Exchanges, Clearing & Transaction Services

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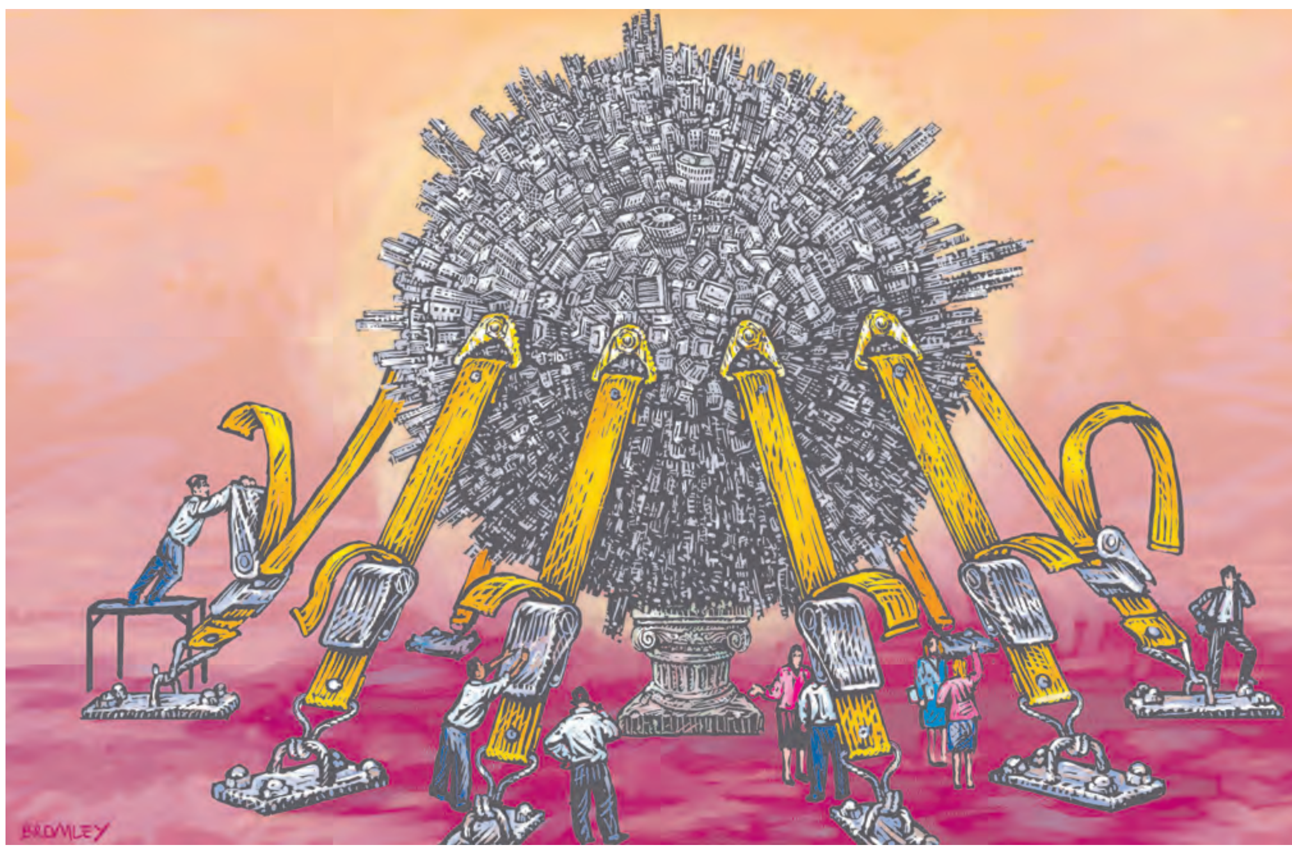
Markets tally cost of safer global trading



After 'seismic' regulatory change, the markets are grappling with ways to reduce risk while turning a profit, says *Philip Stafford*

Delegates at this week's annual Sibos conference in Dubai are gathering at an apposite moment. Five years ago market infrastructure – the trading, clearing and settlement institutions on which financial markets rest – was thrown into the spotlight amid the fallout from the collapse of Lehman Brothers.

As the worst subsided, global policy makers homed in on the huge and usually uninsured one-way positions in over-the-counter (OTC) derivatives that went unnoticed by banks until it was too late, in part because the opacity of the market allowed brokers to reap huge rewards.

To prevent a repeat of this oversight threatening the financial system, the G20 mandated more standardised OTC derivatives, traded on transparent venues. Deals should be processed, they concluded, through clearing houses and reported to data warehouses known as trade repositories.

