



FINANCIAL REGULATION

EMIR SPECIAL ISSUE 2014

Reporting requirements for over-the-counter derivatives trades go into effect on Feb. 12 under the European Market Infrastructure Regulation. As companies prepare, they also look ahead to mandatory clearing and the reporting of valuation and collateral, which are set to begin in the third quarter.

ISSUE HIGHLIGHTS:

SocGen Securities Services' **Emmanuelle Choukroun** discusses trade repository reporting.



ESMA's **Fabrizio Planta** says non-financial entities may feel the largest impact of new reporting rules.

Gunnar Stangl from Commerzbank looks ahead to August valuation deadlines.



Bloomberg's **Adam Litke** looks at EMIR vs. Dodd-Frank.

Iosco's **Ken Hui** on why February's deadline isn't the end of the road for reporting.



Emmanuel Rolland from Axa IM on why new collateral needs mean new challenges.

INTRODUCTION

The start of mandatory reporting for over-the-counter derivatives trades in the European Union is set to go into effect on Feb. 12 as part of the region's European Market Infrastructure Regulation, also known as EMIR. This means that all OTC and exchange-traded derivatives have to be reported to one of six trade repositories registered by the European Securities and Markets Authority.

EMIR, which is designed to increase the stability of the derivatives market, is the European sibling to the derivatives infrastructure rules instituted by the Dodd-Frank Act in the U.S. Both sets of rules grew out of commitments made by the Group of 20 nations at a 2009 summit in Pittsburgh.

Other obligations under EMIR include central clearing for certain classes of OTC derivatives, risk mitigation techniques for non-centrally cleared OTC derivatives and authorization and prudential requirements for central counterparties.

On Bloomberg, run **{EMIR<GO>}** for frequently asked questions, upcoming events and other resources.

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EMIR is more limited in transparency and real-time pricing than U.S. rules, says Adam Litke.

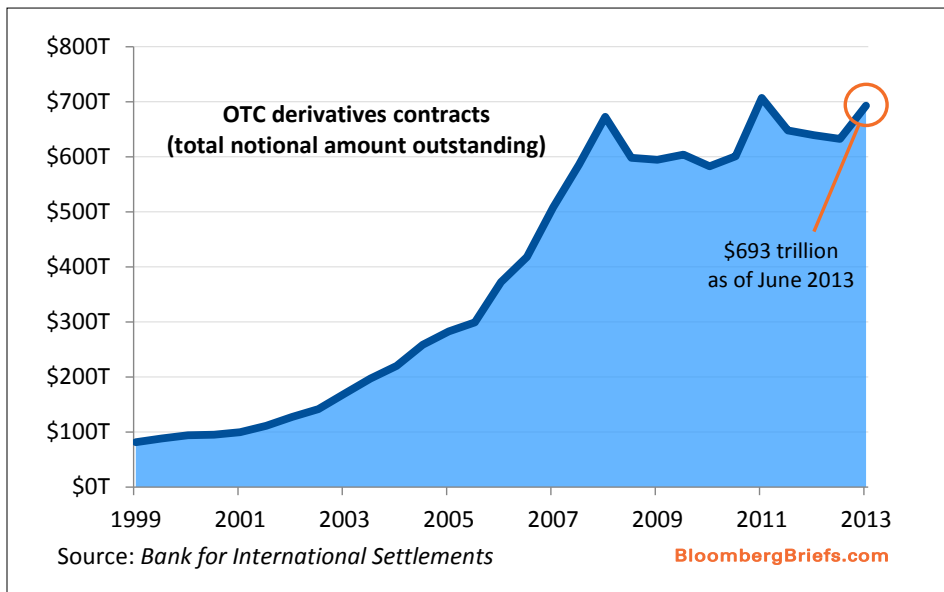
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Germany and France have the most legal entity identifiers ahead of EMIR's reporting deadline.

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Iosco's Ken Hui says Feb. 12 is not the end of the road for reporting; Axa's Roland says new collateral needs will bring new challenges.

EMIR Reporting Obligation Begins at a Time of Rising OTC Interest



Following a post-recession idling of derivatives market growth, OTC contracts rose to \$693 trillion as of June 2013, up from \$633 trillion at the end of 2012, according to the Bank for International Settlements. OTC interest is nearing a June 2011 high as EMIR's reporting obligation is set to take effect.

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The U.K. has the most EMIR trade repositories, while the U.S. has the most potential CCPs.

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EMIR creates opportunities in service offerings, price compression and trading platforms, says EY's Christian Röthlin and Dr. Daniel Vogel.

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ESMA's Fabrizio Planta says reporting rules will have the most impact on non-financial entities.

Bloomberg Brief Financial Regulation

Bloomberg Brief Executive Editor Ted Merz
tmerz@bloomberg.net
+1-212-617-2309

Bloomberg News Managing Editor Otis Bilodeau
obilodeau@bloomberg.net
+1-212-617-3921

Financial Regulation Editors Melissa Karsh
mkarsh@bloomberg.net
+1-212-617-4557

Scott Johnson
sjohnson166@bloomberg.net
+44-20-3525-8027

Contributing Reporters: Jim Brunsten
jbrunsten@bloomberg.net
+32-2-285-4304

Contributors Adam Litke, head of risk strategy
alitke2@bloomberg.net
+1-212-617-1716

Yedau Ogundele, application specialist
yogunde3@bloomberg.net
+44-20-3216-4008

Rachel Morison
rmorison@bloomberg.net
+44-20-3525-8736

Robert Fisher, data analyst
rfisher21@bloomberg.net
+1-609-279-7003

David Wiggins, application specialist
dwiggins6@bloomberg.net
+44-20-316-4161

Newsletter Business Manager Advertising Nick Ferris
nferris2@bloomberg.net
+1-212-617-6975
Jeff Maniatty
jmaniatty@bloomberg.net
+1-203-550-2446

Reprints & Permissions Lori Husted
lori.husted@theygsgroup.com
+1-717-505-9701

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NEWS & ANALYSIS

BY JIM BRUNSDEN, BLOOMBERG NEWS

Banks to Corporates Prepare for Big Bang of EU Swaps Rules

Companies from banks and technology firms to energy suppliers are set to face European Union swaps rules, amid warnings from some businesses that they may not have all the systems in place to meet this month's deadline.

Starting Feb. 12, firms in the EU must begin systematic reporting of their derivatives transactions to databanks known as trade repositories. The measure marks the EU's implementation of a global agreement targeted at preventing any repeat of the financial crisis that followed the collapse of **Lehman Brothers Holdings Inc.**

The rules are "a huge administrative requirement" for non-financial companies, **Richard Raeburn**, chairman of the **European Association of Corporate Treasurers**, said in a telephone interview. "It is a big issue."

The reporting requirements stem from an accord among the Group of 20 Nations aimed at bolstering the resilience of the \$693 trillion market for over-the-counter derivatives — a term used to describe swaps traded away from exchanges. Regulators say the step will enhance their ability to monitor risk taking, curb market abuse, and make it easier to understand who owns what when a financial institution fails.

Lehman's collapse in 2008 sparked a wave of litigation and lengthy bankruptcy proceedings, as authorities sought to untangle its various activities and establish ownership of different assets — a process that continues to this day.

'SENSIBLE EXAMPLE'

Raeburn said he sees the U.K.'s market regulator, the Financial Conduct Authority,

"as setting a sensible example" in how it intends to enforce the EU measure.

"They have indicated that they are sensitive to the problems that the deadline imposes, and we don't expect them to come down too hard in the immediate period following the deadline," he said. "We don't think a formal postponement is the right route."

