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WELCOME TO FIA EUROPE INFONET

Another year, another regulation. This time last year, it was all about EMIR – with the deadline for reporting getting close and the programme of CCP authorisation in motion. That all seems like a long time ago as 2015 opens with another major consultation process, this time on MiFID II and its accompanying regulation, MiFIR. The industry, needless to say, is struggling to assess the impact of this epic regulation and how it will have to reshape for the future – including issues such as the trading obligation and the development of OTFs, indirect clearing and non-discriminatory access.

While there are clearly many opportunities that lie ahead for some sectors of the business – new technologies in particular – there are also signs that it is already a struggle for some. With a number of banks pulling out of clearing during 2014, concern remains about the viability of the traditional FCM business in the future. The latest figures from the US Commodity Futures Trading Commission (CFTC) show a continuing decline in the number of FCMs in operation – falling from 187 FCMs registered in the US ten years ago, to just 80 by the end of 2014. The drop has been most marked in the last five years, of course, with 134 firms registered at the end of 2009, 104 at the end of 2013 and 87 in March 2014.

The levels of concentration of business remain much the same, with ten firms accounting for 74 per cent of the total $150bn in segregated funds they are required to set aside on behalf of customers. While the overall amount of customer segregated funds has grown from $80bn ten years ago, so too has the concentration among the top ten firms, from 67 per cent in 2004, down to 60 per cent in 2009 and back up to 74 per cent at the end of 2014.

The data for swaps clearing should be of even more concern for regulators, with only 22 of the 80 US registered FCMs clearing swaps at the moment, and the top ten firms accounting for some 96 per cent of all the customer segregated funds for swaps business.

On a more positive note, ISDA figures show that around 70 per cent of total notional interest rate derivatives and 80 per cent of credit derivatives are now being cleared. Furthermore, around 50 per cent of IR derivatives and 65 per cent of credit derivatives are being executed on SEFs (swap execution facilities). Here too, though, concentration may be of concern. Figures from FIA, which tracks SEF activities, show that just seven SEFs account for around 95 per cent of the swaps executed on these platforms.

As it comes to terms with the requirements of MiFID and the economic pressures on clearing, it is safe to say that the industry will be in a state of transition for some time to come.

Emma Davey, Director: Membership and Corporate Affairs, FIA Europe
edavey@fia-europe.org

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THE INFONET TEAM

Emma Davey
Director: Membership and Corporate Affairs, FIA Europe
edavey@fia-europe.org
+44 (0)20 7090 1348

Bernadette Connolly
Corporate Events Manager, FIA Europe
bconnolly@fia-europe.org
+44 (0)20 7090 1334

Philippa Hanman
Marketing and Communications Assistant, FIA Europe
phanman@fia-europe.org
+44 (0)20 7621 2811

David Setters
Contango
david@contango.co.uk
+44 (0)7710 271291

A REPORT ON THE 21ST FIA EUROPE INFONET

WHAT CAN WE EXPECT FROM MIFID II?

From left to right:
Christian Voigt, Nick Solinger, Paul Marks, Mark Green, Christophe Adam, Simon Puleston Jones

MODERATOR

SPJ Simon Puleston Jones
CEO, FIA Europe

PANEL

CA Christophe Adam
Global Head of Operations, Société Générale Newedge

MG Mark Green
Global Head - Product Planning, Post Trade Derivative Solutions, SunGard

PM Paul Marks
Global Head - Electronic Execution Listed Derivatives Products, Citi

NS Nick Solinger
Chief Marketing Officer, Traiana

CV Christian Voigt
Senior Regulatory Adviser, Fidessa

Simon Puleston Jones We're looking at pre- and post-trade, under MiFID II and MiFIR. We'll concentrate on the operational and technology challenges rather than the legal and compliance issues.

After having spent months looking at EMIR implementation, the minds of senior management and their colleagues in operations and technology are rapidly turning to MiFID. They are looking at what this means from an implementation and a policy perspective. We had the consultation that ended on 1 August and we have another coming up which should start in December and finish around the end of February.

Then, we have to wait for the final technical standards which should come out in June/July next year and go live on 3 January 2017. There is a lot to keep us busy for the next two and a half years.

I'm going to focus on trading venues and the trading obligation, pre-trade transparency, Direct Electronic Access (DEA), algorithms and high frequency trading, indirect clearing under MiFIR – which applies to exchange-traded derivatives, as opposed to EMIR, which focuses on indirect clearing for cleared swaps – and finally, non-discriminatory access, under MiFIR, to exchanges, CCPs and benchmarks.

I'll start with the trading obligation and trading venues. With a derivative product, there's a three-pronged test that you can undertake to decide whether it has to be traded on a trading venue or not.

The first test is that derivative product subject to the mandatory clearing obligation under EMIR? The second test is, is it already admitted to trading on at least one trading venue? And the third test is, is that derivative instrument sufficiently liquid? If you meet those three tests, then ESMA says that that derivative has to be traded on a trading venue. With respect to sufficient liquidity, we need to take into account the average frequency and size of the trades over a range of market conditions, the number and type of active market participants and the average size of the spreads. We'll have to wait for the final ESMA regulatory technical standards to see if there are more than three prongs but for now, these are the key things to bear in mind.

Let's now say that you have decided you have to trade it on a trading venue, what are your options? Under MiFID I there were three choices. There were regulated markets, multilateral trading facilities and third party venues. Under MiFID II, there is a new category, the "organised trading facility" or OTF, which will be used for

trading certain, narrower types of derivatives, but not all derivatives. People often talk about OTFs as being the European cousin of SEFs, the swap execution facilities in the US. However, they are not exactly like for like. SEFs are, in part, MTFs, and part OTFs. It will be interesting, from a mutual recognition perspective, to see how that works going forward.

OTFs are essentially much like multilateral trading facilities, in that they bring together buyers and sellers on a multilateral basis, but unlike regulated markets and MTFs, they only relate to a smaller subset of financial products. We are most interested in them in the context of emission allowances, and in particular, as a venue for swaps execution. I think we'll see the world move on from the last 30 years or so, of picking up the phone, saying you're done, and then documenting it, under an ISDA master agreement. Instead, we'll move to venue-based execution, much like the futures market has done for many decades. With that, the whole market infrastructure and associated organisational arrangements, including the trading, will have to migrate to 'on platform' execution for a large amount of proprietary, and indeed, client business.

One of the key distinctions between the regulated markets and MTFs on one hand, and the new OTFs on the other is the concept of discretion. Under an OTF, the operator has a degree of discretion in two particular areas. The first one is when deciding whether to place or retract an order on an OTF and the second is, when deciding not to match a specific client order. So, the operator of the OTF will have a lot of discretion over whether the trade is matched, when it is matched and how and to what extent it is matched. Participants will be particularly focused when looking to execute as to how that discretion is exercised in practice, as well as what the rules of the OTF provide for in terms of the parameters of that discretion.

There are similarities between OTFs, regulated markets, and MTFs, as well, in that none of them are permitted to trade against their own proprietary capital. An OTF, however, unlike a regulated market or an MTF, is permitted to engage in matched principal trading in certain limited circumstances. The trading venues have to give their home state member competent authority access to their order book, on request. Another key feature of trading venues is that they can temporarily

"As a provider of DEA, a whole host of obligations are imposed on you, many of which you would have thought should really be the task of the regulator."

Simon Puleston Jones, FIA Europe

halt or constrain trading, or in extreme circumstances can cancel, vary, or correct the terms of any transaction. The consequences of that are very serious, particularly from an operational perspective, as you look to keep track of what the trading venue is doing to the trade that you thought you originally executed. And in terms of being able to halt trading, if the trading of a derivative is halted on one venue, it becomes possible to halt trading in that same derivative on other venues, as well.

