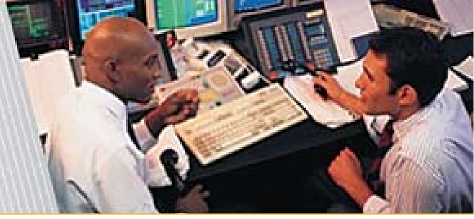
ACI
THE FINANCIAL MARKETS ASSOCIATION

ACI BRIEFING

NEWS FROM THE FINANCIAL MARKETS ASSOCIATION
http://www.aciforex.org



Q2 2012 VOL 17, ISSUE 109 ISSN 1469-2031

UAEFMA Hosts First Class World Congress

For the first time in its 51 World Congresses, ACI – The Financial Markets Association held its annual gathering in the United Arab Emirates and the UAE Financial Markets Association, under the leadership of President Mohammed Al Hashemi, did not fail to pull off a world-class, spectacular event.

MOHAMMED AL HASHEMI, PRESIDENT OF THE UAEFMA

The decision to meet in the Middle East was representative of the extraordinary development of the financial markets in the Gulf region. In recent years, the area has developed as a vibrant financial hub and Dubai has positioned itself on the map as one of the Middle East's most respected markets for global banking and finance.

The 51st ACI Financial Markets World Congress was held on 22-24 March in Dubai under the patronage of Sheikh Hamdan bin Rashid Al Maktoum, Deputy Ruler of Dubai and Minister of Finance.

More than 600 participants from more than 60 countries, representing the buy, sell and service sides of the markets, attended the Congress to discuss and debate business challenges facing the financial markets.

Appropriately, both local and global issues, trends and opportunities in the FX and financial markets came under the spotlight in the business sessions, which featured an exceptionally high calibre of speakers. Experts from global financial institutions discussed a range of topics from opportunities created in the Middle East region in the wake of the Arab Spring to the state of the financial markets in the aftermath of the Eurozone crisis.

Following welcome remarks from Manfred Wiebogen, President of ACI, and the UAEFMA's Al Hashemi, ACI was honoured to present His Excellency, Sultan bin Nasser Al Suwaidi, Governor of the Central Bank UAE, who delivered the first keynote address of the two-day business programme.

Al Suwaidi discussed the challenges banks globally will face in terms of availability of funds because of forthcoming regulations and difficult economic conditions. The banking sector across the world will be

continued on p.3 ▷

Message from the President

The 51st ACI World Congress, Dubai, March 2012 marked one of the highlights of ACI's networking events of the year. The local organisers did very well and on behalf of the whole Association our thanks go to Mohammed Al Hashemi, President of the UAEFMA.

The support by the local Ministry of Finance, His Highness Sheikh Hamdan Bin Rashid al Maktoum, Deuputy Ruler of Dubai and Minister of Finance and also His Excellency Sultan Bin Nasser Al Suwaidi, the Governor of the UAE was remarkable.

Also remarkable was the participation of central bank representatives during the Council meeting, showing the strong interest from the authorities into ACI's activities.

To summarise, more than 600 people participated in Dubai. You can read more about the Congress in this issue of the ACI Briefing.

In terms of results and achievements, the Dubai Congress was for ACI a great success:

1 We launched a New Chapter FX Best Practices Operations/84 Best Practice Definitions at page 39, which now need to be incorporated into 'The Model Code'
2 We launched an Education Wikipedia on ACI's website, through which ACI members can access study guides, exchange information and discuss questions with the community
3 We agreed to the implementation of a basic module for ALM

continued on p.3 ▷

Contents

ACI BRIEFING IS PUBLISHED BY:
profit & loss
PROFIT & LOSS IN THE CURRENCY & DERIVATIVE MARKETS

ACI Head Office: 8 rue du Mail, F-75002 Paris, Tel: +33 1 42975115 / Fax: +33 1 42975116

Message from the President. Continued from p.1

into the existing ACI Dealing Certificate

4 There was agreement for a future ACI ALM Certificate

Amongst the participation of high profile speakers from around the globe, we would like to highlight sister associations, the EBF (European Banking Federation), ICMA (International Capital Markets Association), AFME (Association Financial Markets Europe) and EACT (European Association Corporate Treasurers) who, together with ACI, took part in an absorbing panel discussion that looked at hot topics including the issue of a 'Financial Transaction Tax' and other regulatory themes.

