INTELLIGENCE ON BUSINESS, TECHNOLOGY AND REGULATION IN THE CLEARED DERIVATIVES INDUSTRY 10.2020

FIA MARKET VOICE

How derivatives markets are helping the world fight climate change

NEW FIA POLICY PAPER OFFERS MARKET-DRIVEN SOLUTIONS AS PART OF AN INCREASED FOCUS ON CLIMATE-RELATED RISK ISSUES

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OCC Boosts Support for Default Fund
New approach to "skin in the game" targets EU standard

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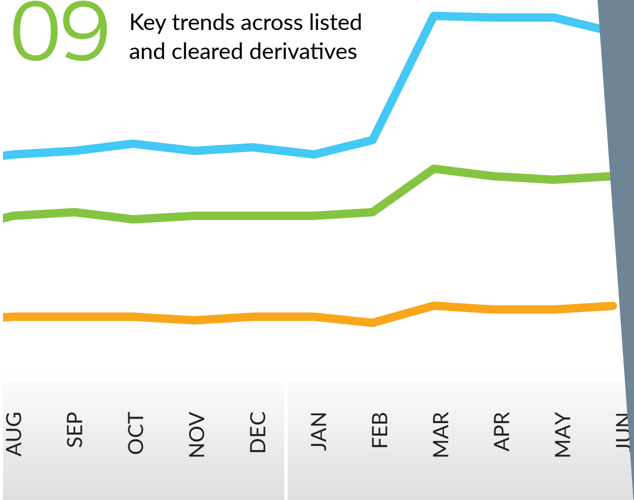

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EDITORIAL

PUBLISHER Emma Davey
EDITOR IN CHIEF Will Acworth
MANAGING EDITOR Jeff Reeves
ART DIRECTION & PRODUCTION Ironmark Creative
STAFF WRITER Kirsten Hyde

ADVERTISING AND MARKETING

VICE PRESIDENT, BUSINESS DEVELOPMENT
Toni Vitale Chan

SENIOR VICE PRESIDENT, GLOBAL BRAND MANAGEMENT
Charlie Jones

BUSINESS DEVELOPMENT MANAGER
Abigail Kapustiak

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FIA Features

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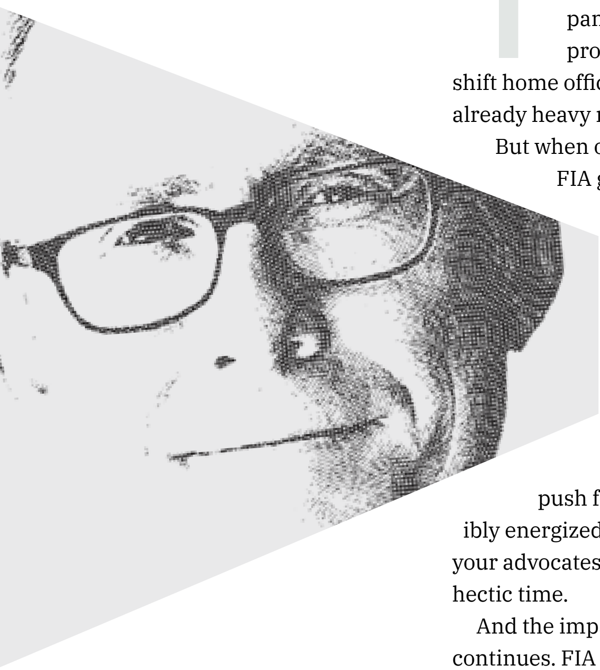
BY WALT LUKKEN, PRESIDENT AND CEO OF FIA

Unlocking Value Virtually

FIA expands its multimedia and conference offerings to accommodate remote workers



The first half of 2020 was incredibly active for our members. The industry had to face the volatility caused by the pandemic while juggling personal and professional priorities from make-shift home offices. On top of all this, throw in the already heavy regulatory agenda.

But when our members are busy, that's when FIA gets to work.

Our staff has worked tirelessly to seek quick answers and market relief from regulators to keep our markets open and operating smoothly. In addition, the ongoing regulatory agenda—whether related to Brexit, U.S. position limits, MIFID II or Reg Electronic Trading—continues to push forward. This has kept FIA incredibly energized and engaged. We are proud to be your advocates to help with the burdens of this hectic time.

And the impact of the pandemic on our industry continues. FIA recently announced that its Expo 2020 and Asia conferences would be 100% virtual in reaction to the ongoing COVID-19 pandemic. While disappointing, I am excited by the power of the virtual format and the opportunities that are unlocked for FIA members.

A light bulb went on for me after conducting a virtual webinar on the topic of negative crude oil prices in May. This topic, while a brief and rare phenomenon in the markets, received front page attention in the media and caught the interest of many FIA members.

In years past, we would have put this topic on the program of our next in-person conference. But COVID-19 compelled us to think more creatively. We quickly pulled together a virtual program of experts from around the globe with the aim of educating our members and helping prepare for the next time this happens in the markets.

Guess what? More than 800 people signed up to watch the webinar from over 25 countries. To put this in perspective, the most highly attended keynote speech at our flagship Boca Conference normally has 400 attendees due to size limitations of the room. We discovered that our virtual platform allowed us to connect with more members in more locations in a timelier way through events like our IDX-V virtual conference in June.

> **I have noticed an intimacy that comes with virtual meetings that makes them powerful and effective**

Virtual programming has the potential of unlocking access to exponentially more members of our community. But it also has limitations. We miss the social connections and trust that develops from sitting across the table from someone or sharing a drink or dinner. The depth and strength of that connection cannot be replicated virtually.

