

PRESIDENT'S message

This November, all eyes in Washington are focused on the mid-term Congressional elections. The results will determine which legislators oversee our industry and our regulators. If Republicans gain control of the Senate, we will see new leadership and a new agenda—one that will likely focus on the burdens of regulation on economic growth. If Democrats maintain control of the Senate and Republicans again hold a majority in the House, Congress will continue to be divided by divergent agendas during the last two years of President Obama's administration.

As we follow the Congressional transition here in the U.S., we're continuing our focus on global issues impacting our industry. For instance, in this issue of *Futures Industry*, we feature a number of stories on international markets. We also continue to track several ongoing cross-border regulatory issues.

The simple truth is that no single nation's regulators can police the entirety of the global marketplace, nor should they. And although every country has unique marketplaces and regulatory requirements, we can minimize these differences with strong global standards, tight coordination and regulatory deference where appropriate. These concepts, taken together, allow a domestic agency with claims over foreign activity to defer to an overseas authority as long as its rules are comprehensive and comparable. At FIA, we are hopeful that regulators will adopt this framework, allowing global markets to thrive while effectively protecting the marketplace and its participants.

On this global theme, at our recent Bürgerstock conference in Geneva, we announced the launch of the FIA Global CCP Rulebook Review, a subscription service that will provide a standardized, comprehensive overview and analysis of the rules and procedures governing certain CCPs, as well as timely updates on changes to the rules and regulatory framework. It will highlight on a real-time basis the issues most relevant to clearing members and end-users as they evaluate evolving risk exposures and regulatory obligations relating to CCPs.

This new service will complement our continued focus on addressing the safety, stability and sustainability of the clearing system. Central clearing can be a valuable tool to increase transparency and mitigate counterparty risk in the markets. In doing so, this system can contribute to systemic risk reduction so long as we have strong clearinghouses and a diverse and healthy set of clearing members to support the mutualized risk of central clearing.



Walt Lukken
President and CEO

But as capital and regulatory requirements increase, the number of clearing members is declining. In 2012, there were 116 FCMs. By May 2014, this had fallen to 86, of which only 22 clear swaps. The top 10 of those 22 FCMs clear 95% of all client cleared swap volume with two FCMs recently announcing their exit from that business.

Additional capital was expected under Basel III requirements to recognize the exposure of clearing banks to clearinghouses. But the sheer amount of additional capital needed to clear both existing and newly mandated transactions—on top of other regulatory requirements—is causing some clearing member banks to think long and hard about whether this is a service they should continue to offer the marketplace.

While Dodd-Frank made the clearing of certain products mandatory, it remains a choice of whether clearing members continue to provide clearing services or customers hedge in the markets...a choice based on the costs and benefits of such activity. We seem to be nearing a tipping point for both hedger and clearing member alike that will impact the structure of the markets in unpredictable ways. We hope that changes intended to strengthen our markets do not inadvertently create more risk in the financial system.

Looking ahead, FIA will be working with all stakeholders of the clearing system—customers, CCPs, clearing members, regulators and policymakers—to advocate ways to strengthen the integrity and sustainability of the cleared derivatives markets going forward. This should be a goal that the entire industry can rally behind. Count on FIA to be a steady hand in this time of transitions and uncertainties.