Enjoy your reading.
Manfred Wiebogen, President ACI

UAEFMA . Continued from p.1

impacted by new capital adequacy requirements under Basel III and other international regulations and "industrial activity and trading could face a shortage of funds," he said.
However, the UAE bank lending growth rate is "reasonable" and projects in the country will not suffer from funding shortages because of changes in international banking regulations or the potential difficulties faced by banks in Europe, he said.
UAE banks boast some of the highest capital adequacy ratios in the world and have been relatively unhurt by the Eurozone crisis because they have only minor exposure. Al Suwaidi said the UAE is performing well because of its strong trade and tourism sectors.
His opening remarks were followed by the first panel of the day: Financial Market Opportunities Created by the Arab Spring. According to Said Hirsh, Middle East Economist for Capital Economics and one of the panellists, opportunities beyond the initial period of unrest in certain countries could be significant, particularly in the poorer countries in need of capital investment.
"Emerging financial market opportunities created by the Arab Spring vary across countries," said Hirsh. "For the resource-poor countries, particularly those hit hard by the turmoil, the opportunities beyond the initial period of unrest could be huge. If these countries end up pursuing market-friendly economic reforms, along with legal and regulatory reforms, this would boost their growth and incomes in the medium and long-term, which would in turn attract foreign capital."

HIS EXCELLENCY, SULTAN BIN NASSER AL SUWAIDI, GOVERNOR OF THE CENTRAL BANK UAE

On the panel discussion with Hirsh were Farah Foustok, CEO ING Investment Management, Middle East, and Brad Bourland, Chief Economist and Head Prop Investments of Jadwa Investments.
The panellists agreed that as Gulf countries, with the exception of Bahrain, did not experience any major protests they have largely been viewed as safe havens.
"The GCC emerged as a safety zone amid regional turmoil. The UAE is widely seen as very safe in the region and the country has hugely benefited from this perception," said Bourland,
However, while regional fund flows are expected to give a boost to GCC financial assets, the panellists warned that Gulf financial markets presently lack depth to absorb the potential investment flows from the countries impacted by the Arab Spring. "Currently we face a situation that there are more brokers in the market than the number of listed stocks," he added.
The panel discussion was followed by a presentation and question and answer session with Professor Otmar Issing, former Chief Economist at the European Central Bank and President of the Centre for Financial Studies at Goethe University in Frankfurt, who discussed the Eurozone crisis and its global implications.
Issing talked about how European policies

ARAB SPRING PANEL

continued on p.3 ▷

UAEFMA . Continued from p.2

were set in the past and, broadly optimistic for the future, discussed how these will be adapted in order to survive the Eurozone crisis.

Continuing with a local flavour, the second panel of the day zeroed in on sukuk trading, the Islamic equivalent of bond issues, which has seen a surge in sales in recent months as issuers have turned to Islamic finance for capital. Growing trade in Islamic bonds in the Gulf region this year could be driven further by increased private sector interest in sukuk on the back of strong activity by banks, panellists told delegates.

The third and final business session of the day featured three high profile economists and strategists – Fiona Lake, Economist, Global Markets at Goldman Sachs; Lena Komileva, Managing Director and Chief Economist, G+ Economics; Marios Maratheftis, Head of Research at SCB; and CEO of Intl. Commodities, Jeff Rhodes, a leading figure in the international bullion market. The panellists discussed the future of the US dollar, BRICS and commodities.

Rhodes told delegates that he remained cautiously bullish for 2012 as a whole and sees the current weakness across the precious metals sector as a buying opportunity. "In a world devoid of yield, money managers need to invest in asset classes that will give capital gains, and they need to point to track record when explaining their investment strategies to their investors," he said.

"Gold is the star performer in global markets, gaining 480% over the last ten years, posting an increase in the annual price in each of those years with an average annual return of 20% per annum."

BRICS PANEL

After a day of insightful discussion, the pace did not slacken on the second day of the Congress and delegates were treated to a keynote address on Eurosystem liquidity by Paul Mercier, Principal Advisor in the Directorate General Market Operations at the European Central Bank.

Mercier discussed the reasons behind the three waves of recent intervention by the ECB and told delegates: "We are not in the mode of quantitative easing but we are in the mode of credit enhancement."

