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Derivatives Markets  
Change in Regulations

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## BACKGROUND

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- The Regulatory changes are a G20 led global initiative started in 2009, to protect the financial markets from future shocks. the G20's aim is to reduce counterparty risk, operational risk and systemic risk within the financial markets, and in particular in OTC derivatives trading. Main goals:
  - Increase transparency in derivatives (pre and post trade)
  - Impose greater supervision of banks and financial institutions
  - Move derivatives trading to organised trading venues, introducing a clearing model where possible
- US/European Regulators have put a huge focus on producing a set of regulations that are currently expected to be in law by Jul 2012 with a 12-24 month implementation period depending on different elements and jurisdictions
- Asia has a very diverse outlook on regulations
- The US Regulatory approach for OTC Derivatives is led by the Commodity Futures Trading Commission (CFTC) (and in relation to security-based swaps, the Securities and Exchange Commission (SEC))
- The European Regulatory approach is led by the EU commission with ESMA as a new pan-European regulator who will be tasked with definition of rules
- The details of implementation are where some potential 'unintended consequences' lie – for example, increased cost of execution for customers and reducing available liquidity within organised trading venues.



## KEY CURRENT REGIONAL REGULATIONS

Although there is widespread agreement on the need for consistent application of financial regulations, regulations differ by geography and instruments, with different areas of focus and requirements to comply, including varying enforcement timescales.

USA	EUROPE / UK	ASIA
<p><b>Passed Dodd Frank Act in July 2010:</b></p> <ul style="list-style-type: none"> <li>Regulators SEC and CFTC given ~360 days to turn this legislation into rules, postponed to 720 days</li> <li>Additional to G20: requiring banks to spin off some derivatives trading (Lincoln amendment), barring proprietary trading and curbing involvement in private equity and hedge funds (Volcker Rule) and restricting ownership of trading platforms and clearing houses (Lynch amendment), FTT</li> </ul>	<p><b>Still drafting its legislation:</b></p> <ul style="list-style-type: none"> <li>European Market Infrastructure Regulation (EMIR) published 15 Sept 2010, the Capital Requirements Directive (CRD IV) and MiFID II published 8 Dec 2010, and now in draft as MiFID and MiFIR. Newly created regulator ESMA (European Securities Market Authority) responsible for implementation</li> <li>Additional to G20: increased transparency requirements across all assets, best execution, HFT, FTT</li> </ul>	<p><b>No consensus view across region:</b></p> <ul style="list-style-type: none"> <li>Japan and some others are looking to comply with G20 around the clearing requirement</li> <li>Other countries may look to take advantage of an alternative regulatory environment and so are in “watching” mode</li> </ul>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Global</p>	<p><b>IOSCO (International Organisation of Securities Commissions):</b></p> <p>Consistent international standards across OTC derivatives regulation in trading, data reporting, clearing and oversight (Jan. 2012)</p> <ul style="list-style-type: none"> <li>OTC Derivatives Task Force set up to develop consistent global standards through a number of deliverables</li> <li>Exchange and Electronic Platform Trading (Jan 2011)</li> <li>Data reporting and Aggregation requirements (July 2011)</li> </ul>	

## CORE APPROACH

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### **Centralised Clearing (and Trade Repository)**

- All instruments that are capable of being cleared will be cleared (US “must” be cleared, EU “should” be cleared); non cleared trades will incur additional capital charges and must be marked-to-market daily
- All trades in swap transactions and standardised derivatives will be reported to a Trade Repository from where Regulators will be able to receive a picture of all trades

### **Trade venues**

- In the US: Swap Execution Facility (SEF) is the vehicle. A SEF is subject to certain ownership/control restrictions so that a bank cannot own more than 20% of a SEF
- In Europe a Multilateral Trading Facility (MTF) or Organised Trade Facility (OTF) is the equivalent. Operators of OTF may not have capital at risk within the platform
- Single Bank Portals (SBPs) will almost certainly be able to trade Spot/Forward FX, but FX derivatives will need to be executed on a SEF/MTF

