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FINANCIAL TIMES SPECIAL REPORT | Friday November 4 2011

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Market prepares for transparency

Michael Mackenzie says the industry has not been idle ahead of changes to trading and reporting rules

The derivatives industry in the US is on the threshold of a new era.

Ahead of the rules that will emerge in the coming months – in the wake of the Dodd-Frank Act on financial regulation – big market participants are embracing reforms.

Key areas of change involve the clearing of the bulk of "over-the-counter" derivatives – which are directly traded between parties – mandatory post-trade reporting and the trading of standardised derivatives on Swap Execution Facilities (SEFs) or exchanges.

Financial Markets series

While final rules are still being written and will not emerge until later this year and into 2012, those heavily involved in OTC derivatives – international banks, inter-dealer brokers and providers of electronic trading platforms – have not been idle.

The big dealing banks are jockeying for position in spite of the likelihood that more transparency in swaps trading will reduce revenues.

"We have put a lot of resources towards making sure we will be ready to clear and electronically trade derivatives when the rules are finalised," says Jon Kinol, global head of rates at Credit Suisse.

"Liquid sectors of fixed income markets will trade

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Front Page Illustration: MEESON

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Markets gear up for reform

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electronically, but the less liquid areas will continue to rely on human interaction," he adds.

Kevin McPartland, director of fixed income research at Tabb Group, says a recent survey revealed that the vast majority of top and mid-tier dealers told the US based consultancy they are ready for the new rules and waiting to see the final guidelines.

"Despite the unknowns, complexities and costs, the dealer community feels that it is ready for change," says Mr McPartland.

"Yes, lobbying will continue on both sides and politics will persist, but the dealer community sees the advantages of a mostly cleared swaps market."

But the potential for the rule-making process to be delayed well into 2012 is causing concern that preparing for change may be more costly than it needs to.

"There is a lot of industry preparation taking place, but market participants and potential SEFs face an interesting catch 22, in that there are concerns they may go down the wrong path before the rules are finalised," says Sonali Das Theisen, a director of credit trading at Barclays Capital.

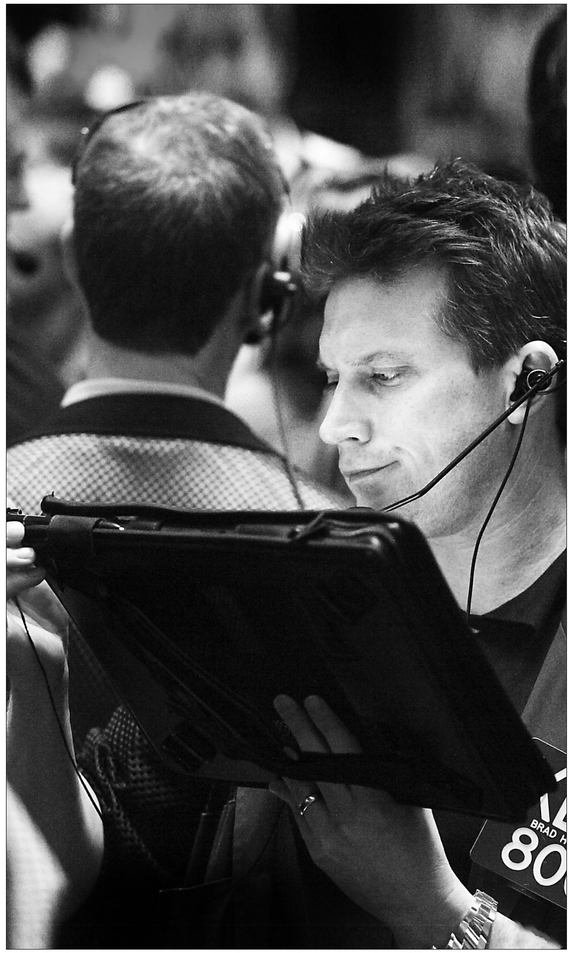
"A fair amount of [credit default swap] index trading is now electronic, whereas 'single names' [CDS' that protect against a single asset] are lagging as the industry waits to see how the SEF rules are finalised."

