

14 July 2021

FIA EPTA Response to the Bank of England Consultation on the Derivatives clearing obligation – modifications to reflect interest rate benchmark reform: Amendments to BTS 2015/2205

The FIA European Principal Traders Association (FIA EPTA) represents 30 independent non-bank Principal Trading Firms that provide liquidity in a wide range of exchange-traded and centrally-cleared instruments, including OTC derivatives. As market makers, our members contribute to efficient and resilient secondary markets that serve the investment and risk management needs of end investors throughout the UK. FIA EPTA's members are based in the Czech Republic, Germany, Ireland, The Netherlands and the UK (~70% of our members having been licensed by the FCA).

FIA EPTA welcomes the opportunity to respond to the Bank of England on its proposal to amend the derivatives clearing obligation to reflect interest rate benchmark reform. FIA EPTA has consistently supported the G20 reforms to the OTC derivatives markets, which have made these markets more open, competitive, and transparent. A key component of these reforms is the derivatives clearing obligation, which mitigates systemic risk and increases market transparency and competition by ensuring that transactions in standardized OTC derivatives are centrally cleared.

FIA EPTA members, therefore, strongly support the Bank of England's proposal to update the scope of the derivatives clearing obligation to take into account the ongoing market transition to risk-free reference rates. As liquidity transitions away from specific OTC derivatives that are currently subject to the UK clearing obligation to a new risk-free reference rate, it is important that the clearing obligation (and other relevant regulations) are applied to the new market-standard instrument. This will help to consolidate liquidity in these new OTC derivatives referencing SONIA (and other risk-free reference rates), as well as mitigate systemic risk by ensuring that these markets develop as centrally-cleared markets.

FIA EPTA members appreciate the Bank of England's consideration of our comments and stand ready to provide any further input as required.