



GLOBAL MARKETS

EXPANDED GLOBAL REACH

In 2016, FIA continued its advocacy work across Asia, Europe and North America. Throughout the year, FIA held fast to its call that there should be greater collaboration and coordination among legislators and regulators across the globe with regard to consistency in global timelines for implementation of high-level political commitments. We submitted more than 70 responses to regulators and policymakers around the globe.

During the year, FIA focused on the impact of the proposed Basel III leverage ratio on clearing and — ultimately — end-users. Other advocacy priorities included the European Union's Markets in Financial Instruments Directive (MiFID II), the regulatory uncertainties surrounding the U.K.'s vote in June to exit the European Union and a range of cross-border oversight issues, such as third-party equivalence of clearinghouses.

FIA also worked with a wide cross-section of industry leaders and policymakers in Asia on issues related to global trading and clearing. We continued our advocacy with a number of Asian clearinghouses to improve risk management standards. >>

CAPITAL STANDARDS THAT WORK

FIA undertook substantial work throughout the year to convey the industry's concerns regarding customer initial margin treatment in the Basel capital requirements, following the publication of a proposal by the Basel Committee in April to amend the leverage ratio.

The Basel Committee standards are a framework for bank capital requirements being adopted by regulators around the world. Of particular concern is the proposed treatment of customer initial margin under the leverage ratio. The Basel Committee's

proposed standards do not recognize the risk-reducing impact of client-segregated margin collected, thereby reducing the bank's exposures and protecting the clearing system in the event of a customer default.

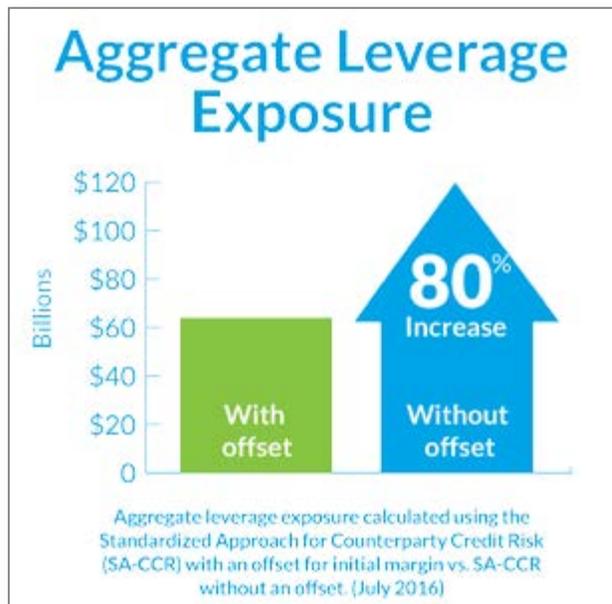
FIA collected data from 15 FIA member firms showing the impact the leverage ratio would have on clearing members if client margin offsets are not recognized.

In addition, FIA testified before Congress on this issue and many lawmakers raised similar concerns. Other top officials, including the Bank of England, have echoed many of FIA's concerns.

[▶ House Agriculture Committee Chairman discusses impact of leverage ratio.](#)

In November, FIA participated in a coalition of 15 industry bodies representing clearing members, asset managers, insurance companies, commodity end-users, hedge funds, derivatives exchanges and clearinghouses that warned that the leverage ratio component of the Basel III capital requirements would harm the strength and stability of the cleared derivatives markets worldwide.

FIA welcomed the European Commission's proposal on capital requirements released in November and the proposal to offset client initial margin when calculating leverage exposure for clearing members.





2016 – A FOCUS ON EUROPE

One of our top priorities in 2016 was to address the issues raised by the implementation of the European Union’s Markets in Financial Instruments Directive (MiFID II), which is scheduled to take effect in January 2018. Throughout the year, FIA submitted several responses and comment letters regarding several aspects of this sweeping European financial framework.

One specific area of concern in MiFID II relates to indirect clearing. FIA sought to ensure the provisions for this are workable, asserting above all that indirect clearing rules are intended to bring greater access to clearing for end-users and to reduce default risk for clients further down the chain.

FIA also focused on several other elements of MiFID that impact derivatives markets, including position reporting requirements, position limits for commodity derivatives, and straight through processing.

To reinforce our advocacy, a delegation of senior executives from FIA member firms traveled to Brussels, Paris and Frankfurt in September. The delegation, which was led by FIA officials Walt Lukken, Simon Puleston Jones and Jackie Mesa,

conducted 10 meetings with European policymakers and discussed a wide range of pending concerns, including Brexit, the leverage ratio, MiFID II and third country equivalence.



FIA Seeks Indirect Clearing Reforms

- › Simplification of account structure requirements at the CCP level
- › Removal of porting requirement for simple indirect client omnibus accounts



OUR WORK IN ASIA

In 2016 FIA strengthened its relationships with key stakeholders in the region, with a particular focus on China and Japan.