But I have noticed an intimacy that comes with virtual meetings that makes them powerful and effective. FIA's board recently held its Washington D.C. Virtual "Fly-In" over Zoom to meet with several of the important policymakers who oversee our industry. I found these meetings incredibly impactful—not just for their efficiency (no travel, no logistics, no room limitations) but for the incredibly personal nature of the meetings. Virtual meetings give you a glimpse of the person behind the role, as officials share their home offices, family photos in the background and even technological shortcomings. These are humanizing moments that bring us together and remind us we are in this together.

Ironically, influential policymakers and VIPs seem more willing to take virtual meetings or conduct virtual presentations than ever before. Take our highly attended **EU Cross-Border Webinar** in July that featured Andrea Beltramello, member of cabinet at the European Commission, who broke the news that the EU would be revealing its intentions on equivalence decisions soon. Or the recent members-only US Elections Webinar with highly regarded political analyst Charlie Cook.

Don't get me wrong, I look forward to the day when we can get together in-person to debate the issues and share our experiences as a community. But I am certain the virtual world is here to stay, giving FIA members more access to more information and important decision-makers than ever before.

Save The Date

EXPO VIRTUAL 2020
10-12 NOVEMBER

THE FUTURES AND OPTIONS EXPO gives you the opportunity to connect with established industry institutions, vendors providing practical applications, and startups offering innovative solutions and to gain valuable insights on key regulatory developments and industry trends.

ASIA VIRTUAL 2020
1-3 DECEMBER

Connect with leading firms in this growing market at the Asia Derivatives Conference and discover the trends that are shaping the Asia-Pacific region.

Visit FIA.org/events for all upcoming virtual events and webinars.

The Exchange

INDUSTRY NEWS, REGULATORY DEVELOPMENTS, TECHNOLOGY ADVANCES AND DATA TRENDS

Quantile margin optimization service now includes cleared interest rate derivatives

As volatility impacts collateral requirements, tech solutions are in focus

BY JEFF REEVES

"In the last couple of months, the CCP IM has become a focus point for more of our clients."

ANDREW WILLIAMS
CEO AND CO-FOUNDER OF QUANTILE

Margin issues have been increasingly in focus in 2020 as derivatives clearinghouses have raised collateral requirements in response to the spike in market volatility. One service provider helping to address this challenge is Quantile, a London-based technology firm. Quantile runs an initial margin optimization service for over-the-counter derivatives based on interest rates, foreign exchange and equities, and in May it added cleared interest rate swaps to this service.

Fourteen banks participated in the optimization run that Quantile did in May, and four of those banks used the new functionality to execute interest rate swaps that were cleared through LCH's SwapClear service. Several other banks are in the process of onboarding the new functionality, and the firm expects participation to rise as banks recognize the potential benefits.

"At the end of the day, if a bank has a certain amount of risk exposure they will be subject to margin requirements," explained Andrew Williams, CEO and co-founder of Quantile. "What you want to avoid is inefficient margining, either because you have ups and downs in lots of different places, or because the way you hold risk makes it less efficient than it could be. We're working with banks on this theme – understanding their risk and helping to rebalance that risk to reach a more optimal steady state that is closer to their true net position."

Williams, who spent 20 years working at Morgan Stanley before launching Quantile in 2015, added that the recent spike in clearinghouse margin requirements has caused firms to take a sharper look at that side of their business. Market volatility jumped dramatically in March when the pandemic threw the global economy into reverse, and the major central counterparties stepped up their initial margin requirements, known as IM, by 50% or more.

"In the last couple of months, the CCP IM has become a focus point for more of our clients," said Williams. "They are asking us lots of questions about what we can do to help them better manage their positions." MV

OCC boosts funding for "skin in the game"

Chicago-based clearinghouse seeks to match EU requirement

BY WILL ACWORTH

OCC, the world's largest clearinghouse for equity derivatives, plans to seek regulatory approval in the US to increase the amount of capital that it contributes to the financial resources available to cover losses from a member default.

In a letter sent to members on 3 Aug., OCC said it decided to commit $62 million as a minimum amount for its "skin in the game" contribution to default protections. The Chicago-based clearinghouse currently allocates some of its capital to this purpose, but the amount is variable. It is now seeking approval from the US Securities and Exchange Commission to ensure that this amount never falls below $62 million.

OCC is hoping that this move will support its efforts to achieve recognition from European regulators. Under the European Market Infrastructure Regulation, a clearinghouse must have a minimum skin in the game that is equivalent to at least 25% of its regulatory capital requirement. In OCC's case, that works out to $62 million.

"Our goal in recommending a minimum amount of skin-in-the game is to increase alignment with our clearing firms and market participants and to strengthen our eventual consideration for European recognition," OCC said in the letter, which was signed by John Davidson, the OCC's chief executive officer, and Scot Warren, the chief operating officer.

Other US clearinghouses such as CME Clearing, ICE Clear US and Nodal Clear have already achieved recognition in Europe, mainly because their regulator, the US Commodity Futures Trading Commission, has reached an agreement with its counterpart, the European Securities and Markets Authority, that their regulatory regimes for clearinghouses are equivalent. The SEC, however, has not reached a similar agreement with ESMA, and as a result, clearinghouses under SEC oversight such as OCC are facing a potentially severe shock next year when a new set of bank capital requirements take effect.

Starting in June, European banks will have to set aside a much higher amount of capital for exposures to central counterparties that are not "qualified CCPs" in Europe. Non-EU clearinghouses become "qualified CCPs" once they are recognized under EU law. OCC is not yet a "qualified CCP", and its concern is that its European-based clearing members may have to reduce

> Under the European Market Infrastructure Regulation, a clearinghouse must have a minimum skin in the game that is equivalent to at least 25% of its regulatory capital requirement. In OCC's case, that works out to $62 million.

their participation at OCC or withdraw altogether if this issue is not resolved in time.

