

PRESIDENT'S message



Walt Lukken
President and CEO

Relationship Reset

A new regulatory era has begun for our industry. The CFTC Commissioners who were charged with writing the rules of Dodd-Frank are being replenished with a new set of Commissioners who will be tasked with putting those rules into effect. The U.S. Senate is now considering three nominees to the CFTC, including a new chairman. As I write this, the process is not quite complete, but I anticipate that sometime

this summer Tim Massad and his new colleagues will be sworn into office. Like all new chairmen, he will want to put his stamp on the agency, bringing a new leadership style and approach to policy making and interactions with other regulators.

A similar transition is occurring in Europe later this year, although on a much larger scale. Following the European Parliamentary elections in May, we can expect changes on all the key committees that set policy towards the financial services sector. The outcome of the elections also will influence the appointment of a new European Commission and in particular the replacement for Michel Barnier as the European Commissioner for Internal Market and Services. So in Europe as well, we will have new faces in key policymaking positions.

One of the first areas to be affected by these changes will be the discussion on cross-border regulation. Last July, CFTC Chairman Gary Gensler and Michel Barnier reached an agreement on cross-border regulation—the so called “Path Forward”—that was meant to provide a structure on which our cross-border business could rely. However, rather than eliminating uncertainty, the marketplace remains perplexed over which laws apply and which jurisdiction will defer to the other.

For example, there are many difficult questions related to transactions that take place on multilateral trading facilities in Europe and the degree to which those are subject to CFTC regulation. Another example is the European process for recognizing non-European clearinghouses, which will have a very important impact on the capital requirements for the members of those clearinghouses. Acting CFTC Chairman Mark Wetjen deserves credit for advancing the dialogue on these cross-border matters

but we seem to have reached a point where both sides are entrenched in their respective views.

The leadership changes on both sides of the Atlantic mean that there is an opportunity to “reset the relationship” and change the tone of the discussion towards greater cooperation and trust. The fact of the matter is that no government has sufficient authority or resources to impose its will on the rest of the world. Some form of mutual recognition or substituted compliance is clearly the right path forward, but to make this work requires more than signatures on a document or a handful of high-profile meetings. True coordination and cooperation requires both sides to build a mutually beneficial relationship based on the recognition that this is the only practical solution to regulating a global market.

This is the model that has worked for decades in the futures markets. Regulators have succeeded in building a framework that allows qualified customers to gain access to markets all over the world. All of us have benefited from this approach, and I encourage regulators to consider what elements of this approach can be applied to the trading and clearing of swaps.

We are still in the early days of the new regulatory framework for swaps, but it is clear that many participants are wrestling with complex operational details. I am confident that over time the market will adapt to the new landscape and build the necessary infrastructure, but no one should underestimate the time and energy that has been invested, and will need to be invested, to make this work. For this reason, it is especially important that regulators coordinate their approaches internationally. To do otherwise will create unnecessary incentives for regulatory arbitrage.

The need for global coordination is not unique to regulators. Trade associations like FIA must also reflect the reality of its global membership. Last year FIA joined with FIA Europe and FIA Asia to form the global alliance of FIA Global to coordinate our advocacy efforts across Europe, Asia and the Americas. To date, FIA Global has made real progress in articulating our views on such global matters as CCP risk and the Basel III capital requirements. At the upcoming IDX Conference in London, the FIA Global board will meet to discuss how this new structure can best strike the balance of effectively serving our international stakeholders while preserving the regional autonomy that makes focused advocacy most effective. I look forward to hearing your feedback on FIA's new structure and brand, and whether we are hitting our mark.