In the interim the industry has grappled with one overarching challenge; how financial burdens associated with the new market structure should be shared between clearing houses, the banks that act as intermediaries and the end-users of derivatives, while still guarding against systemic risk.

In the past year some decisions on key rules in the US and Europe have been made. Whether the process is finished is another matter.

"It's the most seismic thing to happen in years," says Barney Reynolds, a partner at lawyers Shearman & Sterling. "The momentum has carried through some pretty meaningful change but that is running out.

"As this beds down and the market takes off again, how will financial institutions manage to get an acceptable return in a heavily regulated and

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Business gets tough for Wall Street gunslingers

High-frequency trading

Rivalry among downturn survivors takes its toll, writes *Arash Massoudi*

The costs of a software glitch led to Knight's takeover

The prospects of a return to the good old days continue to fade for Wall Street's fastest gunslingers. These are the trading firms that dart in and out of shares at rapid-fire speeds using sophisticated technology to make fractions of a penny.

Nearly five years have passed since cumulative profits peaked for high-frequency trading (HFT) companies that buy and sell stocks at millisecond speeds on the US market, according to industry estimates.

As competition has stiffened between those that survived the downturn, the conditions that allow companies to thrive have deteriorated since HFT's most profitable days.

Optimism that daily US trading volumes will return to pre-crisis levels has faded, as have the frantic bursts in volatility that send shares in diverging directions, creating the opportunities that lured so many entrants into HFT.

"It's been a tough market. High-frequency trading companies are struggling [to cope with] a lack of volatility and trading volume, competition and a cost structure that continues to go up," says Larry Tabb, founder of the consultancy Tabb Group.

"The ability to generate returns, especially in the US equity market, is pretty challenged. They are moving overseas and into other asset classes," he adds.

The maturing of the US equity market as far as HFT was concerned was confirmed this year as Getco, one of the largest and most prominent companies to emerge from the HFT boom in the last decade, revealed a multiyear slowdown in its proprietary trading business.

The company, known just a few years ago for its relentless investment in the technology and knowhow to beat other speed traders, decided it would move in a different direction.

It acquired in December Knight Capital, known for its client-facing trading business, for $1.8bn.

"Getco and firms like Getco that grew out of the electronification of the markets in the first decade of the century also grew with an explosion of volume and volatility," says Daniel Coleman, who led Getco and is chief executive of KCG, the combined company that formed following the acquisition of Knight.

Mr Coleman says the company's backers realised that opportunities to prosper in HFT relied on a competitive technological position – which was expensive to maintain – and favourable market conditions.

KCG will instead concentrate on applying the once-secretive trading techniques and technologies it used for Getco's own accounts to help clients execute trades.

Jamie Selway, head of liquidity management at brokerage ITG, says: "Firms like Getco were very much one-trick ponies with highly visible strategies that relied on incredibly high volumes to bring in incredibly low return. Their day has come and gone."

> 'The ability to generate returns, especially in the US equity market, is pretty challenged'

While KCG insists it is not turning its back on proprietary trading, the industry appears to be heading toward consolidation as companies find the climate difficult to navigate.

Allston Trading and RGM Advisors, two leading high-frequency trading companies, were reported to be discussing a tie-up in June.

Those that intend to battle through the difficult conditions in the US equity market must contend with the constant cost of upgrading expensive infrastructure and freshening up their trading strategies to stay ahead of the pack. The HFT companies must fight to keep top engineers and programmers from being poached by rivals and the broader trading industry, which has spent heavily to become more sophisticated.

"The techniques that HFT shops are using are not exclusive to them any more," says Joshua Walsky, chief technology officer at Broadway Technologies, which provides software to trading companies. "If a traditional bank is using those techniques, they are essentially competing."

He adds that companies must factor in the cost of trading errors that can amass rapidly because of a glitch or problem with a computer system, such as that which caused Knight to lose $460m in a matter of minutes in August 2012 and led to its takeover by Getco.

Goldman Sachs inadvertently accumulated hundreds of thousands of options contracts last month.

Mr Walsky says: "The industry is seeing that there is a real cost to [making] errors, which we call system risk."

Meanwhile, companies such as Virtu Financial, which have spent heavily to push into new markets and asset classes, have emerged as the leaders of the industry.

The consolidation and geographic expansion is not expected to have any significant impact on the highly fragmented nature of the US equity market, which has grown to 13 exchanges and dozens of alternative trading platforms, to accommodate speed traders.

Mr Tabb says: "You are seeing a number of players consolidate, but the venues remain separate.

"What we've learned is that when you consolidate markets, you hurt liquidity. I'm not sure we're going to see a whole lot of consolidation of trading venues and liquidity pools. You may just see fewer people on them."