OCC's commitment to making a permanent contribution to the default fund also addresses a separate issue – a concern among clearing firms that the risk of loss from a member default will fall mainly on their shoulders. But the $62 million is on the low end compared to the amounts of skin in the game at other large clearinghouses. CME Clearing, for example, has $100 million of its own funds committed to covering losses in its futures and options markets, and another $150 million covering losses in its cleared interest swaps business.

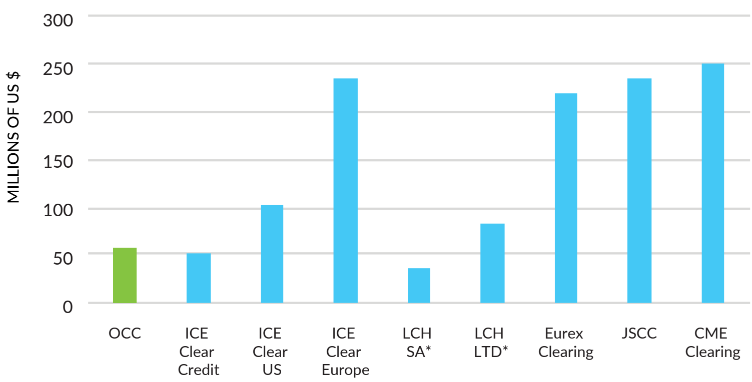
OCC does have other resources available to cover default losses, however, including retained earnings from its operations. In contrast to most other major clearinghouses, OCC is not part of a public company that seeks to maximize profits for its shareholders. Instead it is run as an industry-controlled utility that provides clearing on an arm's length basis to nearly two dozen trading venues.

When OCC's revenues from clearing fees rise above the amount it needs to cover its costs, upgrade its technology, and sustain its capital, it refunds those revenues to its members and lowers its clearing fees. This year its revenues have been boosted by a record amount of transactions in the US equity derivatives markets. In the first half of 2020, OCC cleared on average 26 million options per day, up 50% from the previous year, and in June it set a record for the highest number of cleared contracts in a single month.

As a result, OCC projects that it will have sufficient earnings this year to provide its members with a refund of $80 million to $100 million, and it plans to reduce its clearing fees starting in September. MV

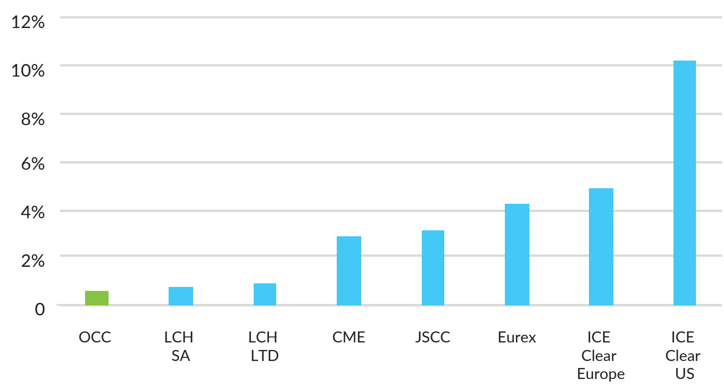
Skin in the Game

CCP contributions to default management waterfall, Q1 2020



Sharing the Risk

Ratio of SITG to Member Contributions to Default Fund



Source: FIA CCP Tracker, quarterly disclosures for Q1 2020. Note: LCH data does not include RepoClear, EquityClear or other clearing services not related to derivatives.