He added: "We hope that what we do will avoid a credit crunch and even favour credit. The question often arises: what if the credit starts to move in a certain way, what will you do? We do what a central bank always does, we do monetary policy if need be, if things aren't going so well. But then we increase our rates of course.

So we have all the tools that go with the consequences of what we have done and we keep this clear separation between the monetary policy stance that consists in using interest rates, and liquidity management which is there, first, to ensure the transmission of monetary policy, and second, that tries to avoid the collapse of the banking sector in Europe because of a lack of liquidity."

He concluded: "I cannot make any forecasts about the future but it seems that things are improving; it seems that the most dramatic part of the crisis is behind us."

Mercier's informative presentation was followed by a panel discussion on the development of the Islamic banking market, with a specific focus on hedging and new initiatives.

Panellists included Lawrence Oliver, Director DDCap; Simon Eedle, Global Head, Islamic Banking, Credit Agricole CIB; Dr Sayd Farook, Global Head of Islamic Capital Markets, Thomson Reuters; and Jahangir Hussain, Islamic Finance Product Specialist, Bloomberg.

The conversation returned to more mainstream topics later in the morning when Robin Poynder, head of regulation at Thomson Reuters, took to the stage to give a presentation on over-the-counter derivatives trading regulation. This was followed by a lively debate from a stellar line up of panellists who

PAUL MERCIER

continued on p.4 ▷

UAEFMA . Continued from p.3

discussed the global impact of a proposed European Union financial transaction tax.

The disputed tax, which has been proposed by the European Commission, would levy 0.1% on stocks and bonds and 0.01% on derivatives trades between financial institutions when at least one party is located in the EU.

Delegates were given presentations on the unintended consequences of such a tax from Guido Ravoet, Secretary General of the European Banking Federation, and Richard Middleton, Managing Director, Tax Division, Association for Financial Markets in Europe (AFME).

Ravoet told delegates: “We have published a research report and think the stated objectives of the European Commission are inappropriate and disproportionate. We also anticipate a substantial economic impact if the directive is adopted, which will have unintended consequences, and I feel intended consequences.

“The EC has produced an impact assessment but this does not support the case for an FTT. The Commission used an over-simplified model for its economic analysis and failed to publish a country-by-country analysis. In our opinion they have not properly understood the structural destruction of financial markets and the economic impact of member states and citizens,” he said.

“The broad-base approach of the FTT will have a huge affect on volumes. In our opinion it will impact market liquidity and a major risk management pool used by banks and corporates. Up to 90% of derivatives could disappear as a result of implementation of the FTT. How can such a massive disruption be considered by the Commission as a welcome structural break?” he asked

FTT Panel

Middleton questioned who would bear the brunt of the tax and said it would ultimately be transferred by market makers to end users such as Europe’s pension funds, asset managers and corporates who enter into transactions for necessary hedging purposes.

The two men then joined Morgan McDonnell, Head of Global Foreign Exchange, Cash and Credit Markets, RBC Dexia Investor Services Trust and President ACI UK; Robert Mohamed, Chairman ICMA Middle East, Africa and Asia; Richard Raeburn, Chairman European Association of Corporate Treasurers (EACT); and Luc van Laarhoven, representative of the Committee for Professionalism and Board Member of ACI Luxembourg, for further discussion of the tax.

The panellists warned that if not implemented globally, the tax would alter the level playing field between countries and could lead to European banks relocating out of the EU jurisdiction to a more “friendly” environment.

“If you look at Dubai, it would not be possible to implement a financial transaction tax,” said van Laarhoven.

Ravoet added that countries such as the US also would not accept it.

Although strongly opposed to it, the panellists suggested that alternatives to the FTT could be a VAT on financial services or a harmonisation of bank levies that already exist.

The business sessions closed out with ACI’s General Assembly, where ACI President Wiebogen apprised members of the outcome and issues discussed at the various committee meetings in Dubai.

This was followed by a presentation from Andreas Gaus, Managing Director at Credit Suisse and Chair of the European Central Bank Operations Management Group, on the launch of the new FX Best Practice Operations guide which will replace Chapter 3 of ACI’s Model Code.

It was also announced that David Woolcock, Head of Bank Sales at Fxall, had been appointed Chair of ACI’s Committee for Professionalism, assuming the role held previously by RBS Japan’s Terry Tanaka, and that Christoph Niggli, a long-time supporter of the ACI education system and chair of the ACI Board of Education, was sadly retiring.

