

Abstract

This paper aims to give a basic understanding of the derivatives market. We develop principally the products traded over-the-counter (OTC). We explain the risks involved with such financial products and the role they played in the 2007-2008 global financial crisis. The core of this work concerns the regulation undertaken by the different regulatory authorities in order to make the OTC market more transparent and resilient, and particularly the decision to implement the central clearing. For this purpose, we present in detail two important academic papers: *Acharya, Bisin (2009)* shows that market centralization enables transparency and therefore eliminates strategic default incentives and counterparty risk externality; and *Duffie, Zhu (2011)* proves that central clearing through a single central counterparty (CCP) is better than multiple central counterparties, in terms of netting efficiency. Finally, we present how the central clearing is actually implemented in the United States (US) and the European Union (EU), and what are the other regulations that the policymakers try to put in place as a complement of the central clearing.

Keywords: over-the-counter derivatives, central clearing, central counterparty, counterparty risk, financial markets regulation