Data

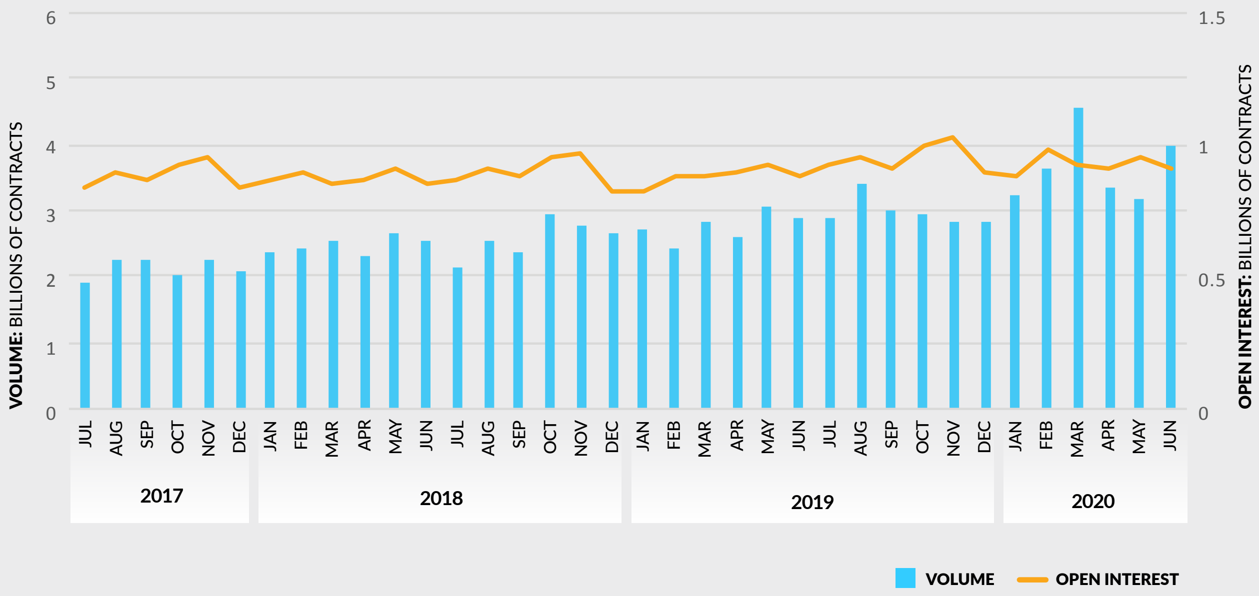
Top 15 Exchanges

Ranked by Number of Futures and Options Traded in June

RANK	EXCHANGE	Volume	Y/Y Change	Open Interest	Y/Y Change
1	National Stock Exchange of India	780,573,480	74.6%	8,953,920	7.7%
2	B3	536,262,314	76.3%	114,439,853	22.3%
3	CME Group	376,283,998	-18.5%	100,849,643	-28.5%
4	Intercontinental Exchange *	241,203,705	28.3%	76,612,657	4.5%
5	CBOE Holdings *	238,233,354	63.0%	257,593	-35.9%
6	Nasdaq *	236,420,633	69.5%	5,272,983	-47.8%
7	Korea Exchange	202,321,214	74.8%	9,322,297	-3.1%
8	Eurex	193,025,573	4.1%	141,749,977	4.3%
9	Dalian Commodity Exchange	167,872,604	48.1%	9,263,294	33.0%
10	Shanghai Futures Exchange	162,119,325	50.1%	6,711,174	25.9%
11	Moscow Exchange	153,770,161	32.9%	8,198,564	-1.4%
12	Borsa Istanbul	124,285,409	370.9%	10,557,070	90.2%
13	Zhengzhou Commodity Exchange	120,620,807	12.7%	7,088,782	36.5%
14	Miami International Holdings *	82,030,116	150.3%	N/A	N/A
15	Bombay Stock Exchange	66,221,820	-25.1%	741,107	0
	ALL EXCHANGES	**3,970,704,394**	**38.6%**	**914,980,839**	**3.5%**

* Open interest does not include equity options cleared by OCC

Global Futures and Options Trading



Top 10 SEFs

Ranked by latest quarterly trading volume, in billions of dollars of notional value

RANK	SEF	Credit	Y/Y	FX	Y/Y	Rates	Y/Y	Total	Y/Y
1	NEX			223.72	-25.7%	14399.08	21.9%	14622.80	20.7%
2	Tullett Prebon	112.15	-0.9%	1023.83	-9.8%	10059.24	-16.2%	11195.23	-15.5%
3	Tradeweb	384.27	33.7%			9187.87	-21.2%	9572.15	-19.9%
4	Bloomberg	1728.67	10.0%	133.95	62.9%	2264.60	-30.1%	4127.24	-15.6%
5	BGC	.69	-89.8%	760.23	-3.9%	3278.86	-11.9%	4039.78	-10.7%
6	Tradition	22.92	1.5%	654.87	-12.1%	2212.38	-3.9%	2890.18	-5.9%
7	IGDL					1302.69	-50.1%	1302.69	-50.1%
8	Dealerweb					1081.37	-8.4%	1081.37	-8.4%
9	GFI	8.16	-46.9%	474.39	-29.5%	104.60	-36.0%	587.16	-31.0%
10	TR			88.20	-41.6%			88.20	-41.6%
	ALL SEFs	**2266.56**	**10.4%**	**3375.00**	**-13.4%**	**43944.03**	**-12.7%**	**49585.60**	**-11.9%**

Source: FIA SEF Tracker

Top 15 FCMs in the US

Ranked by total customer funds* at the end of the most recent quarter

RANK	FCM	Futures	Y/Y Change	Part 30	Y/Y Change	Swaps	Y/Y Change	Total	Y/Y Change
1	JP MORGAN SECURITIES LLC	47.71	132.6%	6.29	32.6%	19.77	38.2%	73.77	86.5%
2	MORGAN STANLEY & CO LLC	25.58	58.2%	7.70	36.7%	27.29	60.0%	60.58	55.9%
3	CITIGROUP GLOBAL MARKETS INC	15.98	70.3%	4.10	49.9%	36.05	27.2%	56.13	38.8%
4	GOLDMAN SACHS & CO LLC	34.69	71.4%	10.14	13.9%	10.92	50.6%	55.74	53.2%
5	BOFA SECURITIES INC	22.44	40.1%	5.35	29.3%	11.35	53.2%	39.14	42.0%
6	CREDIT SUISSE SECURITIES (USA) LLC	7.86	46.7%	4.87	29.5%	13.97	26.2%	26.70	32.2%
7	SG AMERICAS SECURITIES LLC	15.39	16.5%	6.41	13.3%	1.01	53.1%	22.80	16.8%
8	BARCLAYS CAPITAL INC	9.32	74.0%	3.00	-17.4%	7.52	15.2%	19.83	27.9%
9	WELLS FARGO SECURITIES LLC	4.30	27.0%	0.48	99.1%	15.27	78.3%	20.05	64.5%
10	UBS SECURITIES LLC	7.73	58.1%	1.13	-27.0%	0.91	22.9%	9.77	36.2%
11	MIZUHO SECURITIES USA LLC	6.30	82.3%	0.80	5.5%	0.00	-100.0%	7.09	68.5%
12	BNP PARIBAS SECURITIES CORP	4.01	89.9%	0.17	-4.6%	1.96	97.3%	6.14	87.1%
13	INTERACTIVE BROKERS LLC	5.45	38.4%	0.57	17.7%	0.00	NA	6.02	36.1%
14	RJ OBRIEN ASSOCIATES LLC	4.79	15.1%	0.17	22.3%	0.00	NA	4.97	15.3%
15	ADM INVESTOR SERVICES INC	4.57	7.1%	0.26	-9.7%	0.00	-100.0%	4.83	6.0%
	ALL FCMs	**251.90**	**62.7%**	**53.07**	**19.8%**	**147.95**	**41.7%**	**452.92**	**49.2%**