Niggli is succeeded by Claudia Segre,

Dubai Panel

continued on p.5 ▷

UAEFMA . Continued from p.4

Head of Fixed Income and OFP at Credito Emiliano and Secretary General of Assiom Forex Italy. Segre, who was previously Vice Chair of the Board of Education, is an ideal successor and has many ideas for the future of education, Wiebogen said.
Both Niggli and Gaus were given Honorary Membership to ACI for the extensive work they have done for the association

Beneficial Relationship

The Congress with its accompanying FX technology exhibition was held at the Dubai International Convention and Exhibition Centre.
Speaking to press at the event, Wiebogen said that ACI had a long and beneficial relationship with the Gulf region and that this could not have been more evident than during the Congress in Dubai.
"For the last two days Dubai has been put in the spotlight of the financial industry, and the impression and the contacts made will continue to last," he added.
The Congress was organised by the UAEFMA, which was established in 2011 to provide a platform for banking and finance professionals from across the country to network and debate strategies in order to foster future growth.
The UAEFMA's Al Hashemi said: "The ACI Financial Markets World Congress was the first congress that we have hosted, and proved to be an astounding success with very positive feedback from speakers and delegates alike. We now look forward to hosting many more similar conferences on an annual basis."
The ACI World Congress was supported by the UAE Central Bank, Official Banking Partner Emirates NBD, Gold Sponsor UBS, Silver Sponsor National Bank of Fujairah, Strategic Partner Dubai International Financial Centre (DIFC), and Official Media Partner, Bloomberg. Other sponsors included 360T, 4Cast, ACI Indonesia, ADS Securities, BNP Paribas, Citi, Commerzbank, Copp Clarke, DDCAP Ltd, DealHub, Deutsche Bank, DJ FX Trader, Gain GTX, ICA, Icap, INTL FCStone, JP Morgan, Master Capital Group, Micex-RTS Group, Saxo Bank, SEB, Standard Bank, Thomson Reuters and Wall Street.

Congress 2012: Images from Dubai

To complement its extensive business programme, the UAEFMA created an outstanding networking programme, allowing delegates to meet socially and discuss the topics of the day as well as to renew old acquaintances and make new friends.
After the first day of panel discussions and presentations, attendees were treated to a desert dune safari and dinner in fine Arabian style. Leaving behind the bustle of the city, safari guides transported delegates by 4x4 vehicles across sand dunes and deep into the heart of the desert to the beautiful Dubai Desert Conservation Reserve. As the sun set, lanterns come to life signalling a traditional Arabian welcome and feast.
In celebration of the highly successful Congress, the UAEFMA closed the event with a gala dinner for delegates and partners at the The Pavillion, Armani Hotel Dubai. Located at the foot of the Burj Khalifa, the tallest building in the world, and with the iconic Dubai Fountain providing a spectacular and entertaining backdrop, the combination of stunning architecture, minimalist elegance and gracious hospitality resulted in a world-class experience that rounded off the Congress perfectly.
At the closing ceremony, ACI President Wiebogen and the UAEFMA President, Al Hashemi took to the stage to a standing ovation and led the ceremonial turnover of the ACI flag to the next ACI World Congress host, ACI Singapore.

Segre Appointed Chair of Board of Education as **Niggli** Steps Down

At the 51st ACI World Congress in Dubai, Christoph Niggli, a long time supporter of the ACI education system and Chair of the ACI Board of Education, announced his retirement. He is succeeded by Claudia Segre, Head of Financial Institutions and Infragroup at Credito Emiliano and Secretary General of Assiom Forex Italy.

Under Niggli's four years of leadership on the Board of Education, ACI entered into an agreement with the Frankfurt School of Finance and Management, which assists in maintaining the high quality of ACI education programmes and examinations, and experienced a record number of ACI exams taken – ACI now certifies some 1,400 practitioners a year. In addition, ACI's Dealing Certificate and Diploma are recognised and recommended by the UK Financial Services Authority, among other regulators.

As well as being the organiser of two ACI Davos Forums, Niggli oversaw the update of ACI Web, the implementation of a new Market Experts team and the update of the Operations Certificate programme, among many other achievements.

Speaking at the ACI General Assembly in Dubai, Manfred Wiebogen, President of ACI - The Financial Markets Association, said: "After so many years Christoph has decided to retire from his activities. For me he is one of the best Chairs we've ever had."

