



HOUSE OF LORDS

EUROPEAN UNION COMMITTEE

Sub-Committee A (Economic and Financial Affairs and International Trade)

Commission communications on ensuring safe and sound derivatives markets

Call for Evidence

EU Sub-Committee A, chaired by Baroness Cohen of Pimlico, is conducting an inquiry into the European Commission's communications on ensuring efficient, safe and sound derivatives markets (COM (2009) 332 and COM (2009) 563). We invite you to contribute evidence to this inquiry.

These communications outline proposals to reform the supervision of derivatives markets in the European Union. It is expected that legislative proposals will be brought forward in stages in 2010.

The aim of our inquiry is to provide an opinion on the Commission's communications and to scrutinise the Government's policy on this issue, with a view to informing the debate surrounding the proposals for regulation of derivatives markets.

Particular questions raised by the Commission's communications to which we invite you to respond are as follows (there is no need for individual submissions to deal with all of the issues):

Derivatives

- What economic benefits do derivatives bring?
- What risks are associated with derivatives and derivatives markets?
- What role did derivatives play in the recent financial crisis?

Clearing Directive

The Commission intends to produce legislation regulating the activities of central counterparties (CCPs) with the objective of eliminating national regulatory discrepancies, improving risk management and creating a single European market for CCPs.

- Should CCPs be supervised at a national or EU level? What benefits will a Directive at EU level bring?
- What provisions and rules should regulation impose to improve the operation of CCPs and reduce risks associated with derivatives markets?
- Should central clearing be made mandatory for standard derivatives through amendments to the Markets in Financial Instruments Directive (MiFID)?
- Should higher capital charges be applied to trades not centrally cleared and to non-standardised derivative contracts?

Trade Repository Directive

Central data repositories provide aggregate information of firms' positions and improve operational efficiency of Over The Counter (OTC) derivatives markets and market transparency. The communications suggest that legislation should provide a common legal

framework for the operation of trade repositories. The Commission believe the European Securities and Markets Authority (ESMA) should be responsible for authorising and supervising trade repositories.

- What benefits the use of trade repositories bring both in terms of transparency and improved risk management?
- Should the EU regulate the legal framework for the operation of trade repositories?
- What provisions and rules should such regulation impose to improve regulation of trade repositories?
- Should trade repositories be supervised by ESMA or by national supervisory authorities?

Further issues

- The Commission intends to review the Market Abuse Directive and may extend its scope to capture more OTC derivatives and give regulators the power to set position limits. Will this improve the integrity of derivatives markets as intended?
- The Commission intends to tackle low collateral levels it argues are often present in products cleared bilaterally. Will this approach bring about the desired effect of increasing stability?
- Are current EU regulatory plans regarding derivatives markets sufficiently harmonised with US and global regulatory plans to avoid regulatory arbitrage or business migration?
- Are there further areas for regulation that the communications do not cover?

We also would welcome your views on any other aspect of the Commission's communications. Written submissions need not address all questions

Interested parties are invited to submit a concise statement of written evidence to this inquiry by 1 February 2010.

Guidance to those submitting written evidence

Evidence should be submitted to Mr R Whiteway, Committee Office, House of Lords, London SW1A 0PW, fax 020 7219 6715. The deadline for written evidence is 1 February 2010.

Short submissions are preferred. A submission longer than six pages should include a one-page summary.

Evidence must be clearly printed or typed on single sides of A4 paper, unstapled.

Paragraphs should be numbered. If drawings or charts are included, these must be black-and-white and of camera-ready quality. Evidence should be signed and dated, with a note of the author's name and status, and of whether the evidence is submitted on an individual or corporate basis. Only one copy is required. All submissions will be acknowledged promptly. The evidence should also be made available in electronic form as a Word document. This should be sent by e-mail to whitewayr@parliament.uk, and copied to choudhuryh@parliament.uk.

Evidence becomes the property of the committee, and may be printed or circulated by the committee at any stage. If your evidence is not printed, it will in due course be made available to the public in the Parliamentary Archives. Personal contact details supplied to the committee will be removed from evidence before publication and from the copy deposited in the Archives. However, personal contact details will be retained by the Committee Office and used for specific purposes relating to the committee's work, for instance to seek additional information or to send copies of the committee's report.

Once you have received acknowledgement that the evidence has been received, you may publicise or publish your evidence yourself, but in doing so you must indicate that it was prepared for the Committee. If you do this parliamentary privilege will not apply to your own publication.

Persons who submit written evidence, and others, may be invited to give oral evidence. Oral evidence is usually given in public at Westminster, broadcast in audio and often video format on the internet, and transcripts are published. Persons invited to give oral evidence will be notified separately of the procedure to be followed and the topics likely to be discussed.

This is a public call for evidence. Please bring it to the attention of other groups and individuals who may not have received a copy direct.

You may follow the progress of the inquiry from the Weekly Bulletin of House of Lords select committees. This is free, and may be ordered from Committee Office, House of Lords, London SW1A 0PW, telephone 020 7219 6678. Alternatively, consult the UK Parliament website, at www.parliament.uk/hleua.