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The future for the execution business

ISSUE 3 | 2013

Welcome to FOA InfoNet

It is an undisputed fact that markets have changed almost beyond recognition in the past couple of decades – the 20 years in which the Futures and Options Association has been in existence. Back then, electronic markets were in their infancy – Eurex (or Deutsche Terminboerse as it was then) was struggling to compete with the well-established Liffe, ICE didn't even exist, and neither did Nasdaq OMX NLX – the new exchange in London which opened last month, offering interest rate products at both ends of the yield curve.

Volumes were about one twentieth what they are today (just over 1 billion contracts in 1993 to considerably over 20 billion last year). In 2012, these contracts were traded across a range of exchanges globally. Indeed, half of the exchanges in the top ten last year were not trading futures 20 years ago. And nearly half of the top 20 exchanges are Asian in today's league tables.

This growth has come at some cost. Volumes are concentrated among fewer intermediaries and the roles of the key participants in the markets – exchanges, intermediaries, clients – have become blurred. As John Ruskin, Global Head of Financial Futures Execution at Newedge, pointed out in the InfoNet covered in this issue, "The model needs a bit of a reset now." Who is the guardian of the client flow, he asks? As you would expect, Ruskin thinks this should be the FCM.

Clearly, though, there will have to be changes if we are to avoid more casualties along the way. Following on from Ruskin, John Lowrey, Global Head of Electronic Trading & DMA Services at Marex Spectron, drew a parallel between the fallout from the Big Bang of the mid 1980s ("a mass of unintended consequences and the loss of British investment banks)") and the changes taking place today. "What we're looking at now is who will get buried in what is going on today. The disintermediation of the broker from the client is a very big problem for the industry, so the brokers are going to have to reinvent their role."

With volumes likely to grow further as a result of OTC migration to the ETD space, there is a world of opportunity for the firm that recognises the need to provide a service offering value, product depth and innovation.

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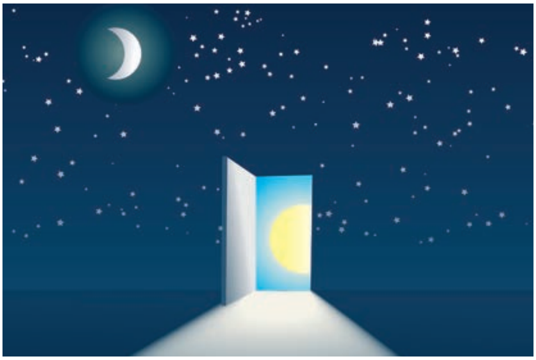

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A report on the 15th FOA InfoNet:
The future for the execution business

From left to right: John Parry, Paul MacGregor, John Ruskin, Charlotte Crosswell, Steve Grob, David Feltes, John Lowrey

Moderator	**John Parry,** Freelance Editor and Writer on derivatives markets
Panellists	**Charlotte Crosswell,** CEO, NASDAQ OMX NLX
	David Feltes, Executive Director & COO, CME Europe
	Steve Grob, Director of Group Strategy, Fidessa
	John Lowrey, Global Head of Electronic Trading & DMA Services, Marex Spectron
	Paul MacGregor, Managing Director - Product Strategy (Europe), FFastFill
	John Ruskin, Global Head of Financial Futures & Options, Equities and Fixed Income Execution, Newedge

John Parry The subject of this panel is the future of the execution business. I've been involved in tracking, monitoring and reporting on this for over 30 years. Today, we are probably at one of the most fundamental crossroads in this business. We've had crossroads before, with the introduction of electronic trading, the introduction of regulation, the breakup of established markets with the proliferation of trading platforms, and latterly we've had the banking crisis and the resultant G20 effort to regulate financial services in more detail. There is a huge amount of fundamental material which this industry is having to deal with at the moment.

Personally, I don't think we will find all the answers this year by any means. This has got some time to go yet. However, what I'd like to do first is to lay some groundwork by asking how the two representatives of the FCM community see the major issues which concern them at the moment.

John Ruskin For the FCM community, the last 30 years have been somewhat of a journey. Let's face it, we won't see the double-digit growth we've enjoyed for so many years in the near future. But now, I think, the tide has gone out. That's left a few things flipping around on the beach, and it's those things that we're here to talk about tonight.

For the execution business, revenues won't be where they have been in the past. As an FCM, you've got to make sure that you invest wisely and we have to recognise that we will have challenges for the next decade. Exchanges have been coming onto the FCM's turf for some years. NCM or non-clearing membership has been around for some time now and has given exchanges more direct access to the FCM's clients.

This model needs a bit of a reset now. The question is who really is the guardian of the client flow? Is it the FCM or the exchange? For me, it's the FCM as we are exchange agnostic and hence serve our clients' best interests. Our customers need to receive value and should benefit from more product depth, and innovation.

NASDAQ OMX NLX, coming in as an MTF and the forthcoming ICE acquisition of Liffe will clearly stimulate competition and the potential for margin offsets. We also see IDBs entering the market and they are up for a very big challenge. What we've gone through since Liffe went from open outcry to electronic will also happen to the IDB industry.

Futures brokers and indeed exchanges are in a very good position to take advantage of that. I think the futurisation of swaps will happen, but centrally cleared swaps will remain as the way to trade today and that will overall gain a lot of volume.

Personally, I think we need more products and within the reset of the exchange model we need to look at how new contracts are built.

We need to recognise a little more the hybrid between the man and the machine. Combining good people and good technology will continue to give us the cutting edge.

That hybrid model is something we really need to be confident of. We need to hold our heads high and be proud of what we've done and what we can do.

Lastly, Asia. The Asian region will grow but we won't necessarily see rapid growth over the next five years, this will be pushed further down the curve. We need to see an interest rate complex in Asia to have the full suite of products and to leverage the potential of the marketplace even more. We have been active in mainland China via our JV with CITIC and have built some momentum and seen some successes.

As an industry we've achieved a lot. We've come through a lot of challenges and going forward we'll come across more, but with the utmost degree of confidence I know we'll see it through.

JP Personally, I never had derivatives traders down for lacking in self-confidence. Can we have a different view from you, John?

John Lowrey John has covered a lot of the issues that we're facing. The issues are very real, and the economics for the industry right now are very poor. But I would like to take a different tack because hopefully we can elucidate where we are and what it means for the future.

Take yourself back to 1985. The Thatcher Government was challenged by issues such as a lack

"We are in a period where the decisions being made to solve one set of problems are posing a whole set of new problems."
John Lowrey, Marex Spectron

of home ownership; most of the large industries were owned by the State; and they were looking at ways to build a culture of equity. They were asking, 'How do we do all of these things?' Her advisers clearly thought the best way to do this was to emulate a business model that was more prevalent in the US than in the UK. That was to change the market structure, obliterate the floor of the exchange, bring the market upstairs, allow jobbers and brokers to sit within one roof and within one risk system and manage all that flow. And we know the net result of that, the market exploded, the volumes exploded, the industry changed for ever.

Another net result of all that is no British merchant bank exists today other than in name. We have been through periods like this before when things are very bleak and when the marketplace has to work out a large structural set of problems. You had a perfect storm of many different issues then and we have a perfect storm of many different issues right now.

