


2013

2013 YEAR IN REVIEW

FIA



FIA is the leading trade organization for the futures, options and cleared swaps markets. Our mission is to be the global thought leader, advocate and educator for futures and swaps that are centrally cleared. FIA's core constituency consists of futures commission merchants, which play a critical role in the reduction of systemic risk in the global financial markets. They provide the majority of the funds that support clearinghouses and commit a substantial amount of their own capital to guarantee customer transactions. FIA's membership also includes the major global exchanges and clearinghouses as well as leading trading firms, asset managers, commercial end-users, technology vendors and legal services firms supporting the industry.

FIA

OUR YEAR IN REVIEW

LOOKING BACK AT 2013, I am amazed at how fast the year went by. The pace of regulatory change has not slowed since the financial crisis began five years ago. Even more amazing is that our members—despite fatigue, stress and uncertainty—rose to the challenge and their determination to get the new regulatory landscape right never wavered. This industry has always advocated for fair, safe and competitive markets and we made tremendous strides in 2013, working with the regulators to set the foundation for the new regulatory regime.

was needed to meet the global challenges we face. Whether it's tackling international standards for margin or capital, harmonizing the cross-border application of national regulations or rationalizing reporting requirements across jurisdictions, this partnership will enable us to speak with a global voice and improve the global brand and its influence worldwide. I am confident that FIA, FIA Asia and the soon-to-be-named FIA Europe will benefit from combined resources and send a stronger message on these policy issues. The sun never sets on our markets and it shouldn't set on those of us who are your advocates.

The year began with key additions to the policy team, including hiring Allison Lurton as deputy general counsel in January and Jackie Mesa as head of international affairs and executive director of FIA Global in June. These new hires compliment the already deep bench of FIA General Counsel Barbara Wierzynski, FIA's newly-named COO Mary Ann Burns and FIA's SVP of government affairs, Dawn Stump. These individuals—and the countless other dedicated FIA staff—are what distinguishes the FIA from other organizations.

At the top of last year's policy agenda was strengthening the protections afforded to customers in our markets. Since the collapse of MF Global and Peregrine two years ago, FIA has worked tirelessly to recommend and support policies that strengthen the safety net for customers. This past November, the Commodity Futures Trading Commission finalized a new comprehensive rule set designed to enhance protection of customer assets. FIA supports and welcomes the majority of these regulations.

Other aspects of the CFTC customer protection rule, such as the "residual interest" language, presented operational challenges and the possibility of major unintended consequences and costs. FIA spearheaded an effort with its members and various agricultural trade associations to educate the Commission and advocate for modifications in the proposal. In 2013, FIA led a coalition of organizations to study the costs and benefits of adopting a customer protection insurance regime for the futures industry. All of these efforts were aimed at informing the debate about the best ways to protect customers in our markets and FIA was proud to be at the forefront of these endeavors.

A major strength of FIA is the willingness of our members—from FCM to exchange and end-user—to educate regulators on the detailed mechanics of market operations. Much of last year was also devoted to developing the rules for straight-through-processing of cleared swaps as well as the risk screening involved with protecting the integrity of the markets. Through countless commission roundtables, meetings and letters, the FIA worked with the Commission to develop solutions for screening give-ups and bunched orders. And as SEFs began registering in the fall, FIA convened various SEF events to determine how orders would be guaranteed and cleared to avoid uncertainty and delay.

When the CFTC published its concept release on automated trading in September, more than 100 representatives from principal trading firms, FCMs and exchanges participated in FIA's working group to respond to the CFTC's questions, covering a wide range of topics and demonstrated to the CFTC that a broad range of risk controls are already widely used by market participants.

As we reviewed our membership services last year, it was clear that one of FIA's top assets was its technology arm—FIA Tech. FIA Tech was launched seven years ago to bring efficiency to the brokerage pay and collect process. In 2013, FIA Tech worked with members to revolutionize this process. Members encouraged us to look for additional ways we could bring operational efficiency to the industry. When a technology problem can benefit from a centralized solution, FIA Tech works with members to find a cost-effective solution that will benefit the industry as a whole.

Another historical strength of FIA is our ability to connect the industry during periods of normalcy as well as distress. In 2013 FIA's conferences set record attendance and again proved why they are the places to be if you want to stay connected and informed in this industry. To keep our conferences exciting and informational, we have experimented with the greater use of video and new quick-hitting panel formats. FIA conferences also attracted an impressive list of speakers including CNBC's Maria Bartiromo and political columnist George Will. For the first time, FIA successfully partnered with SFOA to host the Burgenstock Conference in Geneva to give FIA a strategic presence in Continental Europe.

“One of the highlights of 2013 was the creation of FIA Global, which unites FIA, the U.K. FOA and FIA Asia under a single global structure.”

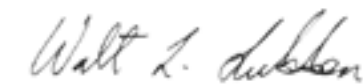
FIA continued to work on improving our services and communications with members and in 2014 we plan to launch an all-new, rebranded and highly-navigable website with added functionality. Stay tuned!

What continues to make this such a rewarding experience for me is the incredibly cooperative and supportive spirit that surrounds this industry. This “can-do” attitude is in the DNA of the individuals who make up these markets and it makes me proud to be in a leadership position representing you. As I begin my third year as president and CEO, I am particularly grateful for the support of the FIA board, as we transform this organization into a global body while simultaneously navigating the greatest regulatory change to have faced this industry in 40 years.

Don't exhale yet. 2014 promises to be as big a year as 2013. The CFTC will finalize some of the last major rulemakings for both cleared swaps and futures. We are all looking forward to finding the new “normal” and getting back to a time when regulatory changes slow and innovating and growing the listed derivatives business can be our priority. We're looking forward to working with you in 2014 to help the industry meet these challenges and take advantage of opportunities that will inevitably come our way.

Thank you for your support of FIA.

Best regards,



Walt Lukken
President and CEO
FIA and FIA Global



In my second year at FIA, I began 2013 with three goals. First, it was clear that we had to become a more global organization to reflect the demographics of our membership and our markets. Second, FIA needed to expand its already deep expertise to offer its membership more intelligence on issues affecting their organizations. Lastly, we wanted to review all of our membership services—communications, conferences and advocacy—to ensure a consistent level of excellence throughout all aspects of our organization.

One of the highlights of 2013 was the creation of FIA Global, which unites FIA, the U.K. FOA and FIA Asia under a single global structure. The cross-border nature of the listed derivatives markets made it abundantly clear that this important alliance

GLOBAL AFFILIATION

THE ANNOUNCEMENT IN JUNE that the U.K. Futures and Options Association would join with FIA and FIA Asia under the brand FIA Global represented a major milestone for the associations. The affiliation allows our combined organizations to strengthen our influence on cross-border issues, substantially increase the coordination and information flow between the regions, and provide a powerful global voice to express the views of our members.

While the affiliation will strengthen our ability to address issues on a global level, the new structure preserves each association's ability to deal with legislative, regulatory and market issues in our respective time zones and remain closely connected to our members. In August, Walt Lukken was named chief executive officer of FIA Global. At the first FIA Global board meeting in November, Jackie Mesa, FIA's senior vice president and director of international relations and strategy, was named executive director. The organization

immediately began focusing on several pending regulatory issues that are of critical importance to the collective membership, including the Basel III capital standards, cross-border recognition, the EU's European Markets Infrastructure Regulation and Dodd-Frank implementation.