In spite of concerns about final rules for transacting swaps being too strict, the derivatives industry is making strides in clearing, building infrastructure and putting in place electronic trading systems.

"Electronic trading is accelerating ahead of the final rules being written by regulators," says Lee Olesky, chief executive of Tradeweb, an operator of electronic trading platforms.

"Our business model is benefiting from the prospect of swaps trading in a regulated environment and on a platform that is transparent and open to investors."

Tradeweb recently announced a 90 per cent increase in notional trading volume on its global multi-dealer-to-client interest rate derivatives platform for the third quarter of 2011, compared with the same period of last year.



Virtually there: markets are preparing for more electronic trading of derivatives Bloomberg

Tradeweb, Bloomberg and MarketAxess, who all offer electronic derivatives trading, have all tested their platforms with trades for dealers and institutional clients that are seen as being "SEF" compliant under the proposed rules.

Rick McVey, chief executive of MarketAxess told a recent conference on SEFs: "Trading technology is ready today. Many of us have critical mass in our networks, we have 900 institutions, firms and 80 dealers, similar to competitors."

At the same conference, Jeff Gooch, chief executive of MarkitSERV, which processes OTC trades, stressed the importance of managing the introduction of regulations.

"Final rules are needed so we can tweak existing platforms and test systems," he says. "Most participants say they need two months."

Among the leading interdealer brokers, or IDBs, such as Icap, BGC Partners, Tradition, GFI and Tullett Prebon, electronic trading of swaps in Europe is accelerating and these intermediaries for banks are positioned to introduce dollar SEFs once the rules have been clarified.

> 'Electronic trading is accelerating ahead of the final rules being written by regulators'

"We are well placed to take up the new regulations so technology will not be a problem," says Ron Levi, chief operating officer at GFI. "We have very agile development teams across the IDBs but clarity around the regulation is needed."

Mr McPartland says Tabb's survey showed: "There is some consensus among those surveyed that platforms with an already liquid electronic cash market have an advantage."

He adds: "This bodes particularly well for BGC Partners, Bloomberg, ICAP, MarketAxess, Tradeweb and at least one new SEF entrant."

The clearing of swaps is also rising with more trades placed with central counter parties, or CCPs.

While the business is largely bank-to-bank and dominated by LCH.Clearnet, the London-based clearing house, for interest rate swaps and ICE Trust for credit derivatives, the CME said it set monthly clearing records in September for both products.

An example for regulators to study

Energy

The 2001 bankruptcy of Enron shocked market participants into finding safer ways to trade, says **Gregory Meyer**

US regulators pushing to send more derivatives deals to clearing houses would do well to study energy markets.

Years before the Lehman Brothers collapse and the AIG bail-out, traders in over-the-counter natural gas and oil derivatives started clearing their swaps.

The impetus was the 2001 bankruptcy of Enron, then dominant in US gas markets, and credit downgrades of other energy trading companies. The crisis shocked energy market participants and forced them to look for safer ways to hedge supplies.

The New York Mercantile Exchange, now part of CME Group, and the fledgling IntercontinentalExchange began allowing bilateral trades to be transferred to clearing houses, which acted as the buyer to every seller and seller to every buyer, shifting credit risk away from individual counterparties. Traders had to post collateral to keep positions.

At first, "the market looked at it and said, 'I have all these triple A counterparties. Why would I want to incur the extra cost of clearing?' " says Chuck Vice, the ICE president.

"The whole Enron situation changed that quite a bit. Everybody looked around and said: 'If my highest-rated, largest counterparty can go bankrupt, pretty much anyone can go bankrupt'. The pendulum started to swing fairly quickly," Mr Vice says.

Technology made clearing easier, as some trading shifted from telephones to instant messages to screen-based platforms.

At ICE, the share of over-the-counter energy trades that were cleared grew from 2 per cent in 2002 to more than 95 per cent today. Daily volumes handled by ClearPort, the clearing service that Nymex launched in May 2002, grew from 24,000 on average in 2003 to almost 450,000 so far this year. Volumes peaked at nearly 500,000 in 2009, after Lehman's failure.

ClearPort was "born out of necessity", says Mike Prokop, managing director for energy and cross asset-class products at CME. ClearPort now also handles foreign exchange, interest-rate and other derivatives.