Why do I draw the parallel? Because the marketplace is going to have to serve every participant in the marketplace. We live in a very imbalanced world. I completely share John's view that the regulators have decided to allow the exchanges to play a game of pontoon, looking at all their own cards while everybody else has their cards down.

We are in a period where the decisions being made to solve one set of problems are posing a whole set of new problems. And so after 'Big Bang' in 1985, what we saw in 1986 was a mass of unintended consequences. Nobody meant to bury the investment banks or the merchant banks of Britain. And what we're looking at now is who will get buried in what is going on today. The disintermediation of the broker from the client is a very big problem for the industry so the brokers are going to have to reinvent their role.

If they want to be paid a larger piece of the pie they'll have to earn it, and the only way to do that is to have a product, or a value proposition that appeals to their customers. I'm afraid right now we really don't have that. We've been so focused on transacting and moving things from A to B. What we're going to see now is a period of putting things back together. The disaggregation of the investment process and execution will come back, the ability to start selling more directly ideas around how wealth is created, how you get it, what are the best forms to hedge, what are the best forms to find beta, those things are back up for grabs.

Investors need ideas; they are in just as bad a shape. Their economics are very poor, their ability to differentiate themselves from the pack is very poor, and I know when I talk to our end clients they are desperate for us to come to them with ideas about how to do this.

And it may or may not be new exchange products. Products are going to be very important, but it's really about how to construct ideas, how to look at the world and how to talk about these kinds of things.

I agree that brokers are going to have to stand up and say that the job they perform is a valuable service for that end client and if they can't figure out a way to make it a valuable service, then they're going the way of the British merchant banks.

JP Charlotte, are you really the banker in a game of pontoon here?

Charlotte Crosswell If only. I think there is the possibility to go back and recreate the old exchange model. I've had banks say to me, why don't you just go down a mutual route where you give everyone 1% and get everyone behind you? But some incumbent exchanges have fallen into a trap where they've had to cater for their largest clients. Let's say one client has 10% of a contract, that's the one they look after. So the problem is a tendency to focus all of the innovation towards those particular clients.

We were very conscious of that when we started our NLX project. Two years ago we started talking about the opportunity to bring a new market into the industry. We spoke with the banks and with the trading firms. We took that business case out to them and asked if this idea would work, and most of them said no. So we went back and started again, and it allowed us to refine the idea and bring them in as partners rather than clients.

We're trying as hard as we can with the model we're creating with NLX. We don't just cater to the largest clients or change our model because one particular firm has told us to. We ask what is the best way of working, how can we continue to give our firms governance and how can we convince them to give us participation. You've got to have that inclusive attitude.

JP Staying with Charlotte for the moment, do you see your primary responsibility as nurturing the interests of the members and the broker community that directly use your services or do you support their customers?

CC It's a bit of both. Every time we've gone to the end client we've told the brokers that we've been doing that. In fact we've done a lot of joint presentations. It's finding that approach where you go and ask as many people as you can, including the end client, but I don't think many people have managed to create an exchange without the banks behind them. Let's face it, you've got to have that inclusive attitude.

JP Dave, are you sympathetic to the plight of your brokerage community at the moment?

David Feltes I think so. Intermediation is becoming a bigger part in recent times, especially with electronification, where we've seen some of the equity volumes, say 60 or 70% of it, being done by members directly through an NCM model, I guess, 70% in some areas, FX and cash FX going through various different multiple dealer programmes.

Electronification basically resulted in disintermediation. Some of the exchanges using technology also tried to do that. But because of the need for capital efficiency, because of the change in market structure, because of this huge burden of regulation, you see futurisation, or products being made into futures. Whether they go into a central new order book or whether they get put into an OTC platform, a lot of these products need help.

They need intermediation, they need brokers, guys like Spectron who can nurse those orders and find buyers and sellers and put them together. I agree with Charlotte that we have to listen to the end user, but very rarely does an end user come and say 'I want this product with this specification and a delivery date at this point'. What happens is we go to our FCM community and they say we're hearing more and more that our clients want this. And what the exchange can do – and what the regulators like about the exchange model – is by listening to clients, talking to the FCM community and to our research departments, we can basically take what was an OTC process and turn it into a listed future, in two, four, six weeks.

And then all of a sudden you have a list of products that can be cleared, that have the benefit of CCP. That benefits the end user as well as the broker, who maybe will have to teach the end user how to use it.

As futurisation occurs, exchanges will benefit, but we won't benefit unless the new exotic products are intermediated. There's been a lot of tumult caused by electronification, but I see positive signs ahead after the creative destruction. In the end we're going to see an upbeat economy, we're going to see regulation finally settle down, technology still being more efficient.

People should be happy because we have product. You've got new product from NLX, you've got new product coming from CME Europe where we have quarterly CME FX futures, now we're going to have monthly FX futures. These will hopefully be a replacement for FX forwards where traders will be able to make more money, or make more efficient money, where they're paying 50 cents a side instead of $50 a side through an IDB. There are economies coming, there are more products coming and there's more competition, which should be good for business and good for the marketplace.

JP Moving away from the direct relationship between an exchange and an FCM, can I now come to the technology providers? Paul, Ffastfill is one step removed, despite being integral to it all. You are likely to have a more dispassionate view of how the exchange-FCM relationship will develop. Where might it be struggling and where might it be improved? What's your perception?

Paul MacGregor I've got quite a positive view, in contrast to what others have said. We are at one of those apex points that you come across in the markets every 10 or 15 years where everything can possibly change. When brokers are under massive cost pressures, one of the things they look at is where technology is adding value to their business because they have to comply with all these new regulations at the same time as trying to grow it.

"We are at one of those apex points that you come across in the markets every 10 or 15 years where everything can possibly change."
Paul MacGregor, FFastFill

That's where technology providers can really step up to the plate and offer software as a service, for example. If we can take all of that kit off your site, provide you with proper STP, proper front, middle and back office; if we can look at those SEFs and OTFs and tell you which markets we think you should connect to, which are going to be successful; if we can look at margin optimisation tools that are being provided by exchanges providing offsets between OTC products coming into clearing, and then futures, and actually helping new futures contracts grow; if we can actually build that technology for you so you can concentrate on what you do best, growing your business, then you shouldn't have to worry about technology being something that's dragging you back because of decisions you made five or ten years ago to put certain pieces of kit in.

You can deliver software as a service to customers. That enables you to light up 10, 20 or 100 new customers across multiple jurisdictions in a single weekend. That's not completely unheard of. Or it enables you to split and allocate one million trade lines in a few milliseconds. This market is still developing very rapidly. I have some very interesting viewpoints going back to when Liffe Connect first started and the exchanges went through the cathartic change of moving from floor to screen. It happened here in Europe and then it happened in Chicago where most of the futures pits are now completely empty. That spawned a whole technological revolution. With the SEF market and the OTF market potentially coming on you could be seeing the same thing again.

