**EU, U.S. Reach Agreement on Derivatives Oversight**

EU to grant ‘equivalence’ to U.S. clearinghouses in deal that ends lengthy impasse

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Regulators in Washington and Brussels struck a deal advancing a central plank of post-financial-crisis efforts to coordinate rules for derivatives, which played a central role in the 2008 financial meltdown.

The long-awaited deal between the Commodity Futures Trading Commission and the European Commission, the European Union’s executive arm, revolves around the regulation of clearinghouses—entities that are supposed to help prevent a market-wide collapse by ensuring either party in a derivatives transaction would get paid if the other side defaults.

Under the agreement, European policy makers will accept U.S. clearing regulations as equivalent to their own, ending an impasse that had lasted for more than two years and complicated efforts to establish a system of oversight for the multitrillion-dollar derivatives market that is “largely equivalent” across borders.

Derivatives, including swaps, are used by firms to hedge or speculate on everything from moves in interest rates to fuel costs. U.S. and European regulators oversee the vast majority of the derivatives markets.

“This is an important step forward for global regulatory convergence,” said Jonathan Hill, the EU’s financial-services chief.

“Our agreement is critical to ensuring that our global derivatives markets remain robust, while keeping our financial system as stable and resilient as possible,” CFTC Chairman[Timothy Massad](http://topics.wsj.com/person/M/Timothy-Massad/7830) said.

Wednesday’s agreement is a win for U.S. entities like [CME Group](http://quotes.wsj.com/CME) Inc. and[Intercontinental Exchange](http://quotes.wsj.com/ICE) Inc. Without the equivalence blessing, European banks that choose to clear their trades in the U.S. would have faced steep capital charges, which industry officials said would have been unduly costly.

The agreement also means European clearinghouses will be able to do business in the U.S. more easily, Mr. Hill said.

U.S. Treasury Secretary [Jacob Lew](http://topics.wsj.com/person/L/Jacob-Lew/6182) said the deal marks “a major milestone in our efforts to reform and strengthen the global derivatives market following the financial crisis.”

Policy makers weren’t specific about the timetable for implementing the deal, saying the changes would occur as soon as is practicable.

For decades, trading in swaps was conducted privately, away from transparent exchanges. But after the financial crisis, global regulators, backed by the world’s 20 largest economies, ordered most of the trades onto open platforms and routed through clearinghouses that take fees to guarantee trades.

A goal is to provide regulators with a better view of potential risks to the financial system.

Though the CFTC has completed the bulk of its swaps rules, progress abroad has been slow, particularly in Europe.

Scott O’Malia, chief executive of the International Swaps and Derivatives Association, a financial trade group, said the deal avoids the risk of market disruption that could have been triggered by certain European regulations that go into effect later this month.

Mr. O’Malia said he hoped the agreement would pave the way for additional deals between the U.S. and Europe.

As part of Wednesday’s deal, both sides agreed to make tweaks to their respective rules related to margin, capital collected to offset possible losses if one side of the derivative trade defaults.

Broadly speaking, the deal entails European policy makers moving closer to the U.S. on rules regarding the amount of margin that clients of banks must post to clearinghouses, CFTC officials said. In exchange, the U.S. will move closer to European standards on margin that banks post at clearinghouses, they said.

The end of the impasse signals thawing tensions among key policy makers, more than six years after leaders of the Group of 20 nations committed to completing a series of regulatory changes by the end of 2012 to help forestall another financial crisis.

Mr. Massad, who took the helm of the CFTC in June 2014, made smoothing relations with European counterparts a priority, after European officials complained that the U.S. agency moved too aggressively to apply U.S. rules overseas. Industry observers see the spat over clearinghouses as retaliation for steps U.S. officials took two years ago, when the CFTC declined to grant full equivalence to European trading platforms for certain derivatives called swaps.

J. Christopher Giancarlo, a Republican member of the CFTC, praised Wednesday’s deal but said it reflected previous efforts to aggressively impose U.S. trading requirements on participants in overseas markets as well as on non-U. S. participants in American markets.

“The truth of the matter is that this dispute was totally contrary to the cooperative spirit of the 2009 G-20 Pittsburgh Accords and should have been avoided,” he said.