



BOCA 2019

INTERNATIONAL FUTURES INDUSTRY CONFERENCE

MARCH 12-14, 2019

BOCA RATON RESORT & CLUB | BOCA RATON, FLORIDA

CONFERENCE RECAP

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CONFERENCE RECAP



FIA President and CEO Walt Lukken reflects on the annual renewal of optimism in the industry at Boca and speaks in support of the power of markets.

A MESSAGE FROM WALT LUKKEN

Boca 2019 was FIA's 44th annual gathering of the futures and derivatives industry. For many of us, Boca represents the real start of the year, when industry leaders come from all over the world to discuss market trends and make new connections.

For me, Boca represents the annual renewal of optimism for our industry—a must-attend pilgrimage of the best minds globally looking to make tomorrow better than today.

This year's conference featured several influential policymakers, including Chris Giancarlo, the chairman of the U.S. Commodity Futures Trading Commission; Paul Andrews, the secretary general of the International Organization of Securities Commissions; Sonny Perdue, the U.S. secretary of agriculture; Jun Mizuguchi, the deputy commissioner for international affairs at the Japan Financial Services Agency; and Lee Boon Ngiap, the head of capital markets regulation and supervision at the Monetary Authority of Singapore.

We also welcomed an outstanding lineup of keynote speakers. Thomas Peterffy, the founder, chairman and CEO of Interactive Brokers, talked about his long career in the markets; economist Benn Steil provided a historical perspective on U.S. economic leadership; and Reshma Saujani, groundbreaking author and founder of Girls Who Code, who provided an important perspective on diversity in the technology sector.

As in past years, Boca has served as a platform for thought leadership. This year, we released a white paper on our concerns about market fragmentation caused by regulation.

We also launched a new diversity initiative, and we enshrined 13 new members of the Futures Hall of Fame.

We gathered this year as a community under signs our industry is thriving. According to FIA data, the number of exchange-traded derivatives that changed hands in 2018 reached an all-time high of 30 billion contracts, up 20% over the previous year. From Asia to the Americas, our industry is providing the liquid marketplaces that our customers need to hedge their risks and manage their investments.

But this isn't a victory lap for the industry. Quite the opposite. An important lesson from the financial crisis is we must remain steadfast in our commitment to healthy and safe markets.

There is no "mission accomplished" when it comes to upholding the integrity of our markets or protecting participants from abuse. We must be the stewards of these markets with an eye to leaving them better off than we found them.

In fact, our industry has a long tradition of supporting self-regulation, education and training, high international standards, and best-in-class government oversight. FIA has a proud history of supporting these principles through conferences such as Boca that provide a public forum for dialogue on the critical issues facing our industry.

FIA is here to harness the collective wisdom of our founders and work to grow, nurture and protect our markets for our generation and the next.

A handwritten signature in black ink that reads 'Walt L. Lukken'.

Walt Lukken
President & Chief Executive Officer, FIA



Singapore Exchange CEO Loh Boon Chye (left), ICE Chairman and CEO Jeff Sprecher and Cboe chairman and CEO Edward Tilly discuss 2019 market conditions in the "Exchanging Views" panel at Boca 2019.

BOCA MEANS BUSINESS

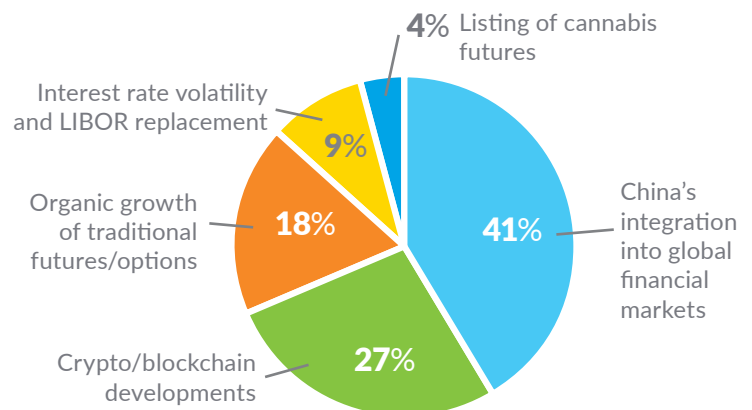
At FIA's 44th Annual Futures Industry Conference in Boca Raton, top executives gathered to discuss new challenges and opportunities. As with prior years, the event was a who's who of the cleared derivatives industry with representatives from all the major players around the world. The conference also provided a platform for discussing the record level of trading volume in 2018.

