

ESMA consults on clearing solutions for Pension Scheme Arrangements under EMIR

The aim of the consultation paper

The consultation paper sets out the issues PSAs face in clearing their contracts, studies the rationale for the use of derivatives by PSAs and explores the different solutions already envisaged to facilitate PSAs to centrally clear their over-the-counter trades.

The consultation aims to gather views and data on potential central clearing solutions for PSAs, and more specifically on solutions to facilitate PSAs discharging their variation margin requirements. ESMA seeks detailed feedback on:

- the structure of PSAs' portfolios and on the potential reduction of portfolios' investment returns from increasing their cash holdings; and
- the solutions still being explored, such as relying on the ancillary services of collateral transformation of clearing members, a market-based repo solution or the access to alternative emergency liquidity arrangements.

EMIR Refit introduced a further extension of the exemption from the clearing obligation for PSAs, given the challenges that PSAs would face in providing cash for the variation margin calls related to their cleared derivative contracts. It also tasked ESMA with investigating whether CCPs, clearing members and PSAs have developed viable technical solutions to facilitate PSAs participation in central clearing by posting cash and non-cash collateral as variation margins, including the implications of those solutions on market liquidity and procyclicality and their potential legal or other implications.

Next steps

All interested stakeholders are invited to respond to this consultation paper, in particular, market participants, pension funds, banks, CCPs, central banks, regulatory authorities and trade associations of financial market participants.

Following the public consultation ESMA will consider all comments received by 15 June 2020 and expects to publish a second report and to submit it to the European Commission by the end of the year.

This work is being done in cooperation with the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Systemic Risk Board (ESRB).