So, you're ready to go with mandatory trading. What does MiFID II provide by way of pre-trade transparency? Well, if MiFID I was all about equities, MiFID II brings derivatives into scope for pre-trade transparency requirements. In particular, it extends to emission allowances and derivatives that are admitted to trading on a trading venue. The transparency requirements will be calibrated for different types of instruments and different types of trading, such as central order book, hybrid, quote driven and periodic auction trading systems.

With respect to pre-trade transparency, we're talking about making public the bids and offers and the depth of

the market regardless of whether you are trading on an OTF an MTF or a regulated market. It will also apply for actionable indications of interest.

There are four carve-outs. The first one is orders that are large in scale compared to normal markets, or block trades. The second is actionable indications of interest in RFQ and voice trading systems that are above a certain size, specific to that instrument. The third is derivatives are not subject to the trading obligation and the fourth is for other financial instruments that are not sufficiently liquid.

With respect to Direct Electronic Access (DEA), the issue is with respect to how you intend to execute the trade. One option is to do it electronically direct to the venue. The question is, who has obligations under DEA? A couple of articles under MiFID II set out the obligations for providers, which are fairly onerous. Firms must have effective systems and controls in place to ensure that there's a proper assessment and review of the suitability of clients, that their activity is monitored and that trading and credit limits are preset. You must also have appropriate risk controls to ensure whatever happens doesn't trigger or contribute to disorderly markets. DEA, without those limits and constraints in place, is expressly prohibited under MiFID II.

As a provider of DEA, a whole host of obligations are imposed on you, many of which you would have thought should really be the task of the regulator. You have to make sure your client complies not only with MiFID II, but also the rules of the trading venue. You also have to monitor your DEA clients' activities to check for suspected market abuse or disorderly trading. If you spot it, you are then obliged to report it to your National Competent Authority (NCA). Trading venues also have requirements with respect to who they permit to grant DEA. Providers are required to notify not only their NCA but also the trading venue. They also need to keep records to enable the NCA to monitor compliance with the requirements.

One area that is being debated is whether users are monitored. There's confusion as to the extent to which they are intended to be in scope and are, therefore, required to be authorised under MiFID II. The debate is ongoing and the answer depends on which regulator you speak to. In particular, you might ask if it is intended to cover users accessing European trading venues from anywhere in the world, or is it only intended to cover European users of DEA? Dialogue continues with regulators to try and get some clear answers.

The next factor is to do with how you are going to trade. Are you trading with an individual? Do you have an algorithm that will do some of the trading? The definition of algorithmic trading is the use of computer algorithms to automatically determine the parameters of orders, whether to initiate the order, the timing of the order, the price and how to manage the order after submission with limited or no human intervention.

Algorithmic trading doesn't come into scope if you are simply using an algorithm to determine order routing or processing of orders when no determination of trading parameters is involved, for example.

Firms engaged in algo trading are subject to a whole host of new regulations. You must have risk controls in place to ensure your systems are resilient. You have to make sure they have enough capacity and appropriate thresholds to prevent the sending of erroneous orders. And you need to ensure your algorithm isn't contributing to the creation of, or exacerbating, disorderly market trading. You need to have effective business continuity arrangements in place to deal with any system failure and to ensure that your systems are tested and monitored. Trading venues themselves as well as the firms using the algorithms are subject to requirements to ensure that they can spot anything that may lead to disorderly trading. They must provide facilities for their members to test their algorithms. They must be able to identify orders that have been generated by algorithmic trading, to identify the different algorithms that have been used and the persons that are initiating the orders.

Trading venues are required to have IT environments that meet internationally established standards. I expect those standards to be an area of much debate.

Finally, one of the real challenges of algorithmic trading is that all trade events have to be captured and stored with microsecond time stamping to six decimal places. Nine decimal places if you're engaged in HFT and using an algo. There are a lot of systems challenges with that particular obligation.

And with respect to HFT as a separate or related asset class MiFID II talks about High Frequency Algorithmic

Trading or HFAT as a subset of algorithmic trading. You would have had an exemption under MiFID I, but under MiFID II you will lose that exemption so unless you can qualify under another exemption you will become subject to MiFID II and have to become an authorised firm.

There are requirements for high frequency investment firms to store time sequenced records for at least five years. The records really do have to be quite detailed. And there are a couple of options with respect to defining high frequency trading. With technology evolving so quickly you have to ask just how long those definitions will stand up.

Now we move on to clearing. And it must be understood that clearing isn't simply about EMIR. Firstly, you have post-trade transparency obligations. You have to show the price, the time and the volume of what you've just traded. That will be done via the trading venue and will be subject to carve-outs for market makers, to ensure they're not impacted by price movements resulting from that disclosure.

Then, if you aren't a direct client of a clearing member, you will need to enter into a so-called indirect clearing arrangement, where you will face the direct client of a clearing member who, in turn, will have an arrangement with the clearing member and then go right through to the clearing house.

With indirect clearing, the important thing is to protect the indirect client at the end of the chain from the effects of a direct client default. It does this through a three-pronged approach. Firstly, it makes sure that the positions and the collateral of the indirect client are properly segregated, both at the clearing member and at the clearing house. The second prong is the ability to 'port'. If the direct client becomes insolvent, the indirect client can 'port' or novate all of his assets, including positions and margins, in order to find another route through to clearing.

And the final prong is the notion of a so-called leapfrog payment. This is the idea of trying to ensure that if the direct client is holding any assets, or positions, or entitled to receive them from a CCP, it does so on a bankruptcy remote basis. So, when the clearing house returns the

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Mitja Siraj, Head of Legal, msiraj@fia-europe.org
or +44(0)20 7090 1342

excess collateral, having closed out the position, to the clearing member, the clearing member then pays that directly to the indirect client. It leapfrogs the direct client, avoiding his insolvency. There are all sorts of insolvency law challenges, potentially, with that.

Finally, we have non-discriminatory access. This is the idea that an exchange or a clearing house is able to connect to a trading or clearing venue outside of its corporate silo. There are grounds on which the member state's NCA can refuse access and there are narrower grounds on which the CCP or trading venue may be able to decline access, but the European Commission have been pretty clear. Although it uses the term "non-discriminatory access", what it really means is "open access". They really want to break down the silos that exist within these corporate groups of trading venues and clearing houses and open them up to competition and access from outside.

So, how does all that work in practice? What are the operational challenges? What are the IT issues? Let's ask the panel. Christian, are there overarching themes that you see from MiFID II, in terms of technology or operational challenges?

Christian Voigt Talking to our customers, they see the need to better understand their own trading platform and look for the ability to monitor exactly what is going on at every level. With MiFID II, we see that the regulator is going into much more detail regarding the technical requirements of operating any trading platform, particularly those accommodating algorithmic trading. Some of our customers quickly jump to the conclusion that they cannot be classed as algorithmic traders. However, if you look at the definition as it stands, it is not that clear. Essentially MiFID II covers the vast majority of everything that is going on in the market.

SPJ Nick, are there similar issues for you?

Nick Solinger I think regulators have presumed in some cases that technology adoption is perhaps more pervasive and flexible than it is. We saw this with the EMIR reporting rollout. There were assumptions that technology is flexible enough to adapt very quickly and that the market will be able to implement anything that regulators might dictate. We've learned through a few iterations, both in the US and Europe, that technology is a big hurdle to the implementation of the new rules.

"We've learned that technology is a big hurdle to the implementation of the new rules."

Nick Solinger, Traiana

SPJ Paul, perhaps it's not as simple as, "Here are the requirements, go and implement them"?

Paul Marks From an electronic execution perspective, we'll see two key things emerging. One is increased standardisation. Given the prescriptive due diligence, the onerous surveillance obligations and time-stamping that will be required, the industry will need to come together to agree how to interpret these requirements. We are not going to get to a point quickly enough, without granular, detailed guidance to implement these measures. There's safety in numbers. We need to get together and say, "Here's what we are going to do." We've seen a good example of that recently with the SFC guidelines in Hong Kong, where the regulator has gone to quite prescriptive levels, in terms of the due diligence requirement that clients have to do on their sell side providers.