There are huge opportunities for innovation and for new products to trade. There are big opportunities for established and new exchanges to offer new products and as technology providers we want to help people make the most out of that. We want to be helpful in terms of new exchange start-ups and support all the new products they're listing. It is a pain in the neck when you're connected to 60 exchanges round the world and they're all upgrading on different weekends.

You've just got to be there because your clients tell you that it's essential you are if, for example, Eurex are doing an upgrade. You've got to support it. But when new exchanges start, we like to support those as well, providing the clients demand it. In NLX's case there is definitely client demand. Technology providers can take away a lot of the headaches if they're doing their job right.

CC The challenge as a new exchange has been to start the work with the vendors and ISVs before you get the client demand. I remember seeing an ISV 18 months ago and they said, 'We haven't got client demand so we're not going to write to you.' It is a big challenge when you're starting up. We were very sympathetic to that view at the time. Why should someone start writing when they haven't got a single client demanding it? And when we did get the client demand, suddenly people were saying, 'I've had ten clients call us in a week'. I don't know what the answer is. It's a big challenge.

PM You've got to be nimble as a technology provider. We're connected to 60 exchanges and when they have established volume they have to come first. If they're doing an upgrade we have to support it. But if you do have a client asking us to be ready for a new exchange product going live next week or next month, and they want a back office upgrade to service it, even though that's a big piece of work we will support it and we're fast enough to do it.

JR I agree we can't go back to the days of member-run organisations, but for the good of the industry we've got to establish what is a fair share of revenues between the FCM, the exchanges and the clearing firms and clearly, for me, we don't have that at the moment.

Customers look for ideas, whether they're ideas about products or something else. I lead about 500 salespeople globally who go out every day looking for ideas for their clients. We're not simply taking orders, we are actually instigating orders, providing liquidity, and when I take an order to CME, for that pleasure of me creating liquidity they charge me 5 cents. Is that fair? I would say not.

JP Steve, do you agree that one solution would be for the FCM community to spend more on technology in a market where volumes are falling?

Steve Grob I agree to some extent, although my view of the marketplace is a bit different from Paul's. If you think volumes were bad in the futures industry you should have tried being in the equities industry last year.

There are a number of parallels though. You've got greater complexity coming through SEFs and futurisation and some competition at a European level, with CME Europe and NLX, so market structure is looking much more complicated. People are looking at their position in the food chain, whether they are a clearing house, an exchange, an FCM or the buy-side, and weighing up their relevance in the new world order. It's interesting that when the equities marketplace went through similar changes with MiFID it exposed the direct competition between the exchanges and the broker-dealers too.

Obviously equities is a different business model because broker-dealers can internalise flow, but you can start to see something similar with the IDBs and some of the FCMs and exchanges in terms of who actually has the right to that liquidity. If ICAP can't make a SEF work then probably no one can because they have the liquidity, the distribution and the infrastructure. But there'll be other players there and of course some will be saying, 'No, it's all about futurisation.'

When it comes to technology it's about thinking it through in terms of how to connect the different bits together in a much more intelligent way. That's driven either by the need to manage risk better or the requirement for a more efficient business model.

Increasingly we see firms recognising that it's no good having a discrete series of investments in different technologies for the front end, risk, middle offices etc and then to spread these through different asset classes.

What people want is to be able to see the whole piece of cloth in front of them and have one system that reflects this seamlessly. For us, that seems to be the key momentum driving all of this.

JP I'd like to drill down into some of the subjects we've covered in the introductory session. The subject of increasing compliance cost has come up. It is obviously substantial and getting larger almost by the month. If you look at the range of compliance requirements facing the FCM community it is only going to get worse. Somebody's got to pay for this. The standard wisdom is that ultimately the end user pays, but in the meantime it affects the P&L of the FCM. John Lowrey, can I ask you to look briefly at the issue of compliance, and whether the end user is getting value for money, or whether you're absorbing the cost or whether this is overkill?

JL We could pay for things if we could raise prices, but the odds of anybody raising prices are very slim. Compliance costs are off the chart. There's a recent directive telling us that we have to be able to monitor real time for traders or clients, whether or not they are spoofing the market, layering the market, or doing stuff like that. You try to define 'spoof', you try to define 'layer', you try to define whether or not they're sitting on one side but they really intend to be on the other side. You're really talking about intentions here. These are very difficult things to define.

In a court of law it would be difficult to define where it's dispassionate. You've got months to go over the similar data. We have to do it on the fly and be able to prove that we can do that. So, this is just a brand new set of processes that get thrown on to everything else. Most compliance systems are built to be next day systems. You take trades in, you batch run them, you look at stuff, and the next day it throws up some stuff. 98% of it is garbage because it's flagging stuff that really isn't an issue, for example, a bad price. That's just one example of the type of things that we're doing.

That means that the ability to have systems talk to each other, to have systems understand organisationally what is going on, becomes a very high quotient in things. Very linear systems that only speak to one place and one set of processes and don't speak to the firm-wide processes come to be a problem for us. This is going to grow rapidly. It will become an increasing burden for all of us and we're being asked to regulate things now which I don't think that the industry even knows how to define.

SG Can I add to that? If you look at compliance simply as a passive cost to your business you'll probably end up running out of money because you'll just be writing out cheque after cheque. What you need to be doing is asking how you can take advantage of these new regulations. For example, if you look at some of these nonsensical financial transaction taxes and the varying degrees of naivety on the part of regulators in different locations, there's actually a great opportunity there. Unless you look at compliance as an opportunity you'll find life really tough.

Another point is that unless you can persist the information that you capture in the front office all the way through your downstream workflow, you'll always find life difficult. One of the things we've learned is that it all starts with what happens in the front office.

Neil Crammond I'd like to ask if, as a clearer, you can tell if someone is engaging in layering, topping, washing, cleaning, cheating etc. If it is obvious, you shouldn't need to spend any money whatsoever. It's obvious that if we can't cancel out cheats in this industry we are going nowhere.

JL I understand the intention of your comment. With a trader in a pit it's obvious what they're doing because there's a community there to see what's going on. With a set of processes trading on multiple exchanges, and understanding what the interrelationship between the orders are, it becomes a lot less obvious. Deciding what is and isn't spoofing, perhaps because it wasn't intentional is difficult if something enters the order book and is there to be traded. To me it's more grey than just completely black and white, and with regulation it is not around the grey, it is a black and white thing and you need to regulate in a black and white way. This behaviour is absolutely wrong, and I don't condone it at all. It needs to be vigorously pursued, but the problems have become very complex because of the structure of the market.

PM People are concerned because regulators really are the top dogs at the moment and the kind of fines that they're prepared to hand out can be

“We need the G20 to settle on definitive standards because right now it’s a moving target and it’s very costly.”
David Feltes, CME Europe

really crushing. Many of the institutions have simply settled with regulators rather than go through the pain of them doing the full investigation into alleged behaviour. They’ve simply said, just get this off my books, I’ll pay the fine whatever it is.

The industry can’t just carry on like that. You’ve got to force the regulators to be clear about what they consider to be bad behaviour. Let’s make it black and white if you want, then we can code it into software and monitor it in real time. Then we can give you the results before the end of the day instead of you coming back six months later after having sifted through the data we’ve sent and you suddenly say I’ve found half a dozen traders who are all washing money between them. Let us know exactly what you consider to be the kind of behaviour you want us to spot and we can build the software to do it.