The trend towards clearing has enabled new energy swap dealers to break into markets once dominated by Wall Street banks and large oil companies.

Previously, a trader had to sign mountains of documents with each counterparty to certify it was able to strike deals under swaps rules. The process could take months and still left traders at risk of another's default.

Crude oil tank in Indonesia: the Dodd-Frank Act will not require 'end-users', such as gas drillers or oil refiners, to clear derivatives trades Reuters

> 'Enron changed the situation. Everybody looked around and said: "If my highest-rated, largest counterparty can go bankrupt, pretty much anyone can"'

"It's been great for everyone except those whose business models required opacity, episodic liquidity and the ability to serve as a gatekeeper for investors," says Michael Cosgrove, a managing director at GFI Group, an interdealer broker.

One smaller dealer is Geneva Energy Markets, an 11-person operation based in New York and Dublin. Inside GEM's modest office near Wall Street, computers make laser-gun noises each time a trade goes through. At times it sounds like a shoot-out in a science-fiction movie. The company is one of the most active traders of cleared oil swaps.

"We only do cleared trades. We wouldn't take Exxon's credit if they asked us to," says Mark Vonderheide, GEM managing partner.

"It's not a matter of suggesting someone's not credit-worthy. Why bother to add that to your list of things to think about?"

He says other market participants initially resisted clearing, but volumes took off after 2007.

"Trading counterparties realised it cost them real money if they weren't willing to clear their oil swap trades, because the cleared-only bids or offers were regularly the best in the market."

Mr Vonderheide, a former senior trader at banks and Vitol, the oil trading house, says that now most of the oil swaps market is cleared. "It's certainly a model for how a very active, volatile and large market can organise itself to do a massive percentage cleared," he says.

Not every trader wants to clear its positions. Posting margin collateral can be a drain on companies' cash. The US Dodd-Frank Act on financial regulation will not require commercial "end-users", such as gas drillers or oil refiners, to clear their derivatives trades.

Under the reforms, standardised swaps deals between big financial traders must be cleared. Regulators are still writing rules to implement the legislation.

Some say that while energy is an appealing example for other markets, it will not translate neatly to other derivatives, such as credit default swaps.

"In the energy business, the market perceived a need for [clearing]. It grew organically, without anybody telling them to do it," says Craig Pirrong, professor of finance at the University of Houston.

Derivatives

Euro crisis gives clearing a boost

OTC derivatives

There is a sense in the industry that the change is a trend, not a blip, says Hal Weitzman

A new view: because of the eurozone crisis, traders have looked again at their counterparty risk profiles — Maurizio Gambarini

The collapse of Lehman Brothers in 2008 was undoubtedly devastating for the global financial industry and had profound effects on the economy.

For CME Group, the biggest futures exchange in the US, it also gave rise to an important opportunity.

The fear of counterparty risk provoked by the bank's collapse held out the promise that the over-the-counter derivatives market – the value of which dwarfs listed markets – might be pushed to clear through central counterparty clearing houses – such as CME's, – providing the group with significant new business.

A G20 agreement in 2009 and the Dodd-Frank Act – US legislation passed last year that aims to overhaul financial regulation – both envisaged a legal mandate for as many OTC swaps as possible to be cleared.

CME offers clearing facilities for credit default swaps (CDS), a type of financial product that became much more well known in the wake of the crisis.

Yet the group has been beaten to the punch by the London-based clearing business of IntercontinentalExchange, which established dominance in CDS through its consortium arrangement with the biggest dealers.

Instead, CME has focused most of its efforts on interest rate swaps (IRS), a huge market that is a natural fit with the Chicago exchange's dominant position in US interest rate futures.

The IRS pie is much bigger than CDS. Whereas the CDS market ended last year with a notional value of $30,000bn, according to the Bank for International Settlements, the IRS market is valued at $465,000bn, or more than three-quarters of the entire OTC market.

However, uncertainty about the implications of Dodd-Frank have contributed to slower progress than might have been expected at CME.

Also, after the Lehman collapse, with the passing of time, the urgency of risk reduction diminished – and the promise of large cleared volumes failed to materialise.

