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ESMA REVIEW FINDS GOOD SUPERVISION OF CCPS' EFAULT MANAGEMENT

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ST TRADING

The European Securities and Markets Authority (ESMA) has issued today the results of a peer review it conducted into how national competent authorities (NCAs) ensure that central counterparties (CCPs) comply with requirements under the European Markets Infrastructure Regulation (EMIR).

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ESMA's peer review covered the supervision by NCAs of CCPs' default management procedures (DMP), including how they simulate the default of a clearing member (fire drills).

Overall, ESMA found that NCAs supervise DMPs adequately and that most EU CCPs have performed fire drills. However, the report also highlights the areas where divergences emerged with respect to NCAs' supervisory approaches related to reviewing and testing of DMP and fire drills. It also identifies areas where supervisory convergence could be further enhanced, and highlights existing good practices. A possible case of non-compliance with EMIR was also identified in the area of the frequency of fire drills, which will require further follow-up.

ESMA mapped supervision of EU CCPs

ESMA compared the supervisory approaches of the NCAs supervising the 17 CCPs established in the European Union (EU) at the time of the launch of the review on 1 April 2017. The ESMA review focused on assessing whether the ervisory practices put in place by NCAs to assess the compliance of the 's' DMPs, are effective.

As reviewed DMPs during the authorisation of CCPs or during the validation hanges. However, ESMA found that not all NCAs do systematically review r respective CCPs' DMP tests and fire drills. ESMA identified certain areas re divergences emerged in NCAs' supervisory approaches, including:

- The supervision by NCAs of how CCPs manage their reliance on seconded traders, if used; and
- Some NCAs physically attend CCP fire drills while other NCAs are not present.

Recommendations to enhance supervisory convergence

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

- CCPs should undertake a regular and comprehensive review of CCPs' DMP; and
- NCAs should encourage CCPs to perform fire drills unannounced to most of their staff in order to assess the readiness of CCPs. This would allow CCPs to identify more realistically the impact a default may have on time and staffing.

ESMA also identified seven best practices from the responses it reviewed, with a view to promote these supervisory practices across NCAs and CCPs.

Next steps

ESMA will use the findings of this 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.

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