The EU isn't the first jurisdiction to begin applying the rules. Measures are already in place in the U.S. and several other nations including Brazil and Japan.

Still, unlike in the U.S., which opted for a staggered approach, Feb. 12 marks a big bang for the EU, where the rules will take effect for all asset classes on the same day. (For more on the differences between EMIR and U.S. swaps rules, see page 5).

Also, whereas the U.S. requirements focus on the sell-side of a trade, effectively placing the responsibility on banks, the EU's approach requires companies at both ends of a transaction to report, bringing more non-financial companies within the scope of the measure.

While the EU rules provide some flexibility for companies to delegate their responsibility back to the banks, they would retain legal liability. They would also still have to report intra-group trades.

DUAL-SIDE

The EU's decision to opt for dual-side reporting "is a significant challenge for the industry — especially FX due to the sheer number of counterparties of all sizes," **James Kemp**, managing director of the **Global Financial Markets Association's** global FX division, said in an interview.

"There is clearly a very wide variation

across Europe in terms of readiness," he said. "We do anticipate that, despite the Feb. 12 deadline, there is going to need to be some degree of forbearance from regulators."

Michel Barnier, the EU's financial services commissioner, was the architect of the law, known as EMIR. Chantal Hughes, his spokeswoman at the Brussels-based European Commission, declined to immediately comment.

Trade repositories authorized to handle EU data include facilities run by the **Depository Trust and Clearing Corp.** and **CME Group Inc.**

While this month marks a step forward for the EU in meeting its G-20 commitment to trade reporting, it's not the end of the process.

CODING SYSTEM

Regulators and industry are seeking to develop a common coding system at international level for recording trades — known as the Legal Entity Identifier initiative, or LEI. (For more on the LEI, see page 6).

The range of data that has been reported is also set to further expand in the EU. Requirements to report some details, such as those relating to collateral, will take effect later this year. Companies have also requested more technical guidance from the European Securities and Markets Authority.

"The big picture" is that trade reporting is moving forward, Kemp said. "When you look at it from 100,000 feet you can say this is moving in the right direction."

— Jim Brunsten is a financial regulation reporter for Bloomberg News based in Brussels.

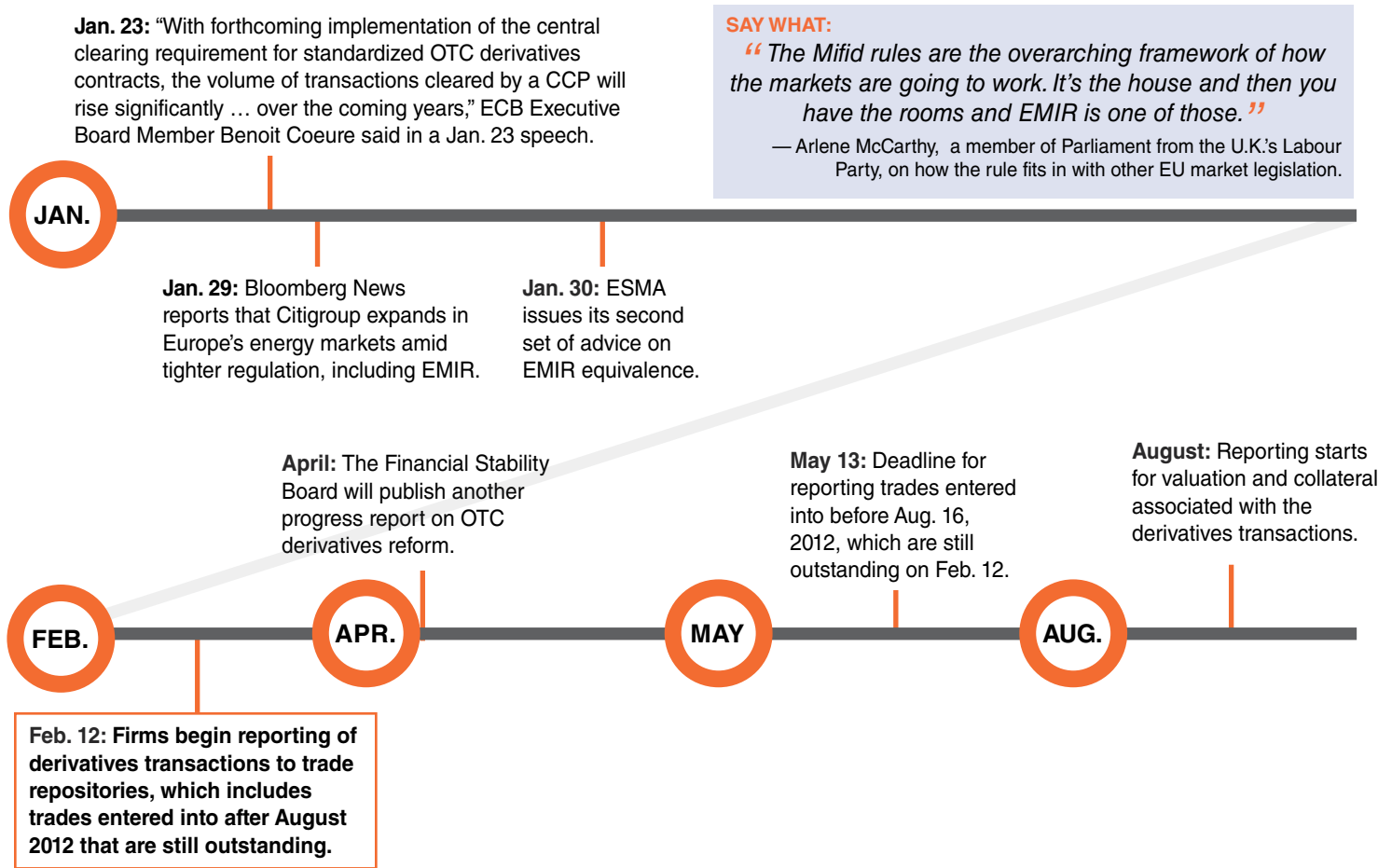
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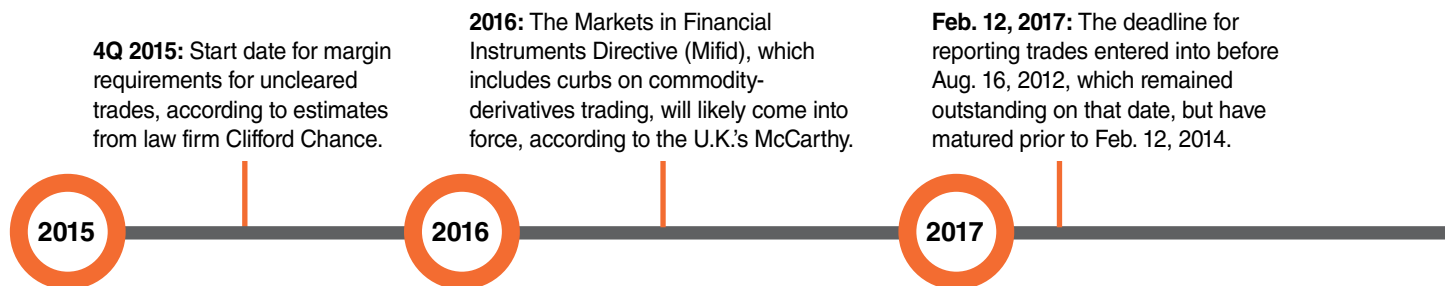
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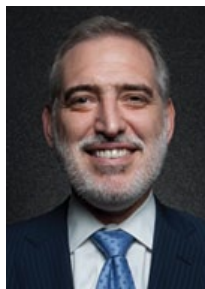
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INSIGHT

COMMENTARY BY ADAM LITKE, HEAD OF RISK STRATEGY AT BLOOMBERG LP

EMIR Is More Limited in Transparency, Real-Time Prices Than U.S. Derivatives Rules



Adam Litke, head of risk strategy at Bloomberg LP, says though U.S. and European regulators have taken different paths on frameworks for derivatives trading, the two sets of regulations have turned out to be similar.