We engaged a branding agency in November to help us develop our global brand, conveying a consistent message around the world. We expect to introduce our new look at the Boca conference in March. At that time, FOA will become FIA Europe. In the meantime, we are working on ways to achieve efficiencies across the organizations by integrating operations and processes to deliver additional value to our members in 2014.

The affiliation of FIA, FOA and FIA Asia allows our combined organizations to strengthen our influence on cross-border issues.

A GLOBAL MARKET

FOCUS ON BASEL III: FIA CAPITAL WORKING GROUP FORMED

NEW INTERNATIONAL CAPITAL requirements under Basel III was a key focus of the FIA during 2013, prompting formation of FIA Capital Working Group. This group was created to examine which Basel capital proposals are of concern to FIA members, particularly futures commission merchants.

As these new international capital requirements are nearing completion, FIA's Capital Working Group, which consists of member firms in the U.S. and in Europe, has determined that the cost of providing clearing services will rise dramatically over the next several years. Under the capital standards now in development, banks will potentially have to set aside amounts of capital to protect against the risk of loss in the clearing of derivatives for their clients.

Cleared derivatives also will factor into a separate set of capital requirements based on leverage ratios. As a result, each new contract that is cleared will create a risk exposure that will trigger a capital charge, and clearing firms will have to factor that cost into their business model.

During the year, FIA organized meetings with the Federal Reserve, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency and the Commodity Futures Trading Commission to discuss, among other things, leverage ratios regulators intended to use in setting capital requirements.

In September, FIA submitted two letters to the Basel Committee on its proposed capital rules. One letter warned the Basel Committee that its proposed leverage ratio framework overstates the risk exposure created by clearing derivatives trades on behalf of clients. FIA cautioned that the proposed ratio would contravene the intent of the clearing mandate for swaps and would threaten to disrupt the existing market for exchange-traded futures and options.

The second letter discussed proposed capital treatment of bank exposures to central counterparties. In this letter we warned that the proposed approach would "substantially overstate" actual

New Basel III standards will require banks to set aside capital risk in cleared derivatives. The FIA Capital Working Group will continue to work with a broad cross-section of industry participants to ensure that implementation of the standards are workable.

exposures to default funds and would undermine efforts to promote central clearing. To reduce the disincentives for clearing, FIA recommended using a different methodology that takes into account the risk of loss in a more appropriate way, or alternatively, by reducing the risk weighting of default fund contributions.

FIA's Capital Working Group will continue to work with policymakers and a broad cross-section of industry participants to ensure that proposals are workable and do not ultimately undermine mandates that over-the-counter swaps be centrally cleared.

A GLOBAL MARKET

CROSS-BORDER APPLICATION OF DODD-FRANK

THE APPLICATION OF DODD-FRANK REGULATIONS to cross-border transactions and global firms continued to be a key issue for FIA and our affiliates throughout 2013. During the year, we worked with a coalition of financial trade associations from Europe and the U.S. to raise awareness among regulators of the need to establish a framework for regulatory recognition in order for global markets to function competitively.

Throughout the year, we worked closely with members and regulators as the Commodity Futures Trading Commission issued guidance and interpretation explaining how it will apply Dodd-Frank regulations to cross-border transactions. FIA submitted several comment letters seeking clarification and more time for firms to comply. We also played a key role in educating our members on the CFTC's cross-border guidance.

Among the letters, FIA submitted a joint comment letter with the Securities Industry and Financial Markets Association and the Financial Services Roundtable to the CFTC, highlighting a number of challenging implementation issues as well as significant technical issues and ambiguities related to the CFTC's cross-border guidance and its exemptive order.

Shortly before the end of the year, the CFTC took an important step toward clarifying how it will apply its regulations to cross-border trading in swaps. It announced that six foreign jurisdictions have been deemed "comparable" with respect to certain swaps provisions of the Dodd-Frank Act—Australia, Canada, the European Union, Hong Kong, Japan and Switzerland.

As regulators around the globe move forward with implementation of financial reforms, FIA, through our FIA Global umbrella, will continue to serve as a unified voice to ensure that our markets can be competitive and continue to grow in a new global regulatory landscape.

WORK IS ONGOING



IN TOUCH WITH CONGRESS

FIA MEETS WITH LAWMAKERS

THE BEGINNING OF 2013 marked the start of a new Congress. The House and Senate Agriculture Committees began the process of reauthorizing the Commodity Futures Trading Commission. This process historically serves as an opportunity for Congress to revisit the CFTC's regulatory regime.

Soon after the new Congress was seated in January, FIA hosted a members-only webinar during which Dawn Stump, FIA's head of government affairs, briefed members on the make-up of the new Congress, composition of key congressional committees and the potential issues affecting the derivatives industry, including reauthorizing funding for the CFTC to carry out duties under the Commodity Exchange Act, which expired on Sept. 30, 2013.

We have been actively involved in the CFTC reauthorization process. During 2013, Walt Lukken, president and CEO of FIA, testified in both the House and the Senate, focusing on the progress made to better protect derivatives customers' assets as well as implementation of the new swaps clearing and execution mandates under the Dodd-Frank Act.

In June, our Board of Directors met in Washington to discuss various policy-related matters with Senate Agriculture Committee Chairwoman Debbie Stabenow (D-Mich.), and House Agriculture Subcommittee Chairman Mike Conaway (R-Texas). FIA board members also used this opportunity to meet with regulators including EU Ambassador to the U.S. Vale De Almeida, CFTC Commissioners Mark Wetjen and Scott O'Malia, Treasury Assistant Secretary Cyrus Amir-Mokri, CFTC Division Director Gary Barnett and the chief counsel to the CFTC's division of clearing and risk, Robert Wasserman.

Moving forward in 2014, the House of Representatives is likely to proceed soon with legislation to reauthorize the CFTC. The House of Agriculture Committee has concluded hearings on the matter. The Senate is expected to hold more hearings into 2014, and we will continue to provide the perspective and concerns of our members.

WORK IS ONGOING



CUSTOMER PROTECTION

ENHANCED CUSTOMER PROTECTION RULES



WORK IS ONGOING

IN 2013, THE COMMODITY FUTURES TRADING COMMISSION moved forward with enhanced customer protection rules. Many of the final rules, which published in November 2013, codified much of what has already been established in the industry and was initiated through the recommendations made by our Financial Management Committee.

Throughout the year, we worked with the National Futures Association and CME Group toward implementing many of the financial reporting requirements included in the enhanced customer protection rules. Leading up to final approval, we participated and organized futures commission merchant representation at two CFTC roundtables on customer funds protections. In addition, FIA representatives met with the CFTC on margin, segregation and disclosure issues included in the enhanced protection rules.

We supported the vast majority of the customer protections contained in the rule, but opposed the CFTC's final language on residual interest, a provision that condensed the amount of time by which FCMs are required to use their own funds to cover any individual customer margin deficits. FIA sided with many of the concerns raised by members of the agricultural sector and congressional leaders, warning that once the rule takes effect it will require far-reaching changes to industry practices and will disadvantage customers.