### **Transparency**

- Post-trade – every trade will be reported back to the market
- Pre-trade – there should be a running price for pre-trade decision making



## IMPACT ON TRADING CUSTOMERS

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Customer Impact	Customer Issue
Changes to Trading Workflow	<ul style="list-style-type: none"> <li>• Derivatives trades now need to be cleared through a central counterparty or clearing house, known as a CCP</li> <li>• Trades must be executed on an exchange or regulated trading platform (known as a Swap execution facility - SEF in the US or a Multi-Lateral Trading Facility - MTF in Europe)</li> <li>• <b>Customer must understand regulatory status of trading counterparty</b></li> </ul>
Transparency	<ul style="list-style-type: none"> <li>• Derivative trades must be reported to a central storage warehouse, known as a trade or swap data repository</li> <li>• Provide an aggregated view of derivatives trading</li> <li>• Enable customers to gain a real time view of their total risk position, at a given point in time, to a client, client group, sector and geography</li> <li>• <b>Every transaction must include details of person responsible for investment decision and the executing trader</b></li> </ul>
Greater Supervision of banks	<ul style="list-style-type: none"> <li>• Increase in capital and liquidity requirements through Basel III and protection of retail deposits from being used to capitalise risky activity</li> <li>• Additional rules for organisations deemed "systemically important"</li> <li>• Limiting proprietary trading, commodity trading, high-frequency trading, short selling, dark pools</li> <li>• More focus on Hedge Funds, Private Equity Funds and credit rating agencies</li> </ul>
Cascade of regulation and information	<ul style="list-style-type: none"> <li>• Customers require targeted and relevant Information and Insight to help them keep up to date and understand the impact on their business and look to understand how to meet their regulatory obligations</li> </ul>

## IMPACTS THAT ARE STILL UNCLEAR

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### **General**

- Extraterritoriality

### **Clearing**

- There are no facilities for cross-collateralisation, so banks will have to be clearing members or have clearing relationships with multiple clearing houses.

### **Trade venues**

- Single Bank Portals will be severely restricted in how they can trade swap transactions or OTC derivative contracts
- SEF/MTF/OTF ownership/operating rules mean no bank owned SEF/MTF/OTF
- Sales Desks