The European Market Infrastructure Regulation and the derivatives infrastructure rules instituted by the U.S. Dodd-Frank Act will alter the swaps market in fundamental ways. Though the rules address many of the same issues, EMIR is more limited in scope because much of what is in Dodd-Frank is already addressed in the European Union's Markets in Financial Instruments Directive and other laws.

It is not surprising that the two rules address many of the same issues in a similar manner because both grew out of commitments made by the G-20 at the 2009 Pittsburgh summit. The commitments said that all standardized over-the-counter derivatives contracts "should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties." The Financial Stability Board and its "relevant members" were also asked to regularly assess implementation of these rules, which also included reporting OTC derivative contracts to trade repositories and subjecting non-centrally cleared contracts to higher capital requirements. As the Feb. 12 EMIR reporting deadline approaches, we look at some similarities and differences between the European and U.S. rules.

POSITION LIMITS

One of the biggest historical differences between the OTC market and the exchange-traded market is the concept of position limits. These limits were introduced in the 1920s for agricultural and other physical commodities in order to limit price fluctuations caused by the concentrated control of markets. Under Dodd-Frank, these limits have been extended to swaps

and other OTC contracts that are economically equivalent to futures. EMIR doesn't address the issue. Other regulations (Mifid II) require the establishment of position limits for physically delivered contracts¹. This is a new requirement for Europe and was only formally agreed to on Jan. 15. In the past, European regulators viewed position limits as a way to ensure the soundness of exchanges and clearinghouses, but relied on other tools to prevent market manipulation. This harmonization has been the subject of intense lobbying by commodities traders based in Europe and may have a huge impact on market flows, especially in those parts of the market dominated by vertically integrated financial trading houses. These firms may no longer find it effective to control physical assets such as power plants and the large volumes generated by hedging the asset production.

TIMELINESS AND REPORTING

Trade reporting serves two key purposes. First, it gives regulators transparency into the workings of the market and, second, it enhances market efficiency by giving all participants an adequate view of price and market depth. EMIR is primarily concerned with systemic risk and market abuse. As such, the deadline for most trade reporting is set at the transaction date plus one day, or T+1. The reporting is delayed enough that the data cannot be used for real-time

market information, but fast enough that regulators can develop a thorough view of market flows and connections. Dodd-Frank reporting is different. At the start of implementation, which began at the end of February 2013, most trades had to be reported within 15 minutes. This is now down to 30 seconds and is expected to keep falling. U.S. regulators believe this real-time data will increase competition in the markets leading to greater efficiency. This is probably the single biggest difference between the two rules because the U.S. market is essentially being transformed into a public market while the European market remains opaque to end users.

SWAPS PUSH-OUT

One of the big changes in U.S. law is the concept of swaps push-out, which means that firms cannot conduct their derivatives trading in legal entities that take government guaranteed deposits. This is not dissimilar to the old Glass-Steagall rules that kept commercial banks out of investment banking. While the U.K. is in the process of working on similar rules involving structural reforms, the rest of Europe appears to be backing off of ringfencing any activities other than proprietary trading². In the past, being a large guaranteed bank was a great asset in the cross-currency swaps market where large, long dated, credit exposures

EMIR Requires More Reporting Detail Than Dodd-Frank

United States	Europe
Fixed rules about which party is responsible for reporting.	Both parties agree on who reports the trade.
Reporting party is responsible for data quality.	Parties are jointly responsible for accuracy.
Corrections must be reported, but are not extensively documented.	Corrections require extensive documentation as to who requested them and why.
Trades must be flagged as collateralized or uncollateralized. This is primarily to allow users of the real-time information to exclude trades where the price includes a credit charge.	Actual details of collateral valuation must be reported to allow regulators to understand market connections.
Reporting for OTC instruments only. Any exchange-traded instruments are reported by the exchange.	Both OTC and exchange-traded instruments must be reported.

INSIGHT ...

were the norm. You needed a big balance sheet to accommodate the concentration risk and a high credit rating to convince a corporate customer that you were safe. It may well be that these new rules will push this type of trading to firms that still benefit from government guarantees. What is unclear is how much of this market will remain. New capital rules are making it much more expensive for any regulated institu-

tion to trade cross-currency swaps and it is probable that this market will contract as end users look for other ways to hedge.

CONCLUSION

Although the U.S. and Europe have ended up taking very different paths from the original G-20 meetings to reach the current legal and regulatory frameworks for derivatives trading, they have done an admirable

job of arriving in approximately the same place. The major difference between the two regimes has turned out to be transparency, where the U.S. has done a better job of ensuring that all market participants can see accurate, real-time prices. However, the fact that most trade repositories will service both U.S. and European firms may mean that EMIR eventually catches up to the U.S. in this important area.

¹ As of this writing it appears that some physically settled energy forward contracts will be exempted from these rules.

² The Liikanen report recommended much stricter ringfencing, but Michel Barnier, the EU financial services chief, indicated in January that only proprietary trading would be covered by the final rules.