Upon receiving Honorary Membership to ACI for the extensive work he has done for the association, Niggli said: "We have a clear structure in education. We have our Dealing Certificate, our Operations Certificate, we have a clear pathway in education and this is important when we pitch ourselves with regulators and central banks. This is a huge value that we have."

ACI regularly communicates with regulators around the world on the education and training of market participants. Through its education programmes and exams, ACI promotes the highest global standards of professionalism, competence and ethics in the financial markets. The education programme provides a professional qualification that improves job performance and sets benchmarks within the industry.

Segre, who was previously Vice Chair of the Board of Education, is the ideal successor and brings many ideas for the future of education, Wiebogen told delegates in Dubai.

Over the past year, ACI has been updating its education programme and restructuring its examination portfolio through the integration of new topics such as asset liability management and the management of liquidity and certain instruments in foreign exchange and fixed income.

"Also, in terms of decisions made regarding education this year, we have taken into account that the global financial crisis moved qualification into the focus of the regulators and also the financial institutions working in the markets," Segre tells ACI Briefing. "Education, examinations and anything related to certification has become a key instrument in managing risks in financial institutions and these aspects have to be taken into account when restructuring the contents of the exams and education in general.

"The new syllabus of the ACI Dealing Certificate is already finished so we will now focus on updating the ACI Diploma," says Segre. "We have the Dealing Certificate for junior people approaching the trading room and we have the Diploma for more senior people, so our focus is on the middle level, allowing senior people to update themselves, to improve their skills due to the big change in the markets and also to offer them the opportunity to have a specialised education dedicated to certain segments such as forex advanced, fixed income advanced, Islamic banking and other topics that are important such as asset liability management.

"This is important not only in the US and the UK but in all countries, particularly emerging countries. Getting an education makes a big difference in financial markets," Segre adds.


CHRISTOPH NIGGLI

CLAUDIA SEGRE

Another key area of focus for the Board of Education this year will be obtaining recognition for its certificates and diploma by regulators around the world. The certificates have already gained recognition from the UK FSA, the Dutch Securities Institute in the Netherlands and the financial regulator in Sri Lanka.

"We are waiting for a final decision from other regulators that we have been in contact with," Segre says.

The Board of Education has also launched the ACI WIKI Platform, an online resource for education matters. "Through the WIKI platform it will be possible for participants to access study guides, exchange information and have questions answered by trainers that are accredited by ACI International. It will provide an exchange of expertise between professionals through all possible formats and content," says Segre.

The WIKI platform will go live this summer.

Regulation, Market Conventions and FTT Come Under **ACIFXC** Spotlight

The ACI FX Committee (ACIFXC), an international group created by ACI - The Financial Markets Association to promote a global, orderly and transparent FX market and to lobby on regulatory issues, held its quarterly meeting at the ACI World Congress in Dubai to discuss forthcoming regulations and market conventions.

Under the spotlight were issues that swap execution facilities (Sefs) are facing; market conventions on the EUR/RUB currency pair; and the potential repercussions of a European Commission-proposed financial transaction tax.

"We were given a presentation by Bloomberg on how it is preparing for a change in regulation and the issues Sefs will face," says Stephane Malrait, Chair of the ACIFXC. "Specifically, we discussed the issue of trade and counterparty identifiers. There are two codes that are going to be needed as part of a trade message – the legal entity identifier (LEI) for the counterparty and the unique swap identifier (USI) – for record keeping and trade reporting."

An LEI is a unique number that identifies an entity in the financial market, in essence a "social security number" system for entities. The LEI will play a crucial role in fulfilling the mandate from the Dodd-Frank Act to improve market transparency.

The lack of standardisation of entity identifiers caused a problem in the aftermath of the Lehman Brothers collapse in September 2008, as financial institutions tried to figure out their counterparty risk exposure. Companies, and even divisions within the same company, use proprietary schemes to identify their counterparties, making it difficult to integrate or consolidate data across platforms.

The USI called for by the proposed rules are to be created and assigned to a swap at the time it is executed and used to identify that particular transaction throughout its existence. US firms must have LEI and USI programmes in place by deadlines as early as this summer.

"An issue that trade platforms and banks are facing is how to create these identifiers and how to populate them. It hasn't been fully documented by the regulators yet," says Malrait.