But in recent months, volumes have shot up. CME cleared $5m in IRS contracts in May, $190m in June, $400m in July, $1.24bn in August and $35.47bn in September.

Although the notional value of cleared volumes levelled out in October, it is still on course to be in the tens of billions of dollars.

Cleared CDS volumes also went up from $10m in July to $6.46bn in September.

To a large extent, these increases are in response to the eurozone crisis.

Just as the Lehman collapse prompted a rush to reduce counterparty risk, the debt crisis in Europe has given OTC clearing a second wind.

Kim Taylor, CME's head of clearing, says: "In the past couple of months, we've seen a significant uptake in OTC clearing as traders respond to the eurozone debt crisis and review their counterparty risk profiles."

That is echoed by Daniel Maguire, head of Swapclear US – the OTC service of LCH.Clearnet, London's main clearing house – which competes with CME. "The need for counterparty risk reduction is driving demand," he says.

At the same time, those in the industry say traders are also moving to clearing to be ready for when mandates will apply.

Gary Gensler, chairman of the Commodity Futures Trading Commission, told a futures conference in Chicago in October that a government mandate forcing the most standardised swaps to be cleared could come into effect by April, with the entire industry having to comply by the end of next year. Many are not waiting for those deadlines before acting.

> 'There's a whole load of customers looking at the cost of trading OTC. We'll see a big increase in the use of futures products'

Ms Taylor says CME has more than 500 clients clearing OTC trades, with "many more" in the pipeline and a sharp increase in client testing. She also says CME has been forced to bring forward its product launch dates because of the strength of customer demand.

Floyd Converse of LCH.Clearnet says his organisation is increasingly seeing asset managers – who will not be mandated to clear in the US until the end of 2012 – "jumping the queue" and beginning to clear swap trades.

Chris Perkins, head of derivatives clearing at Citigroup Global Markets, says his bank is setting up 2,000 accounts for clearing.

He adds that dealers are already offering their clients cross-product margining (the cash or securities posted as collateral) between swaps and futures, even though exchanges cannot yet do this, and regulators could ultimately decide not to allow the practice.

The sense in the industry is that the move to clearing is a trend, not a blip.

Volatility and uncertainty will eventually recede, but as Mr Converse notes, by then clearing will be mandated.

Revenues from clearing swaps may be becoming an important part of CME's business, but the exchange still hopes that the overhaul of financial regulation will also cause business to migrate from OTC to its traditional listed markets.

A key factor may be the relative costs of clearing swaps and futures: margining costs for the former may be up to five times higher. William Cleary, a managing director at Bank of America Merrill Lynch says: "There's a whole load of customers looking at the cost of trading OTC. We'll see a big increase in the use of futures products."

Kevin Foley, a partner at Katten Muchin Rosenman, a law firm, agrees. "Not only will we see a shift from uncleared to cleared, but also from swaps to futures," he predicts.

Craig Donohue, CME chief executive, sees this as a shift that will shape both OTC and listed markets.

"As people look at the costs of doing swaps, they're looking at alternatives [such as listed futures]," he says.

"That is good for exchanges in both senses. The 'Big Game' may be the convergence that happens for market users."

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Interest of markets and regulators grows

ETFs

Traders use the funds as alternative hedges but the complexity of some products is a worry, says Telis Demos

A turbulent three months of trading have brought a surge in volatility. The Chicago Board Options Exchange Volatiliy Index, known as the Vix, doubled in August, and has stayed high for the longest time since the midst of the financial crisis.

In the past, hedging against volatility typically involved derivatives, both exchange-traded and over-the-counter, that could pay off if prices moved sharply.

But the rising price of those strategies as volatility has stayed high, plus the prospect of regulations that may make OTC trading more expensive in the short term, have given rise to the developments of alternative hedging products, in the form of exchange traded funds.

Many traders say that, as regulatory scrutiny has increased, they are now more frequently turning to ETFs, when in the past they might have used options or futures to hedge.

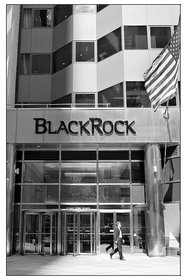
"Hedge funds have been doing this for a long time. ETFs are a very liquid, quick way of putting a hedge on," says Briton Ryan, head of US ETF sales and trading at Newedge, a brokerage.