Nasdaq President and CEO Adena Friedman, speaking during the exchange leaders panel, commented that trading in 2018 stemmed from "the divergence of views" as to what the future of the economy looked like and the lack of "conviction" on either side of the market. That led to greater market volatility and consequently greater trading volume.

Thomas Book, the chief executive officer of Eurex, added that it is important to separate cyclical factors that are outside the influence of the exchanges from secular growth factors coming from product innovation and meeting customer demand for risk management.

"The need for risk mitigation instruments that we all provide is there, and will continue to be there," Book said. "When I look at the industry, there are some factors that make the environment more difficult... But I think overall there will continue to be the need for risk instruments."

Audience Poll
What will be the largest contributor to growth of our industry in the next three years?



Source: Exchanging Views session

Consolidation has been a key theme for the industry for several years, but exchange leaders said they face as much competition as ever. Intercontinental Exchange Chairman and CEO Jeff Sprecher commented that in some respects it is easier today for a new exchange to enter the business.

"When we were in our earlier days, the markets were completely disorganized, and the challenge that we all had was trying to standardize markets and bring them together and get them on a central matching engine. A lot of that work's been done," Sprecher said. "Today, an upstart competitor or an out of industry competitor can step into a market where things are relatively organized, and the number of participants is relatively few," he said. "So you don't have to knock on that many doors to get attention on whatever your new innovation is."

HEALTH OF THE INDUSTRY

To kick off the conference, FIA brought together several thought-leaders from different sectors to offer their perspectives on the outlook for the industry. The discussion highlighted the tremendous progress that has been made in bringing more transactions into central clearing and providing more transparency into trading. But the panelists pointed to some worrying trends.

Daniel Maguire, the chief executive officer of LCH Group, agreed that the post-crisis reforms have made markets safer by requiring more transparency, more disclosure and more capital. But he commented that the rapid pace of implementation led to some very inefficient results, and he called on policymakers to reduce market fragmentation, improve the quality of reporting, and ensure the resiliency of market infrastructure. He put a particular emphasis on resiliency, and he commented that market infrastructure operators such as clearinghouses need to be prepared for “massive bursts of trades” that are far out of line with normal trading patterns.

Nick Rustad, head of global clearing at J.P. Morgan, agreed that derivatives markets are becoming more vulnerable to sudden but brief withdrawals of liquidity. “I think what you’re probably likely to see is longer periods of lower volatility, as more market liquidity exists in the marketplace, but interspersed with much higher bouts of volatility for shorter periods of time.”

Several panelists commented that the level of liquidity is closely related to regulatory capital requirements for the banks that provide clearing services to market makers. John Davidson, the chief executive officer of OCC, was particularly outspoken on this issue. He criticized regulators for mandating central clearing and then implementing a capital regime that penalizes clearing. “That’s just an absurd state of affairs,” he said. He added that the regulatory capital requirements are out of line with the real risks that various institutions face, and he warned that this is limiting the industry’s clearing capacity and driving greater concentration of market share among the top clearing firms and the top liquidity providers.

Don Wilson, the chief executive officer of DRW Trading, added that his firm sees the same issues but from a trading firm’s perspective. He commented that the banks doing business with his firm are constantly measuring the regulatory capital impact of its positions. Even though these positions are risk neutral, they add “hundreds of millions of dollars” to the banks’ calculations of their risk-weighted assets. “The reality is that the numbers are so out of line with the actual risk that it forces changes in behavior,” he commented.



CFTC Chairman Chris Giancarlo and Monetary Authority of Singapore Assistant Managing Director Lee Boon Ngai announce a mutual recognition agreement at a press conference during Boca 2019.

MARKET FRAGMENTATION: ADDRESSING THE THREAT

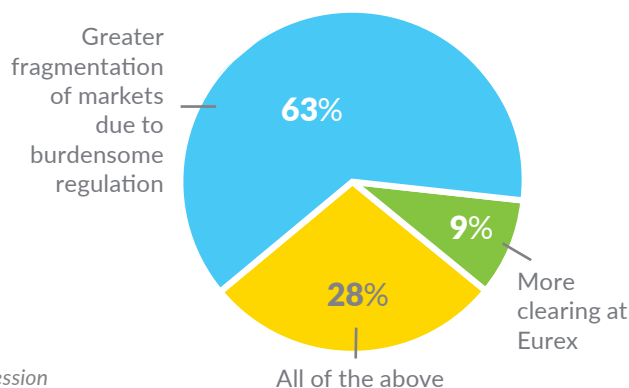
At Boca 2019, FIA focused attention on (not to) the nature of increasingly interconnected global markets that are complicated by increasingly localized regulation.

