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FIA Global Requests Exclusion of Segregated Margin from Basel III Leverage Ratio

FIA Global in a Nov. 18 letter to the Basel Committee on Banking Supervision urged the committee to consider how segregated margin is treated in the leverage calculations that determine bank capital requirements. FIA Global was joined on the letter by two other global trade associations—the World Federation of Exchanges and CCP12—as well as four clearinghouse operators—CME Group, Eurex, Intercontinental Exchange and LCH.Clearnet.

The Basel III leverage ratio framework is designed to capture the total exposure a banking organization has to its customers and counterparties. Accurately capturing this exposure is critical to establishing appropriate capital requirements to mitigate risk.

FIA Global explained that if the exposure-reducing effect of segregated margin is not included in leverage ratio calculations, the amount of capital required for central clearing will substantially increase. "Such a significant increase in required capital will also significantly increase costs for end-users, including pension funds and businesses across a wide variety of industries that rely on derivatives for risk management purposes, including agricultural businesses and manufacturers. Further, banks may be less likely to take on new clients for derivatives clearing," FIA Global wrote.

ESMA Proposes Detailed Rules for Implementation of MiFID Reforms

On Dec. 19 the European Securities and Markets Authority opened a consultation on the implementation of the MiFID II reforms to European securities and derivatives markets. The consultation consists of a 645-page consultation paper and a 520-page annex with draft technical standards that cover a wide range of activities and issues. These include:

- position limits and reporting requirements for commodity derivatives
- increased transparency in the trading of derivatives
- obligations to trade derivatives on organized trading venues
- new rules for algorithmic and high-frequency trading
- open access requirements for clearinghouses, trading venues and benchmarks.

Comments on the consultation must be submitted by March 2. In addition, an open hearing will be held in Paris on Feb. 19. ESMA will use the feedback as it drafts the final technical standards, which are due this summer.

European Commission Postpones Capital Requirements for CCP Exposures

The European Commission adopted an act on Dec. 11 that will extend the transitional period for capital requirements for EU banking groups' exposures to central counterparties. Under this act, the transitional phase will be extended by six months to June 15, giving European officials more time for "equivalence assessments" of the regulatory regime in non-European countries such as the U.S.

The adoption formalizes a commitment made by several EU officials in recent months to extend the deadline in order to resolve disagreements over the recognition of non-European CCPs. The EU has determined that several countries in Asia provide equivalent regulation of their CCPs but has not made the same determination for CCPs regulated by the Commodity Futures Trading Commission. As a result, banks subject to EU capital rules face a steep increase in capital requirements for exposures to U.S. clearinghouses such as CME Clearing unless the U.S. regime is recognized as equivalent.

On Oct. 30, the EC published its first set of "equivalence decisions" for the regulatory regimes of CCPs in Australia, Hong Kong, Japan and Singapore. CCPs in these jurisdictions will be able to obtain recognition as "qualified CCPs" in the EU, which would mean that European banks that are members of those CCPs would not face higher capital charges.

IOSCO Examines Approaches to Cross-Border Regulation

On Nov. 25 the International Organization of Securities Commissions published a consultation report on cross-border regulation. The report describes three approaches to cross-border regulation: national treatment, recognition and passporting.

The report also includes a detailed discussion of the challenges and experiences faced by regulators in implementing cross-border regulations, including how their national rules will apply to global financial markets and interact with foreign rules and international standards.

U.K. Moves Forward with Plan to Regulate Benchmarks

In late December, the U.K.'s Financial Conduct Authority announced that it will regulate seven additional benchmarks in the fixed income, commodity and currency markets starting in April. The FCA also launched a consultation on how to extend its rule for regulating benchmarks, which was designed for the Libor interest rate benchmark, to these other seven benchmarks.

In addition, the U.K. Treasury announced that it will extend the legislative regime established for the regulation of Libor to the seven additional benchmarks, including criminal sanctions for those found manipulating the benchmarks.

The seven benchmarks comprise:

- the Sterling Overnight Index Average (SONIA);
- the Repurchase Overnight Index Average (RONIA);
- ISDAFIX;
- ICE Brent Index;
- LBMA Gold Price;
- LBMA Silver Price; and
- WM/Reuters (WMR) London 4pm Closing Spot Rate.

"Ensuring that the key rates that underpin financial markets here and around the world are robust, and that anyone who seeks to manipulate them is subject to the full force of the law, is an important part of our long term economic plan," U.K. Chancellor George Osborne said in a statement announcing the Treasury's anti-manipulation legislation.

China's CSRC Approves Crude Oil Futures

On Dec. 12, the China Securities Regulatory Commission announced the approval of crude oil futures on the Shanghai Futures Exchange. The CSRC did not give a timeframe for the beginning of trading.

This will be the first futures contract listed on a Chinese exchange that will be open to both domestic and international market participants. The contracts will trade on the International Energy Exchange, a subsidiary of the SHFE that is located in the Shanghai free trade zone.

The CSRC said the next step is to finalize the relevant rules and regulations, including measures related to trading by foreign participants and the delivery process. It is expected that the contracts will be denominated in renminbi and will be settled with physical delivery in China.

IOSCO Consults on Post-Trade Transparency in CDS Market

The International Organization of Securities Commissions on Nov. 17 published a consultation that seeks to analyze the potential impact of mandatory post-trade transparency in the credit default swaps market. IOSCO preliminarily concluded that data does not suggest that the introduction of mandatory post-trade transparency has had a substantial effect on market risk exposure or market activity for CDS products, and it encouraged each of its members to take steps to enhance post-trade transparency in the CDS market in their jurisdictions.