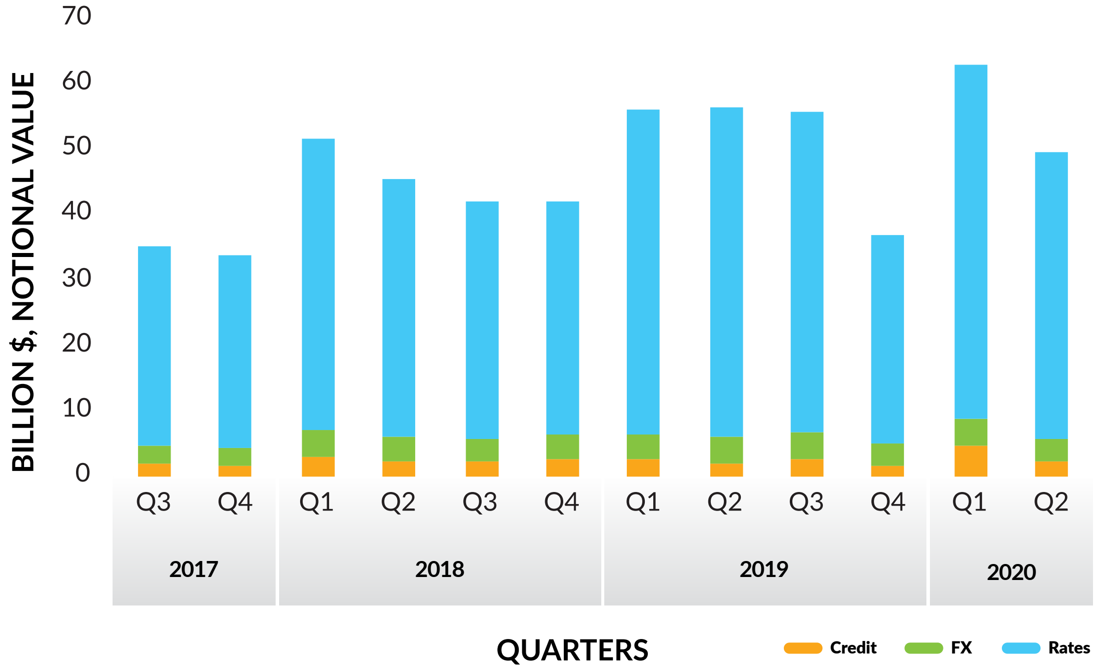
Source: FIA FCM Tracker

Note: Customer funds data include only the amounts that FCMs are required to hold in segregated accounts. Proprietary funds deposited in customer segregated accounts are not included.

Note: Futures represents customer funds held for futures and options traded in the U.S. Part 30 represents customer funds held for trading outside the U.S. Swaps represents customer funds held for cleared swaps.

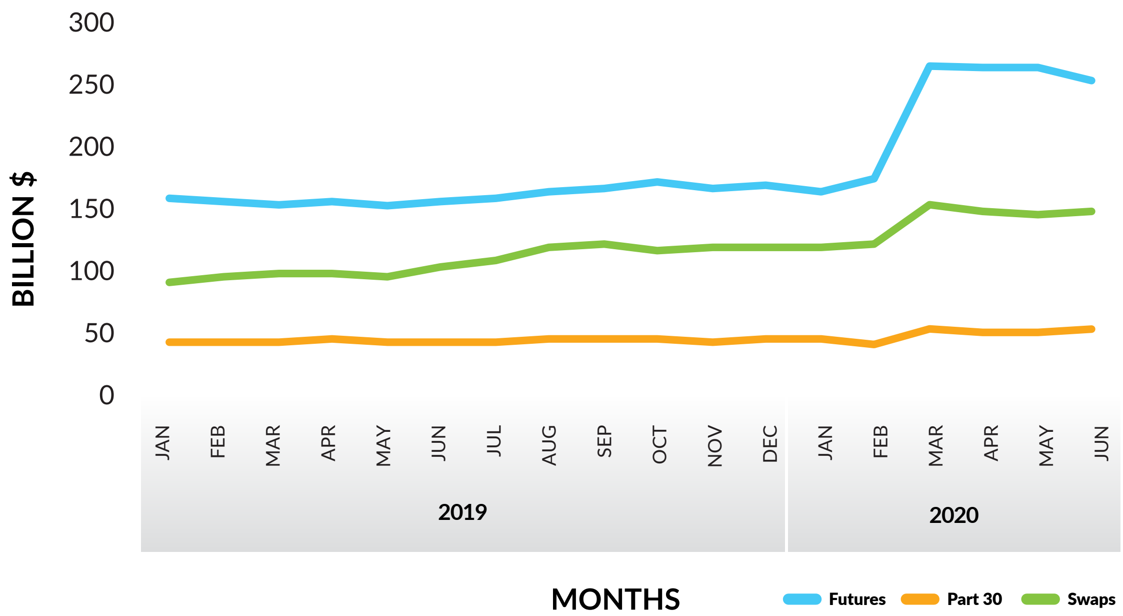
*Numbers are in USD billions

SEF Volume by Quarter



Source: FIA SEF Tracker

Customer Funds at US FCMs



Source: FIA FCM Tracker

HOW DERIVATIVES MARKETS ARE HELPING THE WORLD FIGHT CLIMATE CHANGE

NEW FIA POLICY PAPER OFFERS MARKET-DRIVEN SOLUTIONS AS PART OF ITS INCREASED FOCUS ON CLIMATE-RELATED RISK ISSUES

BY JEFF REEVES

Central to FIA's mission is protecting and enhancing the integrity of the global financial system. As a result, climate-related risks are increasingly an important part of the organization's work, most prominently in the release of a policy paper in September on the role of derivatives and market-driven solutions in combatting climate change.