But now, he says, institutions, such as pension funds, and foreign clients are using the US ETF market.

"If something happens in Europe and you know something's going to happen in financials, you can put on a hedge quickly and cheaply when there's high volatility and [therefore] a greater cost of hedging," he says.

Volatility has increased across asset classes. The CBOE Skew index, which measures the ratio between bets on a large market move versus a steadier state and is a common proxy for the price of insurance, rose to its highest in over a year in October.

Credit volatility, as measured by implied volatility of the CDX credit default swap volatility index, reached its highest in over a year, according to Barclays Capital, as did currency volatility, measured by Deutsche Bank's CVIX index.



BlackRock sponsors 40% of all ETFs by assets

ETFs were devised in the early 1990s as a replication of the index funds investors used to generate trading gains or get broad exposure to an asset class.

But in recent years more complex products that derive their prices from volatility indices or provide inverse or leveraged returns on an underlying index have been launched.

ETF assets have grown by about 50 per cent since 2009, to just under $1,000bn at the end of September, according to State Street Global Advisors.

Meanwhile, notional outstanding amounts of OTC derivatives have shrunk by 10 per cent, according to the International Swaps and Derivatives Association – the industry body – as G20 nations begin to require that all OTC trades are centrally cleared and traded on an exchange, making the market more expensive.

> 'Hedge funds have been doing this for a long time. ETFs are a very liquid, quick way of putting a hedge on'

In the same period, the options market has grown by less than 2 per cent and much of the trading volume, says the Tabb Group, a financial industry research company, is attributable to the rise in options on ETFs.

According to Henry Chien, an analyst at Tabb, "ETF options have been a big source of options volume and now account for 37 per cent of volume" until August 2011, an increase of 39 per cent over last year. That compares with growth of just 14 per cent for index options and 3 per cent for single-stock options.

"Options are the most effective and efficient way to hedge because they are perfectly correlated," says Jay Pestrichelli of ZEGA Financial, an investor advisory. "But they can get very expensive when volatility rises. "ETF indices can be a cheaper alternative, because they are often deeper and more liquid markets," he adds.

Increasingly, there are complex ETFs that cater to specific risks.

They include fixed income ETFs for corporate bonds, Treasuries or sovereign bonds, options on which are much more liquid than the largely over-the-counter market for bond volatility products.

"Before, you had commodity or bond traders not even in the same building as equity traders," says Mr Ryan. "Now they can provide liquidity to each other, and traders are always looking for new and cheaper ways to hedge."

While ETFs that rely on the Vix are roughly $5bn in assets, and the overall universe of inverse or leveraged ETFs make up only $30bn, versus $1,000bn in total assets, they have recently aroused regulatory concern.

The US Securities and Exchange Commission said during a US Senate hearing on ETFs in October that it was looking into how to regulate such products.

BlackRock – which sponsors about 40 per cent of all ETFs by assets, mostly plain "vanilla" index products – has proposed more complex products should not be classified as ETFs.

The difficulty is that returns on complex products are not straightforward.

ETFs based on futures, for example, have a built-in cost as contracts roll over.

An investor holding an inverse Vix futures ETF from 2008 until mid-2011, when volatility sharply declined from record levels, would have actually lost money, according to Mr Pestrichelli.

But despite those worries, many tactical and short-term traders have increased their use of complex ETFs.

Nick Cherney, chief investment office of VelocityShares, a provider of volatility-linked exchange traded products, says: "Traders want to move out of over-the-counter land and out of hedge funds into more transparent and liquid instruments,"

New trading venues aim to provide choice of structures

Europe

Jeremy Grant considers keenly awaited proposals for reform

The European Commission last month unveiled its keenly awaited final proposals for a sweeping overhaul of the region's equities, derivatives and fixed income markets.

The document, known as the Markets in Financial Instruments Directive (Mifid), contained details of how Brussels believes over-the-counter (OTC) derivatives trading should evolve and is part of Europe's vision for new market structures.

