

12th October 2018

Mr Valdis Dombrovskis
Vice-President for the Euro and Social Dialogue
European Commission
Rue de la Loi 200
1049 Brussels
Belgium

Dear Vice-President,

With less than six months until the UK leaves the European Union, there is an urgent need for clarification and reassurance that steps will be taken to address risks to financial and market stability in the event that the UK leaves the EU without a Withdrawal Agreement including a transition period. There is a very short time frame to put in place effective solutions to avoid disruption on 29 March 2019.

The priority for all parties should therefore be to finalise the Withdrawal Agreement and provide certainty on a transition period. We hope that progress will be made at the upcoming European Council summit. In the meantime, our members are continuing to implement their plans to minimise disruption to clients across Europe in the event that no transition period is agreed.

However, there are a number of very important risks which cannot be adequately addressed by the industry alone. Given the ongoing uncertainty regarding the outcome of the negotiations, it is vital that clarity is now provided on actions that the European Commission, Member States and regulators will take to ensure financial stability and avoid significant market disruption in a no deal scenario.

We welcomed the establishment of the joint ECB and Bank of England technical working group to assess risks around 29 March 2019. Through our global umbrella body GFMA, we wrote in May to the President of the ECB and the Governor of the Bank of England, copied to the Commission, to highlight a number of important risks which we believe need to be addressed. These included ensuring continuity of access to market infrastructure, servicing of existing contracts, cross-border data flows and eligibility of existing issuances governed by English law for loss absorbing capacity requirements.¹

¹ See <https://www.afme.eu/globalassets/downloads/letters/gfma-brx-letter-to-ecb-and-boe-regarding-technical-working-group-on-brexit-risks.pdf>

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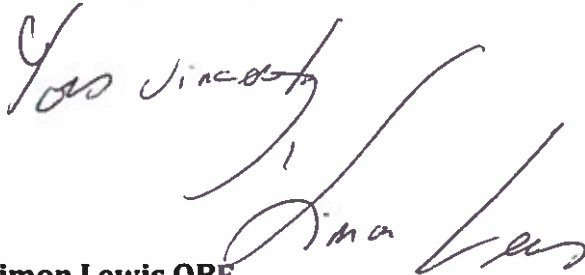
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For example, it is essential that a solution is put in place now to avoid UK CCPs having to start the process to off-board EU27 clearing participants in advance of 29 March to ensure that they will continue to comply with the law. We understand that this process would need to be commenced by early December and would be likely to have significant adverse consequences for EU27 institutions and end users. It is not possible for market participants to transfer their back book of cleared contracts from a UK CCP to an EU27 CCP in the time available and there is a significant risk of disruption in the absence of a solution. We welcome the recent comments from the Chair of ESMA that “we need to ensure continued access to UK CCPs for EU clearing members and trading venues”.² A legally certain solution is required for all participants as a matter of urgency.

A transition period remains essential to provide sufficient time for businesses to adapt and support an orderly withdrawal. However, in the absence of certainty, it is now crucial for the European Commission, Member States and regulators to engage with the industry on solutions to address cliff edge risks in a no deal scenario.

We remain ready to provide further input and engage with all relevant authorities to find workable solutions.

A handwritten signature in black ink, appearing to read 'Simon Lewis', written over a white background.

Simon Lewis OBE
Chief Executive

² https://www.esma.europa.eu/sites/default/files/library/esma70-156-787_wie_speech_steven_maijor.pdf