In conjunction with the first day of the conference, FIA released [a whitepaper on the risks of market fragmentation](#) under a patchwork global regulatory regime. FIA urged greater harmonization through international standards set through dialogue among peer regulators, reliance on comparable home country rules, and mechanisms for cross-border crisis-management planning.

“Fragmentation results in both short-term economic costs, with reduced levels of liquidity, and long-term threats to financial stability thanks to inefficient risk management,” the paper states. “Conflicting and overlapping regulations discourage or even prevent deep, efficient and liquid derivative markets from functioning and direct market activity to national silos.”

These sentiments were echoed in conversations between delegates throughout the conference as well as panel discussions such as “[Keeping Markets Cross-Border](#)” and “Emerging Regulatory Challenges.” These events featured regulators, clearinghouses, market makers and buy-side representatives from around the world discussing key issues such as the need for regulatory equivalence in modern and interconnected markets.

Audience Poll
Brexit will result in:



Source: Keeping Markets Cross-Border session

Fragmentation was also the main theme of the CFTC-sponsored international regulators meeting that took place on the opening day of the conference. This closed-door meeting featured discussions with a select group of market participants and an in-depth review of current work on this topic at the international level.

Despite the concerns about fragmentation, the industry continues to find new ways to support cross-border trading. During this year's conference, Hong Kong Exchanges and Clearing joined with index provider MSCI to promote a [new line of futures products](#) that will provide Western investors with greater access to the equity markets of mainland China. Additionally, the CFTC and the Monetary Authority of Singapore held a press conference to announce the [mutual recognition](#) of certain derivatives trading venues in the U.S. and Singapore.

Even a keynote address by Benn Steil, the director of international economics for the Council on Foreign Relations, touched on the nature of cross-border regulation and cooperation as seen through the lens of history. Steil explored the motivating factors behind the Marshall Plan, an American initiative passed in 1948 to aid the reconstruction of Western Europe and laid groundwork for decades of post-World War II cooperation, prosperity and security.

Given the recent trend towards nationalism as evidenced by the recent uncertainty around Brexit, cross-border issues will remain in focus in 2019—and will remain a top priority for FIA. Walt Lukken, the association's president and chief executive officer, said in his opening remarks.

"Our markets are not defined by borders—they are defined by the needs of buyers and sellers no matter their location," Lukken said. "FIA today is highlighting a growing problem in our markets, but one that can be addressed by international cooperation between regulators."



Reshma Saujani, founder of the nonprofit organization Girls Who Code, talks about the challenge of gender disparities in the workplace and what organizations can do to foster diversity.

DIVERSITY: EMBRACING THE CHALLENGE

At Boca this year, FIA's Board of Directors announced a new board-level initiative to encourage and support diversity in the futures industry. The initiative has a simple mission:

"FIA recognizes the benefits that diversity and inclusion can bring to an organization. FIA is committed to fostering diversity and inclusion and will strive to encourage, support and celebrate the diverse voices both within the organization and the industry at large."

These values were on display in the keynote speech from Reshma Saujani, the founder of the nonprofit organization Girls Who Code that aims to support greater gender diversity in computer science. Saujani's speech focused on the importance of creating a pipeline for future talent, and the importance of diversity beyond gender to encompass a range of human differences that lend different points of view and ultimately foster better results.

According to a recent Mercer study on diversity in financial services, women occupy just 15 percent of executive jobs and only 26 percent at the senior manager level. The result of this study means that as women progress higher in their careers, there are fewer opportunities in the top ranks of companies. This issue is particularly problematic for women of color.

"When companies foster a climate of diversity, it is my belief that they work better, smarter and are more productive," said Diversity Committee Chair and FIA Board Member Alicia Crighton. "FIA alone cannot solve this problem, but by raising awareness and

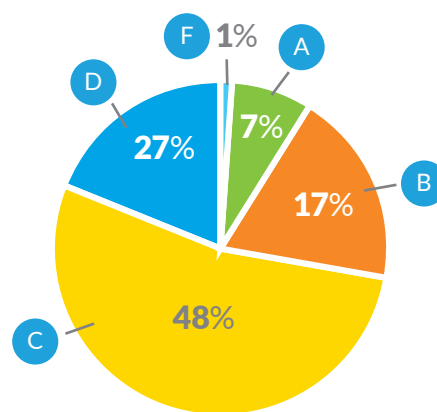
focusing on how this industry needs to be more inclusive and promote diversity, we can make the changes that will help companies succeed.”

While all exchange CEOs touted the importance of diversity, Nasdaq President and CEO Adena Friedman perhaps summed it up the best:

“I think, first of all, it starts with culture, and making sure that you create a culture where diversity is celebrated, difference is celebrated, and people feel like they belong in your organization no matter where they may have come from,” Friedman said.