China's CSRC Drafts Rules for Equity Options Trading

On Dec. 5, the China Securities Regulatory Commission issued a proposed set of rules for a pilot program for the trading of equity options, an important step toward introducing these products on Chinese exchanges.

Proposed rules limit trading to eligible investors and provide guidelines on the participation of securities and futures firms in this market. The proposed rules also include restrictions on market manipulation and insider trading.

ASX Proposes Amendments to Client Clearing Rules

ASX issued a consultation paper on Dec. 15 seeking feedback on proposed amendments to the operating rules for its securities and futures clearinghouses. The amendments are intended to enhance account segregation and portability and help the clearinghouses achieve recognition in Europe. In particular, the amendments will allow excess client collateral to be held directly with the clearinghouses and attributed to individual client accounts. This service is scheduled for launch by June.

ICE Completes Exit from Euronext

Intercontinental Exchange sold its remaining shares in Euronext via a private placement to institutional investors, the exchange announced on Dec. 8. The shares represent approximately 6% of Euronext's share capital. ICE gained control of Euronext through its acquisition of NYSE Euronext in 2013 and sold most of the company through an initial public offering in June. Following the December transaction, ICE no longer holds any voting rights or share capital in Euronext.

Euronext to Offer OTC Clearing Service

Euronext announced in December plans to broaden its derivatives franchise by providing a clearing service for customized versions of the derivatives listed on the exchange. Euronext said the service will start with equity derivatives in the spring of 2015 and will allow bilaterally agreed trades to be reported to the exchange and cleared by LCH.Clearnet SA. The service will run on the TradeExpress platform developed by Cinnober.

State Street Exits Swaps Clearing Business

State Street announced in December that it has ceased its over-the-counter clearing operations in the U.S. and will not launch OTC clearing in Europe. The bank said that it will focus instead on its futures execution and clearing business, and explained that its clients are opting to use futures instead of OTC derivatives due to "market and regulatory factors." State Street is the third bank to announce in 2014 that it is exiting the swaps clearing business. The other two were BNY Mellon and The Royal Bank of Scotland.

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U.K. Central Bank Opens Funding Window to Clearinghouses

The Bank of England in November widened access to its discount window and other funding facilities to include broker-dealers and central counterparties. Eligibility is limited to those broker-dealers that are deemed to be critical to the stability of the U.K. financial system and CCPs that operate in U.K. markets and are either authorized under EMIR or recognized by the European Securities and Markets Authority. The central bank explained that the change recognizes the important role played by broker-dealers and CCPs in the provision of critical financial services and their need for a "back-stop" provider of liquidity.

LCH.Clearnet Issues White Paper on CCP Recovery and Resolution

LCH.Clearnet issued a white paper outlining its views on the recovery and resolution of clearinghouses. The paper stresses the distinctions between the risks and resources of clearing members and those of the clearinghouse itself and argues against calls for more "skin in the game." The paper also argues that if a clearinghouse's "total loss-absorbing resources" are insufficient to manage a member default, the focus should be on increasing initial margin rather than requiring the clearinghouse to raise capital through additional equity or debt.

ISDA Issues Principles on CCP Recovery

On Nov. 25, the International Swaps and Derivatives Association published a set of principles on the recovery and resolution tools for central counterparties. The principles call for increased transparency in the standards and methodologies used by CCPs to size their loss-absorbing resources, such as initial margin, contributions from their members, and their own funds.

Moody's Assesses CCP Default Management

Moody's Investors Service in December issued an assessment of the default management operations of central clearinghouses from a credit risk perspective. The report describes the main tools to mitigate the effects of a clearing member default and the structure of clearinghouse "waterfalls." The report is part of a series of research into OTC clearing activities. Future reports will focus on CCP margining practices, swap execution facilities and a comparison of the major global CCPs.

Newedge Exits China Joint Venture

Citic and Newedge ended their joint venture in China as a result of the integration of Newedge within Société Générale as well as an internal reorganization at Citic. The joint venture, which was formed in 2008, was one of just a handful of brokerages in the Chinese futures market permitted to have foreign ownership. Société Générale officials said the 42% stake that Newedge owned in the Shanghai-based firm was sold to Citic in October. The two companies continue to have a business relationship under which Newedge provides its customers with access to Chinese markets through Citic.

Wedbush Expands Futures Clearing

In December KCG Holdings completed the sale of KCG Futures, its futures commission merchant business, to Wedbush Securities, a Los-Angeles-based broker-dealer. Wedbush named Carl Gilmore, formerly the head of KCG Futures, as co-head of the firm's new futures division. Approximately 45 full-time employees were transitioned out of KCG as a result of the sale.

This is Wedbush's second acquisition in the futures industry. In April, the firm announced a deal to buy the futures clearing and execution operations of Crossland. William Goodwin and Kim Swahlstedt, two Crossland executives who joined Wedbush as part of the transaction, will continue as co-heads of the futures business alongside Gilmore.

Jefferies Exploring "Strategic Options" for Futures Business

Jefferies Group announced on Dec. 16 that it is pursuing "strategic alternatives" for the Bache futures business it acquired from Prudential in 2011. Jefferies executives explained that the Bache business is facing "growth and margin challenges" and said they are in talks with third parties about a potential combination with another company with a similar business profile.

CME Enhances Self-Match Prevention, Updates Wash Trade Guidance

CME announced in December that it would introduce several enhancements to its self-match prevention functionality during December and January.

The enhancements are intended to provide users with the option to determine which side of a trade to cancel in case of an unintentional matching of buy and sell trades entered by an individual trader. The enhancements also include a feature designed specifically for markets that use "first in first out" matching algorithms.

CME also issued an advisory notice with updates to the frequently asked questions on its Rule 534, which prohibits wash sales. The update includes revisions to answers related to block trades, self-match prevention and certain other issues.