AUTORITÉ DES MARCHÉS FINANCIERS

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Derivatives: central clearing obligation to take effect 21 June 2016

Starting 21 June 2016, the central clearing obligation will apply to the first category of over-the-counter derivative contracts and market participants. As a result, one of the most important components of the EMIR regulation, intended to make derivatives trading more secure, will be a reality.

The EU's EMIR regulation establishes the principle of a central clearing obligation with respect to certain sufficiently liquid and standardised OTC derivatives. Clearing houses act as intermediaries between buyers and sellers of derivative contracts. Because they are subject to strict capital requirements, clearing houses help reduce the risk borne by derivatives market participants.

In order to make this clearing obligation a reality, the regulation requires regulatory technical standards to specify which products must comply and the timeline for implementation. The first delegated regulation adopted by the European Commission was published in the Official Journal of the European Union on 1 December 2015. It defines the first category of contracts covered by the regulation and a timeline for staggered implementation by the various types of market participants.

What types of contracts will initially have to comply with the obligation?

The following interest rate derivatives, denominated in euros, pound sterling, Japanese yen and US dollars, will go first:

- fixed-to-float interest rate swaps (also known as plain vanilla);
- float-to-float swaps (also known as basis swaps);
- forward rate agreements (FRA);
- overnight index swaps.

Maturities and reference index are specified in the delegated regulation.

Who is affected by the new central clearing obligation?

Any financial counterparty trading derivative products is subject to the clearing obligation. Non-financial counterparties are only affected if their non-hedging positions exceed certain thresholds URL = [https://www.amf-france.org/en/professionals/investment-services-providers/my-investment-services-providers-space].

The delegated regulation calls for a staggered phase-in starting 21 June 2016, with start dates according to the type of market participant and trading volumes.

Read more

Delegated regulation on the central clearing obligation for interest rate derivative contracts denominated in euros, pound sterling, Japanese yen and US dollars

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Legal information:
Head of publications: The Executive Director of AMF Communication Directorate. Contact: Communication Directorate – Autorité des marches financiers 17 place de la Bourse – 75082 Paris cedex 02