The other thing that will emerge is structural change in terms of how electronic execution is provided to clients. Potentially, we'll see people saying that they are going to give up their memberships because the cost of compliance, in terms of being a DEA provider, is too great. If you can't get economies of scale, then you are better off getting someone to provide those services on a white label basis to your clients.

We're going to see liquidity moving, potentially around DEA provision and the regulatory status of DEA users. If you have to become regulated onshore in Europe to trade European liquidity, then you're effectively going to bifurcate the liquidity pool of, for example, Bund contracts, to offshore participants and onshore participants. So, perhaps you'll see lookalike offshore contracts that offshore participants will seek to trade outside of the boundaries of MiFID.

SPJ Leading to, dare I say it, more regulatory arbitrage? Mark, what is your perspective?

Mark Green From a post-trade angle the most interesting things are around the transparency and position reporting limits. We've just spent two years looking at trade reporting and we've seen how that's evolved. The regulations that came out can be interpreted in many ways. The key thing for me is to be able, as early as possible, to work with the industry to understand what these regulations really mean and what that means from the technology perspective. Much of the information will be sourced from various places. The regulations look quite straightforward, but when you actually start looking into the detail, it suddenly becomes much more complicated.

SPJ And it's easy to forget about ongoing product innovation and changes to market infrastructure. For example, you've just gone through the migration to LME Clear. There is that kind of thing going on, in addition to regulatory change.

MG Yes. You also have the regulations around transparency and reporting. And there are different requirements from CCP to CCP and from regulator to regulator. There are many factors to it.

SPJ Christophe, what are your thoughts as a clearing member?

Christophe Adam Clearly, it's been very hectic. We've been dealing with it for a long time now and it will continue in the future.

Whenever the regulators try to create competition in the marketplace, from an operations standpoint, we will have to continue to support it. It is definitely draining, as all the budget we have is dedicated to regulatory change or market reshuffles such as LME Clear.

Going back to trade execution, the cost of entry, whether you are a direct member or a client, is getting higher and higher. Originally that cost was being

"The regulations look quite straightforward, but when you start looking in detail, it suddenly becomes much more complicated."

Mark Green, SunGard

mentioned with respect to OTC clearing, but now you see the same question coming up with respect to the more traditional ETD platform. You are going to need the size and the scale and the willingness to be present in those markets. The revenues simply cannot justify a small operation.

SPJ And OTC and ETD are getting ever closer together, especially from an execution perspective. One of the biggest changes over the next five years will be the migration of swaps execution onto trading venues. The US has already gone through it with its SEF mandate. We have all of that ahead of us. What will be the main operational challenges as we move from bilateral OTC into an exchange traded universe?

CA I have read about how liquidity is already fragmented in US markets and how you can see regulatory arbitrage developing and how that is constraining products on those markets. And unfortunately, I'm not sure if we will be very quick to learn in different jurisdictions. I would expect there to be the same effect in Europe. There is likely to be fragmented liquidity and similar constraints for operators to deal with depending on if you are regulated in Europe or not. What will apply to you if you

are simply trading in Europe or if you are actually based in Europe? All of this will definitely have an impact on liquidity. Then, of course, volumes are very different in ETD and OTC contracts. All of these factors will hopefully be looked at carefully. At the end of the day we should be looking for better liquidity for our end clients. But we are hearing that some of them just don't want to trade any more, because it has become too complex.

MG Coming back to SEFs, we have had the advantage of watching them evolve. There are more than 20 of them and the question is, can that number be sustained? Is it commercially viable to access that many trading venues? The number is expected to shrink so it will be very interesting to see if the same thing happens over here.

PM For me, it comes back to total cost of ownership and to efficiency. It's all well and good having sophisticated market models but if nobody can make any money, having put the infrastructure in place to support clients on all of those venues, then it's just not going to work. Those market participants that can support both listed and OTC derivatives in terms of clearing, collateral management etc will have a big advantage because they can bring those products together using existing systems and tools that have already been developed for supporting similar market infrastructure in the US. They might benefit from such synergies and by trying to keep everything as simple as possible. The transactional volumes just aren't there on the OTC side when compared against listed derivatives. We've already seen people pulling out of OTC clearing and we haven't really even started the investment cycle to support the European trading infrastructures.

SPJ Is there anything we can learn from the US, from SEFs, Christian? Is it as simple as looking across the pond and copying what they did?

CV No, I don't think it is. If you look at the legal definition of SEFs and OTFs in Europe, there are clear differences. We also have significant differences in market structure and market practice between Europe and the US. I see the need for a global solution, but any solution acceptable to the market also needs to have a local flavour. This can only be addressed by implementing smart workflows which acknowledge those local differences in order to operate a sustainable business, leveraged across multiple jurisdictions.

SPJ Nick, would you agree with that?

NS Yes. There are a lot of differences that need to be considered. To take a simple example – the definition of "product" was even challenging in the US. The industry, has not yet been able to come up with a uniform product definition for interest rate swaps, the largest OTC market by notional value. It's slightly easier in non-deliverable forwards and credit default swaps but with IRS, part of the reason that there has been an issue with what's mandated and what's not and how you trade it, comes from the fact that by changing just one parameter, it becomes a very different product with very different liquidity attributes. So, there is a unique challenge with IRS and how any trading mandate would apply.

Operationally, however, I think a lot of lessons have been learned that can be leveraged globally. However, to do that, we need harmonisation of the rule frameworks across at least the US and Europe, and hopefully some similarity in Asia. Otherwise the negative impact on liquidity and cost structures for global market participants could be very damaging. In the US, we've been facing issues with offshore liquidity providers, who are a big part of the liquidity in the US and in Europe. You can see the negative impact that the operational and regulatory fragmentation can have on liquidity.

SPJ A concern people on the trading side will have is that a lot of the people trading those interest rate swaps have been doing so for the last 20 years or so, except now they are moving from a bilateral world to an 'on venue' execution world. It's easy to believe that there are no risks at all with exchange execution but, in practice, there's a need for education on what is involved in the clearing process. Are there things that people can do to help understand or mitigate the execution risks that they're subject to?

PM It depends how fast Europe wants to move. One of the things that really hindered the US market structure was the last minute addition of pre-trade certainty of clearing, where effectively, the FCM would have to guarantee certainty of execution, at the point of trade, with SEF venues that hadn't previously existed. Obviously, everyone was very cautious and that hindered competition and activity. If we could have some sort of phased approach and various market models, such as RFQ, then we could see a smoother progression. RFQ is

not dissimilar to what traders are doing today, anyway. It's just done in an electronic form, which to a degree helps reduce risk because there's less risk of dual keying. It gets booked quicker and can pass through to clearing quicker. It really comes down to the detail of the market models that have to be implemented, or if they leave it open for OTFs to decide and maybe let them compete on differing market models, that could be very interesting.

NS Our experience with how the CFTC put together trade reporting and SEF rules indicated that they sought to encourage a rapid transformation to an anonymous, electronic market trading paradigm, which especially the IRS market certainly wasn't that interested in adopting as rapidly as they expected. The highly negotiated voice trading world wasn't going to become an anonymous, central order book traded market overnight, even though that is effectively what was encouraged by the regulations. The market took a while to get comfortable with SEF trading, and only lately have electronic volumes begun to ramp up in IRS in the client trading segments. Unless EU regulators take that into account, you may end up with what we saw in the US – people taking their business offshore, using non-mandated financial products, or otherwise avoiding trading. That's what can happen if they try to do it all in a day.

SPJ Let's move on to Direct Electronic Access. Paul, what are your thoughts?

PM The biggest issue will be assessing the liability of a DEA provider. That will affect the pricing and what appetite you will have for the services you currently support for clients. What services will continue to be offered and what role will there be for third parties? There are a lot of third party providers today and if as a DEA provider you are effectively being asked to underwrite the risk of something that you don't control, that's something that you have to price properly. On the flipside, there will be new opportunities for DEA providers to help solve the challenges of the total cost of ownership by perhaps giving clients tools to self-service, as some new obligations will be put onto DEA users themselves. As a DEA provider, if I can help make my clients life easy, and say fulfil 50 per cent of their obligations around electronic trading, then I think that's an attractive proposition.

