



34th Bürgenstock Meeting - Wednesday, September 25, 2013

The 34th SFOA Bürgenstock Meeting, far from its original home in Central Switzerland near Lucerne, convened for yet another year in exile at the grandiose Hotel InterContinental in Geneva. And that is not all that has changed: SFOA is presenting this year's meeting in partnership with the Futures Industry Association (FIA). It's a logical pairing with both organizations sharing the same issues. The choice of Geneva as a new location was equally logical, as this beautiful city is an important center for the derivatives industry. In a further sign of revitalization of the Bürgenstock Meeting, attendance is up this year, with many new faces among those more familiar.

SFOA Chairman, Otto Nägeli pointed out that in the age of Facebook and Skype, it is valid to ask whether such face-to-face conferences are still relevant. The answer is that nothing beats the high-quality personal networking that this conference traditionally offers. He thereupon opened the meeting.

Walt Lukken, President & Chief Executive Officer, Futures Industry Association, welcomed the meeting participants. A former regulator, now heading the FIA, Walt Lukken has enriched Bürgenstock with his vast industry expertise for years, and is the perfect steward in this critical time for the industry. Harmonization of regulations is more important than ever. It is not just a cost issue, but a risk issue. We have to get it right to solve the problems confronting the industry and to avoid causing the next crisis.

The meeting was then addressed by Steve Bernard, Managing Director of Geneva Financial Center Foundation, who listed the city's many points of pride, including 67 Nobel prizes, its tradition of being on forefront of solving global issues, the Red Cross, CERN (where the www was developed) and its vital role as the 7th largest financial center. It is a place where people from all over the world meet to hammer out their differences and come to together to innovate. In view of the challenges confronting the futures and options industry, Bürgenstock and Geneva would seem to be a perfect match.

The participants were also welcomed by Guillermo Valles Galmés, Director, Division for International Trade in Goods and Services and Commodities, UNCTAD (United Nations Conference on Goods and Trade and Devel-

opment). The close association between UNCTAD and SFOA goes back many years. They jointly launched the Emerging Markets Forum, which has been an essential part of the meeting since 1999. As the organization approaches its 50th anniversary, it looks back a long history of helping developing nations adjust and prepare for international markets by building up industry knowledge. The fact that 50% of trades today originate from and among emerging nations testifies to this organization's success in helping these countries join the global marketplace. And yet, five years after the crisis, he sees many underlying vulnerabilities and feels the industry and systems are less prepared today than they were back then. A sobering thought. UNCTAD is calling for a redesign of the global financial structure in the post Bretton Woods world to encourage these emerging economies. Such a move would foster sustainable growth and be conducive to creating a fair trading system and a level playing field.

Walt Lukken also moderated the meeting's first panel discussion, appropriately entitled: Reconstructing Derivatives Markets. He asked the panelists what they saw as the industry's greatest challenges and opportunities. Christopher Edmonds, President, ICE Clear Credit, pointed out the gap between the G20 goals and how they are to be accomplished. A fundamental challenge lies in the different interpretations of these goals and their documentation, making it difficult to reach consensus. He cautioned against a one-size-fits-all regulatory approach. The upside is a significant increase in consumer confidence and ultimately, down the line, an overall lower cost of operation. George Harrington, Global Head, Fixed Income Trading at Bloomberg, said that when we look at all the things that need to happen, there are still many pieces that need to be put in place. With footnote 88 taking effect in October, which makes regulation far more comprehensive than previously expected, this would appear to be a disquieting revelation, with the panel indicating a general lack of industry preparedness. Five years after the crash, the industry is still challenged with low volume and the absence of large spreads. Continual investments must be made in a lower margin environment. Product innovation is one positive develop that he sees, and ultimately a much healthier industry going forward. Jeffery Howard, Managing Director, Global Co-Head of Prime Services Markets, RBS Securities, pointed out

the original G20 consensus was to make the financial system suffer in the wake of the crisis. The challenge the industry faces lies in meeting the deadlines set in the new regulations. An industry consolidation is beginning and will accelerate in the next two to five years. He sees the benefits in the new regulatory environment coming in the form of safer markets, a return of liquidity and improved operational efficiency.