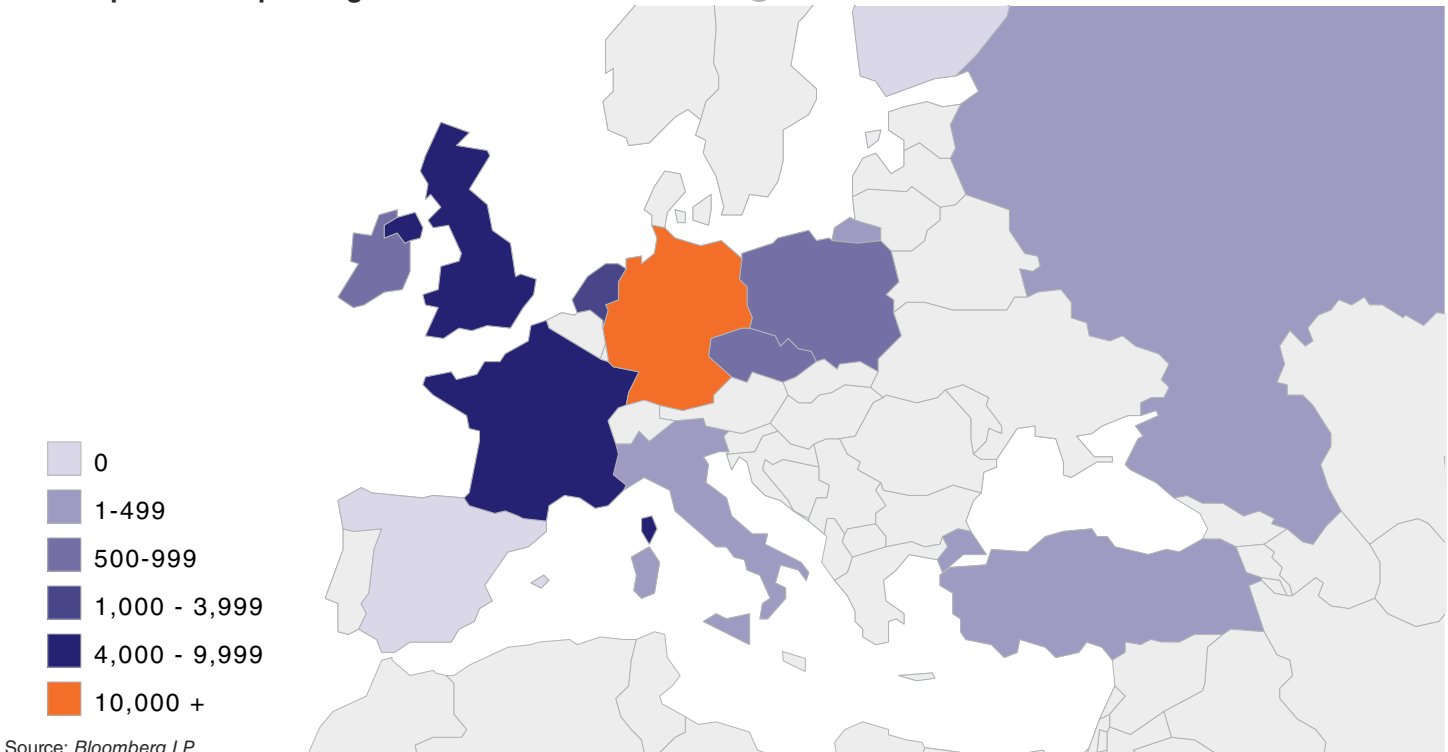
LEI MAPPING

BY ROBERT FISHER, DATA ANALYST AT BLOOMBERG LP

Germany, France Have the Most Legal Entity Identifiers Ahead of EMIR Reporting Deadline

Of the 13 European pre-local operating units (LOUs) that have been endorsed to issue legal entity identifiers (LEIs), which allow counterparties to enter into derivatives trades to comply with EMIR's reporting obligation, Germany's WM Datenservice has issued the most at 26,082 ahead of the Feb. 12 reporting deadline, according to Bloomberg data. Some of the pre-LOUs have yet to issue the 20-character identifier, including Finland's National Board for Patents & Registration and Spain's Registro Mercantil del Reino de Espana. EMIR will likely be a key driver in increasing the volume of issued LEIs in Europe.

To view pre-Local Operating Units click on the interactive  buttons below.



BLOOMBERG SOLUTIONS

FOR EMIR REPORTING

Bloomberg's straight-through-processing solutions allow clients to comply with reporting requirements around the globe, connect with key exchanges, clearing houses and trade repositories for all asset classes.

VOICE & ELECTRONIC TRADES

Trades initiated via Bloomberg voice and electronic execution platforms can seamlessly flow to the preferred Trade Repository as part of the execution process.

MONITORING REPORTING STATUS

Bloomberg provides a Central Reporting Blotter to monitor the reporting status of your trades. Clients can track which trades have been sent and acknowledged and which have any issues or errors.

UPLOADING AND BACK-LOADING TRADES

Clients have the option to upload trades initiated outside of Bloomberg in order to ensure that all trades are reported through a single solution. Uploads can be via simple tools or integrated feeds. These mechanisms can also be used for the transaction back-loading requirement.

CONNECTIVITY

Bloomberg will connect to DTCC and Regis-TR by the reporting deadline. Connectivity to additional TRs will be provided upon client demand.

FOR CLEARING

Bloomberg's electronic trading platform already supports clearing workflows. Using Bloomberg, customers are able to connect their trades to a Clearing House and perform margin calculations.

Initial Margin and the PV for calculating Variation Margin on a transaction basis can be shown.

Margin calculations at the portfolio level are already available in {MARS <GO>}. We will have margin calculations from other Exchanges in the future.

Bloomberg solutions for reporting:

John Morton
EMEA Application Specialist
+44 20 7330 7693
jmorton@bloomberg.net

Ed Laver
Sales Representative
+44 20 7673 2878
elaver@bloomberg.net

Bloomberg solutions for clearing:

David Wiggins
EMEA Application Specialist
+44 20 3216 4161
dwiggins6@bloomberg.net

Frankie Cheung
Sales Representative Risk & Regulations
+44 20 7073 3547
fcheung1@bloomberg.net

UTL	Reposit	Counter	Timestamp	Produ	Product	Nominal	Effective Dat	Maturity Date	Fixed Rate	
11	1030441	Regis	A	12:00:00	IR	SW	50MM	12/16/2013	12/16/2013	0.4
12	1030210	Regis	B	13:00:00	IR	SW	50MM	12/16/2013	12/16/2013	0.4
13	1030210	Regis	C	14:00:00	IR	SW	50MM	12/16/2013	12/16/2013	0.4
14	1030210	Regis	A	15:00:00	IR	SW	50MM	12/16/2013	12/16/2013	0.4
15	1030210	Regis	B	16:00:00	IR	SW	50MM	12/16/2013	12/16/2013	0.4
16	1030210	Regis	C	17:00:00	IR	SW	50MM	12/16/2013	12/16/2013	0.4
17	1030210	Regis	A	18:00:00	IR	SW	50MM	12/16/2013	12/16/2013	0.4
18	1030210	Regis	B	19:00:00	IR	SW	50MM	12/16/2013	12/16/2013	0.4
19	1030210	Regis	C	20:00:00	IR	SW	50MM	12/16/2013	12/16/2013	0.4
20	1019004	DTCC	A	21:00:00	IR	SW	50MM	12/16/2013	12/16/2013	0.4
21	1019004	DTCC	B	22:00:00	IR	SW	50MM	12/16/2013	12/16/2013	0.4
22	1019004	DTCC	C	23:00:00	IR	SW	50MM	12/16/2013	12/16/2013	0.4
23	1019004	DTCC	A	0:00:00	IR	SW	50MM	12/16/2013	12/16/2013	0.4
24	1019004	DTCC	B	1:00:00	IR	SW	50MM	12/16/2013	12/16/2013	0.4
25	1019004	DTCC	C	2:00:00	IR	SW	50MM	12/16/2013	12/16/2013	0.4
26	1019004	DTCC	A	3:00:00	IR	SW	50MM	12/16/2013	12/16/2013	0.4
27	1019004	DTCC	B	4:00:00	IR	SW	50MM	12/16/2013	12/16/2013	0.4
28	1019004	DTCC	C	5:00:00	IR	SW	50MM	12/16/2013	12/16/2013	0.4
29	1019004	DTCC	A	6:00:00	IR	SW	50MM	12/16/2013	12/16/2013	0.4
30	1019004	DTCC	B	6:00:00	IR	SW	50MM	12/16/2013	12/16/2013	0.4
31	1019004	DTCC	C	6:00:00	IR	SW	50MM	12/16/2013	12/16/2013	0.4
32	1019004	DTCC	A	6:00:00	IR	SW	50MM	12/16/2013	12/16/2013	0.4
33	1019004	DTCC	B	6:00:00	IR	SW	50MM	12/16/2013	12/16/2013	0.4
34	1019004	DTCC	C	6:00:00	IR	SW	50MM	12/16/2013	12/16/2013	0.4