SPJ Earlier we covered the requirement on firms to carry out an analysis of all algorithms to be used by the

"The biggest issue will be assessing the liability of a DEA provider. That will affect the pricing..."

Paul Marks, Citi

client. That must throw up all sorts of confidentiality concerns. I can't imagine clients will be falling over themselves to reveal proprietary algorithms to those that are providing access.

PM That really is a huge issue. It's going to be very difficult to get around because there is a clear conflict of interest. As an agency broker, we offer our own broker algorithms to clients. It puts you in a very conflicted position if you have to decompile source code to understand what a client's algorithm is doing. What we may see is a proliferation of broker provided algorithms and brokers having to do more for their clients in terms of helping them achieve what they want. Or, maybe liquidity of that nature will move elsewhere because there are a lot of clients that are running algorithms and if you have a proprietary model, you may not necessarily be so interested in trading a product in Europe if you can trade one in the US, without the obligations.

SPJ If you are providing DEA to a client and you have a quasi-regulator role, in terms of being required to detect and monitor suspected market abuse, the idea that you will report your client to the regulator voluntarily has some interesting ethical challenges. But, the requirements

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are there and if you spot it, you have to report it. That will be part of the education process for your clients. You have to tell them that you're providing the service, but this may include anything up to and including reporting them to the regulator. Will that be a hard sell in practice, or do you think people understand that regulations are changing, and it's just par for the course, now?

PM Even today we have an obligation, if we suspect suspicious activity, to report it to a regulator. It really comes down to working with your clients. Another obligation is to provide clients with appropriate training and education. You should already be telling your clients what sort of behaviour constitutes market abuse. The definition of market abuse has changed somewhat, so that intent is not necessarily required. That's a bit worrying if there are 'accidents' which are then deemed to constitute market abuse. We have already seen that in the US with the CME's new rules. The definition of market abuse is starting to blur. It's becoming more of a catchall to cover when an algorithm runs away or a price is entered which moves the market. The last one is more worrying because I can't necessarily prevent that from happening. Running a market impact calculation pre-trade, for example, on a dynamic basis has implications for the client, in that, when they send an order, they do not have any certainty as to what my discretion will be. Will I accept it and send it in, or reject it because I have decided that it would have had too great a market impact?

Hopefully, ESMA will take notice of the very detailed responses that the FIA worked on, in terms of the micro structural issues. And taking into account the human aspect is something that's very important. When we talk about operational issues, we are really talking about technology issues and the people in that area are going to be absolutely critical. We'll need to see some changes in mindset in terms of how the compliance, legal, back office and front office functions work more collaboratively in servicing clients because this sort of change simply will not happen with a siloed approach. You'll see people change how they approach their service models, as well.

SPJ Do you think that providing DEA has become less attractive under the new regulations? Or is it simply more difficult?

CV Even the FCA has warned that DEA provision could be more expensive because it will be more onerous.

"The next step is to better understand the algorithms, particularly those of the DEA users."

Christian Voigt, Fidessa

However, with the right set of tools, there's a lot that DEA providers can do about it. Thinking back to the ESMA guidelines and the FIA's guidelines on those guidelines, the industry has already defined systems and controls to mitigate risk whether in respect to a runaway algorithm or to a DEA user breaching pre-trade risk limits.

The next step is to better understand the algorithms, particularly those of the DEA users. This challenge must be tackled by the industry collectively, because it's not about the compiled source code which a customer has implemented; it's about understanding the dynamics of order flows. This is where, for example, an algo id can be very useful. As a DMA provider, you might not understand your client's algorithms, but it might be sufficient to monitor each specific algo id and its unique dynamic, such as maximum long position or average execution size.

However, we also need to raise a warning flag as to the way the algo id is implemented. There is a possibility of inconsistency when implementing it across Europe because of different requirements under MiFID II and MiFIR. We are concerned that customers might not be

able to repurpose what they have implemented for the German HFT Act, even though that is clearly in everyone's interest. It's in the interest of the DEA providers because they only want to operate one model and it's also in the interest of the regulators because they need consistently defined data. At the moment there is a risk that this will not be delivered.

CA I'm not sure it's getting easier to offer DEA services or not. I agree that we're already there in monitoring the activities of our clients. There has been huge progress in the last five years. But the regulators are very quick to forget what you have done if something happens so the total cost of providing this will only get more expensive.

At the same time you need the critical mass and volumes to ensure profitability. The worst case risk is still very high. You need to take all of that into account and ensure that your overall business case is relevant and fit for purpose. Some of the regulatory inconsistencies we have to live with are sometimes very difficult to manage in that context.

SPJ Is it a realistic expectation to have real time monitoring for all products and markets?

PM It really depends on what you have to do within, say, five seconds. If you have to detect something, then that's probably achievable. Realistically, if you're running an electronic execution system and you're not detecting something bad within five seconds, then you're probably going to be in trouble if something goes wrong. Some of the larger and more sophisticated firms have already built the tools to mitigate the risk of runway algorithms or market abuse etc. However, some smaller firms will struggle because the level of investment and complexity of the data model that you have to reconstruct is significant.

This will be a disruptive regulation. People will look at their business models and either focus on specific services or specific client bases but you will see less of the 'I do everything for everyone' for electronic access in the future.

NS The basic conflict in the regulations is that the complexity of the rules does favour larger firms. What started as a reaction to the concentration of risk among large players, turned into a set of rules that really only large players can adequately comply with at a cost-effective level. Using standards and industry services and vendors has been key to cope with that.

With respect to Direct Electronic Access controls, if you look at the trading incidents that have happened, many appeared to the exchanges or clearers to be ordinary trading activity. Even with the incident about a year ago at a Korean exchange, it was someone who was net position flat but P&L negative on an intraday basis. Looking at these types of incidents, you see that there are certain simple things which, if done in real time, would catch a lot of the cases. While one could scrub algorithms and examine source code all day long, the simple things are very important, such as to mandate exchanges to have risk controls for order types and limits, and ensure that the clearers can manage them on the exchange intraday.

In parallel to that, clearers and clients should be looking at positions and limits, especially monitoring for losses that might be occurring, on an intraday basis, in real time. And lastly, you need kill switches to terminate trading if the limits are breached.

PM In the past, people thought about risk management in terms of having a number to know when their client had a problem. They hadn't thought about what they would do about the problem and how quickly they could deal with it or how exactly they could identify where the trading activity was coming from. Was it being executed by the voice desk or was it a particular sponsored access session? Whose exchange key was it?

If you have the holistic data model for that and the tools to slice and dice to whatever level you need to, you can take action very quickly. Obviously, you can never really prevent a risk, but you can do a lot to mitigate it with technology. Technology is a leveller and there are providers out there that can give you the tools, but it comes down to how you wire all these tools together and your data model.

SPJ The testing requirements do seem quite prescriptive and testing twice a year seems to favour the larger firms. What do you think?

CV You could argue that adding the testing requirements under MiFID II does not create any particularly new or onerous tasks because a lot of firms do it already. Long before MiFID II, our customers expected us to follow a rigorous testing regime. What is important here is that our customers can independently verify that

"We need to have more discourse with the regulators to make sure that we can be pragmatic."

Christophe Adam, Société Générale Newedge

we adhere to it. For example, Fidessa relies on a number of international standards, like ISO9001 and SSAE16/ ISAE3402. This is helpful because it means that one audit team can verify once a year that Fidessa is meeting the requirements. It is not clear whether this process can continue to operate under MiFID II or whether all customers have to verify themselves that their vendors meet the requirements. That would obviously be an operational nightmare.