Our comment letter on the enhanced protection rules was a major undertaking during 2013 and a helpful influence on the final outcome of the CFTC rules. This letter was drafted with the help of the Law and Compliance Division and the Financial Management Committee. Our letter and related ongoing discussions with CFTC commissioners in conjunction with agricultural groups, resulted in an outcome of the residual interest rule that is considered by most firms to be an improvement over the initial proposal. The CFTC modified the residual interest requirement by phasing in the required changes over five years and by requiring a study and a roundtable to assess the impact of the changes. However, we remain concerned that it may prove difficult for any future CFTC to adjust or review the provision. Work continues in this area.

FIA INTERVENES IN TWO CRITICAL LITIGATIONS



WORK IS ONGOING

EARLY IN 2013, FIA in conjunction with CME Group, filed an *amicus* brief in a legal proceeding relating to an insurance claim with the MF Global estate in which MF Global's insurers declined to cover a \$141 million loss caused in 2008 by a trader. Our goal in submitting the brief was to ensure that the federal appeals court understood the structure of the futures markets and the nature of clearing firm obligations and to minimize the potential for setting a bad precedent for the industry. We are happy to report that the appeals court ruled in favor of FIA's arguments and agreed to the release of funds.

Our goal was to ensure that the federal appeals court understood the structure of the futures markets and the nature of clearing firm obligations and to minimize the potential for setting a bad precedent for the industry.

At the request of several of FIA's smaller Chicago-based futures commission merchants, we filed a separate *amicus* brief in the FCStone/Sentinel litigation involving the protection of customer funds that may have been moved out of futures segregated accounts. FIA's brief focuses on protections afforded to customer segregated funds in bankruptcy situations. The issue on appeal in the case is a

U.S. district court's decision in January of 2013 ordering FCStone to return a 2007 distribution made in connection with the bankruptcy to cover certain customer funds in the segregated customer accounts of its futures commission merchant customers.

FIA's brief supported FCStone's arguments seeking to reverse the district court's decision on several grounds concerning the customer funds protections provided by the Commodity Exchange Act Section 4d, tracing requirements, the status of futures commission merchants as guarantors and initial transferees. We will continue to monitor developments in this case.

STANDARD ACKNOWLEDGMENT LETTERS

DURING 2013, FIA FORMED a new banking subgroup to address the newly required standard bank acknowledgment letter, which was part of the Commodity Futures Trading Commission's enhanced customer protection rules that were approved in October.

The final document approved by the CFTC capped a four-year effort to have an acceptable standard bank acknowledgement letter that would not need individual negotiation.

The purpose of acknowledgment letters is to put depository firms on notice that the funds held in the customer account must be treated in accordance with applicable segregation requirements. The CFTC rule requires the use of a template letter and the CFTC has made available six versions of this template to accommodate differing customer accounts. In addition to acknowledging the segregation requirements, the letter includes language intended to enhance the CFTC's ability to identify and respond to potential problems in the treatment of customer funds.

With respect to liens on the customer account, the final template letters have been modified to incorporate certain recommendations from FIA and others. For example, the final letters now provide that the depository has the right to recover funds advanced in the form of cash transfers, repurchase agreements, or other similar liquidity arrangements the depository makes.

STUDYING THE FEASIBILITY OF INSURANCE

FIA, TOGETHER WITH CME GROUP, the Institute for Financial Markets and National Futures Association, released a study on Nov. 15 on the economic feasibility of adopting an insurance regime for the U.S. futures industry.

The study was commissioned by the four sponsoring organizations in November 2012 and was conducted by Compass Lexecon, a consulting firm that specializes in the application of economics to legal, regulatory and policy issues. The study did not provide any policy recommendations, rather it was designed to assist policymakers by clarifying the amount of insurance coverage that can be obtained through various solutions and the potential costs of each.

The study found that there was interest among insurance companies to offer customer asset protection insurance to U.S. futures customers of futures commission merchants that opt to participate in a captive insurance company. However, the study found that the initial terms proposed by the insurance companies were somewhat restrictive.

The study also assessed the viability of offering the same kind of protection afforded to securities investors by the Securities Investor Protection Corporation. The study estimated that it would take 55 years for such a program to be fully funded, and concluded that a government backstop would likely be necessary to close the gap between actual funds available and potential customer liabilities for a period of time.

INDUSTRY REPORTING REQUIREMENTS

FORMATION OF THE COMMODITY COMMITTEE



WORK IS ONGOING

DURING 2013, WE FORMED the Commodity Committee, recognizing that many commodity firms share similar concerns and challenges to our core FIA

member firms as Dodd-Frank regulations become implemented. Our first meeting was held in May with a gathering at FIA's Law and Compliance conference in Baltimore. We invited commodity firms that are not yet members of FIA to participate in this initial phase and we were pleased with the turnout.

Our outreach in this area also included a partnership with the Committee of Chief Risk Officers (CCRO), resulting in a successful energy end-user event focused on futures commission merchants in Houston in July. This event covered topics such as the role of the exchange in commodity transactions, over-the-counter clearing, the role of the FCM, risk management and compliance, enforcement and reporting requirements.

Focusing on Several CFTC Regulations

Our Commodity Committee identified several issues on which to focus including the reporting of swaps, block trading rules, and position limits. Subsequently, we submitted official comments to the Commodity Futures Trading Commission on issues impacting our member firms as well as commodity firms.

In August, together with the American Petroleum Institute and the International Swaps and Derivatives Association, we filed a request with the CFTC for clarification on reporting aspects of the block trade rules that took effect in July. We asked for clarification that market participants could rely on the United Nations Geoscheme classification of regions in the reporting of non-U.S. delivery or pricing points that are referenced in commodity swaps. The associations also sought confirmation of certain assumptions made in classifying locations by region.

During 2013, we submitted two comment letters to the CFTC regarding CME Group's request for approval to amend Rule 538, which governs exchange-for-related-position transactions.

In the letter, we offered several recommendations and asked for further changes to the CME filing. In particular, we opposed the CME's proposed requirement that confirmations on cash FX transactions identify the carrying clearing member and provide account numbers of an account controller's customers. FIA, among other things, expressed concern about the adverse effects of CME's proposal to prohibit swaps executed on a swap execution facility from constituting a permissible component of an exchange-for-related-positions transaction.

CFTC's Reporting Requirements

In March, FIA submitted a letter to the CFTC's division of market oversight seeking relief from Part 46 reporting requirements with respect to trades occurring in the contingent exchange for swaps and exchange of options markets for CME Group Clearport and ICE contracts and for energy swaps executed contingent upon being promptly submitted to and accepted for clearing as swaps by ICE Clear Europe.

In our letter, we stated that due to the contingent nature of the trades, CME Clearing and ICE Clear Europe already have relevant trade data that provides market transparency and is available to the CFTC for market surveillance purposes. "Absent relief, market participants are incurring (and will continue to incur) substantial costs to achieve a duplicative result that offers no discernible regulatory improvement over that existing trade data," we cautioned.

In addition, the Commodity Committee continues to work with the existing FIA position limits committee to incorporate commodity-specific examples and to raise issues with the revised proposed position limits proposals. Our hope is to widen the group of FIA members serviced by the Commodity Committee.