JP I’d prefer not to focus on the fines issue, which I agree is important. John Ruskin, could you address the more fundamental question, which is if you’re running an FCM, clearly the cost of compliance is going to be a number of percentage points of your gross revenue. That number will only get bigger. Is it one or two, or five or six points? What kind of impact is the cost of compliance having on the operating costs of an FCM?

JR Monitoring systems and trading is something that previously you’d have expected either the pit observer or the exchange to do. Now we have to do it, as well. So, at the risk of sounding like a broken record, we are required to invest, as are the exchanges, but we’re required to police that at the same time. I wouldn’t want to estimate the costs from Newedge’s perspective, but they are growing and it’s a constantly moving target, for sure.

JP Dave, should exchanges share the compliance burden more equably?

DF The exchanges have taken on quite a bit of the compliance burden. I know a lot of it has fallen on the FCMs. Some regulators put very tight requirements on exchanges. They’re asking about depth of book, price changes etc, not just about ‘spoofing’ but about very sophisticated strategies and scenarios that, to be honest, some of the regulators don’t quite understand. Yet they’re asking us and the FCMs to search for them. The FCMs have the burden to try to nab them, but we also have the burden at the exchange.

But the systems required, and we have them from the US given what the CFTC now want, are having to be upgraded all the time. So our compliance and regulatory costs have gone up, as have those of the FCMs and even the end users. I understand those costs have increased by up to 20% since 2008, and that’s with headcount going down, not only at the FCMs but also at exchanges. So, you have technology costs, you have the cost of bringing in specialists, trying to figure out new things. It’s an added burden across the food chain and we need help from our technology providers. We need the G20 to settle on definitive standards because right now it’s a moving target and it’s very costly. At CME Europe we’re trying to figure out what exactly the FSA wants, what we have and what our systems are. It’s tough on the exchange side, as well.

JP Charlotte, do you share that view?

CC Yes. NASDAQ OMX has a market technology business so we sell technology to other exchanges. It became such a big opportunity. We kept coming up against this company called SMARTS Surveillance, so we ended up buying the company. We saw it was such a big opportunity, because we kept passing all these leads over to SMARTS. And now the FCA use that system. We sell it to other competitors as well. So while that that has no doubt helped, it does go down to that level of detail. The reason that we use it and it’s been taken up by so many companies across the world is because of that level of scrutiny. It was more of an opportunity for us and so we deployed that internally as well as externally.

JP Let's take a look at where an FCM fits in an increasingly automated and accessible world. We all saw the TABB report last year, which indicated clearly that the market was over-brokered. It hasn't got any better since. The supposition is that in 2013 we'll continue to see departures from the FCM community unless volumes pick up dramatically. There are signs of that but we're by no means there yet.

If you were inventing this business in 2013 on a blank sheet of paper would you invent an FCM in the way that they have developed historically – the intermediary between a centralised exchange and a dispersed user community? That model is long gone, everybody's got access to everything nowadays. What role does an FCM perform, what is its unique function in an increasingly automated, accessible world?

SG It's actually pretty simple, and it's the same regardless of asset class. If you are the middle man and you make money by getting between your client and sources of liquidity – and if that's the only thing you do – you're going to find life pretty tough. That really means you've got two choices. Either you scale intelligently, which means that you find a way to grow your cost base at a lower level than your revenue base as you get bigger. That requires some decisions about how your technology is going to be glued together. Or you go down the specialisation route where you work out the particular niche, the specific market sector, the type of activity or the type of trading that you're offering. And you have to be able to articulate what that niche is very clearly. But if you're just a generic middle man turning the handle, your days are probably numbered.

The FCMs need to get on the front foot and start to demonstrate the value-add that they offer throughout the marketplace. If you can do that then you're in a position to say 'that's why, Mr Customer, I'm going to charge you a bit more money. I'm not making any money out of interest rates at the moment, so I have to start to charge you for some of the value-added services I'm offering.' You've got to be either small and niche and really articulate, or you've got to be very scalable.

JP John, where do you fit in on that spectrum?

JL Steve has hit on something and that is that it is a very uncomfortable position where we are today in the value chain. Like John's 500 salespeople selling ideas and trying to engage customers so they will be able to pay them a higher share of the wallet, we're all going to have to be doing that.

We know the market's massively over-brokered and the technology infrastructure is massively overbuilt. The capacity of all our systems is far greater than the industry is going to see right now. The airline industry, when it has overcapacity, has become very clever about taking planes out of the system and flying at a higher price. FCMs have not really figured out how to take capacity out of the system and to get focused on the things they want to be doing and the niches they want to be in.

We've chosen – and it's great to be in a private business, by the way, rather than in a public company – to focus on what we think we do best, which is the world of commodities. Other people will have to find their own USP. But we are in a period of re-creation here and firms should be able to get on the front foot and help customers to the solutions they need in this new world. I think that will be a very fertile world. But short of that, if you're just passing orders from A to B, good luck.

JP John, Newedge is very much on the big wing end of the FCM community.

JR Being the middle man and grinding it out is a challenge and you have to show what value you provide versus the competition. Various brokers in the market do different things in different ways. Providing the value, either through trade ideas or sourcing liquidity, and then wrapping that around appropriately priced technology, is the right way of doing it.

DF So, you're suggesting that you just grow LCH as a single clearing platform, a DTCC model for Europe, for derivatives?

JR That's probably a model for the future. John. Do you think the MTF LSE launched, and the rivals that came out, was that better for the end user or not?

JL I think it'd create a lot of confusion. I'd go one step further. It's not just about clearing. The next big battleground is about collateral, because the problem with the system today – not pointing fingers at exchanges – what they accept for margin is very limited relative to the investment vehicles that people actually want to trade, and where the world is dispersing its risk. We have a huge backup in collateral today. We understand that clearing is the way to go, as is marking to market daily but we need to unravel the collateral

"If you are the middle man and you make money by getting between your client and sources of liquidity, you're going to find life pretty tough."
Steve Grob, Fidessa

issue. The brokers do have a role to play here.

They know a lot more about collateral than the exchanges do, believe it or not. Exchanges understand a lot about treasury and cash, they're really good at that, but, if I've got an esoteric bond from somewhere and I want to post it against my margin, what is acceptable? There's a huge spread in what is acceptable. That's one of the areas where brokers can take leadership and drive the train in a slightly different way. That would then lead to the obvious thing is, if we can go... swap to futures, why can't we go futures to swap and clear these things in different sorts of ways?

There are things out there that can be done. The regulators are not going to want to deal with them in 2013, but they will in 2015 and 2016 because the pool of collateral that's available for margin is vastly larger and different than the actual pool that's really marginable.

DF You're spot on in terms of where things are headed. Capital efficiencies are the key to this. It's one of the things that FCMs can provide, taking spot instruments, swaps, futures, and providing the end customer or their clients the best offsets, etc, using technology. Some of them are on the front foot doing that, others are not, but technology is key in doing that.