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Managing risk in today's markets

Halted merger raises question of transatlantic power balance

Europe *Philip Stafford* writes on fallout from thwarted NYSE Euronext-Deutsche Börse deal

An announcement on the Deutsche Börse and NYSE Euronext merger in 2011. It was stopped last year by the European Commission Bloomberg

To mention European competition policy to a senior Deutsche Börse executive is to touch on a sensitive subject. Last year Brussels squashed the plans by Europe's exchanges operator to merge with rival NYSE Euronext.

The merger would have created a transatlantic global powerhouse well positioned to exploit the opportunities being created by the sweeping legislation that will force more privately traded OTC derivatives on to electronic trading venues.

Deutsche Börse argues that the consequences go far beyond its own interest. "It is the result of European regulators making sure that consolidation in our global derivatives industry, for the foreseeable future, will be very successfully led by exchanges with US origin," Andreas Preuss, chief executive of its derivatives exchange Eurex, told a conference in London over the summer.

Nearly 18 months on from the landmark ruling, the landscape in the old continent appears to be shifting dramatically. Overseas companies have been aggressively pursuing European and global expansion plans, using London as the hub.

In that short time, CME Group, the world's largest futures exchange, has expanded by opening a futures exchange and a clearing house in Europe. BNY Mellon, a US custodian bank, won approval for a European central securities depository.

Overshadowing it all, the US's IntercontinentalExchange (ICE) then swooped on NYSE Euronext last December in a deal worth around $10bn. Assuming the deal goes ahead, it will give Jeff Sprecher, ICE's chief executive, the London Liffe derivatives market that he has long sought and ownership of the stock exchanges of Paris, Amsterdam, Brussels and Lisbon. It has made ICE's clearing house one of the largest in Europe. Deutsche Börse, which had eyed a mega-merger with NYSE Euronext for four years, found itself rebuffing polite inquiries from the CME about a deal.

So will a combination of new derivatives rules and EU competition policy usher in a US takeover of European market infrastructure? "If you look at history, US dominance is far from proven," argues Florence Fontan, head of asset managers at BNP Paribas Securities Services. "It doesn't mean they can't be successful.

She adds that attempts to "take the US model and plug it into Europe" have "been failing" for "underestimating the level of complexity" on the continent. "Europe is used to adapting to differing frameworks," she says.

Significant variances between the US and Europe include regulations governing the way clearing houses must segregate their customers assets and the way they collect initial margin or insurance for trading.

Newcomers face a serious problem in wresting business away from local incumbents, particularly in derivatives trading. Clearing of OTC interest rate swaps is dominated by LCH.Clearnet and, while the CME clearing operations are in their infancy, they have yet to make a significant inroad into the local market.

Ms Fontan points to the example of the Depository Trust and Clearing Corporation (DTCC), which tried to crack European equities clearing, as regulation demanded competition in equities trading.

The US post-trade service provider is in the process of selling down part of its stake in its main vehicle, EuroCCP, which is merging with the European Multilateral Trading Facility to cut costs.

European companies have been as ambitious as their US counterparts. LCH.Clearnet, its future secure after the London Stock Exchange Group bought a controlling interest, is taking its game to the US. It has cleared $50tn in client business since the first stage of the US clearing mandate began in March. Euroclear, the post-trade services provider, agreed a deal with DTCC on collateral.

European pride may get a boost next year when Euronext's future is resolved. ICE's Mr Sprecher has signalled his intention to float the business, although rumours persist that it will be sold. Several exchanges, including Deutsche Börse, the London Stock Exchange and SIX Group have been linked with a bid.

Complicating the outlook is the uncertain regulatory framework in which business decisions are being made. Details need to be finalised for key Europe regulations, known as the Mifid Review and Emir. Policymakers will spend the next few months debating opening access to derivatives exchanges' "vertical silo" model, with which contracts that are traded at a venue are processed through the exchange's clearing house.

To do that, policy makers would have to insist that derivatives products owned by exchanges be made fungible, or interchangeable with rival products. That could potentially open CME, ICE and Deutsche Börse to competition in listed derivatives – and could allow others to follow the path opened this year by The Order Machine, the Dutch start-up that has taken a quarter of market share of options trading from NYSE Euronext in Amsterdam.

CME, ICE and Deutsche Börse argue that their model is better suited to maintaining financial stability and is what customers want. "The question is how does Europe grow?" said Mark Hemsley, chief executive of US-owned BATS Chi-X Europe, the region's largest share trading venue. "Should the approach be that of the US equity options market, which has created a vibrant market for customers by releasing exchange competition but providing fungible products? This is not where exchanges want to go but it may mean that in the longer run innovation will continue to be restricted in Europe."