SPJ Looking at some of the other requirements about logging the decisions and every modification of the algorithm, is that something that is achievable or is the vast amount of data simply too much?

CV Essentially, a computer can only make four decisions in a trading environment. It can decide to enter a new order which hasn't been in the market before. It can decide to amend an existing order. It can decide to cancel an existing order, or it can decide to do nothing. Probably 99 per cent of all decisions that the algorithm makes is actually to do nothing because an algorithm makes decisions a couple of thousand times per second and most of the time it decides to just wait until a new update comes along.

The current wording, under MiFID, suggests that you have to store the market data every time the algorithm makes a decision. It makes sense to store market data that leads to entering an order because you may wish to look at why an algorithm behaved in a certain way. I understand why the regulator wants to see the market data that led your algorithm to enter an order, but it makes no sense to also collect the data that led to it making no decision because as far as I know an algorithm can't manipulate the market by doing nothing. And by doing nothing, I mean not sending a single message to the exchange. I hope that this is just imprecise wording and it will be resolved in the next version of the draft, but like that it could be very complex.

PM And let's also not forget that we have to time stamp every single one of those events. If you're defined as an HFT firm, which comes about if you have either one ID, or one piece of your legal entity defined under the definition of HFT, then all of your activity under that legal entity, on all venues in Europe, is defined as HFT.

With that you have to tag all your systems to nine decimal places of a second and have to synchronise that with an atomic clock or GPS time source that's standardised. You have to synchronise with that every day and also decide at what point you are stamping the event. When you get down to nine decimal places of a second when exactly are you making that decision? Is it when it comes out of the CPU or when it goes in to the memory? That would be the level of detail required. We need guidelines for when to define events as having occurred. Some of the accuracy being talked about is almost meaningless if you have a degree of variability. And, of course, software if it's busy can do things slower than it should and therefore your time stamping might not even be accurate.

SPJ And your records are out of the window if you lose access to that atomic clock.

PM You also need to know the precise latency in getting that time synchronisation because if you are measuring to nine decimal places of a second you have to make sure it's accurate. To do that you adjust the time, by the time it takes you get the time.

SPJ And you will all need to be doing that exactly right to ensure you've got a unified picture across the whole market. Of all the things to get a regulatory fine for, that strikes me as the most unfair one, if it ever happens.

CV It's extremely hard to achieve all those requirements. And it is virtually impossible for the regulator to verify if you have breached them because they will have to show that you're incorrect to the ninth decimal place.

SPJ They'll need to be monitoring all of our connections to these atomic clocks.

CA So you get back to the question of what value are we and the regulators getting from this new transparency? There is willingness to increase transparency in the markets to be fair to the end client, but how can we assess its value? We need to see a little more reasonableness from the regulators with respect to what they are able to do with it and how it is implemented. It is simply not harmonised between zones or countries. There is a massive cost to implement it and, after all, is it really going to prevent the next big crisis? Will the regulators really be delving into this vast quantity of data and will they be able to make any sense of it? We need to have more discourse with the regulators to make sure that we can be pragmatic and that the right pieces of information are shared or stored. Otherwise we are losing sight of the big picture.

SPJ If what we are doing between 2010 and 2020 is putting a new market paradigm in place, then MiFID III, let's say between 2020 and 2030, might be about unpicking a lot of what's been done. And it might turn out that the billions spent during this decade were wasted billions that might have been better lent to small and medium-size enterprises, rather than worrying about nine decimal places on clocks.

NS Many bank and non-bank high-frequency

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electronic market makers are doing some of these things already and may be able to comply. However, there's a big difference between the systems they build and what most other buy side firms are using.

For example, many clients are now using the commercial VWAP, TWAP types of algorithmic tools to just get orders efficiently onto electronic markets. So, if rules like this are required, you would like to see some distinction between certain participants who need to do more enhanced record keeping and others like asset managers using a commercial algo tool provided by a third party, which should definitely have risk controls in place, but perhaps it's overkill to force those types of users to track to nine decimal places for algo order placement.

CV A lot of the rules would make more sense if they had a small but important phrase at the end, "adequate and proportionate to the business." Hopefully there is still a chance to introduce it when ESMA conducts its cost/benefit analysis of MiFID II. That is the last possibility of circumventing some of the significant changes coming our way.

SPJ With respect to HFT, algorithms and DEA, is the kill switch the answer to the world's problems and what are the operational and technology issues in having it?

PM A kill switch is like a gun. It's dangerous because if you hit it and a client is trying to hedge and they suddenly can't fund their position, then you've actually increased the risk rather than reduced it. There is a very important function here for a human being to look at the facts, to decide what action to take to mitigate risk rather than trying to automate kill switches, to take actions to pull orders or stop anything from continuing to trade. Kill switches have only been used a handful of times because they are an absolute last resort. They are a useful tool, but they are not a silver bullet and they won't stop the next financial crisis.

CA There are so many ways to execute trades now that you need to have a global view of your clients, including information on their collateral and positions. If you have all that you can make a reasonably sound decision to use the kill switch, but the use of it needs to be very carefully organised. You might have a simple request from a client whose algorithm has gone wrong and who wants to kill remaining orders. It's very useful to be able to do that in a matter of seconds. It is important to

"Pre-trade transparency should be one of the easier areas to build out. Shouldn't it be relatively easy for the trading venues to do that?"

Simon Puleston Jones, FIA Europe

manage and service your customers in a way to give them confidence and help them to comply with the rules.

NS One of the key ingredients is to have the ability, in real time, to monitor the trading activity of clients, to understand what they're doing and have that aligned with their strategy. With some of the rules, there is an onus on the exchanges to provide risk management capability to catch certain issues. There is an onus on providers of credit to be monitoring activity via direct market access in real time and to have a kill switch as a last resort. But, if you do the first part right – monitoring risk centrally across all the clients' activity – you shouldn't need to use a kill switch, except in a really extreme event.

PM Transparency and command and control are the key points for me from an operational perspective. If you can empower your clients by giving them transparency, in real time, of how much of their limit they have consumed and give them tools to manage their risk and their own kill switches, then you will likely have to step in a lot less

often. It's really about extending the toolkit and starting to put those capabilities onto the client's desktop.

SPJ It seems to me that pre-trade transparency should be one of the easier areas to build out. Shouldn't it be relatively easy for the trading venues to do that, largely because they've done it all before for equities?

CV It won't be easy for exchanges to do that; even for equities under MiFID I it is complex enough. MiFID II ignores the fact that non-equities are so vastly different – you have bonds, traditional futures and OTC derivatives. Trying to come up with any meaningful transparency regime is difficult, particularly with respect to the level of detail within the level one text, which leaves ESMA very little room to manoeuvre. That will create a lot of problems because ESMA will not have the flexibility to adjust to the markets' needs.

SPJ Do you envisage challenges with respect to the different waivers that apply to both pre- and post-trade transparency and getting your system straight? Will they be clear as to when you're in scope of the waiver and when you're not?

CV We rely a lot on the exchanges and how they define their instruments. As an IT provider, we try to make our processes straightforward where we don't have to make pre- and post-trade transparency decisions ourselves. Any logic is coded into the software and depends on data provided by the trading firm or the broker. It's easier for us because, in that instance, we rely on other people making the decisions while we process the data. However, trading firms and exchanges will have to answer some difficult questions.

NS The fact that certain products in the same category fall into or out of certain rules has made it challenging for trading venues. It has been a problem for SEFs to model all the rules to make sure they do or don't report certain trades. The complexity of establishing what is a block and what is permitted has been challenging. There are still problems there.

SPJ Is that an avenue for litigation or regulatory fines, if things are being disclosed that shouldn't have been disclosed?

NS I don't know if they've talked about sanctions. The discussion has been more about people being unclear as to what trades are treated as blocks, especially the off SEF trades that are reported via a SEF. There was a lot of confusion over how they were treated if they were done on or off a SEF. There have been requests for clarification from the CFTC on how to follow the rules, rather than for clarity on what action they would take in the future.