CC This is exactly why we're clearing with LCH. Before Liffe decided to leave LCH we didn't think they would welcome us asking to clear us as well in competition with their biggest customer. When Liffe made that announcement we were talking to LCH within 24 hours saying we'd like to take on the 'incumbent clearer'. I don't think it is a 2015 initiative because we're going cross-margin from day one. There will be collateral efficiencies too.

JL I agree that the step you've made will be great for the industry. I give you kudos for that, but the pool of collateral in LCH is quite limited, it really is.

CC I agree.

JP Coming back to the execution business, the question of pricing execution services is the critical factor. One of the interesting things that the vendor community did back in 2002-2003 was to start the process of reinventing itself. Back then there were something like 15 vendors listed on Liffe, for Liffe Connect. It was clearly an 'over-vendored' market.

In order to gain market share they gave their services away and hoped to catch up on the pricing in due course. Out of that 15 about half subsequently disappeared. Of the remaining five or six – the ones that stayed the course – had to re-price themselves. They did almost go bust but we ended up with, mainly, PATS, FFastFill, RTS and TT, who have survived and are profitable. It was a major restructuring from overcapacity and not making any money to surviving and making money. The FCM community is facing a similar situation and it is down to the definition and pricing of the service offering.

SG John, I disagree slightly. I know we want to talk about execution but you can tell from what we've heard that execution becomes a much more profitable business to be in if you connect it through into post-trade in a much more intelligent way. I'm not sure your comparison is valid. There were a bunch of ISVs back in those days, all working on just one piece of the workflow puzzle. I know because I ran one of them. That was a very different world to the FCM world today. The way forward is about connecting the workflow together, not about just trying to do the sums differently. But that's my view, and I'm not an FCM.

JP However, there is a fundamental requirement to make profits from your activities. The FCM community is facing that challenge now. They are doing so in an environment of much higher costs, fixed and operating, and volumes fell significantly last year. There are too many brokers chasing not enough business at an unprofitable level. They've got to do something; what are they going to do?

JL Let me use an equity analogy, because I agree with Steve, which is why I brought up the point on collateral. It is tied together. In the equity world, if you paid commissions to buy research, you paid one rate. If you just had execution only it was another rate, and those rates were in two fundamentally different tiers. One answer is for FCMs to figure out how to re-bundle services so that what we charge for is more than just going to certain exchanges. You need a variety of services, ideas, collateral, whatever these things are, and that is something that we can deliver.

It's the only way we're going to get pricing power back. We've got to figure out how to raise prices relative to whatever we need to raise them against, the exchanges and other factors. In order to raise prices we must provide more value, and pure execution on its own is really over-brokered. It's really hard to do anything different with that. For me, pure execution will become increasingly automated and will be scaled down. We've got to figure out how to reassemble the chits and how to charge for the services and what customers are going to pay for those services.

JR The broker has to become a lot leaner, nimbler and smarter. That's how we can be at most service for our clients.

Coming back to what I was saying about being more confident, I think we've got to go out there and show more of our services. We want to make sure we're in the right spot for the next ten years, and that will be achieved by bundling services, splitting out services, 'menued' services, whichever way you want to say it so you achieve that hybrid of human and technology interaction. That's the way the industry must go.

"People are now looking for every bit of efficiency they can in terms of fees. They are looking at costs along the whole transaction cycle."
Charlotte Crosswell, NASDAQ OMX NLX

PM People want a choice in brokers. Everyone remembers what happened when they were just connected to MF and the nightmare they had trying to switch clearers. People want a choice in broking solutions. They want multi-broker connectivity and to split their flows across multiple brokers and the ability to do that quickly. I don't think we should be focusing too much on being over-brokered.

There are still niche places where FCMs can find new clients, in China for example, where people want to be educated about western products, where they don't have an interest rate complex of their own. They will have one within the next ten years, they want to learn how to trade it from the west.

JP Charlotte, is it good news that your members want to do more expensive, high-quality business?

CC I suppose we're going the other way. A couple of years ago, I asked someone about creating a new exchange and bringing in lower fees. And he said he wasn't being squeezed on fees, he didn't care about exchange fees. He was with one of the larger banks. That's changed over the last two years. People are now looking for every bit of efficiency they can in terms of fees. They are looking at costs along the whole transaction cycle and they're being squeezed at every point and I'm sure the technology guys are being squeezed as well. There is more pressure now on fees and people will be taking that into consideration, but there's a bigger picture, it's not just exchange fees that people are paying.

JP Dave, do you see a tiered market, a 'stack them high, sell them cheap' flow from the low-cost providers and a higher-quality service from the FCMs?

DF Clearly the vanilla business that passes through a server can be done very quickly and for just one or two cents. That business has been commoditised and there's nothing interesting there. However, there are a lot of products moving from the OTC side to futures that will need intermediation and they should be charged fairly. Intermediation needs to be priced more efficiently.

NC I would like to ask Charlotte and the other exchanges if we can we cope with the competition between them. As a trader it's great to have

"I would love to see much more retail flow, as that creates much more liquidity and two-way traffic, not just relying on algorithmic trading."
John Ruskin, Newedge

competition but remembering the competition between LIFFE and Eurex, there was only ever going to be one winner.

CC I think most people recognise that there's probably room. It would be very unlikely for products to get split 50/50. The analysis we've seen shows you can probably go up to 30% on one exchange and 70% on another and you'd be margin neutral, but you're not going to get 40/60, so you're going to see that flip, and we think that if you get to 20% your next step's probably 80, it isn't 30. That's the challenge.

So although we're only going live in products that are economically equivalent, we're using those as the springboard to go to product innovation. We aim to get some market share in those products and then use that to innovate into all the new products that will come out over the next couple of years. I do think it's unlikely that you're going to see fragmentation in derivatives like you have in equities. It's going to be too expensive on the post-trade side.

JP Are there any opinions in the audience on subjects perhaps we haven't touched on? Maybe something that you think is more important than the material we've discussed so far?

Cathryn Lyall, NASDAQ OMX NLX Looking to the future, I wonder if we're missing a trick in Europe. In Asia and the US more volume is being traded by retail customers and in options. Some of it's to do with the tax structure here, some of it is regulatory, but where do you see growth coming from, particularly here in Europe?

JP I've often wondered why options are so thinly traded in Europe. It's tailor made for retail and we don't trade them.

JL Yes, it really is. You don't know if it's cultural or not. It is quite confounding. The upstairs options market is quite vibrant and the brokers love that vibrancy because we actually get some spread in that market. Even with the business traded on exchanges, we're able to earn a lot more out of that than we are for just broking into it as agents. It is one of the great confounding things, there's just not a market.

SG Outside of Amsterdam, there isn't that sort of retail sentiment around trading. If you watch CNBC in the US, in the ad breaks you see a whole bunch of retail platforms that are incredibly sophisticated in terms of their options functionality. They just don't exist here because there isn't the demand. I think it's a cultural thing.