Mifid was enacted in 2007, to inject competition into share trading across the region. But it has morphed into a far larger project that covers on- and off-exchange derivatives, fixed income, bonds and structured products.

The final proposals are marked by a single policy objective: forcing more transparency on markets, as regulators follow through on a commitment made by G20 nations in 2009 to clean up the financial system.

Mifid, a companion initiative called "Mifir" and a third called the European Market Infrastructure Regulation are Europe's equivalent of Dodd-Frank in the US. The US act requires that trading in OTC derivatives be moved away from the banks that have long dominated, on to exchanges and electronic platforms called "swap execution facilities" (SEFs).

In Mifid and Mifir, European regulators have gone further. They have created a third category of trading platform – in addition to "regulated exchange" and "multilateral trading facility" (MTF), the two categories used for share trading – an "organised trading facility" (OTF).

All three categories will operate under broadly similar transparency rules and procedures.

The idea is to create a "menu" of structures for multiple kinds of financial products to be traded, while ensuring they adhere to the same broad transparency requirements so that regulators and investors can more easily monitor markets and track prices.

Yet OTFs have been given some discretion on how to execute transactions – a key concession that dealers in the OTC derivatives markets have seized on as a sign they will not be forced to transact derivatives on "exchange-like" platforms where prices are posted for all to see.

The exchange, or "central limit order book" model is favoured for SEFs by US regulators.

But OTC dealers worry that if the US were to pick this model, large deals, which are common in the market, might be hard or impossible to execute, damaging liquidity.

Mifir explicitly recognises that OTC derivatives markets include relatively illiquid contracts, as well as "standardised" ones that lend themselves more easily to trading on exchanges or formal platforms.

"The possibility for operators of venues to arrange transactions pursuant to this [G20] commitment between multiple third parties in a discretionary fashion should ... be foreseen in order to improve the conditions for execution and liquidity," Mifir says.

This has been welcomed by the interdealer brokers that act as intermediaries between banks in the trading of OTC derivatives such as interest rate and credit default swaps.

Alex McDonald, chief executive of the Wholesale Markets Brokers' Association, which represents brokers in Europe, says: "The inclusion of the proposed [OTF definition] is a vitally important and welcome move by policymakers in Europe, which sensibly addresses the need to preserve a variety of execution methodologies for the vast OTC derivatives marketplace and related products."

> The final proposals are marked by a single policy objective: forcing more transparency on markets

Yet some question the wisdom of creating yet another type of trading venue, pointing to the complexity that has resulted from the proliferation of venues for cash equities as a result of the original Mifid in 2007.

Damian Carolan, a partner at Allen & Overy, a law firm, says: "Fragmentation of liquidity and pricing sources, which was an unintended consequence of Mifid the first time round, must continue to be a concern as 'Mifid II' adds yet more classes of regulated venue and applies regulated trading structures to more markets."

Mifir also prohibits operators of OTFs from trading against proprietary capital, which could spell the end for "single dealer" platforms operated by the banks, some say.

Steve Hall, head of Europe and Asia at Tradeweb, which operates electronic trading platforms for fixed income and other products, points out another issue: Mifir stipulates that all trading venues, including OTFs, "shall make public prices and the depth of trading interest at those prices ... on a continuous basis during normal trading hours".

"We are concerned that [this] may result in liquidity providers choosing not to make markets in certain instruments or widening their bid-offer spreads so as to price in the risk associated with such information being broadcast," Mr Hall says.

Both Mifid and Mifir must now be passed by the European Parliament, expected to happen next year. In the meantime US regulators have yet to finalise their definition of SEFs. That means continued uncertainty for the market.

Robin Poynder, head of regulation in the Marketplaces division of Thomson Reuters, says: "With regulators on both sides of the Atlantic expressing a desire to align regulation so that trading across jurisdictions is straightforward, one can hope that any apparent differences in approach that appear within the draft legislation will be ironed out."

Industry hopes longer delays will mean looser rules

Swap execution facilities

The two US regulators have not yet agreed how these new trading venues will work. Michael Mackenzie writes on the implications for the market

The tussle between regulators over how over-the-counter derivatives will trade in the US has already been drawn out and may run well into 2012.