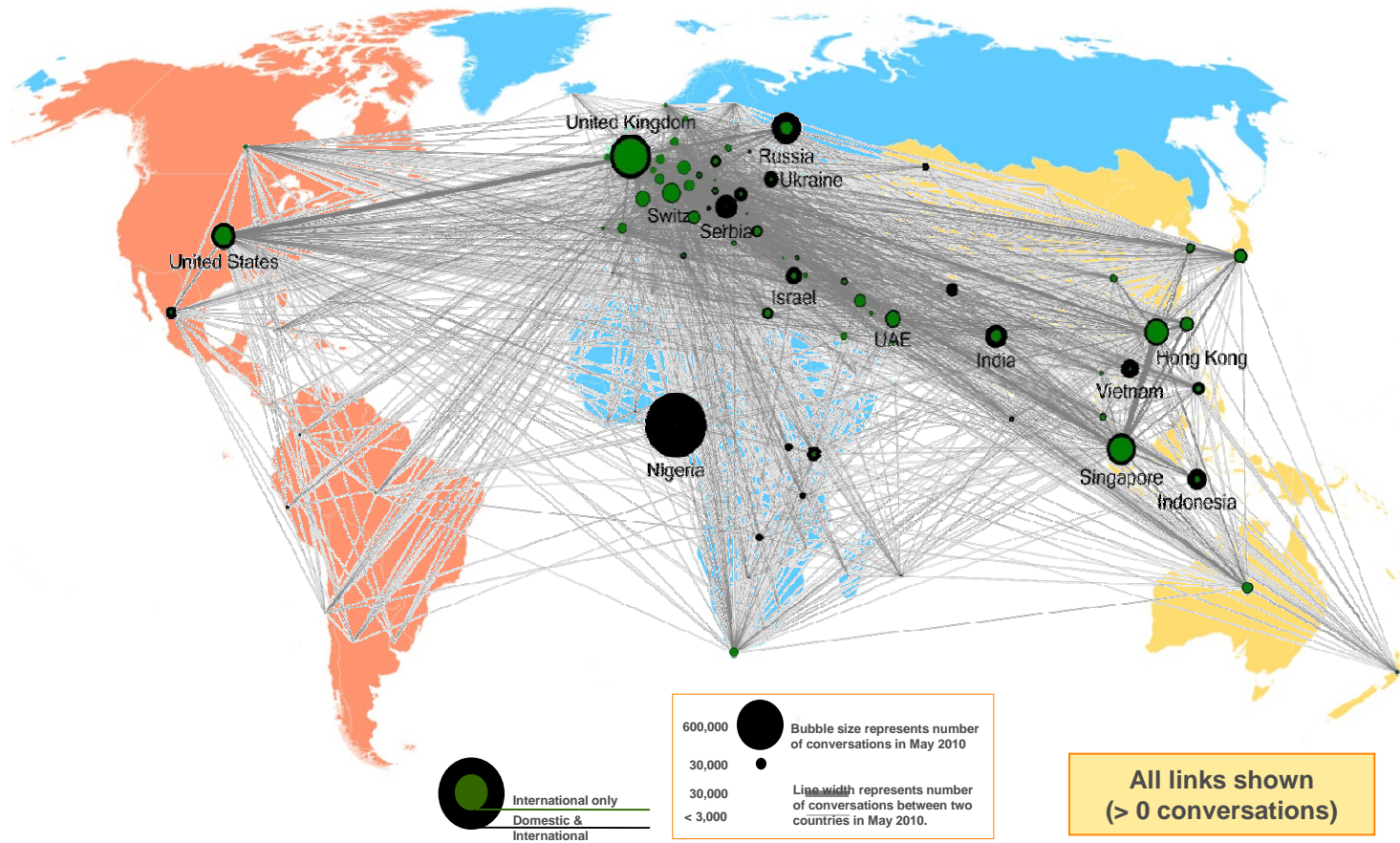
### **Transparency**

- Pre-trade transparency is yet to be defined in detail. An equities based model could harm liquidity
- Post-trade transparency requiring all trades to be reported with volume, regardless of size, may reduce liquidity as price makers will not continue to take the risk onto their books if any trade is then open to market reaction and 'playing against' their position. Block trade model only partially mitigates this



# Thomson Reuters Dealing

# DEALING : Global Usage



## DEALING: SEF/MTF Regulated platform

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Dealing is being upgraded and refreshed and will include:

- Regulated, SEF/MTF Dealing service
- Additional asset classes are being added to the current offering – FX options, IRS, OIS
- Electronic Deal Capture
- Legal Confirmation
- Hosted infrastructure providing links to CCPs (Central Clearing Counterparties) to clear trades
- Hosted infrastructure providing links to TR (Trade Repository) / SDR (Swap Data Repository) to report trades
- Storing all trades and messages to meet compliance requirements
- Valuable pricing and trade data to enhance proposition
- Global Rule Book
- Move to Regulated entity, Reuters Transactions Services Ltd (RTSL), already operating a MTF (Matching and RTFX)

KEYWORDS (OPTIONAL):

[SEARCH](#) [CLEAR](#) [LATEST TCIDS](#)

Search in  All Fields  Subscriber Name  Dealing Code/TCID

GEOGRAPHICAL CRITERIA(OPTIONAL, please choose only ONE of the following):

Region:  Sub Region:  Country:

INSTRUMENTS (OPTIONAL):

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**Foreign Exchange**

- Cross Currency Swap
- Banknotes
- Coins
- FX - Exchange For Physicals
- Forward Outright
- FX Swap
- NDF
- NDO
- NDS

**Derivatives**

- Currency Futures
- FX Options
- Inflation Derivatives
- Interest Rate Futures
- Interest Rate Options
- Structured Products

**Other**

- ADRs
- Equities
- Funds
- Other Futures & Options
- Real Time Gross Settlement
- Telegraphic Transfer

► New action for you – ensure you are registered and find new customers/liquidity