JR I think it's the level of sophistication. Historically, futures contracts evolved around pure hedging in the US. A lot of people in the US Midwest have futures accounts: farmers who take speculative positions on certain underlyings think they have a better view than others. Asian clients also like to take a view, as do clients in the Netherlands and France. In general, I would love to see much more retail flow as that creates much more liquidity and two-way traffic, not just relying on algorithmic trading.

PM The Amsterdam exchange spent 30 years educating the Dutch market on how to trade options. They had an education department that travelled everywhere putting on presentations. You won't find many exchanges in other parts of Europe that take that level of interest in their retail market, and they've reaped the benefits of it.

Gary Delany, Options Industry Council If you look at US investors they've got a deeper history of self-directing. I don't think we have the same level of sophistication. They might invest in a particular stock, but if they are holding that stock anyway, they might well be writing some options on it. If you look at some of the competitive products out there at the moment there are alternatives with very strong USPs, whether you're not paying stamp duty or you're not paying capital gains tax.

Those are out there in Europe as well, and I hope that exchanges haven't left it too late. We have a very fragmented options market in Europe so we're not comparing the same thing. What I'm saying is you need to be vigilant as to how you could perhaps push options in a greater way than they are at the moment.

JP What I'd like to do now, to conclude, is to ask each of you what elements of the FCM business going forward do you think are going to fuel our optimism?

PM I think simplification of processes. Having gone through double digit growth for the last 10 to 15 years, naturally some budgets weren't looked at as carefully in terms of technology as they probably are today. FCMs need to simplify everything internally and make sure they can service all their clients globally through a much smaller amount of platforms. That will probably be one of the biggest drivers to help you into the next phase of growth.

JR For me, it's obviously the OTC market becoming listed and the opportunity for my sales force to offer that service as well as execution of listed derivatives. That will drive much more recognition of where value is really created and who creates the value and serve as a good catalyst to educate the market about our services. We've been a little too timid as FCMs to compete against, say, full service investment banks, but I believe we have a very compelling offering and clients appreciate our specialist services.

I also think innovation and new products will come from changes in the exchange space and from more collaboration between FCMs and the exchanges. The industry will undoubtedly benefit right the way down the food chain. That's something I'd like to see.

CC As we come to the end of this wave of regulation, regulatory certainty is what everyone's looking for. Everyone's had to connect to so many different platforms, go through so much cost of compliance and work out where the regulation's going without even knowing if that's money well spent. Hopefully, as we come through all that, this year and next, I think that's going to enable them to work out where to direct their resources and what they need to focus on.

SG I think the cause for optimism is change itself. There is a fantastic opportunity for the firms that can understand how regulation and technology are becoming intertwined and figure out how to take advantage of that. I'm not saying it's easy but this industry will go through more change over the next

few years than it probably has done since I've been involved in it. That makes it an exciting time for those firms that can assimilate that change and take some risks. Personally, I'm quite optimistic.

DF I think the competition in the trading venue segment, with not just exchanges but with SEFs and with OTC coming on board, will be disruptive for a time but will help. It will change things and make things more efficient.

The new products will be the most exciting thing. There will be new things from the OTC segment. With CME Europe we have incentive programmes that we have discussed with the regulator, for our FCMs to bring in either NCMs or customer flows so they aggregate. We have detailed programmes so that there is revenue sharing and cost sharing, etc.

Working together is important, I agree, but it's going to be about proßducts, and with the economy recovering we'll start to see flows going up. We were down 12% last year; we're up 2% this year. We're headed out of the valley. There still may be some creative destruction in terms of the numbers, as you mentioned, John, but at the end there will be value for intermediation. There has to be because there are too many complicated, non-vanilla products coming through that need the help of a broker.

JL Broking does matter. We've all said that. As the key intermediary to the client, the broker cannot be easily displaced because it's not just about execution. It's about everything we sell, package and bring together. Execution is a key part but it's not the only part. I am convinced that there'll be another conference in a few years and we'll have a very different picture about what is going on, though there may be fewer brokers that are doing it, but they'll be doing a lot more business.

Euribor renaissance at Eurex?

While some industry observers may have labelled the recently announced Euribor re-launch at Eurex Exchange as simply opportunistic and just another 'me too' product, Stuart Heath, Executive Director and Head of the UK Representative Office, Deutsche Börse and Eurex, says the initiative is far more than a tactical reaction to the changing competitive landscape.

Eurex originally launched its Euribor futures contract in direct competition with LIFFE in 1998 and although it still trades on the exchange its volume is dwarfed by that on the London-based venue.

The June re-launch not only lays down the gauntlet to LIFFE, it also provides an immediate challenge to the fledgling Nasdaq OMX NLX exchange, which on 31 May launched a suite of short-term interest rate products replicating not only Euribor but also the longer term Bund, Bobl and Schatz contracts traded on Eurex.

But while some may believe that the initiative is taking advantage of short-term opportunity and, in particular, the potential disruption of the impending move of LIFFE's open interest from LCH to ICE Clearing, Heath contends that it is part of a far broader strategic remit, which is further underpinned by recent technological enhancements at Eurex itself.

"The advantage to Eurex and Eurex Clearing is to cover the whole euro denominated yield curve, which enables our market participants to realise the appropriate offsets," he says. "It's very clear that the big issues from the OTC side are capital and collateral constraints, which mean that any way you can minimise margins and improve collateral efficiency is a major benefit. That is the long-term goal and motivation of our Euribor initiative."

Heath freely admits, however, that both internal and external influences have helped to make this an opportune moment to relight the fuse on Europe's most important listed short-term interest rate contract. "The facility and the opportunity now exist as well as the demand," he explains, before going on to outline the key drivers.

A highly significant internal factor is the recent migration to Eurex's new trading architecture. This brings important enhancements, including increased speed, mass quoting ability, a pro rata matching algorithm and market maker protection for futures but, perhaps most significantly for interest rate markets, permits new spread trading functionality.

The previous Eurex Exchange system allowed the trading of calendar spreads for futures with three maturities. Now, calendar spreads between all the maturities can be offered, bringing obvious benefits to those trading the full length of the fixed income yield curve.

As one might expect, the exchange does have incentive schemes in place, aiming to attract liquidity from different market segments. It is offering new trading and market making incentives for the three-month Euribor futures contract from June. A completely new market making scheme will initially run until the end of 2013.

"Prop shops will always look at fees, so if you pitch them appropriately then they will be interested in your product," says Heath.

"We have to have a sound reason why the market would migrate and we have to have a valid business case for the longevity of this. In that respect, longer term, it's the banks, broker dealers and swap users trying to merge their OTC and listed business who are our target because they see the opportunity offered by our long-term view on portfolio margining."

Long-term strategy

Interestingly Eurex is also looking to incentivise longer-term participants in the market such as pension funds and hedge funds by offering fee rebates for client orders relative to open interest held. It also further underpins Eurex's drive for clearing end client business in line with incoming regulatory changes such as CRD IV at the start of next year and mandatory client clearing expected to come into effect towards summer 2014.

But while the technology and the incentives are important in the bid to attract liquidity from various types of market participant, the underlying long-term strategy is firmly based around helping clients towards the best possible solutions to issues raised by the upcoming regulatory capital requirements.