Collateral management The shift to central clearing is creating opportunities

The financial industry is in the process of moving derivatives trades to central clearing but the act of sourcing the billions of dollars of high-quality assets that will be needed to back the transactions has become big business.

Under the new clearing requirements, companies and funds that use derivatives will have to post collateral to central counterparties as security against their trades. Estimates for the extra collateral needed have ranged from $500bn to $10tn, leading to a number of industry offerings to ease any potential shortage.

"[The new rules mean] counterparty risk is mitigated by high-quality collateral, and there's only so much of it in the world," says Marianne Brown, chief executive of Omgeo, a post-trade services provider that has been bought by the Depository Trust and Clearing Corporation (DTCC), itself owned by a group of banks.

That has led to the emergence of a growing and increasingly competitive business of managing, optimising and even creating the needed collateral.

"Any time that there's a demand for something scarce, everybody's going to figure out a way to provide it," says Ms Brown. "Of course there's a price."

Earlier this year, Euroclear, the Brussels-based settlement house, and the DTCC announced a joint venture that could end up creating the world's biggest pool of collateral. The agreement allows DTCC customers to access Euroclear's collateral management system – the "collateral highway" – which holds more than €20tn. Euroclear customers will be able to tap into a similar system at the DTCC known as the margin transit utility.

The offering from two of the world's biggest post-trade services providers has the potential to open up access to trillions of dollars worth of collateral around the world, and allows customers to "optimise" portfolios held in different places. It is an ambitious project,which faces intense competition.

"It addresses optimisation and settlement but its success depends on the participation of the major custodians," says Manmeet Brar, senior manager at Sapient Global Markets, a capital and commodities markets consultancy.

JPMorgan Chase announced in June its attempt to capture a slice of the growing business of managing the billions of dollars worth of cash and securities that funds, financials and companies will need to stump up to back their derivatives trades.

Its "collateral central" platform will act as a hub to allow clients to track and optimise their available collateral, including assets held at other banks and custodians. The bank estimated in an investor presentation in February that it could initially reap $300m-$500m in revenues from the clearing and collateral management business.

"We all have our own business mandates and profit margins," says Mr Brar. "For each custodian they say: 'Here, I'm offering the same thing – why don't you hook up to all these other platforms from my platform?'"

BNY Mellon, another large US custodian bank, has introduced "global collateral services" to help clients optimise their use of collateral. State Street, a smaller competing custodian, is also working on its own collateral-related services.

"How many of these will capture market share is for all to be seen," says Mr Brar. "We have yet to see who the winners are."

Tracy Alloway

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Exchanges, Clearing & Transaction Services

Rivals angle for custom in changing world of swaps

United States

Reforms open up an industry dominated by big banks, says *Michael Mackenzie*

The financial reforms triggered by the financial crisis are starting to make their presence felt in the $300tn privately negotiated US derivatives market.

With the counterparty risk of swap transactions now being assumed by centralised clearing houses, the focus of the industry is on how the trading of swaps will develop.

A number of firms are formalising new transaction venues known as swap execution facilities, and these "Sefs" will compete with established futures exchanges to enable trading between banks and institutional investors. The development is seen as opening up an industry long dominated by big global derivative banks to greater competition, resulting in lower trading costs for investors.

The new swap trading era pits a host of players in open competition against each other, from the well-established inter-dealer brokers such as Icap, to big platforms run by Bloomberg, Tradeweb and MarketAxess, to a number of new entrants such as State Street and Javelin.

The leading derivative exchanges, namely CME Group and the Intercontinental Exchange (ICE), and other vendors are seeking to entice users of over-the-counter (OTC) swaps towards futures contracts that are cheaper to clear centrally.

As Wall Street has lobbied hard to water down financial reform, an undercurrent among players in the established swaps industry has been the fear that exchanges such as CME and ICE would emerge as the big winners from a wholesale evolution of OTC swaps from a telephone-based market to computers.

"Either OTC swaps or swap futures could be the winner," says Charley Cooper, head of exchange-traded derivatives at State Street Global Exchange, which has filed a Sef application, and also provides technology support for the Eris Exchange and its swap futures contract.

"In our discussions with clients we heard a preference for OTC swaps and swap futures, so we are offering them both, so we can capitalise on the way it plays out," says Mr Cooper.

Goldman Sachs and other dealers are supporting the CME's swap futures contract – which is also based on a Goldman patent – while the Eris swap contract has the support of Morgan Stanley.

According to Richard Repetto, principal at Sandler O'Neill Partners, leading executives at the CME believe it is not yet clear how far the OTC market will shift towards futures, while the presence of dealers remains important.