"Industry participants and policymakers globally are considering how climate change impacts the financial industry," said Jaqueline Mesa, chief operating officer and senior vice president of global policy at FIA. "FIA has an important role to play in analyzing and forecasting how the cleared and exchange-traded derivatives industry is responding to concerns through innovated products, trading platforms and transparency. We hope this paper is the start of ongoing discussions between the industry and the public sector on the role of derivatives in sustainability."

FIA's new policy paper, titled "How derivatives markets are helping the world fight climate change," offers a summary of FIA's views and highlights possible market-based solutions. Key points include:

INNOVATION: Innovations in derivatives markets, such as carbon trading platforms, help market participants discover prices for commodities that are vital to addressing climate change concerns. Exchanges, working in partnership with market participants, are quickly identifying new products that assist in sustainability efforts.

STANDARDIZATION: Industry-developed best practices and standards, such as sustainable sourcing for metals in physically delivered commodity contracts, highlight the importance of collaboration among market participants and leveraging industry expertise.

HARMONIZATION: In a fragmented global regulatory environment, it is crucial for the public and private sectors to work together to ensure laws and regulations avoid unnecessary conflicts and incentivize market-driven solutions.

"FIA is in a unique position to bring together multiple stakeholders across the derivatives industry to help craft a cooperative approach to climate-related risks without disrupting market integrity," said Christiane Leuthier, FIA's vice president of commodities. "Agricultural commodities, energy markets and derivatives exchanges all have unique concerns that must be considered. Public sector officials in various jurisdictions have their own goals, too. But market participants, regulators and legislators must be coordinated in any response to climate-related financial risks."

Looking forward, FIA plans a continued focus on climate-related issues through future policy papers, events and other communications. The organization is also eager to continue its participation in the regulatory process, through formal comments on the European Commission's "Green Deal" proposal and through partnership and open dialogue with the U.S. Commodity Futures Trading Commission as its recently formed Climate-Related Market Risk Subcommittee begins to explore this issue.

KEY QUOTES

ON WHY THIS ISSUE MATTERS:

FIA welcomes the opportunity to help forge a sustainable global financial system that reflects the high social and environmental standards of our members and ultimately makes our world a better place for everyone, in every nation, in every industry.

ON INNOVATION AND MARKET-DRIVEN SOLUTIONS:

FIA and its members are eager to partner with regulators and put our collective creativity to good use in the fight against climate change. We hope to show policymakers that our markets offer proven solutions and we are willing allies in the global effort to stem the tide of climate change.

ON INDUSTRY-LED STANDARDIZATION EFFORTS:

FIA supports the rights of derivatives exchanges to develop and supervise their markets in a manner that reflects their values and advances their sustainability agenda. Consulting with members is crucial in this process to provide transparency and certainty for the marketplace through shared standards.

ON THE IMPORTANCE OF HARMONIZATION:

Derivatives market participants know all too well the regulatory complexity that can arise when multiple stakeholders are involved, as our industry is highly interconnected even if our regulatory bodies are fragmented across geographies or asset classes. As such, FIA and its members welcome policymakers to partner with us on deliberate, coordinated solutions to ensure we are all working together. This includes supporting industry-led solutions that have already been implemented, and coordinating with other public sector initiatives around the globe.

MORE ONLINE

On Sept. 1, FIA published a policy paper in consultation with its members across the cleared derivatives industry on climate-related risks for financial markets and the global economy. The paper, ***"How derivatives markets are helping the world fight climate change,"*** focuses on how the industry is already addressing this issue, and highlights potential partnerships with the public sector to help build a more sustainable economy in the long term. Visit **FIA.org** to download the full policy paper.

UK introduces legislation for post-Brexit Carbon Market

The UK-wide Emissions Trading System will replace the EU's ETS

BY KIRSTEN HYDE

In a key development for the future of environmental derivatives markets, the UK government has introduced legislation to establish a UK Emissions Trading System from 1 January 2021 to replace the EU ETS, which the UK is set to leave at the end of this year with the termination of the Brexit transition period.

The Greenhouse Gas Emissions Trading Scheme Order 2020 entrenches in law the policy features unveiled by the government in early June, as well as the market's basic rules and criteria for participating and opting out. Final details are planned to be laid before Parliament in November.

As with the current EU ETS, the UK ETS will apply to energy-intensive industries, the power generation sector and aviation. The government estimates that around 1,000 stationary installations will be covered when the UK ETS launches, as well as a few hundred aircraft operators.

LINK TO EU ETS

Emissions trading systems work on a 'cap and trade' principle, where a cap is set on the total amount of certain greenhouse gases that can be emitted by installations and aircraft covered by the scheme. Tradable emission allowances are allocated to participants in the market via free allocation and auctions.

Companies that go over their limit must buy emission allowances from auctions or the secondary markets. Companies that reduce their emissions below the target level—for example by switching to cleaner fuels—can sell those excess allowances. The goal is to create economic incentives for companies to reduce their emissions with market dynamics of supply and demand determining the price of allowances. The cap is reduced over time, so that total emissions fall.

A clear ambition of the government is for the UK to negotiate a linking agreement with the EU ETS. In an **Explanatory Memorandum** to the draft order, the UK government's Department for Business, Energy and Industrial Strategy (BEIS) said a link would support a much larger carbon market, which would reduce trading costs and increase opportunities for emissions reduction.

BEIS also noted that ensuring the UK ETS legislation is delivered before the end of the transition period "increases the likelihood that the UK will be able to secure a linking agreement with the EU through negotiations."

Linking a separate national emissions trading system with the EU ETS is not unprecedented — at the start of this year, Switzerland successfully linked its ETS, although the process took nearly a decade.