Heath says that Eurex is "ahead of the curve" in terms of innovation in capital efficiencies, especially with its "more robust" individual clearing model where complete segregation is offered in terms of margin and positions, resulting in a lower capital charge for clients.

The new environment

Furthermore, with its new portfolio-based risk management approach in place, the exchange will be able to provide significant capital efficiencies across portfolios of listed interest rate contracts and interest rate swap transactions cleared through Eurex Clearing.

"In the new environment everything will be portfolio risk managed in the fixed income sector at Eurex," explains Heath. "We've already moved Euribor into the same margin group as Bund/Bobl/Schatz to provide immediate offsets under risk-based margining. This ties in with the whole long-term view of hedged instruments, if it's Euribor against swaps against bunds, for example, it will be seen in a default scenario as if it's a hedged position.

"Although in many ways Euribor is a small cog in a far bigger machine, the portfolio margining offering will only work properly with Euribor in it," says Heath. "We know that there are people with swaps in LCH who also hold Euribor futures there, but they are not cross margined and because they are charged a certain number of basis points per side that is starting to misprice the swaps market."

With the Euribor re-launch under way, following on from last year's successful introduction of the OAT French debt contract, it seems likely that other initiatives in the fixed income sector will follow.

Heath acknowledges the competition but feels Eurex is well placed to take advantage of the opportunities brought about by regulatory change with the holistic approach to the fixed income markets he describes.

"We're looking to establish a bridgehead in 2013, and in 2014, as the regulatory changes come through, the benefits of Eurex Clearing should start to come to the fore," he concludes.

When two worlds collide, there's no place to hide

While most firms think they are slowly getting to grips with the requirements of Dodd-Frank and EMIR, there are few industry executives who fully appreciate the impact of the fundamental change the markets are going through, according to Steve Grob, Director of Group Strategy at Fidessa. Here he tells FOA *Infonet* how he believes industry executives are greatly underestimating the effects of regulatory change and points to the way ahead for more savvy firms.

"When two worlds collide, there's no place to hide
When two worlds collide
So who will survive
There's no place to hide
When two worlds collide."
(Iron Maiden)

"Dodd-Frank and EMIR are removing the barrier that existed between the worlds of OTC and ETD," Grob explains. "This is in contrast to the cash equity markets where OTC and exchange-traded workflows have always been conjoined."

He sees the derivatives markets, which are currently split into the ETD and OTC camps, evolving into a new world of "standard" and "custom" contracts. Standard contracts will have two types; futures traded on exchange and ISDA specified 'standard' contracts, either traded on SEFs or bilaterally. Custom contracts are likely to continue to trade bilaterally because, despite the huge value of some transactions, there would not be sufficient liquidity for them to work in a central order book system.

"In the same way that people underestimated the impact of MiFID, people are underestimating the impact of this coming together," he continues. "There is an element of self-delusion in all this as the debate is far more subtle than just being about SEFs versus futurisation. It's not just a simple case of managing venue connectivity either. It's much more fundamental than that. While people are reacting to the immediate effects by working towards complying with the regulations, some do not yet fully comprehend the level of change and its repercussions."

The new rules will force most OTC derivatives to be cleared centrally alongside exchange products. The well understood effect of this is that market participants will be forced to lodge considerably more upfront margin than previously, leading to a severe shortfall in the high quality collateral required. It is estimated that there is currently around US$17 trillion of high-quality collateral available but maybe up to twice that will be needed in future.

"If there is a shortfall of anything like that magnitude, then the name of the game in derivatives will be all about aggregation," says Grob. "All the way up and down the food chain firms will have to collapse and offset equivalent (but not fungible) positions together. That means that participants won't be making trading decisions based purely on the contract specifications and price but also on the clearing efficiencies they can get.

"This, in turn, leads to a 'back to front' business flow. In future market participants will need to ensure that different margin positions that they or their FCM may have with different clearers for similar contracts flows seamlessly through into the middle office, risk and front end systems.

"This presents a significant challenge to financial technology suppliers," he continues. "Any company that can come up with a solution and save the industry US$17 trillion dollars is going to be a hero and make a lot of money at the same time."

In this changing environment, trading venues, clearing houses, brokers and vendors alike are turning their attention to protecting the territory they already hold and to seeing how they can grab onto the new opportunities that are unfolding with the new rules. These turf wars are especially apparent within organisations that previously separated their OTC and ETD businesses. It's not easy to predict who will benefit

"In the same way that people underestimated the impact of MiFID, people are underestimating the impact of this coming together."

"People are now looking for every bit of efficiency they can in terms of fees. They are looking at costs along the whole transaction cycle."

from controlling the soon to be combined OTC/ETD whole.

Putting these trends together you end up, from a technology point of view, having to have a much more connected workflow in a number of dimensions.

"You want to be able to map different contracts that can be offset in full or in part," he explains. "It may be the same OTC contract but cleared in different clearing houses or it may be a future against a standard OTC contract.

"In addition, you'll probably want to map those contracts in different ways for different clients so, for example, a particular contract may be offset at 30% for one customer but at 60%, or 110%, for another. You want to be able to fine tune things for different clients, to turn a dial for different relationships so that each client gets the smartest, most efficient solution for each scenario.

"At the same time, firms will need to ensure they are not putting themselves at undue risk," he continues. "Although they might be able to offset it, the product may not be technically fungible. If you are going to wear some risk in this way at the FCM level you can hedge your own firm's risk by, for example, declaring the contracts to be offset at 60% to the firm, while only allowing the client to offset at 30%."

There are also important implications for what people want to see on a screen, according to Grob.

"They may want to see all sorts of similar contracts which give them the same economic exposure," he says, "or they may want to do as much as possible of a hedge with a standardised contract, because the margin requirement is less, but in order to get more precision they may want to top it up with the smallest amount of OTC product."

Grob points to "exact date accounting" as just one area where precision can benefit the end user. "Among the reasons that people think interest rates won't move as easily to 'futurisation' as the energy markets is that you need a precise date on your hedge with rates markets so that it is treated for tax purposes in a more benign way," he explains.

"It's a lot less efficient if you use a future which over- or under-shoots that date."

Major firms are beginning to understand that the trading and execution screens they are currently deploying lack the kind of intelligent workflow needed for this new world and they do not want to find themselves at a competitive disadvantage as the post Dodd-Frank/EMIR landscape emerges.

"As far as he is concerned the end client wants to have just one relationship with the bank for both standardised and custom solutions in terms of how the products are traded," says Grob.

"That in turn leads to the bank having to look at the technology its FCM might be using to manage the transaction lifecycle workflow and how that fits, or not, with technology used in other silos of the bank. It's not just about saving money but being able to offer the best solution to customers."

Speaking at an FOA Infonet event last year Michel Planquart, EMEA Head of Sales for Exchange Traded Derivatives and Clearing at Citi, underlined this need for a more comprehensive offering for end users.

"Our approach is largely driven by holistic considerations nowadays where we look at the entirety of the activities they maintain with us," he said.

"When it comes to our clearing activities, our discussions with our clients are more and more about 'derivatives clearing' in general rather than being based on a separate approach to ETD on the one hand and OTC clearing on the other."

