

PRESIDENT'S message



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The Message Is Clear

The recent troubles at the Korea Exchange have highlighted the urgent need for all of us in this industry to focus on global standards for clearinghouse risk. A brokerage firm incurred a large loss in December because of an error trade and did not have enough capital to cover the loss. As a result, the firm was unable to meet its obligations to the clearinghouse, and the clearinghouse was forced to tap into the financial resources provided by its members.

The good news is that there were sufficient resources to uphold the guarantee on trading. The bad news is that those resources had to be used at all. While the dollar amount was relatively small, this incident should remind us to carefully examine all aspects of the safeguards for trading and clearing and to think about how we can encourage higher standards for our industry.

I applaud the actions taken by international regulators in 2012 to revise the CPSS-IOSCO standards for financial market infrastructures, and I am pleased to see that many clearinghouses have made great strides in meeting or even exceeding these rigorous new standards. But more can be done. As the association that represents the members and customers of these clearinghouses, we are well positioned to help translate these standards into practical policies and procedures and help make sure that they are implemented effectively on an ongoing basis.

One of FIA's priorities in 2014 will be a renewed focus on clearinghouse risk and we have begun discussing what sorts of steps could be taken to ensure that the system works as it should. For example, there are significant variations in the amount of information that clearinghouses provide about their default procedures. Transparency into default procedures is essential for clearing firm risk management, and FIA is working with members to collect this type of information on an on-going basis and keep members informed of significant changes.

Clearinghouse risk has been a consistent focus for FIA since its inception more than 50 years ago, but we are now entering an environment where the sheer size of the risk is much larger than ever before. Clearing for over-the-counter derivatives is now well established in many parts of the world, and the outstanding amounts of cleared swaps are now measured in the trillions of dollars. While the migration to central clearing will succeed in

reducing the overall level of systemic risk, we need to be alert to any unintended consequences.

One of these unintended consequences is the increased burden on the relatively small number of clearing members that have both the will and the wherewithal to contribute to a guaranty fund, provide liquidity to clearinghouses, and manage the risks of clearing swaps. As we all know, the clearing business has consolidated dramatically over the last 10 years and it seems likely that this trend will continue given the tremendous cost of new regulatory and capital requirements. Clearinghouses depend on their members for the lion's share of the financial resources that protect the system from default, and the financial health of the clearing firm community therefore should be a matter of critical importance to all of us in the industry.

Financial regulators also have noticed this trend. Benoît Coeuré, a member of the European Central Bank's executive board, recently gave a speech here in Washington in which he discussed the risks created by the unintended consequences of the move toward clearing. It is encouraging to see that he recognizes the important role played by clearing members in the clearing system and he is absolutely right to point out that clearing members need the ability to conduct effective due diligence in order to understand the risks they are facing as members.

Turning to other matters, I am very pleased to announce that our association has undertaken a "re-branding" to reflect our broader mission and expanded membership. Starting with our conference at Boca and continuing through the year, we will be unveiling a new logo and look across all of our events, member communications and public relations. Our roots will always be in the futures industry, but changes in the regulatory environment have created new challenges and opportunities in the area of cleared swaps. Equally important, we are taking a more global perspective on policy issues through our affiliation with the Futures and Options Association, which will soon be re-named FIA Europe. We expect to make many changes to our internal organization this year to better serve our members' needs, and we felt that the time is right to create a more modern and dynamic image for our association.

Finally, let me say a word of thanks to Anthony Belchambers for his many years of service at FOA. As I said in January when he announced his decision to step down as the head of FOA, I had the opportunity to work with Anthony for many years, dating back to my time at the CFTC, and I can attest to his extraordinary dedication, integrity and passion for this industry. I also want to welcome Simon Puleston Jones, who is taking over from Anthony as the head of FOA. His expertise in regulatory issues is perfectly suited to lead the association at this critical moment in time when so many crucial elements of the regulatory framework are under discussion in Europe.