Recent Reports	Client	Calculate 1DayP&L	Ccy	USD	Initial Margin	Incremental IM
CCP/FCH	Security	Market Value	-71,182.33	1,865.96	--	--
FDG		Market Value	-71,182.33	1,865.96	--	--
CH		Market Value	817,056.33	-964.91	247,725.42	352,171.71
FCM		Market Value	564,656.82	-2,862.23	6,614.71 (what-if)	202,195.58
1/SWAP 1.00 11/13/18	SL820RFH Corp	Market Value	312,610.40	-4,761.55	--	--
1/SWAP 2.16 11/13/18	SL820RFJ Corp	Market Value	251,711.72	1,898.32	--	--
1/SWAP 1.20 01/20/19	SLQ506M3 Corp	Market Value	334.69	--	--	--
FDG		Market Value	252,064.82	1,898.32	241,120.71 (what-if)	-63,445.95
1/SWAP 2.16 11/13/18	SL820RFP Corp	Market Value	251,730.13	1,898.32	--	--
1/SWAP 1.20 01/20/19	SLQ506M3 Corp	Market Value	334.69	--	--	--
Generic FCM		Market Value	334.69	--	.00 (what-if)	213,622.07
1/SWAP 1.20 01/20/19	SLQ506M3 Corp	Market Value	334.69	--	--	--
MTC Bilateral		Market Value	307,663.22	--	--	--

VOICES

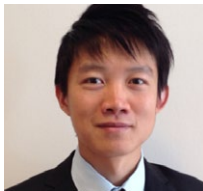
Regulators Seen Accepting Growing Pains as Companies Rush to Meet Reporting Deadline

Bloomberg Brief asked derivatives-market executives and advisers about the biggest challenges of EMIR, how it fits into broader EU regulatory initiatives and the potential impact of the Feb. 12 reporting deadline.



Stewart Macbeth, CEO of DTCC's European trade repository, DTCC Derivatives Repository Ltd.

"Reporting of OTC and exchange-traded derivatives asset classes commencing on a single day will be a significant undertaking for buy- and sell-side firms. Readiness varies from market to market and the type and size of firm. Sell-side firms have closely studied the data that needs to be reported and have completed test phases with our trade repository. We have broad support among the broker-dealer community, including the majority of the top 100 dealers who are major counterparties to Europe's buy-side firms. In regards to corporates, there are close to 1 million entities in Europe which could be impacted by EMIR and many may not be aware of their reporting obligations to their regulators. With the compliance window narrowing, these companies will need to act fast. For companies reporting for the first time, the major challenge is identifying the data that needs to be reported and then setting up the processes and procedures for reporting."



Ken Hui, policy adviser to the International Organization of Securities Commissions

On the February deadline: "Regulators are fully aware of the challenges that the industry faces. At the same time, the reporting requirements will provide data to inform regulators' risk assessment and policy making. It will also enhance market efficiency and the market's ability to self-correct. It is important to put the February reporting deadline in perspective. G20 agreed on the reporting requirement in 2009, with an implementation deadline of end of 2012. ESMA announced the start date of the reporting requirement back in 2012. The February deadline is not the end of the road either. Reporting arrangements will continue to evolve. Regulators and market participants will identify better ways to collect and analyze data. Work is already underway nationally and internationally. At the international level, IOSCO is working with the FSB and Committee on Payment and Settlement Systems to study the feasibility of producing and sharing globally aggregated trade repository data. An IOSCO task force is also studying the impact of post-trade transparency on the CDS market."

On the EU framework: "EMIR provides a unified regime to regulate the European derivatives market. Its release is also a milestone in completing the global framework of derivative regulation. The derivatives market is global in scope. Regulating this market demands internationally consistent rules. Also, there needs to be effective mechanisms to address cross-border issues to limit regulatory arbitrage, maintain a level playing field, and ensure the effective functioning of the market. EMIR provides a basis for addressing cross-border regulatory issues. Many EMIR requirements are very similar to those in other major jurisdictions. It is important that authorities are able to defer to their overseas counterparts when supervising cross-border transactions. Where the issues are not as clear-cut, it is important that EU and overseas authorities work to avoid simultaneous application of multiple requirements, as they are doing now in many cases. The work of IOSCO and other standard setting bodies aims to provide a framework for internationally consistent implementation."



Emmanuel Rolland, chief operating officer of derivatives management, Axia Investment Managers

On EMIR's challenges: "Clearly the next challenge is how investors will adapt their behavior to the new landscape. New collateral needs will bring new challenges such as liquidity and collateral management that may change the way investors have recourse to OTC derivatives in the long term. In some instances, investors may reconsider their use of derivatives and try to find alternatives. In others, investors will absorb the new framework and work with it." **Click for more:**

On the EU framework: "Clearing and risk mitigation techniques are predicted to mitigate counterparty risk and bring sound practices in the industry while reporting is due to bring transparency and better understanding of the market by the regulators. One of the unknown or untested impacts is the effect on the price of OTC derivatives."

More:

On the deadline: "The February deadline actually sounds like the starter pistol of the race for reporting quality and completeness. Most market stakeholders raised concerns to the regulators as to the capacity of the whole industry to be ready by Feb. 12 — in particular with respect to listed derivatives reporting. As of February, everyone will continue to focus on completing the reporting — with UTIs, for example — back loading portfolios with the aim to get the reporting processes into a business-as-usual mode as soon as possible." **More:**

VOICES...

**Gunnar Stangl, head of regulatory coordination, Commerzbank**

On challenges: “The key challenge of EMIR is the increased complexity of using any form of derivatives — even for casual users like a travel agency doing one FX forward a year. The need to negotiate a myriad of details, and the dependency on other counterparties, has noticeably changed the focus from risk management and accounting to operational issues.”

On the EU framework: “We see a trend that smaller users of derivatives just get frustrated — and an increased dependency on larger facilitators. With MiFIR up the road, further standardization and loss of flexibility is nearly ensured.”

On the Feb. 12 deadline: “The real test for many smaller financial counterparties will actually come in August, when daily valuations will become reportable. After Feb 12 we expect a number of issues to surface — standards were clarified late, impacting delivery projects in quite a few places. In particular for exchange traded derivatives, as the December ESMA FAQs added an extra layer of complexity. Regulators see the issues. But ESMA proposals to lessen the expected impact on markets by postponing ETD reporting by one year were not politically acceptable, so the market should not expect any effective change in rules any time soon.”

**Henry Raschen, head of regulatory and industry affairs for Europe, HSBC Securities Services**

On challenges: “Initially the greatest challenge is reporting in the prescribed form, or finding somebody to do it for you. Also, regulators will need to have the necessary means to analyze and assess the data rapidly so as to pinpoint areas of concern.”

On the EU framework: “We may see eventually concentration of derivatives’ clearing in those CCPs that offer the best service for lowest cost. The increasing volumes of cross-border business may also provoke a greater drive to CCP interoperability.”

On the Feb. 12 deadline: “Basically, it’ll work. Reporting will be carried out as intended, but with exceptions, such as lack of Unique Trade Identifiers in some cases. Regulators will need to take a strict but pragmatic view provided market participants are doing all they can. It will be interesting to see what actions regulators take after examining the data, and how soon.”

**Emily Cates, specialist in operational processing, Rule Financial**

On challenges: “Creating a unique trade identifier, which both counterparties will need to use in order to identify the trade with a trade repository, is challenging. Deciding which counterparty will generate the UTI, and determining how best to exchange, consume, track and maintain it are just some difficulties that have arisen. ESMA has stipulated that all trades live between Aug. 12, 2012, and the go-live date need to be back-loaded to the chosen trade repository. This will be challenging, and as the need for an agreed UTI is thrown into the mix, it is causing many an operational nightmare.”

On the EU framework: “Once any teething issues have been resolved, EMIR will create a much more transparent derivatives framework across the EU. Exact trade volumes, cleared and bilateral, as well as who holds what assets will be known. However, authorities will need to be conscious of the potential for pricing arbitrage for products that are both cleared and bilateral when clearing thresholds are not reached.”