FIA President and CEO Walt Lukken and other FIA representatives traveled to China to meet with high-level government officials and industry executives.

The meetings included visits with the China Securities Regulatory Commission, the China Futures Association and the Shanghai International Energy Exchange (INE). The discussions covered a wide range of topics, including the development of rules for automated trading and international access to futures contracts such as the crude oil futures contract awaiting launch on INE and the iron ore futures contract currently trading on the Dalian Commodity Exchange.

The FIA delegation also met with representatives of exchanges, clearinghouses and government regulators in Japan. The discussions covered topics such as clearinghouse recovery and resolution, third-country recognition and error trade policies.

In October, Lukken and Yasuo Mogi, vice chairman of FIA Japan, signed an agreement affiliating the two organizations. The affiliation creates a more formal relationship between the two organizations in order to better coordinate policies and promote the cleared derivatives industry.

KEY CONSULTATIONS IN ASIA

- 1 FIA responds to the Monetary Authority of Singapore** on its proposals to enhance the regulatory regime governing the protection of client money and assets held by capital markets intermediaries.
- 2 FIA responds to the Hong Kong Securities and Futures Commission** and separately to the Hong Kong Exchanges and Clearing Ltd. on position limit proposals.
- 3 FIA responds to Australia's Council of Financial Regulators'** consultation paper jointly with two other financial trade groups on financial benchmarks regulatory reform.
- 4 FIA responds to the Hong Kong Securities and Futures Commission** jointly with ISDA and ASIFMA on automated trading services guidelines.
- 5 FIA responds to the China Securities Regulatory Commission** on the regulator's automated trading proposal.

THE SAFETY AND SOUNDNESS OF CLEARINGHOUSES

The resiliency and recovery of clearinghouses

continues to be a critical focus for FIA. During 2016, FIA held a number of meetings with clearinghouses in the U.S., Europe, China, India and Japan to discuss long outstanding risk concerns.



greater transparency to clearing members. The trade associations' comments touched on governance, stress testing, coverage, margin, CCP contributions to losses and recovery. FIA also joined other trade associations in filing a response to the Financial Stability Board's discussion note on CCP resolution.

A particular focus has been on margin and governance issues, particularly in times of market stress. FIA engaged directly with global clearinghouses and futures commission merchants on a number of priority areas. These areas include reviewing CCP practices, rule-changes, account structural changes and their impact on clearing members.

In addition, FIA CCP Risk Review™ continued to be a valuable source for our industry. This interactive tool helps market participants analyze and compare the rules and procedures of more than 60 CCPs.

FIA joined four industry trade associations in a response to proposed guidance from the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) on resilience and recovery of central counterparties (CCPs). While the associations were broadly supportive of CPMI-IOSCO's work, in some areas, the trade associations recommended that the guidance be enhanced or clarified to provide



CLEARING: THIRD COUNTRY EQUIVALENCE

One of FIA's top goals in 2016 was to encourage European regulators to recognize the equivalence of regulatory regimes for clearinghouses in other jurisdictions. Without an equivalence determination, EU clearing firms would have to meet much higher capital requirements to do business with non-EU clearinghouses, creating the potential for a significant disruption in cross-border trading and clearing.

FIA advocated for the industry on this issue in several ways, including:

- ▶ Submitting a letter to the European Commission supporting an extension of the transitional period for capital relating to the exposures to CCPs.
- ▶ Submitting a letter on ESMA's consultation on margin relating to margin period of risk for client accounts.
- ▶ Writing a letter to the Securities and Exchange Commission encouraging adoption of final rules for SEC-registered clearing agency standards in order for those clearinghouses to receive equivalence from the EC.
- ▶ Engaging with the International Organization of Securities Commissions and other regulators to promote consistent approaches to recognition.
- ▶ Working with other trade associations on a letter to the European Commission on the impact of EU rules on Asian clearing members.



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During 2016, FIA submitted several comment letters relating to third-country equivalence for CCPs.



BREXIT: THE REGULATORY LANDSCAPE AHEAD

Many uncertainties lie ahead for the industry after the U.K. voted in June to leave the European Union. While many of the details and timing remain unclear, FIA has been working with industry leaders and regulators to emphasize the need to:

- **Avoid fragmentation of liquidity** by currency so that products remain freely tradable/clearable globally
- **Minimize disruption**, as it is critical that transitional provisions be agreed upon to facilitate a smooth transition to the new relationship

- **Ensure continuous regulatory** approvals of U.K. market infrastructure so that U.K. trading venues, clearinghouses and trade repositories will continue to be used by EU market participants to meet mandatory trading/clearing obligations and reporting obligations without interruption

FIA is also seeking to strengthen its key relationships with European institutions and competent national authorities such as BaFin, AFM, AMF, FCA and the Bank of England, as well as German, French, Dutch and U.K. finance ministries.

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