“The second thing is then making sure you’re recruiting diverse talent at all levels,” she continued. “So we signed the parity pledge, which starts at the VP level and up, where you have to interview at least one qualified woman. And I would argue we need to also make sure we expand that beyond women to make sure we bring more diverse candidates into the top levels.”

Audience Poll
How would you grade the health of the industry in regards to diversity?



Source: Opening Keynote Panel:
The Health of the Industry

“The third thing is university recruiting,” she added. “We focus in on diverse candidates coming in and making sure we have a diverse candidate pool at the entry level so that they have an opportunity to come up through the organization. But it’s not one thing that’s going to make a difference. It’s a combination of all of those things together that I think will make it so that people want to work in this industry and that they see a career path all the way to the top.”

FIA plans on addressing this topic throughout its many global conferences, targeting greater participation by women on programs and raising awareness of the issue throughout panel composition.



Ron Bernstein of Coinbase argues for a decentralized approach to trading bitcoin and other digital assets.

COMPETITION IN CRYPTOCURRENCY DERIVATIVES

Boca 2019 also featured a panel discussion on the intersection between cryptocurrency trading and the derivatives markets.

The panel featured five companies with very different business models. Two of the companies—Cboe Global Markets and CME Group—represented the traditional futures exchange perspective and discussed their experience with cash-settled bitcoin futures. Two new entrants—Bakkt and ErisX—are preparing to offer futures that are more closely tied to the underlying physical market. Last, but far from least, Coinbase, one of the leading U.S. markets for spot trading in cryptocurrencies, also provided a cash market perspective.

The discussion, which was moderated by Colleen Sullivan from CMT Digital, started with CME and Cboe discussing the types of customers currently active in their bitcoin futures markets, and then moved to the business rationale for the new entrants. Adam White, the chief operating officer of Bakkt, explained that its business plan is designed to support the use of bitcoin as a payment mechanism in the real economy, while Tom Chippas, the chief executive officer of ErisX, emphasized that his company will introduce greater efficiency into the trading of cryptocurrencies by combining spot and futures trading.

The discussion then moved to the pros and cons of the traditional exchange model. Tim McCourt, the CME representative, stressed the benefits of central clearing, particularly for institutional investors, and both White and Chippas emphasized that their venues will have the benefit of federal regulation.

But Ron Bernstein, who joined Coinbase in 2018 after it acquired a decentralized cryptocurrency exchange that he founded, questioned those assertions. He highlighted his company's ability to allow customers to transfer cryptocurrencies directly to each other without a third party in the middle, and he suggested that the "trustless" nature of the underlying blockchain technology could serve as an alternative to the centralized infrastructure of traditional trading and clearing.

White, who spent five years at Coinbase before joining Bakkt in 2018, agreed that the technology underpinning cryptocurrencies is extremely innovative, but he emphasized that institutional investors would not enter this new market without the kinds of protections that traditional derivatives markets offer. He also commented that market infrastructure alone would not drive greater trading; in his view that will only come when there are more applications for cryptocurrency usage in the real economy and the technology of blockchain becomes adopted more widely.



Representatives from technology companies, investment banks, regulatory agencies and infrastructure providers had a lively discussion on the adoption of blockchain in financial and commodity markets.

BLOCKCHAIN: FROM PILOT TO PRODUCTION

In one of the conference's more technology-focused panels, a group of experts on distributed ledger technology discussed several initiatives that are nearly in production or already live. Executives from Axoni, Baton Systems and Vakt described the projects they are working on and shared some insights into what it takes to deliver a successful solution. The panel also included executives from two investment banks—Credit Suisse and Goldman Sachs—who provided some perspective on how their institutions see this technology developing over time. In addition, the panel included representatives from the Commodity Futures Trading Commission and the Depository Trust and Clearing Corp.

One key point of difference was in the type of use case for this technology. One model referenced during the discussion was the work that Axoni is doing with DTCC to move its Trade Information Warehouse, the repository for data on credit default swap transactions, to a new platform based on distributed ledger technology. In this case, the plan is to replace existing infrastructure with brand-new technology, first within DTCC and then gradually throughout the network of firms connected to DTCC.

In contrast, the approach taken by Baton is to use distributed ledger technology on top of existing systems, with the goal of realizing efficiencies right away. In Baton's case, the

company is providing a payments solution for two specific areas--foreign exchange and margin payments--and the company is already in production with three banks.