SPJ I guess that would depend on how much the market moved as a result of the price disclosure that shouldn't have been made. Who lost the money and how much, do they want it back etc?

Christophe, Newedge is the only firm I can think of who have said publicly that they have an indirect clearing model of sorts. Indirect clearing conceptually is something that the exchange traded futures market has had for decades. We all have networks of carry brokers around the globe and we all have clients who have clients. In theory, it's nothing new but there are some specifics of the way that this regulation works around segregation, portability and the leapfrog payment, which may mean that things which have been offered for decades will not be fit for purpose going forward.

CA We need to explain that we have constructed something which can replicate indirect clearing to the regulators, to our clients, to other market participants and to potential clients who we might offer that service.

Looking at how MiFID II covers indirect clearing for the ETD world, it clearly raises a lot of concerns. And through the FIA and other bodies we are trying to influence ESMA to reconsider. The market has to come back with a better proposal because what they're asking us to do as it stands just doesn't seem fit for purpose. We are here to be creative, to help our clients to access the market and get the benefit of the additional portability, segregation and the reinforced rules. But we have to do it in a way which is commercially viable. I think we've found an exciting way and we are going to our clients to explain how we can provide some measure of indirect clearing. It is definitely attracting some interest.

But if you project yourself into the ETD world it's a very complex proposition. The habits are not the same, so the educational model will be very different. The CCP reacts differently to the default of a direct client to that of a GCM, for example. If you look at the MF Global default, you might have closed out all the positions T plus one, without really asking any questions. But with other defaults, going back to Refco, for example, the positions were carried for many days. You could work with your

client, of that indirect member, to carry the positions, and transfer them to another clearing member.

The market has evolved and the view from the CCPs has evolved, as has how they get supervised by regulators. There clearly has been progress, but portability is definitely something which is questionable. It hasn't been tested so we need to see how the world will evolve.

The big difference between Europe and the US is that you have one single model in the US which is only for OTC cleared but you have many different systems in Europe. For the ISP provider, working with us, it's immensely complex and tedious, to be in a position to offer the service, and even to explain it to clients so that they understand and can assess the benefit they might get out of it. It's a complex world.

SPJ I'm spending a lot of time talking about indirect clearing, under EMIR and MiFIR, to regulators at NCAs and ESMA, about their proposals and the industry's proposals. It falls into two camps really. The legal challenges – how can you legally make something that will stand up particularly in the insolvency of the direct client and address some of the KYC concerns? And then, economically, can you find a model that will be economically viable for the Société Générale Newedges of this world? Can we really deal with the concerns that regulators have, particularly with respect to swaps, about providing access to clearing. There is that disconnect between the constraints you're under with the leverage ratio, on the one hand, your ability to raise a finite amount of balance sheet that you can lend out to your clients to do business and then, on the other hand, the desire of the European Commission and the CFTC to see the provision of clearing as the answer to much of the world's problems from the 2008 crisis.

CA We are probably seeing a resetting of the market. On the face of it costs are very high when compared to those you pay for the current ETD markets. So, if the more prescriptive requirements were to be imposed across the trade lifecycle, costs can only go up. Is that what we really want for the end client? Are we getting to a point where only the bigger players can offer services? And although it's done with good intent you do start to question the validity of the regulators' reasoning.

SPJ There are different reasons for access under EMIR versus MiFIR. With EMIR, it's all about meeting your

“We have seen record volumes and IT systems are being tested… the market is much more mature in dealing with these concerns.”

Christophe Adam, Société Générale Newedge

clearing obligation, for swaps. Under MiFIR, it's about maintaining that universe of the single point of access to global markets and using the carrier broker relationships that you have while maintaining a relationship with you as the primary contact and access point.

So how do regulators strike a balance between maintaining the access that you provide around the world at the same time as incrementally improving the protection participants receive in the event of a default of a direct client? I know regulators are working very hard to do that. Our conversations with them give us some comfort that people are moving in the right direction and perhaps taking a more pragmatic view about what is achievable on segregation, portability, leapfrog payments etc and what's really worth fighting for with the legislators.

CA Clearly, we need to arrive at a more pragmatic environment. People are pulling back from the OTC

cleared market due to the delay in the client mandate and you will probably see even more retrenching and not offering indirect clearing if things do not evolve in a way which is economically viable for the marketplace. So we have to work together to influence the outcome in the best possible manner.

In the ETD world, credit risk is spread between the CCP, members and various types of brokers. If people don't want to spread that credit risk over many players and many layers, but they do want the perfect fit for end clients so they're not exposed to any of the risk, then you are basically saying that credit mitigation is just not worth what it used to be.

There is clearly a very high cost to move from a credit mitigation model, which worked effectively for 30 years, to a model which would be perfect but that's just not realistic. One way would be to have complete transparency along the whole chain but there would be commercial issues with that because it would mean that you know all the clients of your clients. And you might end up not being able to tap into the client pools as direct clients for yourselves. So that's not ideal either. And you may not have liked, even though you had their collateral, the credit profile of those clients anyway. So, even if you are obliged to provide portability, clearing and segregation for those clients, you have your own internal credit rules and even though your direct client is gone, you're now exposed to these indirect clients who might not even fit your internal guidelines.

SPJ Which is why they're indirect clients in the first place?

CA Yes, exactly.

SPJ Let's talk about non-discriminatory access. Let's suppose you are long ten contracts on one exchange and you're short three of the same contract on another, so your net position is seven. When you monitor open interest at the exchanges, who's is that net seven? And if you multiply that by the tens of thousands of trades that you're doing, you need some sort of process to deal with the netting, if you've got economically equivalent trades being netted. It maybe that we need to make sure we aren't netting but, where possible, keep the trading venues separate within the CCPs. But that will have regulatory capital consequences and if netting is part of managing your balance sheet and dealing with regulatory capital, access may be creating as many challenges as it solves. What are your thoughts on access?

Member of the audience Given the historical and current ETD industry practice of 'carte blanche' giving trade acceptance, is there not a wide open barn door in terms of risk that the regulators are ignoring? This practice makes a mockery of how regulators are supervising all aspects of trading, such as give in/out activity?

CA You can feel exposed through this automatic 'carte blanche' concept but there is software to help you to deal with that risk. The market has evolved and things are working better. It's a people business, as well, so we have to trust each other a little bit. For some risk profiles you want to be much more intrusive in monitoring the risk in a very detailed manner, but for others you might not need to do all of that. It depends on your client base. Investment may be required but it is feasible to implement those controls for certain types of client who might not have the necessary financial robustness. The 1.73 rule in the US has been a wake-up call and it's changing the way people are allocated their trades in ETD. We should remember that we have seen record volumes recently and IT systems are being tested. Overall, I think the market is much more mature in dealing with these concerns.

NS Until clients allocate as fast as they trade, by definition, there will be a gap in being able to fully risk check everything before it is accepted. You could not prescribe 1.73 and 1.74 in the same way, in futures today, because of this allocation challenge in the futures markets as it currently operates. However, it is changing as more clients are focused on ensuring everything is done on T-0, on their way to real time.

PM People have become more savvy about how they manage risk by leveraging technology. I can see our clients' electronic trading activity in real time. It shows me the give-ins and I can slice and dice the activity. If they're trading electronically with completely flat positions with you as their clearer by giving in and offsetting positions from another broker, then it's clearly not a problem. You need to be able to see the big picture in near real time, not just a small piece of the puzzle. As long as you have that transparency, then you can do something about it. You can stop taking any more trades in if you're not happy about it.

"It's not too late but you should really be taking practical implementation measures now."

Paul Marks, Citi

Member of the audience Currently we have the level one text and the consultation and discussion paper. What would you advise the sell side and buy side participants to do to tackle the challenges? Should they start looking into MiFID now or should they wait for the level two text?