While linking does seem like a possibility, market participants say it is not clear when it would

> "When the UK and EU systems are linked is likely to depend very much on when, and if, agreement is reached on the broader trade agreement."
>
> KIRSTY SOUTER, SENIOR ASSOCIATE AT CLIFFORD CHANCE

occur. According to the Explanatory Memorandum, further secondary legislation would be required to "operationalise any linking agreement" secured through negotiations with the EU and such legislation would not be laid before Parliament until the first half of 2021.

"When the UK and EU systems are linked is likely to depend very much on when, and if, agreement is reached on the broader trade agreement," Kirsty Souter, senior associate at law firm Clifford Chance told *MarketVoice.* "It took almost ten years of negotiations to agree the Swiss-EU ETS linkage, although the delay was largely unrelated to carbon markets. Even if a deal is reached on linking the two schemes before the end of the year, it seems that the UK ETS will start life as a standalone regime and there is a good chance it may be a lot longer before we see the systems come together."

STANDALONE

If linking the UK ETS and the EU ETS cannot be agreed to or implemented quickly, there is a risk that the UK market could be impacted by liquidity issues and volatile prices. According to energy trade groups, the much smaller size of the UK ETS market means it would not be sufficiently deep or liquid to allow for genuine price discovery, leading to wider bid-offer spreads and increasing compliance costs for market participants and end-consumers.

Illiquidity could also lead to price volatility and higher transaction costs, Souter said. Volatile prices mean there is no clear price signal on which investment decisions can be based, with the result that investments in measures that reduce or avoid emissions may be delayed or not adopted at all.

"While the UK ETS contains measures to try to address price volatility with a transitional auction reserve price, the most effective way of dealing with these risks would be to increase the size of the market by linking it with the EU ETS. Failing that, further tweaks to the design of the UK-ETS may be needed down the line once any issues are better understood," Souter said.

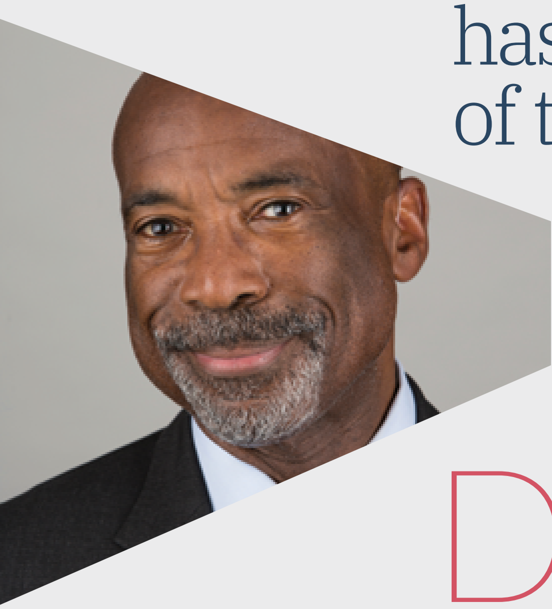
TRADING ALLOWANCES

While the UK government says provisions for free allocation and the UK ETS registry will be laid before Parliament later this year, there is a lack of information on how market participants will be able to trade allowances.

ICE Futures Europe hosts the UK platform for the EU ETS allowance auctions on behalf of BEIS. A spokesperson for BEIS told *MarketVoice* that further details on the auction platform provider would be provided in due course.

Should the UK not be able to implement a UK ETS in time for the end of the transition period, the government has a contingency plan of rolling out a carbon tax as an alternative "to ensure a carbon price remains in place in all scenarios". MV

Growth for Black professionals has not kept pace with growth of the derivatives markets



Doug Harris says industry still has blind spots on race

Douglas E. Harris is a managing director at Promontory Financial Group, an IBM Company. He also serves as a public director and executive committee member at National Futures Association, the self-regulatory organization for the US futures industry. Harris previously was the chief operating officer and general counsel at BrokerTec Futures Exchange and BrokerTec Clearing Co, and served at the Office of the Comptroller of the Currency.

As part of an ongoing series of profiles where derivatives professionals share personal stories of challenges and success, Harris shared his views on the state of diversity in the derivatives industry.

What drew you to the derivatives industry?

DH Actually, I was drawn into the industry when I was an associate at Baer Marks & Upham, where I worked for Steve Selig and Marc Buckstein. In 1977, the CFTC mandated a rule review at COMEX, which the firm then represented. The firm tasked me and another associate, Alan Brody, who would go on to become president of COMEX, with reviewing every piece of paper generated by COMEX since its inception in the 1930s to identify any processes, restrictions or requirements that should have been submitted to the CFTC as part of COMEX's original rule submission to the new agency. In 1979, I joined the legal department of what was then Morgan Guaranty Trust Company and was included in the working group that assessed whether the bank should form its own captive clearing firm in order to better manage its credit risk associated with exchange-traded transactions. Following its formation in 1982, I became the General Counsel of Morgan Futures Corporation, subsequently renamed JPMorgan Futures before being merged into JPMorgan Securities. In December 1992, Gene Ludwig, Bill Clinton's Comptroller of the Currency designee, asked me to join him at the Office of the Comptroller of the Currency to help establish policy with respect to national banks' derivatives activities. After issuing the first U.S. bank derivatives regulatory guidance in late October 1993 (Banking Circular 277 – "Risk Management of Financial Derivatives"), I was appointed Senior Deputy Comptroller for Capital Markets. I left the OCC in 1996, and following a short stint as a partner at Arthur Andersen, I became the General Counsel and Chief Operating Officer of BrokerTec Futures Exchange and BrokerTec Clearing Corp. When the exchange was subsequently acquired by Eurex, in 2004, I re-joined Gene as one of the first Managing Directors at the then one-year-old Promontory Financial Group, where I have headed the firm's derivatives practice since then.

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Who have been your role models and the most influential people in your career?