We are happy to report a growing number of commodity firms have joined FIA and we will continue outreach in this area, serving as one voice as our industry faces many new regulatory requirements.

POSITION LIMITS A KEY FOCUS

We are concerned that the proposed rule will significantly restrict the ability of market participants to rely on the derivatives markets to hedge risk.

POSITION LIMIT RULES have been a major focus for FIA for several years. Over the course of this process, we have submitted five major responses on the Commodity Futures Trading Commission's aggregation and position proposals and at present we are running five FIA subcommittees on various facets of the proposed rules.

The CFTC on Nov. 5 approved a proposed position limits rule and a proposal determining when positions held by two or more related entities should be aggregated. The proposed position limit rule is intended to implement a

directive in the Dodd-Frank Act to harden and extend the existing position limit rule. If finalized, the position limit rule would establish position limits for futures and options on 28 physical commodities and several hundred economically equivalent swaps.

We remain concerned that various aspects of the proposed rule will have a negative impact on the price discovery function of commodity derivatives contracts that would be subject to the position limits. We are also concerned that the proposed rule will significantly restrict the ability of market participants to rely on the derivatives markets to hedge risk, which is a fundamental purpose of our markets.

We have hosted numerous meetings with officials at the CFTC and will continue to do so as this critical rulemaking progresses.

WORK IS ONGOING



OWNERSHIP AND CONTROL REPORTS

WE RECONVENED OUR Account Ownership and Control Working Group in November shortly after the Commodity Futures Trading Commission released its final rule on account ownership and control. We provided comments on the rule when it was first proposed in 2010 and again in 2012 when it was re-proposed. OCR provides the CFTC with information about who owns and controls position reportable accounts as well as a new category of accounts called volume threshold accounts.

Futures commission merchants currently provide this information on Form 102 and clients provide additional information on Form 40 upon request by the CFTC. Under the new rule, FCMs will provide reportable futures

positions on Form 102A, volume threshold information for accounts that trade 50 or more contracts per day in a particular product on Form 102B, and cleared swaps reportable positions on Form 102S. Clients will file additional information on new Form 40 upon request. A new Form 71 will provide the CFTC with information on omnibus accounts.

Our OCR working group consists of FCMs, exchanges, and service providers working together to understand the rule and various ways of complying by the August deadline.

WORK IS ONGOING



A FOCUS ON AUTOMATED TRADING

FIA SUBMITS RESPONSE TO CFTC CONCEPT RELEASE ON AUTOMATED TRADING

IN DECEMBER, FIA SUBMITTED an extensive response to the Commodity Futures Trading Commission's "Concept Release on Risk Controls and System Safeguards for Automated Trading," which was issued in September as part of a broad examination of the impact of technology on U.S. futures markets.

We recommended that the CFTC consider the following principles as it examines the risks of automated trading:

- The risks of automated trading are not limited to any one set of market participants, and risk controls and system safeguards should apply to all participants that use automated trading systems as well as technology providers.
- All market participants have a responsibility to implement risk controls appropriate to their role in the life of an order, whether that role is initiating the trade, routing the trade, executing the trade or clearing the trade.
- Risk control requirements should be principles-based so that they remain effective as markets, technology and trading strategies evolve.
- Regulators should encourage industry efforts to protect markets through further innovation in risk controls and system safeguards.

More than 100 members participated in developing our response with several members of the FIA Principal Traders Group taking a leading role in drafting key sections of the response. In addition, members of FIA provided key insight to policymakers and market participants during roundtable discussions held by the CFTC's Technology Advisory Committee.

Our response described the many risk controls and system safeguards that are currently in use in the futures industry, and outlined several principles for the CFTC to consider as it examines ways to further strengthen those controls and safeguards. The response also contains detailed responses to specific questions posed by the CFTC, and draws on the collective expertise of members of FIA and the FIA Principal Traders Group.

FIA conducted two surveys in support of the response: one asking about risk controls used by trading firm members of FIA PTG, and the other asking about risk controls used by futures commission merchant members of FIA, with nine FCMs responding.

The survey results showed that best practice risk controls are widely used by member firms. All responding FIA PTG firms indicated that they used some form of pre-trade maximum order size screens, data reasonability checks, repeated automated execution throttles, and self-trading controls.

In addition, all responding firms indicated they were either using, or considering using, some form of drop copy functionality as a risk control. The survey results also showed that all responding FCMs use the following controls either administered internally or at the exchange level: message and execution throttles; price collars; maximum order sizes; order, trade and position drop copy; and order cancellation capabilities. In addition, all responding FCMs use some form of a kill switch or other means to stop order submission when necessary.

FIA VOLATILITY STUDY: THE IMPACT OF AUTOMATED TRADING

Findings of the study come at a critical time as regulators are now taking a closer look at market structure and the growing use of automated trading.

IN AUGUST, WE RELEASED A STUDY on changes in the level of volatility in the futures markets. Our study was conducted by Robert Whaley and Nicholas Bollen of Vanderbilt University and focused on 15 futures contracts listed on four leading futures exchanges—CME Group, Eurex, IntercontinentalExchange and NYSE Liffe.

The study found that while prices in these 15 markets moved through cycles of high and low volatility as well as numerous price spikes attributable to macro-economic events, volatility attributable to structural factors did not change in most of these contracts. In other words, innovations such as algorithmic and high-frequency trading that have affected how trading is conducted do not appear to have affected the volatility of prices.

Findings of the study come at a critical time as regulators are now taking a closer look at market structure and the growing use of automated trading. Our study showed that while trading is faster than it used to be, there is no evidence that high-speed trading has caused volatility to increase.

PROMOTING INDUSTRY RISK MANAGEMENT PRACTICES

IN SEPTEMBER, FIA RELEASED THE SIXTH in a series of risk management recommendations. The latest release presented a set of recommendations for increasing the usefulness of drop copy systems in exchange-traded markets. Drop copy systems, which provide a way to monitor trading activity in near real-time, are currently offered by many trading venues and have become a critical component in the risk management processes of brokers.

This initiative began after representatives from the FIA Principal Traders Group met with officials at the Securities and Exchange Commission in the fall of 2012 and discussed the value of drop copy functionality.

Our paper recommended extending drop copy functionality to all types of trading venues. Drop copies can be used in several ways to manage the risks of electronic trading. For example, a company can compare the information provided by an exchange in a drop copy with trade notifications from its own trading infrastructure and quickly identify any discrepancies. In addition, brokers that provide clients with sponsored access to trading venues can use drop copies to monitor the trading activity of those clients. The purpose of our recommendations is to promote wider adoption and increased standardization of drop copy functionality.

The drop copy recommendations are the latest in a series of risk management recommendations issued by FIA through its affiliates FIA Principal Traders Group and FIA European Principal Traders Association.

WORKING GROUPS FOR CLEARED SWAPS

RULES 1.73 AND 1.74

Clearing Member Risk Management

Rule 1.73, which requires firms to establish risk-based limits and Rule 1.74, which relates to the timing and acceptance of clearing for swaps, both took effect in 2013. During the year FIA worked with regulators to resolve many of the operational issues in implementing these rules.

Through countless commission roundtables, meetings and letters, FIA worked with the Commodity Futures Trading Commission to develop solutions in implementing these rules in the context of screening give-up agreements and managing bunched orders.