"The CME believes the dealers will continue to play a significant role in the trading and clearing of IRS [interest rate swaps], at least in the near term," says Mr Repetto. "On a five-year forward view, CME believes it is still unclear how much of the OTC will stay cleared and remain OTC or convert to a futures-like product."

Chris Edmonds, president of ICE Clear Credit says their credit index futures contract, launched in May, was developed in response to demand from investors who may not generally participate in the OTC market. "This is a credit product that appeals to non-traditional players, looking to hedge macro credit risk."

Mr Edmonds says ICE is looking at launching a full suite of credit-related products that would complement existing OTC products in the future.

> Users will be able to buy or sell a swap on a screen with the click of a mouse

As the world between dealers and investors converges, all prospective swap trading platforms will need to connect with a wide range of participants. For inter-dealer brokers, this means moving beyond talking to a limited number of banks. Existing platforms such as Bloomberg, TradeWeb and MarketAxess that already link banks with institutional investors are expected to hit the ground running once Sefs are fully operational.

Many of the new trading venues will not only offer streaming prices that enable users to buy or sell a swap on a screen with the click of a computer mouse, they are also going to provide a request for quote (RFQ) service, whereby an investor can seek a price from a limited number of banks or other market makers.

"The winners will be those platforms that listen to their customers and give them a choice of ways to transact," says James Cawley, chief executive officer at Javelin Capital Markets, which has filed to become a Sef. "In a commoditised market place, it is the relationship that wins."

The use of RFQ is seen as helping banks to preserve their market share, but if more investors gravitate towards an anonymous electronic trading book, it is seen as shifting the market to an exchange model.

Chris Ferreri, a managing director at Icap North America says while it is too soon to tell whether the OTC market will move towards a futures-type model, the cost of trading is a key factor for users of derivatives. "If the cost to clear and margin a future is less than a swap, then it's more of a challenge for clients to transact swaps and not futures," he says.

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The new heart of a safer system

Clearing houses

Confidence grows in how process is working, reports *Philip Stafford*

Of all the changes global regulators have sought to introduce to guard against systemic risk, one of the most profound has been the increasing importance of clearing houses.

The emergence of these unglamorous risk management houses has been driven by a consensus among the G20 that they will help financial markets better withstand the effect of big defaults. A clearing house guarantees a deal between two parties, using the collateral deposited by market participants to ensure that the deal is completed if one side defaults.

After four years of hard work, the frameworks for clearing rules in the US, Japan and Europe are coming together. The majority of interest rate swaps are cleared, as well as increasing amounts of credit default swaps, while deals are also being reported to trade repositories.

Mark Carney, governor of the Bank of England and chairman of the Financial Stability Board, noted in September that there had been "good progress" but "we do need some further improvement".

Among those improvements would be: how the market and regulators operate amid differing regulatory interpretations of the same mandate; how customer collateral should be handled; and a framework for when a clearing house gets into trouble.

"There is a lot of confidence in how the process is working," says Edmund Parker, a partner at London lawyers Mayer Brown. He cautioned: "It's going to take five to six years to do it properly. We created institutions [banks] that were 'too big to fail', but we have now created institutions [clearing houses] that are 'too big to fail'."

Some banks have raised concerns about clearing houses' ability to withstand major market shocks and defaults. The industry admits that an education process is needed.

"There is talk of capital reserves being the weakness in the fortress of clearing houses but in reality capital is the last component of risk management at a clearing house and not always the most relevant," says Dennis McLaughlin, group chief risk officer at LCH.Clearnet.

As market participants involve themselves more in the detail of daily use of clearing houses, they are becoming more attuned to the different ways that regulators have interpreted the same mandate. For example, the minimum margin requirements for European and US clearing houses differ. In futures trading, Europe is proposing that banks post collateral to protect against losses incurred over two days, while the US requires losses for one day.

For interest rate swaps, European regulators suggest market participants post only two days of margin; the US has already mandated five days' worth. In both cases the difference could be measured in millions of dollars of collateral.

Another challenge lies in the way clearing houses can arrange customer accounts so their positions can be "ringfenced" from others if another defaults.

> 'The issue everyone is concerned with is market change indigestion'

In the US, CCPs (central counterparties) have a model known as "legally separated, operationally comingled", LSOC. It allows clearing members to operate a single account for collateral. Europe, by contrast, requires that accounts are individually segregated, meaning clearers such as CME, Eurex and LCH.Clearnet have been developing their own services.

