and Infrastructure Regulation (EMIR), such that since February 2014 the details of any derivative contract and its modification need to be reported to a Trade Repository.

3. ESMA's mission is to enhance investor protection and promote stable and orderly financial markets.

   It achieves these objectives through four activities:

   i. assessing risks to investors, markets and financial stability;

   ii. completing a single rulebook for EU financial markets;

   iii. promoting supervisory convergence; and

   iv. directly supervising specific financial entities.

4. 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 (ESRB), and with national authorities with competencies in securities markets (NCAs).

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