Also under discussion at the Dubai meeting was market conventions on certain currency pairs. "We now have an agreement to push the EUR/RUB to move to T+1 which is the case onshore but not offshore on some platforms," says Malrait. "There are discussions led by ACI Russia to push this with all electronic trading platforms and already some agreements have been made to move from T+2 to T+1."

A hot topic at present is the Financial Transaction Tax proposed by the European Commission, which would levy 0.1% on stocks and bonds and 0.01% on derivatives trades between financial institutions when at least one party is located in the European Union.

Malrait says ACI has reaffirmed the dangers of implementing the tax, which he says would alter the level playing field between countries, unless it is applied globally, and increase fiscal arbitrage opportunities between countries.

The tax would also be transferred to end users as it would oblige market makers to increase their bid-offer spreads in order to pay for the tax percentage. This would mainly affect corporate, pension funds and other hedging clients who do not enter into such transactions for speculation but for necessary hedging purposes, Malrait says.

The ACIFXC's next meeting will take place in London in June and in Casablana in November to coincide with the ICA - Interarab Cambist Association annual conference.

New **CFP** Chair Outlines Focus for 2012

David Woolcock, Head of Bank Sales at FXall, has been appointed Chair of ACI's Committee for Professionalism, which is responsible for market practices and advises the ACI Executive Board on decisions concerning guidelines, both technical and ethical, and on the professional activities of ACI members. The guidelines comprise the Model Code.

Specifically, the CFP formulates and proposes policies and guidelines establishing the educational and professional standards for members of ACI – The Financial Markets Association and produces specialised reports relating to market issues such as risk management and crisis management.

Speaking on the sidelines of the 51st ACI World Congress in Dubai, Woolcock, who assumes the role held previously by RBS Japan's Terry Tanaka, says the CFP's main focus for 2012 is a re-write of the Model Code. At a working group meeting in Dubai the CFP decided to replace Chapter 3 of the Model Code with a new FX Practices in Operations, which covers confirmations; settlement, standing settlement instructions, netting, performance and capacity management in FX processing; reconciliations, investigations, differences, claims; general setup, controls, segregation of duties; and electronic trading.


DAVID WOOLCOCK

FX Practices in Operations was put together by a team led by Andreas Gaus, member of the ACI Board of Education and Chairman of the European Central Bank Operations Management Group (OMG), who reviewed the Bank of England Non-Investment Products (NIPS) Code, the Federal Reserve Bank's 60 Best Practices and the ECB's OMG documents, among other documents, which were then formulated and updated to create a new benchmark.

Woolcock says the team was a mixed audience from Banque de France, Banco de Portugal, Ceca, Citi, Credit Suisse, Deutsche Bundesbank, Dexia, Goldman Sachs, HSBC, Nordea and UBS. External review was provided by the Reserve Bank of Australia, the Monetary Authority of Singapore, the Bank of Japan, the US Federal Reserve System, the Bank of

continued on p.10 ▷

England, and numerous other banks.
The FX Practices in Operations is written as a practitioners guide and reflects what is happening in the real world of FX operations, says Woolcock. It is currently being implemented into the Model Code and will replace Chapter 3 shortly, he adds.
The next stage for the CFP is to review the rest of the Model Code and update it to adapt to the changed market environment. Woolcock says he is looking to slim down the main body of the Model Code so that it consists of what he describes as 'timeless values,' areas such as morals and ethics which do not change over time.
"There's a chunk of the Model Code which is absolutely perfect, still relevant today and will still be relevant in ten years. That is going to be the main body of the Model Code, and I don't intend to change that," he stresses.
It will also be updated to include topics such as ethics of the foreign exchange market in the electronic world. However, areas that will change over time - for instance the organisation of NDF trading, the structure of which is likely to change because of incoming regulations - will be included in the Model Code as annexes.
"We will use the Web much more as a resource," explains Woolcock. "The Model Code will still exist in hard copy format but we will email inserts – the annexes – when they are updated. We will make all the annexes available as an archive online, so over time they will form a library that will help scholars and people taking the ACI education exams. If they want to know how NDFs were organised pre-SEF regulations they will be able to go and have a look," he says.
The CFP also gives advice and offers arbitration services on professional disagreements, such as alleged market manipulation, and this will be another key area of focus in 2012.
"We will be looking to promote our arbitration services for ACI members given we can call on the expertise of other working groups such as the ACIFXC, which I vice-chair with Stephane Malrait as the Chair. This can be extended to providing pre-proceedings expert witness statements," Woolcock says. "We can certainly provide a preliminary view of a court case and then if an expert is actually required we can source one from within the organisation."
Woolcock is keen to stress the importance of the work undertaken by the CFP, and also the challenge facing the committee in the coming year or two. "The ACI CFP is the final custodian of the Model Code so nothing can be changed without the CFP approving the additions and deletions," he says. "However such is the enormity of the task that we are working closely with other relevant bodies such as the ACI FXC and the Board of Education and are considering taking an intern to help our work in this area."

