

SPEECHES & TESTIMONY

Statement of Chairman J. Christopher Giancarlo on Financial Stability Concerns regarding Brexit

Statement of Chairman J. Christopher Giancarlo on Financial Stability Concerns regarding Brexit

December 6, 2018

The U.S. Commodity Futures Trading Commission (CFTC) continues to carefully monitor discussions between the United Kingdom (U.K.) and the other EU member states (EU27) regarding the U.K.'s exit from the European Union. Uncertainty surrounding the effect of Brexit on the U.K. and EU27 financial markets is already having a substantial impact on entities and markets regulated by the CFTC. If not dispelled, such uncertainty has the potential to create instability in the global derivatives market. For this reason, we look forward to the U.K. and EU27 settling the terms of Brexit in a manner that provides sufficient legal and regulatory certainty to market participants so that European and international derivatives markets can continue to carry out their essential role in economic risk transfer essential to global economic growth.

I welcome recent statements from European authorities, including the European Commission (EC) and the European Securities and Market Authority (ESMA), that they will act to ensure EU market participants can continue to clear through U.K. central clearinghouses (CCPs) after March 29, 2019 in the case of a no-deal Brexit. The EC's decision to allow a "temporary and conditional" equivalence regime for U.K. CCPs, along with ESMA's call for U.K. CCPs to apply for recognition, is a responsible first step in limiting the risk of market disruption. These actions send an important message that European authorities do not wish the political discussions over Brexit to threaten the integrity and continued operation of markets for derivatives and other financial products.

More assurances, however, are still needed. Derivatives market participants should have greater detail and clarity from European authorities on a full range of issues, including when the proposed equivalence decision for the U.K. and recognition decision for U.K. CCPs will be made, whether the equivalence and recognition decisions will apply to all cleared products or only to derivatives, and whether the equivalence and recognition decisions will apply to both new and existing cleared transactions. Furthermore, the relevant legal and regulatory decisions made by European authorities should be for a reasonable duration and with limited conditions. This additional clarity and certainty are necessary to limit substantial operational and market risks that will result from the sudden transfer of potentially trillions of euros in swap exposures in the remaining weeks before a possible no-deal Brexit.

Consistent with our regulatory mission, the CFTC stands ready to consider all necessary action including use of no action relief to provide certainty and clarity to participants in European derivatives markets. We call on relevant U.K. and European authorities to take immediate and fully effective action to provide market participants with the necessary legal and regulatory certainty to manage their operations and activities after Brexit.

* * *

The U.S. Commodity Futures Trading Commission (CFTC) is the primary regulator of the U.S. derivatives market, which is the world's largest derivatives market and is deeply interconnected with the markets in Europe, Asia and other regions. U.S. market participants regulated by the CFTC are a major source of clearing capital and trading liquidity to European and other international markets. The CFTC also regulates U.S. participation in the two largest derivatives clearinghouses in the United Kingdom. The mission of the CFTC is to foster open, transparent, competitive, and financially sound markets.