PRESIDENT'S message

Walt Lukken
President and CEO

It has been a busy summer at FIA, and I am pleased to congratulate Gerry Corcoran on his election to chairman of FIA's board of directors. Gerry is the CEO of R.J. O'Brien and has served on our board since 2008. It is quite fitting and appropriate that Gerry takes the helm of our industry association during RJO's centennial anniversary. Gerry is a tremendous ambassador for our industry, so please join me in welcoming him to this new role.

At our annual board meeting in Washington this past July, members of the FIA board met with the three new members of the Commodity Futures Trading Commission, including Tim Massad, the new chairman. We had a very productive exchange of views on a wide range of regulatory issues, and I came away from those meetings with the sense that the new commissioners are very receptive to dialogue with the industry.

Chairman Massad is new to the futures industry, but he is no stranger to the derivatives markets. As he explains in the interview published in this issue, he was involved in negotiating swaps transactions during his 25 years in private practice and he is intimately familiar with the value of derivatives to hedgers and the overall economy. He also recognizes that many of the rules written by the CFTC in the last several years will require an ongoing assessment throughout their implementation, and he is open to suggestions from all interested parties. This is a welcome message and we look forward to continuing this dialogue with Chairman Massad and his colleagues.

One of the most critical issues raised in our July meetings is the need for the European Commission to recognize U.S. clearinghouses as equivalent. We are fast approaching a deadline that will trigger a very steep increase in capital requirements for European banks that are members of U.S. clearinghouses not yet recognized by European regulators. As we have explained to the new CFTC commissioners and to policymakers in Europe, our members cannot wait until the stroke of midnight for an agreement to be announced. They have to start making contingency plans now—months ahead of the December deadline—in case the business needs to be shifted to a different legal entity. For that reason, we urge the regulators on both sides of the Atlantic to recognize that the rules will never be identical and to rely instead on mutual recognition and the international principle of comity.

This dispute illustrates one of the core values of our association—our ability to provide policymakers with meaningful input on the real world implications of their decisions. For example, FIA Tech, our technology services subsidiary, is represented on the CFTC's Technology Advisory Committee and has played an important role in data standardization efforts. The Institute for Financial Markets, our educational affiliate, is holding a seminar for members of Congress on the basics of futures trading and clearing. Our cleared swaps operations committee is working on best practices for swap execution facilities, and our capital working group is analyzing the impact of the new Basel III capital requirements. FIA Europe is pursuing similar initiatives in Europe, leading our response to the MiFID II consultation, working with clearinghouses to implement EMIR, and playing a central role in the ongoing discussions on how to implement the new trade reporting requirements.

What all of these issues have in common is that they are adding to the cost of clearing, which is forcing the clearing firms to either raise costs for their customers or leave the business. In some cases the only way to remain viable is to let go of customers whose positions cost too much to carry, thus contradicting one of the G20 goals of incentivizing more products to clear. Even if all of today's clearing firms stay in the business—which is far from assured—their capacity to serve customers will go down, and some customers may find themselves priced out of the market.

If the number of firms in the clearing business continues to shrink—over the last 10 years the number of FCMs registered with the CFTC has fallen by more than 50%—the integrity of the central clearing model may be compromised. For clearinghouses to function effectively, the potential loss from a default should be spread among the widest possible number of member firms. This mutualization of risk has been the bedrock of the futures industry for more than 150 years and it is in everyone's interest to maintain a healthy number of clearing firms in this business.

Be assured that FIA will remain on the case.