CFTC and **SEC** Finalise 'Swap Dealer' Definition

The Commodity Futures Trading Commission and the Securities and Exchange Commission have voted that companies dealing in swaps of over $8 billion will be regarded as swaps dealers and will face increased oversight.

The CFTC approved the final rule by a 4-1 vote jointly with the SEC, which approved the rule by a unanimous 5-0 vote. As an initial phase-in, the rule provides that swap dealers will be counted if they trade more than $8 billion in swaps over a 12-month period. The CFTC initially had set that threshold at $100 million in the proposed rule.
The CFTC says it will conduct a study of the market two and half years after it begins to collect data on swap data repositories and will then consider whether the limit should be changed. The threshold would automatically be lowered - likely to $3 billion - after five years if the CFTC does not act before that time.
"As the dealer market is dominated by large entities, I believe the final swap dealer definition will encompass the vast majority of swap dealer activity as Congress had intended," says Chairman of the CFTC, Gary Gensler. "For those who question the level of the de minimis, we considered the threshold in the context of an overall $300 trillion notional swaps market."
The final rule also makes changes to the term "eligible contract participant." Under the Dodd-Frank Act, a person who is not an eligible contract participant may not enter into a swap other than on, or subject to, the rules of a designated contract market. "Based upon the many comments received, we incorporated further guidance to ensure that small businesses and real estate developers can continue to have access to swaps to hedge commercial risks," says Gensler.
The final rule also includes numerous exclusions, including those for hedging activity. An interim final rule provides that swaps a person enters into for the purpose of hedging price risks related to physical positions are inconsistent with swap dealing and are excluded from the swap dealer determination.
The CFTC also says it will apply the SEC's dealer-trader distinction in identifying swap dealers, which would distinguish between businesses trading swaps on their own behalf to hedge business risk and those who are acting as intermediaries.
Swaps between a company's majority-owned affiliates also will not count toward the swap dealer threshold, which posed a serious concern for energy trading companies.
Swap dealer and major swap participant registration will begin when the CFTC and SEC finalise the further definition of "swap."

DTCC calls for fragmentation protection

The Depository Trust and Clearing Corporation (DTCC) has urged the US Congress to pass new legislation for the OTC derivatives markets to prevent fragmentation of global swaps data and to support greater transparency within the market.

The president and chief executive officer of the DTCC, Donald Donahue, in a testimony before the House Capital Markets and Government Sponsored Enterprises Subcommittee, strongly endorsed 'The Swap Data Information Sharing Act'.
The legislation would remove the indemnification provisions from the Dodd-Frank Act, which require US-based swap data repositories (SDRs) to receive a written indemnification agreement from non-US regulators

continued on p.11 ▷

before sharing market data with them. Donahue told the committee, "Indemnification and plenary access must be dealt with together. Fragmentation would undermine the ability of regulators to obtain a comprehensive view of the global marketplace, which would impact their ability to see risk building up in the system and provide adequate market surveillance and oversight.

"While this legislation is a strong step in the right direction, it is one of two key technical corrections that is required to ensure regulators continue to have the highest degree of transparency into OTC derivatives markets."

He continued, "The clear risk is that global supervisors will have no viable option other than to create local repositories to avoid indemnification, which will fragment data globally. While each jurisdiction would have an SDR for its local information, it would be extremely difficult and time consuming to effectively share information between regulators."

Plenary access would require US registered repositories to provide US regulators with direct electronic access to their data, including transactions beyond their jurisdictions. Regulators are concerned that this may result in broader interpretation of the data in order to have access to all swap data retained by the repository.

Exchange-Traded Derivatives on the Rise

Trading volumes for exchange-traded derivatives increased by 11% in 2011, according to statistics released by the World Federation of Exchanges (WFE).