SPJ The sooner that you get involved in the process, the better. Right now, you're at the policy stage. The consultation from December to February will be pretty much your last chance to respond in writing and have your views heard on what will govern markets, market infrastructure, how they operate in practice etc for many years to come.

While it may be tempting, because you're drowning in EMIR implementation, to say that there are already enough people looking at MiFID II, at the end of the day it will to come down to how your own firm will implement this.

And you should make sure that you're meeting all the requirements, whether you're a provider or a user of services. The 3 January 2017 will be here pretty soon.

One important thing we're doing at FIA Europe is to update our standard documentation to make sure that it is both EMIR compliant and MiFID II compliant, so that there is a true industry standard document, which works for futures, cleared swaps and commodities etc.

Over the next five years, standardising what we do can really drive down the costs of regulatory implementation. We need to think about where there are opportunities to standardise and to do things collectively. And given that regulatory change is increasing complexity, there must be ways that we can help manage that by doing things in a uniform way in certain areas.

I do encourage you to think about what your firm is doing. What is your firm's policy position and do you feel your voice is being heard? Even one person looking at MiFID II is a massive improvement on zero people looking at MiFID II. I would encourage you to free up resource because if there's one lesson that we've learnt over recent years, it is, if you wait until things are set in stone, it's too late and you're stuck with it.

PM A lot of people have been working on MiFID II since November 2011. And if you have been able to follow the texts as they have evolved you would have a good idea of where this is going to end in terms of the worst and best case scenarios. This does help you plan to a certain extent. We've been building a new execution platform and a new risk system for the last three years, so we should be where we need to be, come January 2017. Doing this rewiring, changing the data model and testing it all takes a long time. You won't be able to make that sort of scale of change if you wait until the last minute for final guidance.

SPJ And there's a big difference between the larger firms and the smaller ones. While there will be many service providers willing to help you with your systems, ultimately you know your business best.

PM Service providers are geared up to take advantage of this and there are a lot of legal experts who have been following every single nuance. It's not too late but you should really be taking practical implementation measures now.

MG One thing that worked well with EMIR was the industry coming together. It was tough to start with but a lot of progress was made by getting people around a table to talk through the challenges and the different interpretations of what we need to do.

A WORLD OF EVOLVING REGULATION

With post trade centre-stage at the moment, how does SunGard address the changes being put on the markets, given the different pace of change in different regions? InfoNet talks to John Omahen, vice president, post-trade derivatives, SunGard's capital markets

Omahen SunGard provides global clearing systems that support a multitude of products, exchanges and clearing houses around the world. It is the sheer diversity – the breadth and depth of this global market – which makes the post-trade environment so challenging. How a future is processed on one CCP is different from how it is processed on another, even if in theory the two products are financially equivalent.

It's those fine details like what data is available on the trade record when it comes out of the clearing house, how the product is margined, how it is settled, how the clearing house charges fees on the product, and so on, that end up complicating things. The biggest challenge is being able to support that processing diversity in a world of evolving regulation, all within a consistently reliable and stable system. SunGard has delivered this type of consistency and stability across the global clearing industry for over 30 years now.

SunGard's approach is to have centralised global product oversight, with regional product managers who are able to work with regulators and market participants in each region. SunGard has been very successful at cultivating a team of derivatives experts. [Omahen himself joined the firm 18 years ago on scheme that saw him progress through the graduate training programme, through programming code right up to the management level he occupies today]. People are our strength.

What are the big issues emerging for you in this time of change?

Omahen Cross margining capability between different products is one of the most interesting issues emerging.

If you look at CME's cross margin programme, for example, firms holding futures positions and interest rate swaps that are inversely correlated with each other can combine them, potentially reducing their overnight margin requirements on those positions significantly. However, in order to get this cross margin relief, the clearing firm effectively has to perform a clearing transfer of the futures position from the futures guarantee fund to the swaps guarantee fund at the CME.

Doing so has impacts on original trade price of the position, realised versus unrealised trade equity, clearing side reporting and balancing, and regulatory balances. In other words, it impacts most aspects of what the back office does every day. So it is one of those things that you can probably handle manually if you only have a few positions to move, but once you get into higher volumes it really requires a well thought out, automated solution.

> "The biggest challenge is being able to support processing diversity in a world of evolving regulations, all within a consistently reliable and stable system."

"As a vendor, your goal is to achieve economy of scale. However, the firms that make up this community are highly diverse… so you can't build a one-size-fits-all solution."

Demand has been increasing for these services, which is what you would expect since they help minimise the amount of margin firms need to post. As cleared swaps volume picks up in the coming years and the mandatory margin of non-cleared swaps is phased in, programmes that either reduce margin or more efficiently use collateral will only see greater demand from the industry.

Have you had to integrate systems? You have different systems for different parts of the market – do they all 'talk' to each other?

Omahen We have carried out a major investment project to refresh our platforms over the last few years in order to help our customers respond to the changing marketplace – and a big part of that investment is integration.

As a vendor, your goal is to achieve economy of scale: build once and provide to many customers. However, the firms that make up this community are highly diverse and rarely do things the same way, so you can't build a one-size-fits-all solution. When we looked across our platforms, we saw an opportunity to consolidate similar functionality and code and reduce the work of making changes each time that a CCP made a change or a new product was launched.

The answer was to take a modular approach to design and break down large systems into components that can be easily integrated with each other. This allows you to build a component for a particular function, such as SPAN margin, and then any platform or product that needs that margin can just link to that component. It also lets you arrange those components in a unique way for each customer, creating a custom fit solution.

How is SunGard adapting to the changing industry requirements and shifting regulations?

Omahen SunGard recognises the critical importance of the back office to a financial institution and provides innovative solutions to help its customers meet the challenges of change.

As an industry, we have entered a phase where requirements are changing right up to the live date for a new initiative. SunGard is building platforms that will help to make it much easier for our product teams and our customers to quickly respond and adapt to these changes.

How much of this change is proactive and how much is reactive?

Omahen We are in an environment in which the industry is reacting to so much change. You have to look at how you respond to different requirements for individual segregated accounts, LSOC models and so on, which create thousands of different balances for the firms. For example, firms are looking at collateral management as part of the investment bank. Collateral management is a growth area for additional services and one in which we have been proactive. We are responding to what our customers need.

When it comes to risk monitoring, back-office data drives these activities. SunGard has restructured organisationally by aligning middle- and back-office capabilities in one place to reflect the firm's business needs. We are also focusing on greater collaboration within SunGard by sharing resources and subject matter expertise across our capital markets solutions under one leadership team.

How is a firm like SunGard represented in the regulatory dialogue? How do you ensure your voice is heard?

Omahen Since SunGard is not a regulated entity, we conduct our regulatory interface by proxy. We maintain good relationships with these entities and work closely with customers on various industry committees to add our voice. In some cases, we have direct discussions with regulators.

FIA EUROPE NEWS

RESPONSES TO REGULATORY PAPERS AND POSITION PAPERS / RESPONSES TO CONSULTATIONS

January 2015 — **ESMA Consultation** - Future guidelines clarifying the definitions of commodity derivatives as financial instruments under MiFID I – a joint response with ISDA

October 2014 — **FIA Europe** response to FCA Wholesale Sector Competition Review
HMT Fair & Effective Market Review Recommendations on Benchmarks Response
Consultation Paper on Draft Technical Standards on Market Abuse Regulation
Consultation Paper on Draft Technical Advice on Possible Delegated Acts regarding Market Abuse Regulation

NEWS

November 2014 — **FIA Europe** appoints new Head of Commodities – Christiane Leuthier

September 2014 — **FIA Global** CCP Rule Book Review will provide comprehensive guide to clearing house rules
FIA Europe appoints new Director of Regulation – Corinna Schempp

NEW MEMBERS

We are pleased to welcome the following new members:

Borsa Italiana • **D2 Legal Technology LLP** • **Field Fisher Waterhouse LLP** • **Markit Group Ltd** • **Protiviti Limited**

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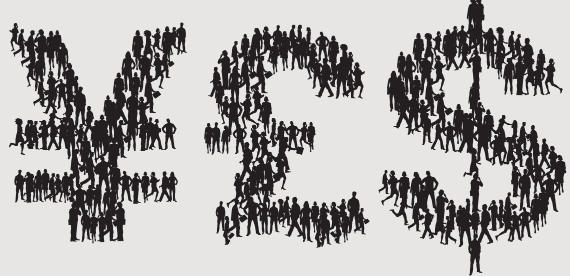

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FIA EUROPE EVENTS CALENDAR

FIA EUROPE'S CLEARING IN A DAY – AN INTRODUCTION TO DERIVATIVES CLEARING

TUESDAY 3 MARCH 2015 ~ GLAZIERS HALL, LONDON EC2R

Following the success of the inaugural conference in September 2014, FIA Europe is pleased to announce the date for its next Clearing in a Day one day conference. Today, everybody needs to understand the role of clearing in the transaction chain.