"In the US you have one set of rules and it creates a homogenised approach that everyone has built to and operates in. It's enormously more complicated in Europe," says Andy Ross, European head of OTC clearing at Morgan Stanley. "The significant issue everyone is concerned with is market change indigestion.

"The nightmare scenario is 10-plus major European CCPs going live with unique models within a few weeks of each other."

Lee McCormack, client clearing business development manager at Nomura, said regulators knew what they wanted to do in their own jurisdiction. The question was how they were going to marry it with other rules around the world.

"We're expecting Asian countries to meet the G20 rules but there are problems with data protection, for example," he says. "For Asian rules, are they going to be deemed equivalent to the US and Europe, and when are they going to come?" he asked.

Alex McDonald, chief executive of the Wholesale Markets Brokers Association says: "When policy makers came up with the notion of central clearing as a mitigant of systemic risk, they certainly had mutualisation of risk in mind."

"But the final clearing house resolution and recovery regimes will really determine how risk is apportioned among market participants."

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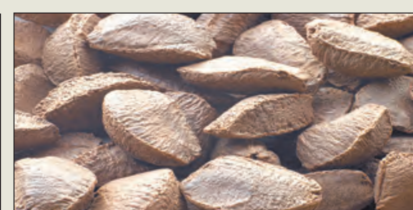

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Chicago 'pit man' surveys the Asian horizon

Interview Bill Herder The Futures Industry Association's man in Asia talks to *Jeremy Grant* about its regional role and cultural differences

Bill Herder (right) has set up office in Singapore (above)

Dreamstime

As a young man working as a trader in the foreign exchange "pit" at the Chicago Mercantile Exchange, Bill Herder found his height an advantage.

At 6ft 8in (2m) tall, he could scan the sea of waving arms and hands and catch sight of traders' buy or sell signals better than many others around him of smaller stature.

Now, many years later, Mr Herder is using his position as head of the industry body for the futures markets in Asia to scan a rather bigger area.

As executive director of the Asia chapter of the US-based Futures Industry Association, the 51-year-old gathers intelligence from regulators, market participants and exchanges on the complex and rapidly-shifting landscape facing the derivatives industry in Asia.

FIA Asia was set up seven years ago but was run from Chicago, home to the US futures markets, until the organisation felt it had enough members in the region to warrant a presence in Asia. The first Asian office opened 18 months ago, in Singapore, hiring Mr Herder from Icap, the world's largest inter-dealer broker, where he had been head of operations for the Asia Pacific region.

Mr Herder scans regulators' websites, looking for the latest market consultations on issues that may affect FIA members – mostly banks and brokers operating in the futures markets. The FIA reckons that Asia accounts for 15-20 per cent of the global futures and options-on-futures markets by volume, with the rest divided about equally between North America and Europe.

> Members are often reluctant to write directly to regulators... to avoid causing offence

Mr Herder attends industry conferences and is in constant contact with members on issues from tax treaties in India and over-the-counter (OTC) clearing regulations from the Monetary Authority of Singapore to new high-frequency trading rules in South Korea.

When it comes to lobbying, FIA Asia is no different from its affiliates in the US and Europe, and will write to regulators with members' concerns in an effort to influence the final shape of regulations.

Mr Herder says that cultural differences in Asia mean that members are often reluctant to write directly to regulators to avoid causing offence.

When FIA Asia writes such letters, it will often withhold names. That contrasts with the more adversarial relations between market watchdogs and participants in the west, where banks are prepared to take on regulators such as the US Commodity Futures Trading Commission.

The softly-softly FIA Asia approach seems to have helped create an atmosphere of constructive engagement. "It's got to the point where the regulators will call me and say: 'Can you do us a favour and ask what your members think of this?' because they don't want to appear confrontational and want a positive outcome rather than a lot of potentially awkward back-and-forth," Mr Herder says.

The opening of the FIA's office in the region comes at a time of regulatory ferment. Banks, brokers, exchanges and clearing houses are grappling with the implications of the Dodd-Frank act in the US, and its equivalent in Europe, the European Market Infrastructure Regulation (Emir). Both prescribe sweeping changes to the way the OTC derivatives markets are to function – mostly by requiring them to be traded on electronic trading platforms – and to be cleared, where possible, through clearing houses.

The changes – agreed in 2009 by the G20 – are designed to make trading more transparent and to help safeguard the financial system against the fallout from any big market default, such as that of Lehman Brothers in 2008.

