

Which Financial Europe for the Future ?

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OTC DERIVATIVES REGULATION

Exit from Hell or Exit to Hell ?

not the cause of the crisis but did exacerbate
financial chaos

economic utility (risk redistribution and fair pricing)
...ing

success story : from USD 580 bn on organi
changes and 500 bn OTC at year 1986 to 81,000
and 596,000 bn OTC

Some Unlucky Affairs

Legal Risk 1991 Swaps UK Local Authorities 750 m

Basis Risk 1993 Futures Metallgesellschaft 1.3 bn \$

competence risk 1994 Swaps with leverage Procter

Knabe vs Bankers Trust 195 mi \$

operational risk 1995 Options & Futures Barings ≈1

and the winner is ...Kerviel SG 2008 4.9 bn\$

NOT NO SYSTEMIC CONSEQUENCE

2008 : Systemic risk component of OTC derivatives revealed

2009 : G20 Pittsburgh DERIVATIVES
INFRASTRUCTURE

Central Clearing

Trade repositories

Electronic trading

Higher Capital and margins on non centrally cleared

A new transatlantic gap : DFA vs EMIR

Overall same regulation BUT EXTRATERRITORIALITY

D :

Differences in scope : OTC and listed for EMIR , OTC only for DFA

Clearing thresholds with EMIR authorized CCP for liquid and standardized derivatives (defined by ESMA) but no thresholds with DFA
Clearing swaps determined by SEC and CFTC

Reporting to trade repositories by FC and NFC in Europe (end of the month) but in USA one counterparty only reports to SDR (no reporting on OTC derivatives) and real time reporting

Margining and collateralisation more stringent for uncleared derivatives

Major Benefits

re transparency

s counterparty risk at the micro level (and I
rconnectness)

CCPs : the new systemic threat ?

CCP systemic node of financial network : no ma
but counterparty risk

Unintended consequences ...

margining: Shortage of collateral with HQA ?

plus more interconnectedness (more repos, more securities lending, more collateral transformation services)

increased procyclicality (securities used as collateral)

more trading (less risky !) or less trading (more onerous ...FTT)

ISSUES STILL UNRESOLVED

Minimal number of CCPs

Minimal initial margin (EMIR)

Day margin calls

Marked to Models of non standardized derivatives

Resolution regime ?