FIA Europe's Clearing In a Day – an introduction to derivatives clearing – will provide essential insight for anyone involved in this area of the derivatives market, whether in an operations, compliance, legal, regulatory or other capacity, on the sell side as well as the buy side. If you have staff who need to get to grips with clearing, this event will deliver an invaluable overview.

IDX 2015

TUESDAY 9 & WEDNESDAY 10 JUNE ~ THE BREWERY

FIA and FIA Europe are pleased to present the eighth International Derivatives Expo. Last year's event welcomed a record number of delegates and included exhibits showcasing the latest in products, services and technology for the derivatives industry, 25+ sessions with high-profile speakers, information packed workshops and valuable networking opportunities.

IDX GALA DINNER 2015

WEDNESDAY 10 JUNE ~ THE ARTILLERY GARDENS AT THE HAC

FIA and FIA Europe are pleased to confirm the IDX Gala Dinner will once again be held in aid of Futures for Kids. The Dinner also provides a valuable networking opportunity for those attending IDX and the international financial community.

COMPLIANCE & REGULATION FORUMS UPCOMING IN 2015

MONDAY 26 JANUARY – NORTON ROSE FULBRIGHT
THURSDAY 26 MARCH – TBC
TOPICS TO BE CONFIRMED

FUTURES FOR KIDS CALENDAR

15 MAY - FFK DAY & WALK TO WORK, DETAILS TBC
3 JULY – GOLF DAY, BROCKET HALL

UPCOMING INFONET EVENTS

APRIL 2015 – VENUE TBC
JULY 2015 – VENUE TBC
OCTOBER 2015 – VENUE TBC
JANUARY 2016 – VENUES TBC

The core four event programme is nominally divided up as follows:

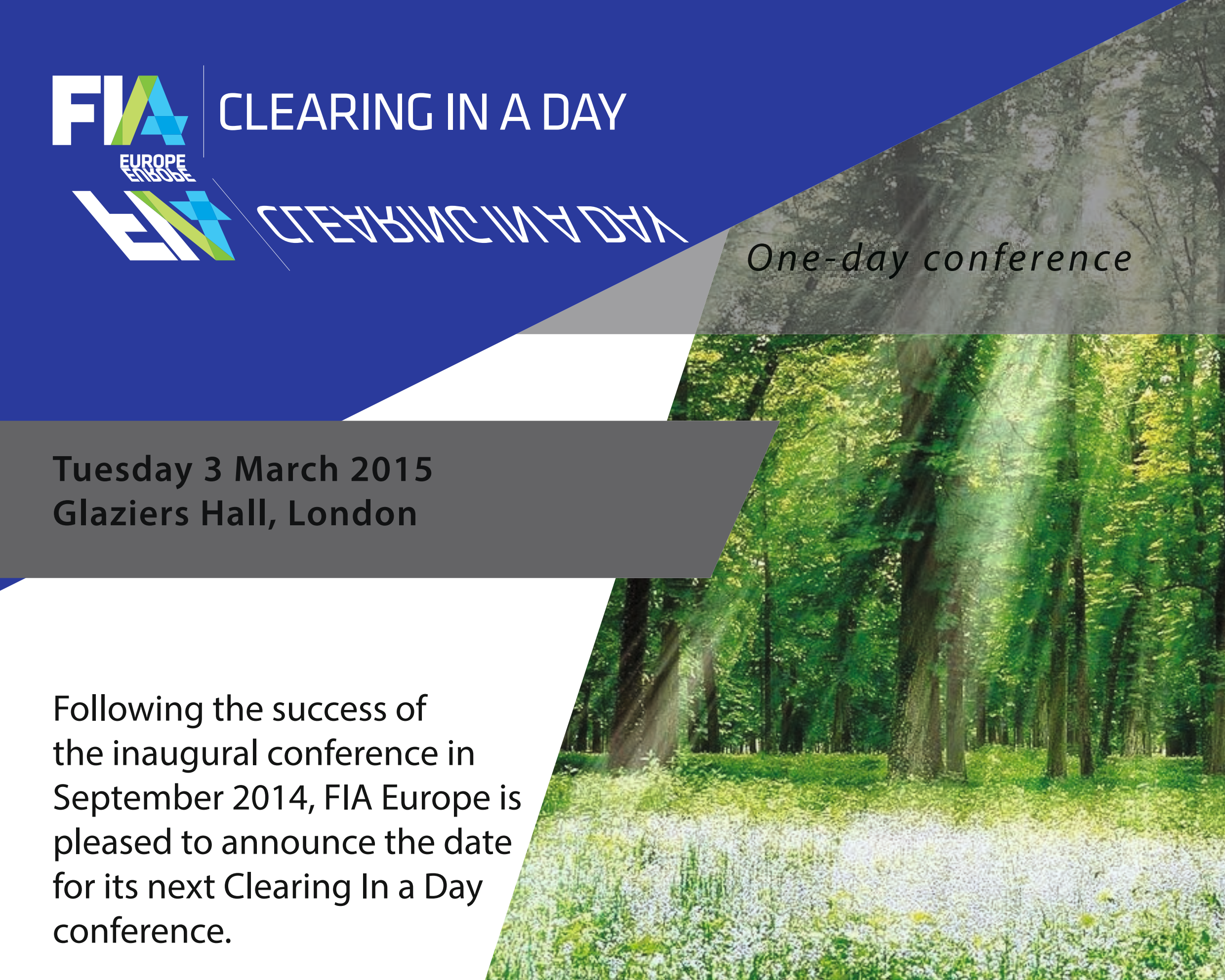
- Trading and technology
- The pre- and post-trade environment
- Innovation – product, process and place
- State of the industry – the outlook for ETD businesses

Senior management from FCMs, exchanges, clearing houses, proprietary trading firms, vendors and end-users discuss their latest issues. Further information available shortly.

Who can attend?

This event is open to executives at FIA Europe member firms and to specially invited guests of FIA Europe and InfoNet Sponsors

For more information on all events, including sponsorship opportunities, please contact Bernadette Connolly on bconnolly@fia-europe.org or +44 20 7090 1334



One-day conference

Tuesday 3 March 2015
Glaziers Hall, London

Following the success of the inaugural conference in September 2014, FIA Europe is pleased to announce the date for its next Clearing In a Day conference.

Clearing In a Day – an introduction to derivatives clearing - will provide essential insight for anyone entering this area, whether in an operations, compliance, legal, regulatory or other capacity, on the sell side or the buy side. Core topics will include:

- An introduction to listed derivatives execution and clearing; OTC clearing; commodities clearing
- EMIR and the new requirements for segregation and portability
- MiFID II/MiFIR and new obligations for clearing
- Capital, client money and other related issues

TO BOOK, VISIT THE EVENTS PAGES AT FIA-EUROPE.ORG

Early bird rates and group discounts available

For event enquiries and sponsorship opportunities, contact FIA Europe at +44 (0)20 7090 1334 or email Bernadette Connolly at bconnolly@fia-europe.org.

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