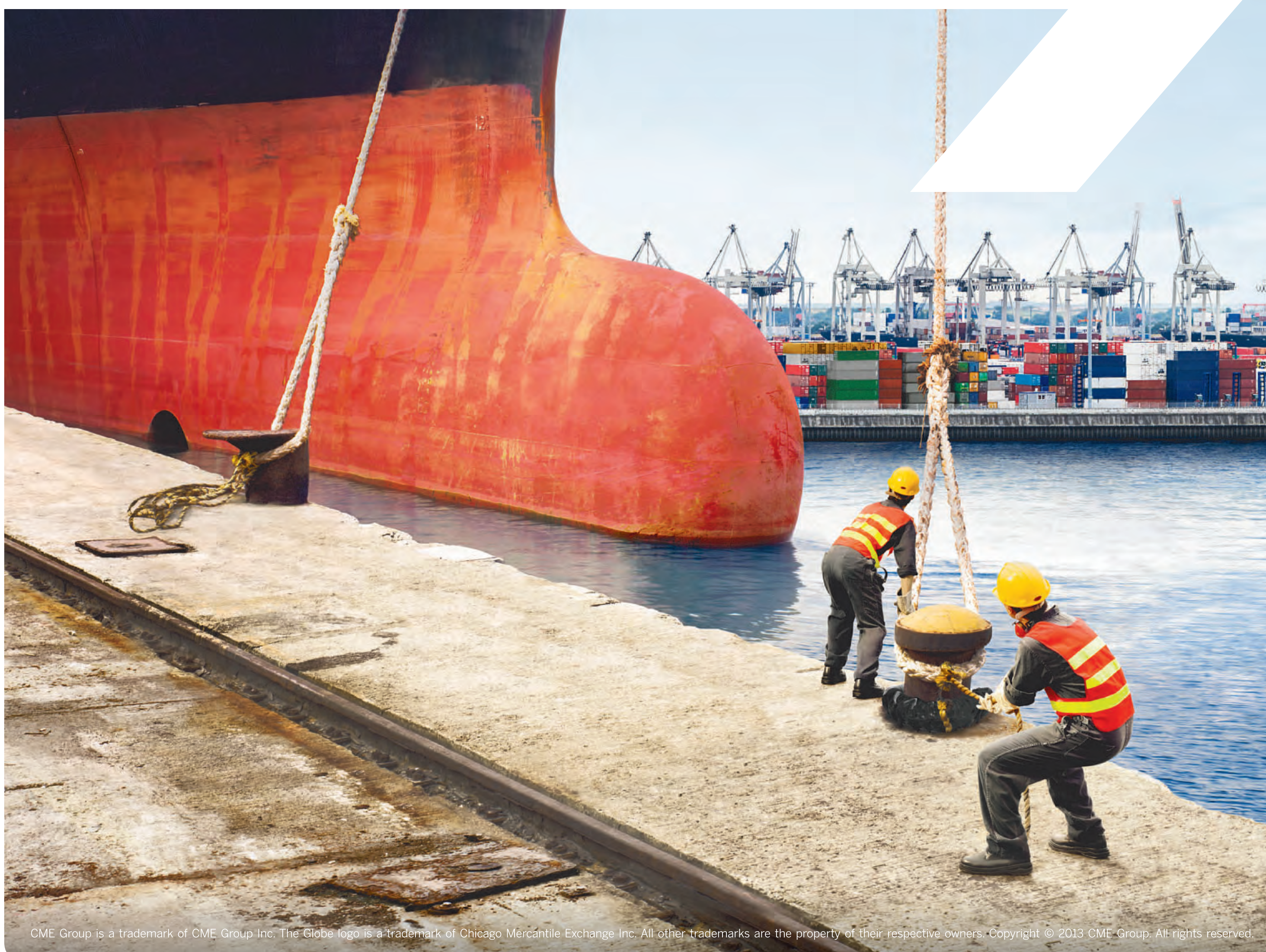
Asia is feeling the effects of those regulations, as jurisdictions with OTC markets of their own come up with their versions to comply with the G20 mandate, and as banks and clearing houses struggle to work out the extent to which the Dodd-Frank and Emir provisions will apply to market activity in Asia.

Top of Mr Herder's agenda – and those of his members – in recent months has been uncertainty over how Asian clearing houses will be treated under Emir. Non-European clearing houses must apply to the European Securities and Markets Authority (Esma), the pan-European markets watchdog, to be allowed to clear OTC derivatives trades for European financial institutions.

While that sounds easy enough – the deadline to submit applications passed on September 15 – there has been uncertainty over which clearing houses have done so, making it hard for clearing brokers to plan ahead.

Esma did this month recognise four jurisdictions in Asia Pacific – Australia, Hong Kong, Japan and Singapore – as having "equivalent" rules and regulations to those in Europe when it comes to financial institutions using non-European clearers.