The annual survey reports that over 24 billion derivative contracts were traded on exchanges worldwide in 2011, up from 22 billion in 2010. These contracts are split between futures (11.9 billion) and options (12.9 billion). Since 2006, the number of traded derivatives contracts has more than doubled although while the 11% growth rate remains high, it is lower than the growth recorded in 2010 of 25%, according to the WFE.

The highest growth rate in 2011 was in the currency derivatives segment, which overtook the commodity derivatives market in terms of the number of contracts traded. The growth was primarily driven by currency options traded on the National Stock Exchange of India since 29 October 2010, according to the WFE. The growth rate of traded volumes in 2011 dropped to 6% when the currency options traded in India were excluded from statistics.

Interest rate derivatives saw continued growth in 2011 of 9%. The WFE says that this product segment overcame difficult environments in some regions with low interest rates, no economic growth and credit expansion.

"The increase in [exchange-traded derivative] volumes seems logical given the high volatility of markets in 2011, which may have driven the need for hedging upwards. The relative preference for derivatives built on underlying indices or ETFs, as compared to single stocks, could also factor into the increase," says Jorge Alegria, chief executive officer of the Mexican Derivatives Exchange and chairman of the International Options Market Association.

Iosco and **CPSS** Release Standards for Centralised OTC Clearing

The International Organization of Securities Commissions (Iosco) and the Committee on Payment and Settlement Systems (CPSS) have released new and revised international standards for payment, clearing and settlement systems.

Outlined in a report entitled 'Principles for financial market infrastructures', the new standards provide support for the G20 strategy to make the financial system more resilient by making central clearing of standardised OTC derivatives mandatory.

CPSS and Iosco members will strive to adopt the new standards by the end of 2012 while financial market infrastructures (FMIs) are expected to observe the standards as soon as possible.

The new FMI standards replace the three existing sets of international standards set out in the 'Core principles for systemically important payment systems' (CPSS, 2001); the 'Recommendations for securities settlement systems' (CPSS-Iosco, 2001); and the 'Recommendations for central counterparties' (CPSS-Iosco, 2004).

CPSS and Iosco have strengthened and harmonised these three sets of standards by raising minimum requirements, providing more detailed guidance and broadening the scope of the standards to cover new risk-management areas and new types of FMIs.

The new principles are designed to ensure that the infrastructure supporting global financial markets is robust and well placed to withstand financial shocks. They apply to all systemically important payment systems, central securities depositories, securities settlement systems, central counterparties and trade repositories – collectively 'financial market infrastructures'. These FMIs clear, settle and record transactions in financial markets.

The organisations have also released two consultation papers on the financial market infrastructure revisions for public consultation, a consultation paper on an assessment methodology for these new standards, and a consultation paper on a disclosure framework for the standards. The last two documents are currently out for public consultation until 15 June this year.

William Dudley, president of the Federal Reserve Bank of New York and a co-chair of CPSS-Iosco, says, "Under the new regime of central clearing for standardised OTC derivatives trades, the role of FMIs will become even more important in the future. The principles provide an important safeguard that FMIs will be robust enough to take on this role."

Paul Tucker, deputy governor, Financial Stability at the Bank of England and CPSS chairman, adds: "With these new principles, authorities have a good basis on which to ensure a safe and stable financial infrastructure. It is essential that authorities adopt the principles, and FMIs observe them, as soon as possible."

PROFIT & LOSS
EVENTS 2012

PROFIT & LOSS FOREX NETWORK CONFERENCES 2012

Join Profit & Loss at our series of global Forex Network Conferences and events; Enjoy interactive panel discussions and networking opportunities with leading international and local industry leaders; Visit our world class FX technology trade shows.

Forex Network Asia 2012	in association with ACI Singapore	Singapore, February 16
Forex Network Colombia 2012		Bogota, March 27
Forex Network Mexico 2012		Mexico City, March 29
Forex Network London 2012	(with P&L Digital FX Awards Dinner)	London, April 18
Forex Network New York 2012	(with P&L Readers' Choice Digital Markets Awards Dinner)	New York, May 31
Forex Network Chicago 2012		Chicago, September 27-28
Forex Network Chile 2012		Santiago, October
Forex Network Brazil 2012		Sao Paolo, October
Forex Network Canada 2012	in association with FMAC	Toronto, November 15

www.profit-loss.com