In 2014, as products become made-available-for-trading in the first quarter of the year, it is likely that we will continue to uncover glitches in how these transactions are processed and cleared.

FIA will continue to be at the forefront on these matters looking to find workable solutions to these market structure challenges.

WORK IS ONGOING 

POST-ALLOCATION OF BUNCHED ORDERS AND OTHER CLEARED SWAPS ISSUES

DURING 2013, SEVERAL OF OUR CLEARING member firms worked with the buy-side representatives to develop a process for post-allocation of bunched orders. Unlike futures allocations, in this new workflow, the bunched order will be allocated by the clearinghouse. This creates the need for a “standby” futures commission merchant where the block trade is held until it is allocated by the central counterparty.

Our working group, which consisted of FCMs, central counterparties, and asset managers, worked through a number of issues including how to identify a trade as part of a block and what happens if a trade breaks. The CCPs reported their progress on implementing a new workflow for allocations for bunched orders. When swap execution facilities were launched in October, they were added to the working group to discuss how they would handle block trades.

In addition to the Post-Trade Allocation Working Group, we launched a Pre-Trade Allocation Working Group in December. This group has been discussing the workflow when the client sends allocation instructions after an order is sent to a SEF. This working group, which consists of FCMs, CCPs, fund and asset managers, and SEFs, is tackling the issues arising from various execution models including full and partial voice trading, differing allocation shapes making matching difficult, and how request-for-quote and central limit order book models differ.

WORK IS ONGOING 

SWAP EXECUTION FACILITIES: A NEW TRADING LANDSCAPE

A **CENTRAL PROVISION OF THE DODD-FRANK ACT** mandates execution of most swaps on swap execution facilities, or SEFs. With the introduction of SEFs as part of the derivatives electronic trading landscape, many questions remain related to operational issues such as pre-trade risk controls, reporting requirements and central clearing.

In September, FIA, in conjunction with the Law and Compliance Division, hosted the FIA SEF showcase in New York. This heavily attended members-only event drew representatives from 11 SEFs, allowing them to showcase to FIA members their unique platforms. Our showcase also covered topics such as the role of the customer clearing membership and account management, clearing guarantee, credit checks, customer documentation and required reports and notices.

In November, our IT Division hosted the SEF Technical Showcase in Chicago, during which SEF representatives discussed the technical aspects of their platforms including connectivity options, GUI versus API access, messaging protocol, orders versus quotes, and risk management options for clients, dealers and futures commission merchants.

On our exhibition floor during our annual Futures and Options Expo in Chicago, nearly a dozen SEFs participated in the SEF Showcase. These demonstrations, scheduled over two days, were widely attended and proved to be a great networking opportunity as industry participants implement swap trading and clearing mandates under the Dodd-Frank Act.

As more swaps are deemed “made available to trade” by the Commodity Futures Trading Commission and therefore mandated to be traded on SEFs, we will continue to address the range of issues surrounding this new trading landscape.

WORK IS ONGOING 

IMPLEMENTING LSOC WITH EXCESS

IN CONJUNCTION WITH THE INTRODUCTION of mandated buy-side clearing of over-the-counter swaps, rules set by the Commodity Futures Trading Commission took effect in late 2012, requiring cleared swaps customer collateral to be legally segregated from fellow customer collateral, but operationally commingled—the so-called LSOC model.

FIA, through the work of its divisions, has coordinated extensively with regulators, members and a cross-section of market participants to implement this new system.

The first phase of LSOC took effect in late 2012 and the final phase, which covers the reporting and treatment of customer excess margin, took effect in the fall of 2013. However, many operational issues persist and FIA, through our LSOC working group, continues to work on these issues as well as swaps collateral issues related to cross-border accounts.

WORK IS ONGOING 

NEW CLEARINGHOUSE STANDARDS

RULE 39.33

Enhanced Liquidity Standards for Systemically Important DCOs

The Commodity Futures Trading Commission finalized rules for systemically important derivatives clearing organizations, or SIDCOs, in December. FIA has been closely monitoring this issue and throughout the year was in discussions with the CFTC, the Federal Reserve, and others urging flexibility in regulators' interpretation and implementation of the international standards set by CPSS-IOSCO (Committee on Payment and Settlement Systems and the Technical Committee of the International Organization of Securities Commissions.)

These standards and related regulations require, among other things, that clearinghouses hold "qualifying liquid resources" as collateral. The purpose of the standard is to ensure that collateral can be liquidated even in "extreme but plausible" situations. A key issue discussed at several meetings was whether U.S. Treasury securities meet this standard. While Treasury securities are generally viewed as highly liquid collateral, some policymakers have expressed the view that clearinghouses should have in place a legally binding commitment with banks to guarantee that Treasury securities can be converted into cash under all conditions.

During 2013, our Rule 39.33 working group organized numerous meetings with officials at the CFTC, the Federal Reserve and the Treasury department to discuss the need for more flexibility in this interpretation.

In a Sept. 20 comment letter to the CFTC, we warned that this interpretation of Rule 39.33 was too prescriptive and we suggested that regulators consider an approach adopted by the Bank of England, relying on weekly liquidity stress test reports to ensure that central counterparties adequately manage their liquidity risk.

We will continue to work in this area.

WORK IS ONGOING



BUSINESS CONTINUITY AND DISASTER RECOVERY TESTING

FOR MORE THAN A DECADE, FIA has coordinated a disaster recovery test each fall to assess industry-wide preparedness to respond to business disruptions. The testing allows exchanges, clearinghouses and brokers to assess how well their back-up systems operate and identify any problems that might disrupt trading during a real-life disaster.

The 2013 test—organized by FIA's Information Technology Division's Business Continuity Committee—was conducted in October and focused on back-up connectivity and functionality among exchanges, clearinghouses and member firms. The test benefited from the participation of major derivatives exchanges and clearinghouses, many of which are based outside the U.S. In addition, 64 firms participated, testing connectivity from back-up sites in Florida, Illinois, Missouri, New Jersey, New York, North Carolina and Utah, as well as Frankfurt, London, Madrid, Montreal, Paris and Toronto. Those firms handle between 83% and 95% of the volume on the participating exchanges, indicating that the test covered a critical mass of the industry.

While results from the 2013 test were generally positive, the results helped provide guidance on where certain improvements are needed. In addition, a survey of how firms functioned during Superstorm Sandy, which was conducted in conjunction with the annual test, also shed light on both strengths and weaknesses in the industry's preparedness for disruptions.

One recommendation that emerged from the 2013 test was that exchanges should investigate more efficient methods to facilitate seamless failover from primary to back-up systems. One problem was that firms with primary systems co-located in an exchange's data center were impacted when the exchange failed over to its DR data center.

The committee also conducted a survey among the participants to assess the impact of Superstorm Sandy on their business continuity performance. There was general agreement among those surveyed that regular business continuity and disaster recovery testing paid off when this storm hit the greater New York metropolitan area in the fall of 2012.

FIA CHIEF COMPLIANCE OFFICER COMMITTEE

OUR CHIEF COMPLIANCE OFFICER COMMITTEE continued its work from last year to provide a forum for firm CCOs to discuss evolving regulatory requirements. The group coordinated with other industry efforts on taping requirements. The group reviewed hundreds of Commodity Futures Trading Commission regulations to determine which were likely in scope for a futures commission merchant or swap dealer CCO annual report, and it continued the dialogue with CFTC staff concerning expectations for the filing of annual reports.