But Mr Herder points out that differences between Asian jurisdictions, as well as between Asia and Europe, are not yet understood in the west. "The regulators are looking at Asia as if it is part of some recognisable facsimile of their own system, and it's not," he says.



Markets tally cost of tighter trading regulation

Continued from Page 1

highly capitalised market?" he asks. "Will new business models develop to avoid some of the more onerous new restrictions? More importantly, will regulators allow this to happen?"

Underpinning policy makers' thinking was a push to move some of the risks for economies and markets that were traditionally absorbed by banks to supposedly more stable, less conflicted infrastructure such as clearing houses. They also aimed to spread risk around the industry. A clearing house stands between two parties in a deal, ensuring a trade is completed in the event of a default and its members pay for the operator to manage positions.

These changes are well under way and elements are in force in some countries, even though important problems remain outstanding.

Japan and the US, via its Dodd-Frank Act, have mandated clearing of swaps and reporting of trades. European regulators are working to finalise their response, contained in the European Market Infrastructure Regulation (Emir).

Perhaps most critically, in early summer US and European officials agreed a way jointly to police global derivatives markets and avert a potential regulatory turf war that threatened to disrupt the daily workings of financial markets.

The world's derivatives exchanges hope to benefit most from these sweeping moves, as they own their own clearing house.

The industry has been quick to exploit the weaknesses of rivals and address gaps in their own services as evidenced by IntercontinentalExchange's planned deal to buy NYSE Euronext, owner of London's Liffe derivatives market, for $10bn in cash and shares.

However, exchanges face a fierce battle. Heavy lobbying by banks, for whom OTC derivatives trading is a lucrative business, has resulted in some proposals being watered down, or profitable business lines carved out of the rules. Banks have voiced concerns to regulators that clearers are not sufficiently transparent about their operations, or may compromise systemic safety for commercial gain.

This is rebutted by the industry. "As a neutral facilitator of risk, which clearing houses clearly are, the direction of the market is irrelevant," says Terry Duffy, executive chairman at CME Group. "What's important is making sure the pays and collects are done on a risk basis and not on a mark-to-myth or anything else."

Authorities recognise the job of shoring up the financial system is not finished.

"There's been good progress but there is still a lot more work to be done," said Mark Carney, governor of the Bank of England and chairman of the Financial Stability Board, only two weeks ago as he outlined the steps regulators had taken to solve the "too big to fail" problem.

"We now have to move from the powers to the practical ... we need to translate it into actual resolution plans for systemically-important financial institutions," he said.

He called on other countries and regulators to follow the US-EU agreement over swaps market oversight. The industry has long been concerned that regulatory over-reach across borders could stifle a global business and force it into regional concentrations.

> Industry fears that regulatory over-reach across borders could stifle global business

The first country to undertake mandatory clearing of derivatives for banks was Japan. Tokyo is the third largest off-exchange derivatives market after London and New York. It is also taking the lead role in defining Asian responses to the G20 mandate.

"Everyone is looking at Japan," says Sanela Hodzic, head of strategy at Calypso Technology, a US trading technology company that supplies the region's main clearing houses. "The G20 rules are still being implemented but volume on the Japan Securities Clearing Corporation is bigger than the CME."

The participants potentially facing the greatest shake-up of the OTC market are the interdealer brokers, who act as middlemen moving large blocks of illiquid securities. US authorities have interpreted the move to electronic trading venues as an opportunity to introduce competition in what had previously been a clubby, closed world.

In mandating these new marketplaces, known as swap execution facilities or Sefs, the Commodity Futures Trading Commission has opened the door to entrants such as Bloomberg.

However, interdealer brokers such as ICAP, Tullett Prebon and GFI Group say the reforms to offset risk in the market will simply institutionalise in regulation a role they already fulfil. "It will formalise many of the trading and post-trade practices that interdealer brokers have had in place for some time," says Alex McDonald, chief executive of the Wholesale Markets Brokers' Association.

By contrast, equities trading is still dealing with the consequences of its "big bang" half a decade ago. Reforms on both sides of the Atlantic succeeded but brought market fragmentation in the era of high-frequency trading (HFT), which sought to exploit regulations or technological inefficiencies in the market.

Profits from HFT peaked in 2009 and have fallen sharply since. For some of those who had benefited from the HFT explosion in equities, the time had come to branch out into other asset classes such as currencies and fixed income.

Perhaps as a sign of a loss of confidence in transparent markets, investors increasingly turned to so-called "dark pools" – off-exchange venues where deals could be struck in private. Institutions liked them but regulators began to grow increasingly concerned about their ability to monitor a market where pricing was not transparent. It is a problem with which derivatives regulators are only too familiar.