DH Gene Ludwig has not only been a role model, but the most influential person in my career. Influential because he tapped me for the position at the OCC, where I became a key staff member on the President's Working Group on Financial Markets (whose members were Bob Rubin, Alan Greenspan, Arthur Levitt and Mary Schapiro).

That position gave me not only exposure to some of the most important people in the financial service industry, but insight into, and an appreciation for, the complexity of financial regulatory policy-making. It was, undoubtedly, the best experience of my professional career.

Gene has been a role model because of the importance he has always placed on diversity, equal opportunity, and treating people fairly and the focus he brought to bank regulation on the importance of fair lending and equal access to credit.

How have things changed in terms of diversity and inclusion since you started working?

DH There are many more Black legal and compliance professionals in the derivatives industry now than when I first got involved. I don't remember any other Black people at the first FIA Law & Compliance Division Workshops that I attended in Annapolis in the early/mid-80s; and Steve Spence (Merrill Lynch) was the only Black person I knew of on the business side of an FCM at that time. However, though our numbers have grown, they are still scant, considering the enormous growth of the exchange-traded and OTC derivatives markets since that time.

And the industry has some major blind spots when it comes to diversity and inclusion. At FIA Expo in 2019, there was a panel "Diversity in Derivatives" that didn't even include a Black person. At FIA Expo the year before, the CEO of one of the largest derivatives exchanges, in response to a question about diversity at his exchange, stated that he didn't see color. Though his comment was intended to convey the absence of bias, it actually conveyed an insensitivity to the enormous challenges faced by people of color in the derivatives industry.

I am heartened, however, by Commissioner Benham's efforts at the CFTC and what is happening at NFA, where I serve as a public director and member of the Executive Committee. NFA has recently enhanced its robust and comprehensive diversity and inclusion program; and that program has strong support from both Tom Sexton and other members of executive management, as well as the board.

What do you see as the biggest barriers to Black and ethnic minority professionals growing into leadership roles?

DH Though unconscious bias presents the biggest impediment to the advancement of Black and ethnic minority professionals in the derivatives industry, it is a mistake to minimize the ongoing impact of very conscious bias; and let's call that by its name – racism. This racism, which at times goes unrecognized by our White colleagues in the industry, is demoralizing and can have a very direct impact on our ability to succeed and thrive in the industry. I offer an experience I had a few years ago as an example: Members of my team and I had a meeting with the chief risk officer and chief compliance officer of a multinational bank to whom we were proposing a swap dealer compliance risk assessment review. When we arrived at their offices, it was clear from the looks on their faces that they weren't expecting to see a Black leading the team. Throughout the meeting, they looked only at my junior White colleagues and directed all of their questions to them. It would be giving them an undeserved benefit of the doubt to believe that they weren't consciously aware of their behavior. Needless to say, they did not retain us for the review.

"Though unconscious bias presents the biggest impediment to the advancement of Black and ethnic minority professionals in the derivatives industry, it is a mistake to minimize the ongoing impact of very conscious bias; and let's call that by its name – racism."

DOUG HARRIS, PROMONTORY FINANCIAL GROUP

In fact, this incident highlights a significant barrier that Black and other ethnic minorities face – not only must we deal with unconscious and conscious bias at our employers, but also at our clients, business partners and service providers.

Tell us one thing you hope for future generations.

DH That the financial services industry and its regulators understand that bias (whether conscious or unconscious) artificially limits the pool of qualified talent for positions in the industry; that they accept the conclusions of numerous academic studies that more diverse organizations perform better in terms of decision-making and delivering value to their stakeholders by any number of accepted metrics; and that they realize that it is to their benefit to have staff, senior management and, importantly, boards that are diverse across all dimensions, including, but not limited to, gender, race, color, sexual orientation, disability military status and age. MV

CME Group Foundation focuses on high-tech learning needs amid pandemic

Additional funds push Chicago-area outreach to $6 million this year

BY JEFF REEVES

For more than a decade, CME Group Foundation has worked to improve computer science and math education in the Chicago area. But it's safe to say that amid the COVID-19 pandemic, the group's charitable efforts have been needed more than ever.

"Being a principal of a school or a teacher in 2020 has got to be one the hardest jobs out there," said Kassie Davis, who has served as executive director of CME Group Foundation since its creation in 2008. "But the educational aspect is only the beginning. To try and support these students through the emotional challenges of isolation, family sickness, food insecurity – it's going to take a lot to help them get through this pandemic."

That's why in addition to previously scheduled donations of about $5.7 million to assist educational efforts primarily in low-income communities in Chicago, the foundation added an additional $300,000 in early 2020 to address this urgent crisis for students. This includes special COVID-19 response grants to food banks, social services and technology solutions providers.

Beyond this short-term response, Davis said, the foundation has been aggressively reshaping its outreach to include digital efforts. For instance, the foundation supported the City of Chicago's existing summer youth jobs program and made it all-digital to 19,000 total young people.

These 2020 efforts are on top of the organization's long-term focus on "cradle to career" educational efforts, which range from early childhood math programs to partnerships with 10 local universities. The foundation provides 25 scholarships of up to $20,000 each to low-income college students in fields that include finance, computer science, information technology, data science and cyber-security.

> "To try and support these students through the emotional challenges of isolation, family sickness, food insecurity – it's going to take a lot to help them get through this pandemic."
>
> KASSIE DAVIS
> EXECUTIVE DIRECTOR OF CME GROUP FOUNDATION

Davis said that CME's reliance on data and technology in derivatives markets has long defined where its namesake foundation has focused its efforts in pursuit of the greatest good for Chicago-area students.

"We contributed additional money for the immediate needs, but everyone here is also thinking about the mid-term and long-term needs," she said. "Regardless of what happens in 2020 and when kids return to some kind of normal school day, CME Group Foundation is committed to ensuring our most vulnerable young students continue to grow and develop, right up until they graduate." MV

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