We have also been discussing the timing requirements for annual reports and will continue to seek adjustments regarding the filing deadlines of the reports to better match other industry filing requirements. In December, our FIA CCO committee presented a very popular program in New York on the annual report intended to give useful suggestions and suggested ideas for the upcoming filing of the first full-size CCO annual reports. Work will continue in this area as more regulations will focus on the role of the CCO.

WORK IS ONGOING



FIA COMMUNICATIONS AND OUTREACH

FIA's communications efforts are designed to keep our members abreast of key issues impacting our industry and help educate policymakers and the general public about the listed derivatives and cleared swaps industry.

FIA published five issues of *Futures Industry Magazine* during 2013.



FIA REPORTS AND ALERTS

DURING 2013, WE PROVIDED FIA MEMBERS with more than 20 detailed special reports and alerts covering critical events in Washington, including a series of Commodity Futures Trading Commission meetings, rulemakings and actions related to Dodd-Frank. Topics included final customer protection rules, FIA testimony, cross-border guidance, the CFTC's roundtable on the futurization of swaps and congressional hearings on the reauthorization of the CFTC.

FIA WEBINARS

FIA CONDUCTED FIVE WEBINARS during 2013 to update members on cross-border trading, disruptive trading practices, the EGUS screening agreement, Rule 1.73, and the legislative landscape. We will continue to offer this important tool to our members as a way to keep abreast of key regulatory and operational developments in our industry.

FIA SMARTBRIEF AND SOCIAL MEDIA

IN 2013, FIA CONTINUED OUR PARTNERSHIP with *SmartBrief* and we are happy to report that the number of subscribers now exceeds 12,000 people worldwide. *FIA SmartBrief* provides members and nonmembers with a daily summary of the top stories affecting our industry and has proven to be an effective tool for extending our brand identity beyond our membership. The newsletter is also an important platform for marketing FIA events and services and pays for itself through advertising.

During 2013, the number of individuals following FIA's Twitter feed increased by 45%, and our LinkedIn page continues to serve as a valuable medium for promoting our conferences. We continue to expand our use of social media as a means to promote FIA events and disseminate important information to members and the public.

FIA WEEKLY NEWSLETTER

IN APRIL, FIA LAUNCHED a new publication, *FIA Weekly Briefing*. We published 34 issues of the newsletter in 2013, providing a concise update on regulatory developments around the globe, the latest news on individuals in our industry and an update on critical projects underway at FIA. We will continue to publish this weekly newsletter and encourage our members to use this publication as a tool to keep abreast of both current and upcoming developments impacting our industry.

FOA AND FIA COMMUNICATIONS

DURING 2013, WE BEGAN the groundwork to integrate the communications efforts of FIA and our London-based affiliate, the Futures and Options Association. FIA published two articles written by FOA staff in *Futures Industry* and added FOA events to the *FIA Weekly Briefing* and *FIA SmartBrief*. Likewise, FOA added FIA summaries and special reports to FOA's weekly newsletter.

FUTURES INDUSTRY MAGAZINE

FIA PUBLISHED FIVE ISSUES of *Futures Industry* magazine in 2013 and we are happy to report readership continues to expand. The magazine has a print subscriber base of more than 8,000 people, many of whom are influential professionals and senior executives in the derivatives markets. Every major bank, futures commission merchant and exchange is represented in the magazine's subscriber base.

The magazine covered a broad range of topics in 2013 including over-the-counter clearing developments, market structure and innovation as well as cross-border application of Dodd-Frank regulations. We also continued with our successful CEO-to-CEO interview series with FIA president and CEO Walt Lukken interviewing global industry leaders.

FIA CONFERENCES & EXPOS

During 2013, FIA hosted seven large-scale conferences around the globe attracting more than 7,000 delegates.

International Futures Industry Conference

MORE THAN 1,000 DELEGATES attended FIA's 38th International Futures Industry Conference in Boca Raton, Fla. held in March. Some 40 trading venues from Chicago to Shanghai were represented at the conference with more than 30 brokerage firms and an increasing number of representatives from the buy-side community. In addition, 58 regulators and 60 journalists and research analysts participated in the 2013 conference, which covered topics such as cross-border application of Dodd-Frank, new trading venues, global financial reforms and over-the-counter clearing.

FIA Law and Compliance Conference

THE FIA LAW AND COMPLIANCE conference in Baltimore in May experienced record attendance with more than 700 delegates, including more than 100 from the Commodity Futures Trading Commission. At this one-of-a-kind event, compliance officers, attorneys and regulators discussed issues affecting the legal and regulatory framework of the derivatives industry.

FIA/FOA International Derivatives Expo

THE SIXTH ANNUAL FIA/FOA International Derivatives Expo was held in June, with a record 1,425 attendees and more than 40 exhibits showcasing the latest in products and technology for the derivatives industry. The program included sessions on financial reform, EMIR segregation and portability requirements, the changing role of the execution desk and changes in commodity markets.

SFOA/FIA Bürgenstock: The Global Forum for Derivatives Markets

IN SEPTEMBER, THE SWISS FUTURES and Options Association and FIA partnered together for the first time to hold SFOA/FIA Bürgenstock: The Global Forum for Derivatives Markets. More than 325 delegates participated in sessions and special events. The Bürgenstock conference, now in its fourth decade, has a long history of attracting distinguished speakers from the economic, academic and political worlds for high-level debate. In conjunction with this event, regulators participated in an international regulators meeting organized by the Swiss State Secretariat for International Finance as well as the Emerging Markets Forum, organized by the Association of Futures Markets. In 2014 this conference will be hosted jointly by SFOA, FIA and the London-based FOA.

Futures and Options Expo

MORE THAN 5,000 PEOPLE attended our flagship 29th Annual Futures and Options Expo held in Chicago in November. It is the largest futures industry event in the world. This conference included dozens of panels focusing on a range of topics relevant to our industry. At our 2013 Expo, renowned political columnist George Will gave a keynote luncheon address, and Gary Gensler, chairman of the CFTC, delivered his last keynote address to the industry before departing from his post. We are also proud that the futures community, through FIA Futures Cares, has raised \$2 million to support the Greater Chicago Food Depository. The 2013 FIA Futures Cares Great Chicago Steak Out, held during this conference, was a great success for this worthy cause of giving back to the community.

FIA Asia Derivatives Conference

OUR 2013 CONFERENCE SCHEDULE ended with the Ninth Annual FIA Asia Derivatives Conference held in Singapore in December. Nearly 700 delegates—the bulk of which were top executives at firms, exchanges and clearinghouses and leaders from around the Asia region—attended this event. In addition, more than 30 exhibitors showcased the latest technology, innovations and services to support our industry.

FIA MEMBERSHIP

We are happy to report that membership continued to grow in 2013

Among new members, 24 new associate members joined from a diverse range of businesses including newly formed swap execution facilities and exchanges, commodity firms, industry service providers, law firms and funds and advisors. In addition, two futures commission merchants joined as regular members.