While this is causing frustration in the derivatives industry, more delay could bring a silver lining in the form of less prescriptive rules in the US, and could allow European regulators to formulate their rules and thus limit the "implementation gap" between the two regions.

"The main message we are hearing from the industry is that they should be left to decide how to trade swaps and that the rules not be overly prescriptive," says Kevin McPartland, director of fixed income research at Tabb Group.

US-based swap dealers, interdealer brokers and institutional investors are increasingly voicing their concern at how proposed rules will flesh out the Dodd-Frank Act in the area of new trading venues known as Swap Execution Facilities, or SEFs.

In the US, the Commodity Futures Trading Commission has the task of regulating the vast majority of swaps, including interest rate, commodity, currency and credit derivative indices. The Securities and Exchange Commission is responsible for regulating security-based swaps, such as credit derivatives for individual companies.

A key problem for the industry is the differences in the approaches of the CFTC and the SEC to interpreting swaps trading under Dodd-Frank.

At a conference on SEFs held in New York in October, Gary Gensler, chairman of the CFTC said he hopes that final SEF rules will be written by the first quarter of 2012. But, Scott O'Malia, one of five CFTC commissioners, also told the conference that final SEF rules could well take longer, given the differences between suggested CFTC and SEC rules.

In particular, the SEC has proposed not to limit SEF trading protocol and to allow voice broking, rather than stipulate electronic trading as the CFTC has.

The big worry is that the stricter proposed rules from the CFTC will impair swap trading liquidity, as the market is typified by large trade sizes – often more than $100m – at infrequent intervals.

While the CFTC wants to see swap users request five quotes before they trade, the SEC has mandated that market participants request a quote from at least one bank, which is largely the current practice.

Many in the industry favour the SEC approach, as its rules are seen as less strict.

This "lighter touch" approach also has allies in Congress, with a house bill passed over the summer – the SEF Clarification Act – that seeks to limit the reach of the CFTC.

"The bill would correct a number of flaws in the current proposed regulatory interpretation and better align the proposed rules with Congressional intent," said Conrad Voldstad, chief executive of the International Swaps and Derivatives Association – the industry trade body – to a Congressional committee last month.

"These flaws have the potential to significantly and adversely affect the dynamics of the swaps market by reducing liquidity and choice and by increasing costs and ultimately risks for OTC derivatives markets participants," he added.

Agreeing final rules for SEFs is likely to take well into 2012 and keep potential facilities cooling their heels for some time.

The industry hopes that a longer delay in finalising rules and reaching an accord between the SEC and CFTC will result in less strict guidelines.

> 'The main message we are hearing from the industry is that they should be left to decide how to trade swaps'

"There is a sense that regulators are trying to harmonise their rules and are concerned about adversely impacting liquidity," says Sonali Das Theisen, director of credit trading at Barclays Capital.

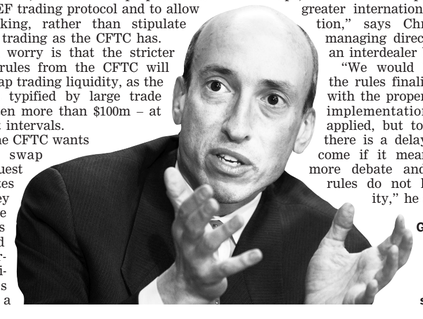
"While a delay in finalising rules is frustrating and is weighing on the markets, it's for the long term benefit of the derivatives market that the rules be written carefully and do not harm market liquidity," she adds.

Ultimately, further delays in the US could see convergence with the eurozone.

Policymakers in Europe are still trying to define SEFs and how they will trade and convergence would reduce concerns that strict US rules could push trading towards a less demanding region.

"If the final rules are flexible and can be changed in the future as the market develops, then there is potential for greater international co-operation," says Chris Ferreri, managing director at Icap, an interdealer broker.

"We would like to see the rules finalised quickly with the proper amount of implementation time applied, but to the extent there is a delay, it is welcome if it means there is more debate and the final rules do not hurt liquidity," he adds.



Gary Gensler, CFTC chairman, hopes for rules by the start of 2012

European Commission regulations are expected to be passed by the Parliament next year Dreamstime

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