On the Feb. 12 deadline: “On day one, firms will attempt to report some trading information, even if they are unable to populate all the fields. There will be an unofficial grace period for ironing out any issues. Once this ends, local authorities across the EU and ESMA will start to analyze the data and impose penalties on non-compliant firms. A similar process for back-loaded trades and associated collateral will be initiated six months later, creating even greater challenges for institutions. CCP product launches may create a spike in product onboarding, but it’s unclear how soon after the publication of ESMA’s clearing obligation technical standards this could happen. The earliest possible date for publication is Q4 2014, but it will likely be Q1 2015.”

**Aviv Handler, managing director, ETR Advisory**

On challenges: “For the energy markets, the biggest current challenge is understanding what data is really required. EMIR was primarily drafted and targeted at the financial sector and yet commodities and energy are included. However, the field definitions often apply differently in commodities and it is therefore unclear what goes where. This applies as much to the ‘commodities’ part of the message as the general parts. For example, there is no way to represent a multi commodity trade, such as a spark spread. With two weeks to go there are still many unanswered questions.”

VOICES...

On the EU framework: “Generally the biggest impact will be the move to clearing, which could make trading more expensive. The danger for the energy trading industry is that it will make hedging more expensive and less attractive. As a result, we could see more pricing volatility downstream.”

On the Feb. 12 deadline: “I expect a period of great confusion. As mentioned, there is a lack of clarity on what goes into many of the fields, which means that participants will be reporting them differently. When these eventually get reconciled by the repositories, there will be a great number of mismatches. This will lead to a reassessment of some of these fields, and therefore a rework of many of the reporting systems being used.”



Vicente López-Ibor Mayor, president of the law firm Estudio Jurídico Internacional, chairman of Light-source Ltd., and a former energy commissioner of Spain

On challenges: “We live over-surrounded by rules and regulations — legions of rules and sometimes absence of clear principles from which they must emerge. The EU regulation on OTC derivatives, central counterparties and trade repositories (EMIR) is an inevitable legacy of the turbulent financial crisis. EMIR and Dodd-Frank have their roots in the G-20 summit in Pittsburgh in 2009. The challenges behind the rules are the improvement of transparency in any transaction and requirements for risk mitigation procedures for bilateral OTC derivative. The instrument selected is mandatory clearing — for certain derivatives — and reporting of OTC. This new obligation also reaches naturally the energy sector. Energy derivatives markets have a strong interlink with spot commodity markets where the proportion of non-financial counterparties is high.”

On the EU framework: “A transition period must be established in the energy markets on that field. One of the main conditions should be that clearing thresholds (3 billion) do not negatively interact with energy markets liquidity and participation.”

On the Feb. 12 deadline: “The opening up of the electricity and natural gas sector to competition is a precious objective. But we are still far from real outcomes. The wholesale energy market is a key instrument. EMIR, in connection with REMIT (Regulation on Wholesale Energy Markets Integrity and Transparency), should provide a balanced coordination between energy, regulatory and financial securities market authorities.”

AROUND THE WEB

The latest EMIR releases from the **European Securities and Markets Authority** include a Q&A on implementation, guidance to the European Commission on procedures to impose fines and penalty payments on trade repositories, and advice on third-country regulatory equivalence for Japan.

Q&A: <http://bit.ly/1nwPKem>. Fines: <http://bit.ly/1ijm54B>. Japan: <http://bit.ly/LiAu5i>.

The U.K.'s **Financial Conduct Authority** maintains an EMIR dashboard that includes regulatory information, a documents library and a list of recent updates. Chief Executive **Martin Wheatley** discussed regulatory coordination on EMIR and the FCA's early compliance checks, in a speech in December looking ahead to 2014.

Dashboard: <http://bit.ly/1cDI9qh>. Wheatley: <http://bit.ly/1nwXpcA>

The **Central Bank of Ireland's David Doran, Caroline Kirrane** and **Mary Masterson** “briefly” touch on EMIR in their report, “Some Implications of New Regulatory Measures for Euro Area Money Markets.” EMIR's standards for collateral, along with other competing demands for high-quality liquid assets, may “reduce repo market liquidity and affect money market rates,” they wrote.

<http://bit.ly/1eeAiRA>

Emily Cates analyzed the business areas affected by EMIR, its comparisons with Dodd-Frank and the aspects of the technical standards that need clarification, in a report on **Rule Financial's** website.

<http://bit.ly/1fvtTR>

The **Financial Stability Board** published a report in September citing “substantial progress” on the G-20 Leaders' objectives in managing risks from over-the-counter derivatives. The next report is due in April.

<http://bit.ly/1fsqSQG>

LCH.Clearnet maintains an interactive timeline for U.S., European and international regulatory initiatives.

<http://bit.ly/LLvozy>

Aviv Handler from **ETR Advisory** blogs about what GLERT (Go Live for EMIR Reporting of Trades) means for the energy industry.

<http://bit.ly/Mn61ny>

A **Bloomberg News** QuickTake, “Diffusing Derivatives,” summarizes global regulation, recent market history and industry arguments, with a reading list of its own.

<http://bloom.bg/LxHz2X>

ENERGY

BY RACHEL MORISON, BLOOMBERG NEWS

EEX Benefits as EU Clearing Rules Push Power Trade Onto Exchange

European regulation to increase clearing of over-the-counter contracts has boosted trading on the European Energy Exchange AG to a record as companies increase their risk management.

Total open interest, or the number of outstanding contracts, rose to 717.6 terawatt-hours at the end of 2013, up from 464 terawatt-hours a year earlier, EEX data show. Power volume climbed by 36 percent last year, with more than half of the total traded directly on the exchange for the first time, Peter Reitz, the chief executive officer of Leipzig, Germany-based EEX said on Jan. 23 in an interview in London.

European Union rules designed to reduce risk in credit, equity, interest rate, foreign exchange and commodity markets came into force in 2012 and require all over-the-counter derivatives transactions to be guaranteed through a clearing house, leading some banks to shut commodities trading units. Bilateral derivatives transactions have to be reported to a trade repository from Feb. 12, according to the rules, known as the European Market Infrastructure Regulation or EMIR.

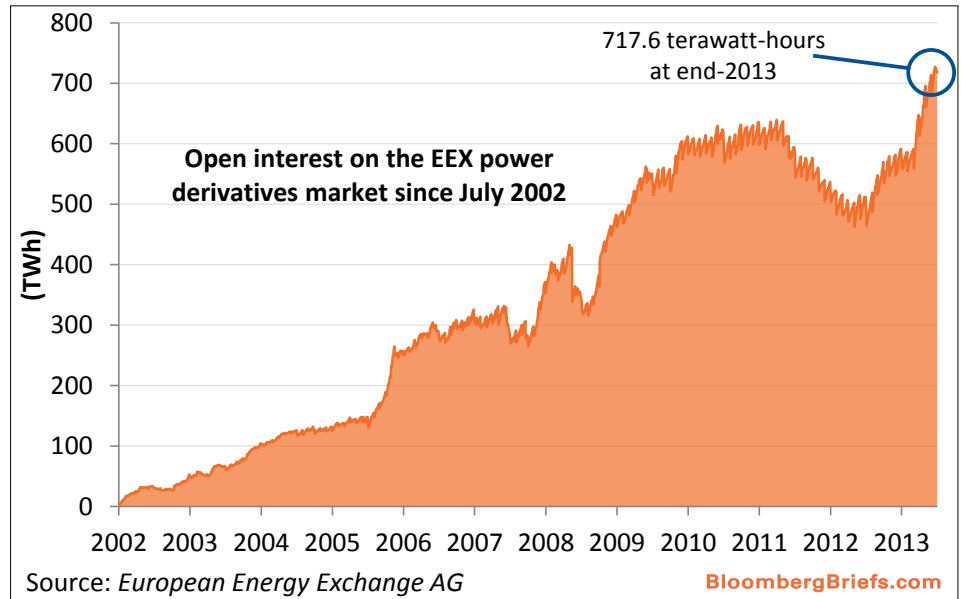
"The trend toward more regulation has been a benefit to us and there is an increased awareness of risk," Reitz said. "In the past people would have done bilateral trades without insurance, now there is more in-house risk management and clearing has become more attractive."