Vakt offered a third perspective. The London-based company uses distributed ledger technology for the processing of trades in crude oil and has been live since last fall. Vakt's representative on the panel emphasized that the key to its success has been that the energy companies supporting this project have a financial incentive to see it succeed because they are part of the consortium that owns the company.

Where the panelists agreed is that distributed ledger technology is beginning to enter into production in certain sectors of the industry and is likely to scale up substantially over the next two years. They also agreed that this technology is starting to deliver significant capital and operational savings for participants in these projects.



Clearing experts debate ways to improve the safety of the global clearing system.

THE STATE OF CLEARING

The cleared derivatives community is united in support of CCPs and the G20 reforms that adopted mandating central clearing in 2009. From the clearinghouses themselves to brokers, commodity trading firms and member clearing firms, all stakeholders agree that the clearing system is a good one.

But that doesn't mean there are not improvements that can be made, with changes in transparency, governance or "skin in the game" remaining key areas of disagreement among market participants.

These issues were front and center at Boca 2019, most notably at a panel discussion entitled "CCP Risk: Looking to the Future" that involved top clearinghouses and member firms from around the world. All parties agreed that incentives need to be properly aligned, but they acknowledged the devil is always in the details.

Panel participant Marnie Rosenberg, managing director and head of clearinghouse risk and strategy at J.P. Morgan, noted that "skin in the game" continues to be a topic of much discussion, but little progress towards real-world solutions that can be agreed upon and implemented.

"Look, we've been talking about this for as long as I've been in clearinghouse risk," Rosenberg said. "I don't know that we really as an industry have collectively moved the dial on this and we need to. There's just a pure difference of opinion between the clearing members and the CCPs."

For its part, FIA continues to work towards building consensus on these troublesome issues through open discussions at conferences like Boca as well as in its publications. In November, for instance, FIA released [updated CCP risk management recommendations](#) that addresses the risks that CCPs bring to clearing members, their clients, and the market generally. Specifically, the paper contained recommendations on 15 areas including default management design and testing, “skin in the game” and membership criteria.



FIA honors the 2019 inductees to the Futures Hall of Fame

FIA FUTURES HALL OF FAME HONORS 13 NEW MEMBERS

At Boca, FIA held a ceremony to honor the induction of 13 new members into the [FIA Futures Hall of Fame](#). The 2019 class joined 144 other honorees in the Hall of Fame, which was established in 2005 on FIA's 50th anniversary.

The Futures Hall of Fame celebrates and recognizes the significant contributions individuals have made to the futures and cleared derivatives industry. Inductees are chosen by a panel of industry veterans and Hall of Fame members who consider nominees long-time experience and contributions to the industry over the course of their concluding careers.

Walt Lukken, president and CEO of FIA said: "We established the FIA Futures Hall of Fame to recognize the people who have made exceptional contributions to the growth and development of the futures, options and listed derivatives industry. This year's inductees represent business leaders, advocates, policymakers, and visionaries who have provided the leadership and support necessary to keep growing our industry. FIA is honored to present them with this recognition."

The following individuals were inducted into the **FIA Futures Hall of Fame**:

- Magnus Böcker (posthumous)
- Robert T. Cox (posthumous)
- Paul Davies
- Mitch R. Fulscher
- Anthony George Gero
- Phupinder S. Gill
- Christopher K. Hehmeyer
- Garry Jones
- Bonnie Litt
- Andreas Preuss
- Michael Spencer
- Lee B. Stern
- Kim Taylor

 Learn more about the [2019 Futures Hall of Fame honorees](#).

FIA CARES

Boca 2019 provided opportunities to give back during the conference. The 3rd annual FIA Boca Tennis Tournament had 32 participants this year. And, the Thursday afternoon 5th Annual FIA Charity Golf Event had 54 players. Proceeds from both events benefit **Futures for Kids**, an organization that supports children's charities around the world through private events and donations. Thank you to all of the participants in these charity events as well as Trading Technologies for sponsoring the Tennis Tournament and the San Juan Mercantile Exchange for sponsoring the Golf Event.

FIA thanks the following companies for sponsoring Boca 2019.

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Contributing



FIA is the leading global trade organization for the futures, options and centrally cleared derivatives markets, with offices in London, Singapore, Brussels, and Washington, D.C. FIA's membership includes clearing firms, exchanges, clearinghouses, trading firms and commodities specialists from more than 48 countries as well as technology vendors, lawyers and other professionals serving the industry.

FIA's mission is to:

- *support open, transparent and competitive markets,*
- *protect and enhance the integrity of the financial system, and*
- *promote high standards of professional conduct.*

Visit us online at ***FIA.org***



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