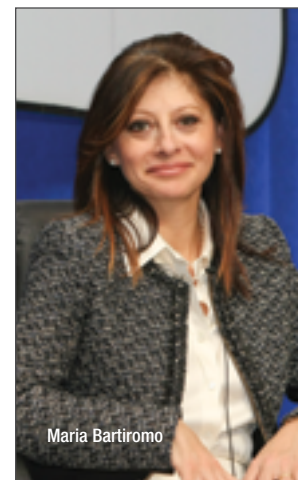
FIA membership reflects the changing nature of the listed derivatives industry. We will continue to represent the needs of our broad member base as regulators finalize implementation of financial reform and lawmakers in Washington set out to reauthorize the Commodity Futures Trading Commission.



Walt Lukken, FIA
Steve Bernard, Geneva Financial Center Foundation
Otto Nägeli, Swiss Futures and Options Association



George Will
Political Columnist



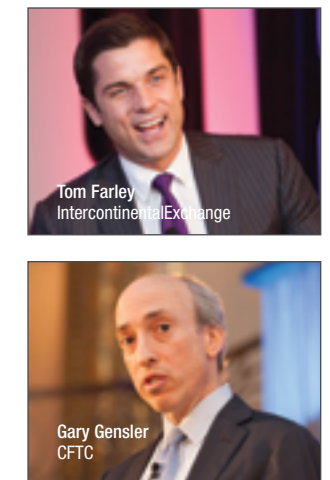
Maria Bartiromo



Steve Sparke, FOA Chairman
Walt Lukken, FIA CEO
Anthony Belchambers, FOA Chief Executive
Michael Dawley, FIA Chairman



Cokie Roberts, ABC News
Walt Lukken, FIA President



Tom Farley
IntercontinentalExchange

Gary Gensler
CFTC

FUTURES SERVICES

The FIA Futures Services Division maintained membership levels with 285 industry participants that joined the division in 2013. The division hosted a total of five events throughout the year including two Washington Update panels with presentations from FIA's Jackie Mesa and Dawn Stump, a golf outing, a summer outing, and the annual holiday party. Four active committees met on a regular basis to discuss industry issues, which included the FCM/Exchange/Clearinghouse, Financial, Deliveries, and OTC Clearing Committees. For the eighth consecutive year, the division awarded scholarships to the children of its members. Five \$2,500 scholarships were given to deserving students.

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FIA LAW AND COMPLIANCE

Nearly 600 individuals were members of the Law and Compliance division in 2013. In addition to executing a successful 35th Annual L&C conference on the Regulation of Futures, Derivatives and OTC products in the spring, members of the division ran more than three dozen subcommittees last year. L&C committees addressed critical issues impacting our industry, such as developing and promoting enhanced customer protection initiatives and helping to implement workable Dodd-Frank regulations such as the CFTC's position limit regulations and the new customer protection regime for cleared swaps.

The Compliance Committee, a standing committee of the Law and Compliance Division, continued to focus on the responsibilities of the Chief Compliance Officer (CCO). With more than 80 participants, the committee continued to work with the Commodity Futures Trading Commission in developing a prototype "annual report" that firms can use to satisfy the CFTC reporting requirements. With an increased focus on compliance issues in the industry, the Compliance Committee will be the focal point for interacting with the government on these issues.

Much of the work of FIA Law and Compliance has also shifted to global regulations. The FIA Legal Opinions Committee published an FIA Advisory which is intended to provide guidance regarding the standards that the committee believes would need to be satisfied in order for a clearing member banking organization to conclude that the margin it posts to a central counterparty is "bankruptcy remote" for purposes of the U.S. Basel III rules. The FIA Advisory was provided to U.S. banking regulators and to U.S. clearinghouses. It is intended to serve as a basis for discussions with clearinghouses on changes that could be considered so that a positive bankruptcy remoteness opinion could be rendered.

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FINANCIAL MANAGEMENT COMMITTEE

The Financial Management Committee, whose members include representatives of futures commission merchants, derivatives clearing organizations and depository institutions, continued to work on ways to smoothly implement enhanced customer protection rules that were finalized by the Commodity Futures Trading Commission. The committee continues its work to improve customer protection in the collection, investment, segregation and handling of customer funds through the implementation of internal controls, audits, disclosure and best practices including advocated changes in the law and regulation where necessary. Maureen Burke serves as Chairman.

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FIA INFORMATION TECHNOLOGY

The FIA Information Technology Division increased membership during 2013, completing the year with 136 members. The division hosted two well-attended events for members and non-members during the year including a Top Tech Trends panel and a SEF Technical Showcase. The division also revised its committee structure to better focus on evolving industry issues and projects. The newly restructured committees include Automated Trading, Business Continuity Management, ETD/OTC Evolution, Events & Communication, Financial Regulation, Operations & Risk Management, and Technology Standards & Sound Practices.

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FIA CHICAGO

FIA Chicago concluded the 2013 membership year with 495 active members. Throughout the year, FIA Chicago hosted many events including a Washington Update panel with Walt Lukken, the ninth Annual FIA Chicago Golf Outing, and the 13th Annual Summer Baseball Outing. Four active committees met on a regular basis to address issues of common concern to industry participants. Committees included: Clearing Regulatory Technology, Deliveries, FCM Relations/ Marketing and Education, and OTC Clearing. For the eighth consecutive year, the division awarded scholarships to the children of its members. Five \$2,500 scholarships were given to deserving students.

FIA AFFILIATES

FIA PRINCIPAL TRADERS GROUP

FIA PTG provides a forum for principal trading firms active in U.S. exchange-traded markets to discuss issues impacting its members and advance the members' collective interests.

FIA PTG COORDINATED ITS MEMBERSHIP ACTION this year on a wide range of projects and continued its outreach to legislators, regulators, and media. We also expanded our scope to include a number of issues related to equities. In addition, we hosted seven meetings of the group and established a Compliance Networking Group.

One of the key initiatives for FIA PTG this year was contributing significantly to the FIA response on the CFTC Concept Release on Automated Trading. Representatives from 17 firms met three times a week during the 90-day comment period to discuss the 120+ questions. FIA PTG endeavored to educate the CFTC on all the aspects of automated trading included in the release and to provide a thorough analysis of how regulation could both help and adversely impact the markets. FIA PTG also will testify on the concept release at the CFTC's first Technology Advisory Committee meeting in 2014.

In response to member interest in the equities markets, FIA PTG met with the Securities and Exchange Commission and submitted multiple comment letters on equity market issues. FIA PTG submitted comment letters to the SEC on Regulation SCI, CBOE business continuity requirements, ISE and CBOE continuing education requirements, a FINRA wash sale rule change and CBSX membership requirements. FIA PTG also issued

statements on equity SRO plans to strengthen critical market infrastructure, the SEC's MIDAS website, and the SEC's market resiliency proposal.

FIA PTG continued its legislative outreach by hosting a "Meet and Greet" with Congressman Randy Hultgren (R-Ill.) in February and a fundraiser for Congressman Mike Conaway (R-Tex.) in July. Representatives from the FIA PTG met with members of the House Agriculture and Financial Services Committees, and the Senate Agriculture and Banking Committees in May and November.