In December, 16 percent of German power traded in the over-the-counter market was cleared, up from 11 percent the year before, data from the London Energy Brokers' Association show.

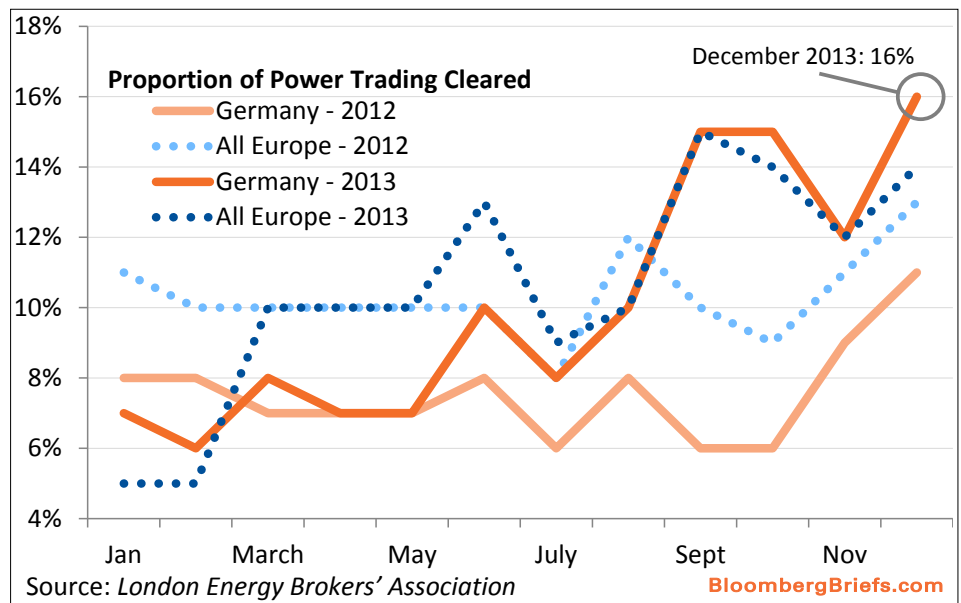
Bank of America Corp. followed Deutsche Bank AG and Morgan Stanley in shutting some commodities trading units. The U.S. lender will withdraw from Europe's power and gas markets, partly because of regulatory changes, it said in January.

The traders who lost their jobs "don't disappear, they create their own prop trading shops," Reitz said. "New entities don't have the credit lines with the big guys in the markets or the balance sheet of a bank so for them going toward clearing is a necessity because there are more counterparties."

EEX Open Interest Surged 55 Percent in 2013



German Power Trade Clearing Rose in 2013



EEX boosted its market share in German power trading to 20 percent in 2013 from 15 percent in 2012, it said on Jan. 14. "People used to think that bilateral trading was cheaper but now with the cost

of credit lines, clearing is the cheaper option," Reitz said. "People say they are agnostic where they trade, they just want the best price."

VALUATION

ANALYSIS BY YEDAU OGOUNDELE AND DAVID WIGGINS, BLOOMBERG LP

EMIR's Spotlight on Disputes Likely to Strengthen Valuation Standards



Yedau Ogoundele

EMIR's requirements for reporting derivatives valuations and resolving disputes between counterparties are likely to result in greater standardization in pricing methods.

Companies will need to report valuations and collateral in over-the-counter derivatives transactions beginning in August 2014. This adds to EMIR's dispute resolution requirement for OTC contracts

David Wiggins

that aren't cleared, which came into effect in September 2013.

These changes force derivatives counterparties to come to agreement on any disputes in a timely manner. Disputes not resolved within five business days must be escalated within each entity. Disputes involving values greater than 15 million euros, or those outstanding for more than 15 business days, must be reported to the national competent authorities.

For many companies, this is likely to require changes in internal organizations and systems, the use of external pricing tools, or the engagement of independent valuation providers.

Entities that previously relied on monthly counterparty valuations will need to find

reliable sources of daily valuation with standards on par with those already in place within large financial companies.

Below are some examples of these standards.

USE OF DUAL CURVES FOR PRICING ON INTEREST RATE SWAPS

For non-cleared derivative transactions, non-performance risk comes into play. To mitigate the risk that an entity is not able to meet its contractual obligations, many institutions sign collateral agreements with their counterparties.

For example, a credit support annex creates processes for the transfer of cash or securities to meet changes in the market value of OTC derivatives. Valuations now better reflect the economic value of these contractual terms, such as what collateral can be posted, how often and how interest accrues.

Reference rates such as Libor and Euribor, once the cornerstone of pricing, are no longer viewed as risk-free rates because they contain a credit premium that fluctuates over time. Transactions in one currency can also be required to be funded in another due to terms in the CSA. Valuation grows even more complex if the terms allow posting in one of multiple currencies.

Since the vast majority of OTC transactions are traded in the interdealer market under CSA agreements, the use of dual curves — such as the Libor curve for forward rates and the overnight indexed swap curve for discounting — has become the standard method for pricing interest-rate swaps.

FUNDING IMPLICATIONS IN THE VALUATION OF DERIVATIVES

Many banks also account for funding implications in their derivatives trades. For example, a bank may trade with a company and hedge the market risk using an offsetting trade in the interbank market. In such cases, it is possible that collateral will need to be posted on the interbank deal while it is not received on the other, resulting in a funding requirement.

This funding implication, known as funding valuation adjustment, or FVA, is an additional charge that is often applied for the valuation of derivative transactions.

COST OF COUNTERPARTIES DEFAULTING

The latest International Financial Reporting Standards — accounting rules known as IFRS 13 — define the measurement of fair value and require counterparties to quantify this non-performance risk. They do this by calculating the counterparty valuation adjustment, which is the cost of counterparties defaulting. CVA models use a range of inputs, including the default probability of the counterparties derived from their credit-default swap spread, where available.

Banks also include the CVA charge in the valuation of their derivatives trades.

— Yedau Ogoundele and David Wiggins are application specialists at Bloomberg LP in London.

