Which Financial Europe for the Future?
Suerf/Banque de France Conference
Paris, November 22, 2013

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)....

Success story: from USD 580 bn on organized exchanges and 500 bn OTC at year 1986 to 81,000 and 596,000 bn OTC
Some Unfamous Affairs

Legal Risk 1991 Swaps UK Local Authorities 750 mi $

Basis Risk 1993 Futures Metallgesellschaft 1.3 bn $

Incompetence risk 1994 Swaps with leverage Procter & Gamble vs Bankers Trust 195 mi $

Operational risk 1995 Options & Futures Barings ≈1bn$

And the winner is ...Kerviel SG 2008 4.9 bn$

BUT 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 AND:

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 year) but in USA one counterparty only reports to SDR (no reporting of uncleared derivatives) and real-time reporting

Margining and collateralization more stringent for uncleared derivatives
Major Benefits

More transparency

Less counterparty risk at the micro level (and less interconnectness)

CCPs: the new systemic threat?

CCP systemic node of financial network: no market 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

- Optimal number of CCPs
- Optimal initial margin (EMIR)
- Intra day margin calls
- Marked to Models of non standardized derivatives
- CCP resolution regime?