As far as his own firm is concerned, Grob believes Fidessa holds a significant advantage over most IT suppliers who have never previously had to build total workflow products.

"They've either built separate products or have a conglomerate of acquired technologies covering front office, middle office and risk," he says, "but with these approaches it's almost impossible to add intelligent workflow as an afterthought.

"And it is this intelligence that ensures that crucial information is picked up and persisted through each stage of the transaction lifecycle. The larger firms, in particular, are just facing up to the fact that they are setting out on a very long, complicated journey.

Knowing they have the global support and operating precision together with the right underlying technical architecture is crucial and we believe we're well placed to provide that."


IDX
2014
International Derivatives Expo
10-11 June
THE BREWERY, CHISWELL STREET, LONDON EC1
Part of
2014
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FOA news

REGULATORY ACTIVITIES: Reporting ETDs to trade repositories

FOA's Operations Working Group (WG) continues its work to interpret the reporting fields and define operational solutions, working alongside CCPs. The work is now 80% complete, but further analysis is required; target date for completion is 30 June. FOA members will be able to use the WG's outputs to develop functional specifications. Outputs of the WG were recently shared at FOA's forum at a panel session on 5 June – notes from the session and all other work on this area can be found on the FOA website under Regulation/EMIR. Please note, a member login is required for access to some of the information.

Engagement with national competent authorities and ESMA is continuing in parallel with the WG's analysis.

Segregation/Portability

The FOA had a meeting with ESMA recently to stress the importance of providing clients with a choice of individual segregation account models. There are concerns that the current lack of clarity around the interpretation of Articles 39 and 48 could lead to CCPs offering models which appeal to only a particular group of clients. The FOA will also outline the individual segregation models it believes are required to meet the wide range of client demands and how they meet the applicable standards under EMIR.

The FOA also met with the Bank of England, where it discussed the range of segregation models currently planned by EU CCPs, the lack of operational consistency, the operational complexity involved in clearing members building to such a wide range of account structures and some of the implementation challenges the industry faces as CCPs receive authorisation under EMIR. The need for a choice of individual segregation models was also discussed; however, the Bank was unable to comment on what would constitute the minimum standard for individual segregation under EMIR.

FOA contact on EMIR segregation/portability: Hugo Jenkins (jenkinsh@foa.co.uk)

EMIR Council

FOA has established an EMIR Council, which brings together a group of major CCPs and firms to discuss key concerns about EMIR and seek possible solutions. The Council held its first meeting in early June.

OPERATIONS

ISDA/FOA Client Cleared OTC Derivatives Addendum

ISDA and the FOA published the ISDA/FOA Client Cleared OTC Derivatives Addendum ("the Addendum"), which enables firms to clear OTC derivatives in the post-EMIR environment by using their existing underlying derivatives documentation with their clients (either the ISDA Master Agreement or the FOA Clearing Agreement) without the need for clients to sign a prescribed set of terms for each CCP separately.

The Addendum features a number of key provisions driven by regulatory requirements and negotiations in the working group over the past 12 months. An important feature of the Addendum is the introduction of netting sets for each CCP service, the impact of which stretches beyond EMIR to the area of regulatory capital requirements. In short, should a CCP or a clearing member default, the concept of netting sets would result in separate close-out amounts per CCP service, which is different from and supplements close-out netting arrangements in existing standard industry derivatives documentation.

The ISDA/FOA Client Cleared OTC Derivatives Addendum can be found on the FOA's website.

For more information please contact Hugo Jenkins (jenkinsh@foa.co.uk) or Mitja Siraj (sirajm@foa.co.uk).

Netting Analyser – FOA's new opinions library

Earlier this year, the FOA launched its new opinions library consisting of 75 netting, 76 collateral and 45 CCP opinions. The opinions help subscribing firms to satisfy certain prudential regulatory requirements and reduce the increasing cost of regulatory capital.

We live in the turbulent times of constant regulatory changes, which have a significant impact on the Futures and Options Standard Terms of Business documentation.

The FOA intends to hold a workshop for its members in July 2013, where the latest developments in the FOA documentation services, including the legal opinions, and how all the documents can be utilised will be discussed. We will keep our members informed.

For more information or to join Netting Analyser please contact Mitja Siraj (sirajm@foa.co.uk).

NEW FOA MEMBERS

The FOA is pleased to welcome the following recent new members:

- Pughview Ltd
- Tradeweb Europe Limited
- K&L Gates LLP
- Ernst & Young LLP

FOA events calendar

IDX 2013
Tuesday 25 & Wednesday 26 June ~ The Brewery

The FIA and FOA are pleased to present the sixth International Derivatives Expo.

Last year's event welcomed over 1,000 delegates, over 40 exhibits showcasing the latest in products, services and technology for the derivatives industry and 20+ sessions with high-profile speakers, information-packed workshops and valuable networking opportunities.

Opportunities are available for Partnerships, Sponsors & Exhibitors (www.idw.org.uk).

IDX Gala Dinner 2013
Wednesday 26 June ~ Artillery Gardens @The HAC

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 wider international financial community. Sponsorship opportunities and table reservations available for both FOA & non-FOA members.

Power Trading Forum visit to Dinorwig Power Station
Thursday 11 July

A visit to the Dinorwig Power Station, based in Snowdonia – regarded as one of the world's most imaginative engineering and environmental projects and still the larges scheme of its kind in Europe. The visit includes a presentation and tour, ending with a networking evening in Chester.

Compliance Forum
Thursday 25 July – Simmons & Simmons

Topic to be confirmed.

Compliance Forum
Thursday 26 September – London Capital Club

Topic to be confirmed.

FOA's Annual Power Trading Dinner 2013
Thursday 10 October ~ Sheraton Park Lane Hotel

Now in its 11th year, this black-tie dinner provides a a valuable networking opportunity for members of the power and energy trading community. Wide range of sponsorship opportunities available.

FUTURES FOR KIDS EVENTS

Futures for Kids

Operations & Technology Dinner 2013
Thursday 28 November ~ The Pavilion at The Tower of London

FOA announces its inaugural Operations & Technology Dinner. The dinner will provide a key networking opportunity for the futures industry's clearing, operations and technologies communities. The evening will also provide a forum to raise funds for Futures for Kids. Sponsorship opportunities and table reservations available for both FOA & non-FOA members.

Walk to Work
Friday 13 September 2013

Join FFK supporters on a walk to the City of London. Choose from four distances – c. 10, 20, 35 and... new for 2013... a 50-mile yomp! Choose from five starting points – Tunbridge Wells, Brighton (tbc), Guildford, Tring and Billericay. No entry fees – just commit to raise a minimum of £100 as an individual or £300 as a team. Sponsorship opportunities also available.

THE NEXT INFONET
The pre- and post-trade environment

October 2013 (date & venue to be confirmed)

Operations, risk management, IT, compliance and operations specialists discuss what keeps them awake at night.

Who can attend? This event is open to executives at FOA member firms and to specially invited guests of the FOA and InfoNet Sponsors.

For more information on all events, please contact Bernadette Connolly on connollyb@foa.co.uk or +44 20 7090 1334