

THE
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European Commission Reported to Grant Temporary Access to UK Clearing Houses

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On December 12, it was reported that the European Commission (EC) intends to grant temporary and conditional equivalence status to UK central counterparties (CCPs) under the European Market Infrastructure Regulation (EMIR) in the event of the United Kingdom withdrawing from the European Union (Brexit) without concluding a withdrawal agreement (“no-deal Brexit”).

It is reported that the EC’s draft decision would grant continued access to UK CCPs by the remaining 27 EU member states, for all classes of cleared derivatives, for a 12-month period in the event of a no-deal Brexit, although details have yet to be confirmed by a committee of national officials. Without such equivalence rights, EU banks for brokers would not be able to use UK trading venues to trade derivatives after a no-deal Brexit, which could result in significantly increased trading costs or an inability to hedge market exposures.

The draft decision states that equivalence would be granted on the condition that the Bank of England cooperates in information sharing with the European Securities and Markets Authority (ESMA). The exchange of information would cover clearing for all financial instruments denominated in EU currencies, trading venues and clearing participants, as well as subsidiaries of union credit institutions and investment firms.

The EC also is planning to grant equivalence to central securities depositories, where assets are exchanged for cash. These two initiatives form part of a reportedly wider set of no-deal Brexit preparations in the EU that will be addressed in the very near term.

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Article By [Carolyn H. Jackson](#)
[John Ahern](#)[Nathaniel W. Lalone](#)[Neil Robson](#)
[Katten Muchin Rosenman LLP](#)
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