Remco Lenterman, Managing Director, IMC Financial Markets, and Chairman, FIA European Principal Traders Association, agreed that some market participants are unprepared and pointed to a lack of regulatory cooperation on the international level. He sees the advent of a potential financial transaction tax as one intended to slow down markets with disincentives, which would significantly impact markets. Still, he remains optimistic and sees the regulatory framework also creating greater market transparency, increasing efficiency and lower operating costs. John Wilson, Global Head of OTC Clearing, Prime Clearing Services at Newedge, struck a more pessimistic tone as he spoke of a deliberate intent to raise costs to cover the social costs of this industry. The regulations are margin-reducing and leading to the fragmentation of markets, the proliferation of trading places and clearing houses. A retaliatory environment is emerging, causing an overreach based on a lack of trust. He sees a credit risk problem becoming a liquidity risk problem. Yet, he too, struck a more optimistic note, envisioning how the new regulations could deliver a more level playing field and improved market efficiency.

Following the panel discussion, Michael Manz, Head of Section International Finance & Financial Stability, State Secretariat for International Financial Matters, Swiss Federal Department of Finance FDF, introduced the final speaker for the Wednesday session.

David Wright, Secretary General, International Organization of Securities Commissions (IOSCO), looks back on a brilliant career in international relations, including his contributions to the successful WTO Uruguay Round. The current international regulatory revision is now in its 7th year. The vast number of international work streams involved bears the danger of there being too many cooks in the kitchen, resulting in difficult coordination. Because on the global level work is conducted on a consensus basis, the standards that result may not be as grandiose as originally intended. The Financial Stability Board was set up to ensure that all members commit to implementing the regulations agreed upon. But one of the greatest challenges still faced after seven years is a lack of data. He sees a real need for ex-ante analysis, to take a closer look at the economic effect of how policies interact, as well as challenges emerging with the technical implementation of political declarations made at the G29 level by heads of states.

He spoke of the divergence in rulemaking among the various jurisdictions, while there are high-level agreements for “substituted compliance”, these agreements contain “hidden ambiguities” that are proving difficult to resolve. The derivatives market is a critical part of the overhaul of the financial regulatory system. Though plenty of progress has been made, it is being driven on the local level and then cobbled together on the global level. Mr. Wright would prefer to see change launched on a global level to work its way downward. We still have a long way to go, it seems.

Mr. Wright also went on to talk about the positive aspects and potential of the derivatives industry, particularly its important role in the interlinking of physical and financial markets, as well as their importance in terms of price discovery and transparency.

He mentioned yesterday’s speech by International Monetary Fund Chief Christine Lagarde to the United Nations General Assembly, in which she pointed out the IMF’s role in protecting the planet from environmental damage. She pointed out the need for 21st century financial policies to meet 21st century challenges.

The same applies for the new regulatory body for the financial industry. It needs to be implemented in a coherent manner to avoid simply displacing systemic risk elsewhere. It is important to make changes now when there are just a handful of large capital markets, for it will be much more difficult in the future in a world with many more large capital markets. Needed are more granular standards set on a global level and stronger institutions with some enforcement powers.

Following Wednesday’s keynote speeches and panel discussions, delegates mingled at a cocktail reception hosted by CME Group and its senior executives, including Phipinder Gill, Kim Taylor and William Knottenbelt. This was followed by dinner hosted by Eurex. Dr. Matthäus den Otten, a senior advisor to the Swiss Funds and Asset Management Association, gave an entertaining after-dinner speech on the state of the funds industry in Switzerland. Last but not least, came the Cosy Corner after-dinner drinks, cigars and networking, sponsored by Havana Club and Davidoff Cigars.

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