FIA PTG was active in many regulatory initiatives both in the U.S. and Europe. FIA PTG continued to work on reasonable swap dealer registration requirements for principal trading firms. FIA PTG also participated in CFTC roundtables and met with CFTC staff on a range of market structure issues. When the German regulator BaFin published rules requiring trading firms to be licensed by the German regulator in order to trade on German markets, the FIA PTG wrote to the regulator asking for clarification on the status of U.S. firms.

FIA PTG also launched a program to educate end-users about the role of principal traders in our markets. Representatives of the group met with the National Gas Supply Association and spoke at the Country Elevator Conference for the National Grain and Feed Association. This program will continue in 2014 with outreach to additional end-user organizations and participation in their events.

Ongoing initiatives of FIA PTG include outreach to the media. FIA PTG comments appeared throughout the year in publications such as *The Wall Street Journal*, *New York Times*, *Businessweek*, Reuters, Bloomberg, *Financial Times* and *Barron's*. Our group continues to work with exchanges on specific issues such as self-match prevention functionality and provide feedback on other exchange initiatives. FIA PTG members assisted FIA in planning the program for conferences and chairing and speaking on panels.

FIA EUROPEAN PRINCIPAL TRADERS ASSOCIATION

FIA EPTA brings together principal trading firms that are active in European markets. The association supports transparent and safe markets with a level playing field for all market participants and seeks to educate policy makers and the media on the beneficial role of principal traders in exchange-traded markets.

MOVING INTO ITS THIRD YEAR OF FORMATION, FIA EPTA in 2013 spent a considerable amount of time focusing on key EU legislative proposals, principally the Markets in Financial Instruments Directive (MiFID). In October, FIA EPTA issued a position paper on MiFID outlining its positions on several key issues related to the regulation of financial markets, including the definition of algorithmic and high-frequency trading, continuous quoting obligations, minimum order resting times, order-to-trade ratios, cancellation fees, third-country recognition, best execution obligations and open access provisions. Members of the association also provided background briefings for policy makers in Brussels to help them understand the potential impact of specific measures under consideration.

FIA EPTA also engaged with policy makers on several other legislative proposals, including proposals to revise the

Market Abuse Regulation and the Capital Requirements Directive as well as the implementation of the European Market Infrastructure Regulation. FIA EPTA has also been actively involved in the policy debate surrounding rules to limit short-selling. In March, FIA EPTA submitted a five-page letter to the European Securities and Markets Authority on this issue. The association warned that certain provisions in the regulation have reduced liquidity for small-cap stocks and have created unnecessary downward pressure on individual stocks.

Another key area of activity was in Germany, where FIA EPTA worked closely with German regulators and policy makers in Berlin in developing legislation governing high-frequency trading. Up until the end of April the focus was on members of the Bundestag's Finance Committee as well as the German Ministry of Finance in order to influence the discussion on the primary law. FIA EPTA was successful in keeping harmful amendments out of the final law. FIA EPTA also supported the inclusion of text allowing firms to apply for an exemption from the authorization requirement if otherwise regulated in the EU.

From May onwards, FIA EPTA has engaged with BaFin, the German regulator, on the implementation of the law and the clarification of important details regarding the scale of activity that will be deemed high-frequency. FIA EPTA also worked with BaFin to establish a timetable for implementation and provide firms with additional time to meet the new requirements.

During 2013, FIA EPTA extended its communications efforts into social media. The association launched a blog and a twitter feed to interact more directly with the press and counter some of the negative comments in the media.

FIA AFFILIATES

FIA TECHNOLOGY SERVICES INC.

FIA TECH WORKED WITH MEMBER FIRMS in 2013 to revolutionize the way execution brokerage is paid and collected. The technology and operations group worked for six months to re-engineer the process. The new process will capture data from a firm's bookkeeping system, which will enable brokers to reconcile and settle brokerage with all counterparties on all exchanges.

FIA Tech also worked with member firms to address regulatory implementation challenges. FIA Tech rolled out a system to help the industry comply with the Commodity Futures Trading Commission's pre-trade risk checks required under Rule 1.73. FIA Tech collaborated with the industry to develop and implement the Screening Agreements in EGUS so that all firms could comply with CFTC Rule 1.73(a)(2)(iv) and CFTC Rule 1.73 (a)(2)(v)(B) prior to the deadline. During the year, FIA Tech hosted several webinars and tutorials on the system. In December, FIA Tech began working with the industry to build a system to support account ownership and control reporting.

2013 was a year of technological expansion in-house. FIA Tech established a software development shop and hired a Vice President of Enterprise Architecture and Development to supervise and manage all software projects.

FIA Tech also built a development platform upon which FIA Tech IP can be coded, tested and staged for production deployment and built a project team of designers and developers to build its first new project – Atlantis, which is a rewrite of eRECS, the reconciliation tool that can be used in conjunction with eGains to reconcile data with a firm's internal system.

2013 marked a full year of operation for FIA Tech's Singapore office. During this time, FIA Tech was successful at engaging additional firms and exchanges throughout the Asia region to use FIA Tech's Electronic Give-Up Automated Invoicing System (eGAINS), its account reconciliation tool (eRECS) and its Electronic Give-Up Agreement System (EGUS).

eGAINS/EGUS

Use of FIA Tech's Electronic Give-Up Automated Invoicing System continued to grow in 2013. During the year, 154,381 FIA give-up agreements were executed, or roughly 103 agreements daily.

In addition, Canada's TMX Group began providing data to eGAINS this year and several new firms were onboarded, bringing the total number of participating firms to 26.

FIA ASIA

IT WAS THE FIRST FULL YEAR of operation for FIA Asia's Singapore office since its formation in 2012. FIA Asia continued to be a critical resource for the exchange-traded derivatives and cleared swaps markets amid a sea of global financial reforms.

During the year, FIA Asia organized events in Hong Kong, Mumbai, and Korea. In addition, FIA Asia served as an industry voice on issues such as fee models at the Osaka Securities Exchange and algo testing at India's National Stock Exchange.

FIA Asia continued to expand its presence across the region in terms of geography and industry participant community.

FIA Asia is broadening its geographical presence into the Middle East and is beginning to strengthen its relationships in China. FIA Asia advocated for best practices across the region with a focus on gathering and disseminating information concerning the extraterritorial effects of U.S. and European regulatory changes. FIA Asia has also become a primary source of information to the Asian financial media community in matters concerning the exchange-traded derivatives industry.

FIA Asia representatives continued to establish relationships with regional regulators as well as other industry trade groups working in the region.

FIA Asia drafted a letter to all Asian central counterparties encouraging them to apply for recognition from the European Commission's European Securities and Markets Authority. FIA Asia also worked with the Asia Securities Industry and Financial Markets Association on a response to Hong Kong's consultation on direct market access and continued to strengthen its relationship with regulators.

Participation in FIA Asia continued to grow during 2013. Membership now stands at 13 regular members, representing major firms and exchanges throughout the region, and 36 associate members.

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- Executive Committee Member
- Associate Member Director
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Sanjay Kannambadi
Chief Executive Officer and Global Head
BNY Mellon Clearing LLC

Jerome Kemp ●
Global Head of Citi Futures
and OTC Clearing
Citi

Najib Lamhaouar ●
Global Head of Exchange-Traded
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Chief Executive Officer
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