EUROPEAN MARKET INFRASTRUCTURE REGULATION

Michael Mckee
Partner
DLA Piper UK LLP
EMIR – Some Implementation Issues

- EMIR requires major changes to clearing houses and has consequential knock on effects for clearing house members and their customers.

- Implementation date for Regulation is 31 December 2012

- Some key issues and requirements:
  - Art 4 clearing obligation: for OTC derivative contracts. Must be cleared through a CCP. Firm must be CCP member or clear indirectly through one.
  - Deciding which contracts must be cleared. ESMA register.
  - Non-financials' contracts to manage commercial risk.
  - Intra-group derivatives.
EMIR – Implementation the role of EU and governments

• Regulation – not Directive so no formal national implementation

• Bigger role, therefore, for EU Commission and ESMA. ESMA Feb ’12 DP and June ’12 CP

• ESMA to present proposed technical standards to Commission by 30 September 2012

• UK traditionally gave considerable guidance and input to industry through FSA Approach Documents e.g. MIFID and Payment Services Directive implementation (2007 and 2009)

• No such member state help anticipated this time – chilling effect of pan-EU level on levels of support for national implementation. Increased importance of EU level guidance, FAQs. ESMA CP is a start.
EMIR implementation – cascade effect

• While all affected entities have to implement at the same time some are dependent on others before they can start certain modifications.

• CCPs will modify their own clearing arrangements – CCP members will have to adapt.

• CCP members will modify their terms for dealing with their clients e.g. fund managers, pension funds, banks who are not clearing members. Clients will have to adapt.

• Indirectly clearing clients – clients who clear through a client of a clearing member. ESMA draft Standard envisages they can obtain an individual client account direct with the clearing member but not with CCP.
Some areas of uncertainty or concern: UK

Banks (ISDA, BBA, AFME, ASSOSIM submission)

- Inflexibility of the ESMA approach for indirect clients at clearing member level: poses significant problems. Disincentivises clearing membership.
- Public Register – vital to distinguish contracts subject to mandatory clearing from those that are not. More clarity needed.
- Non-financials – hedges of transport, storage, commodity, credit and equity risk should not be counted.
- Financials should be able to rely on assertions of non-financials that they have not crossed the clearing thresholds.
- SPVs used for securitisations should be able to rely on the non-financials thresholds
- Guidance required quickly on "practical and legal impediments".
Some areas of uncertainty or concern: UK

Clearing House (LCH submission)

- ESMA proposal that CCP should use 50% of own resources before calling on non-defaulting members to cover default is too high and disincentivises other members from assisting managing default. Should be 10% of risk capital.
- Should not need a separate CCP board where it is part of a group.
- Margin requirements are too prescriptive and could prevent more risk sensitive approaches to risk management.
- ESMA's proposal unduly limits a CCPs scope to use derivatives. Should be able to use them for FX and interest rate risk management, not just default management.
CONTACT DETAILS

Michael McKee
Partner

Financial Services Regulatory Team
DLA Piper UK LLP
Tel: (44) (0)20 7153 7468
michael.mckee@dlapiper.com