TRACK ECONOMIC FORECASTS

ECFC < 50 >

BLOOMBERG SOLUTIONS

FOR VALUATION

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What-If	Position	Expiry Date	CostPx	MkPx	Notional	MkVal	P&L	CostVal	Port Ccy	MktVal	Port Ccy	P&L	Port Ccy	Security
[+] Portfolio Totals														
COUNTERPARTY 1														
/SWAP 1.16 11/01/18	ORIG	1	-1.80	-1.17	10,000,000.00	-117,210.27	62,789,727	-242,045.99	-160,109.23	81,936,762	SL200REB Corp			
/SWAP 1.16 11/01/19	ORIG	1	0.20	0.51	10,000,000.00	71,044.57	31,248,617	26,894.00	97,046.88	43,111,611	SL200RE2 Corp			
COUNTERPARTY 2														
/SWAP 1.45 11/01/18	ORIG	1	2.52	2.94	10,000,000.00	264,531.57	38,995,696	225,000.00	264,531.57	33,999,696	SL200RE2 Corp			
/SWAP 1.45 11/01/19	ORIG	1	-0.47	-0.51	10,000,000.00	-51,772.43	-34,236.55	-47,000.00	-51,772.43	-34,236.55	SL200RDW Corp			
/XCCY 1.45 11/01/19	ORIG	1	3.53	+0.05		27,885.98	-337,248.746	352,026.00	27,885.98	-337,248.746	SL200RE2 Corp			
EURUSD - Vanilla	DRIS	1	01/31/15	3.30	584.53	1,000,000.00	38,453.40	38,123.403	330.00	38,453.40	38,123.403	OP5VRLCP Currency	65	
EURUSD - Forward	ORIG	1	2.42	270.00	1,000,000.00	-7,059.72	-7,401.72	342.00	-7,059.72	-7,401.72	OP5VRLCP Currency	65		

BVAL<GO> Bloomberg can also provide valuation services for structures not covered by the normal Bloomberg pricers, again at both the structure and portfolio level. Independent and transparent, BVAL can help to resolve difficult valuation disputes.

BVAL DERIVATIVES
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In response to the increasing sophistication of financial instruments and asset allocation strategies as well as the ever-changing regulatory landscape, Bloomberg has expanded its BVAL product to include independent pricing for OTC Derivatives and Structured Notes.

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<ul style="list-style-type: none"> Coverage and Methodology 4) Detailed Asset Coverage Map 5) Market Data Quality Control 6) OTC Flow Valuation 7) CDS Valuation 	<ul style="list-style-type: none"> BVAL on the Bloomberg Professional Service 10) Valuations Portfolio Manager - BVPM <Go> 11) General BVAL Information - BVLI <Go> 12) Derivatives Documentation Center 13) Customer Support 14) Australian Clients

For more information, contact:

Alexandre Caldeira
BVAL Derivatives Financial Engineering Group
+44 20 3525 7504
acaldeira1@bloomberg.net

David Wiggins
EMEA Application Specialist
+44 20 3216 4161
dwiggins6@bloomberg.net

Simon Watts
EMEA Application Specialist
+44 20 7330 7006
swatts2@bloomberg.net

COMMENTARY

BY EMMANUELLE CHOUKROUN, SOCIETE GENERALE SECURITIES SERVICES

Time Is Running Out for EMIR Trade Repository Reporting, Says SGSS's Choukroun



Emmanuelle Choukroun, head of new business for asset managers and asset owners at Societe Generale Securities Services, says the impending Feb. 12 deadline for reporting derivatives trades in the European Union to a trade repository has been the focus of financial entities so far

in 2014. Below she gives an overall update on regulatory progress on over-the-counter derivatives since September 2013.

Progress continues to be made in the European Union for defining and implementing the new framework regulating over-the-counter derivatives.

In particular, a new regulatory technical standard (RTS), aimed at preventing regulatory arbitrage, was published Nov. 15 and will be submitted to the European Commission for approval within the next three months. This RTS defines the rules that will apply when entering into an OTC derivative contract with a counterparty outside the EU or the rules that will apply to a transaction between two non-EU counterparties that might have a substantial impact in the EU.

In addition, a number of non-EU central counterparties have finalized their application to be recognized as eligible CCPs under EMIR (see related map on next page). These include Australia, Brazil, Canada, Dubai, Hong Kong, Japan, New Zealand, Singapore, South Africa, South Korea, Switzerland and U.S. The definitive list of applicants was published on Nov. 6. The European Securities and Markets Authority will publish on its website the list of approved applicants for providing clearing services to EU players once it has finalized its review.

Still, a number of key EMIR provisions, such as the clearing obligation for standardized contracts and collateral requirements for non-standardized OTC derivatives contracts, have yet to be defined by RTS. These are needed in order for the obligations to take effect.

In early 2014, all the attention of OTC de-

derivatives users in the EU has been focused on the trade repository reporting obligation.

EU TRADE REPOSITORY REPORTING REQUIREMENTS

Trade repositories centralise the collection and maintenance of records relating to derivatives. The trade repository reporting obligation in the EU will officially start Feb. 12. An initial lot of four trade repositories was approved in the EU on Nov. 7. ESMA has now approved six trade repositories in the EU:

- DDRL, the European sister of DTCC, established in the Netherlands;
- REGIS-TR, a joint-venture between Iberclear and Clearstream, established in Luxembourg;
- KDPW, established in Poland;
- Unavista, ICE TVEL and CME TR, established in the U.K.

The modalities are quite different to those under Dodd-Frank:

- All users, small or large, are concerned whether they belong to the financial or the corporate sphere;
- All trades, including intra-group transactions will be reported, along with all the events affecting an OTC derivatives contract;
- Intra-day events do not have to be reported for a listed OTC;
- It is not a real-time reporting but deadlines are tight anyway as the maximum delay for reporting is D+1, with D being the date when the trade was executed.

CHALLENGES FOR OTC DERIVATIVE USERS AND THE PRICE TO PAY FOR GREATER MARKET TRANSPARENCY

Trade repositories were created to fulfill two main objectives:

- Improve market transparency and allow regulators to monitor counterparty risk in their domestic market as well as on a more global basis for international bodies;
- Detect market abuse.

Benefiting from the greater transparency allowed by trade repositories will not prove painless for those having to report or for regulators. In effect, a certain number of technical challenges shall be solved in a very tight timeframe.

THE LEGAL ENTITY IDENTIFIER CHALLENGE

The objective of the LEI is to allow the identification of a specific counterparty, whether financial or corporate, thanks to a unique identifier. In particular, it is one field that has to be reported for both the investor and the counterparty when reporting to a trade repository. The challenges come from the fact that many entities subject to TR reporting obligations have not yet requested their LEI from approved bodies. In addition, LEI reporting can be a serious challenge when it comes to counterparties outside the European Economic Area that respect banking secrecy laws — currently 38 jurisdictions — and may refuse to disclose their LEIs.

THE UNIQUE TRADE IDENTIFIER CHALLENGE

The objective of the UTI is to allow the identification of a specific contract thanks to a unique reference and, in theory, will be jointly defined by the two parties of an OTC derivatives contract. In particular, it is one of the two matching keys that will enable the reconciliation of the two legs of a trade that are reported to two different trade repositories by their respective counterparties. The simplest case arises when it can be generated by an electronic platform. However, when this type of infrastructure does not exist, market players will have little time to agree with all their counterparties on a UTI generation process at the execution stage and integrate them in the list of fields to be matched at confirmation stage.

ORGANIZATIONAL ISSUES

As two counterparties of the same trade may report to two different trade repositories in the EU, reconciliation between trade

COMMENTARY..

repositories is a major challenge. So far, trade repositories define the modalities of data reconciliation by using the UTI and LEI keys. This will condition a two-step reconciliation process:

- Step one: exchange and reconciliation of UTI and LEI;
- Step two: full data exchange after full reconciliation of the UTI and LEI parameters.

Regulators' access to data could be effective by mid-2014. However, the modalities of their access are still being defined as it is not clear if access will be extended to foreign subsidiaries or restricted to domestic entities.

Finally, one of the most frustrating points may be that the implementation of the TR reporting obligation will take place along with its load of uncertainties and inconsistencies, even for the most experienced

players. Market players are obliged to report by Feb. 12, whereas regulators may access data by mid-2014 at the earliest. Still, the administrative penalties for not complying with the obligation can amount to as much as 100 million euros.

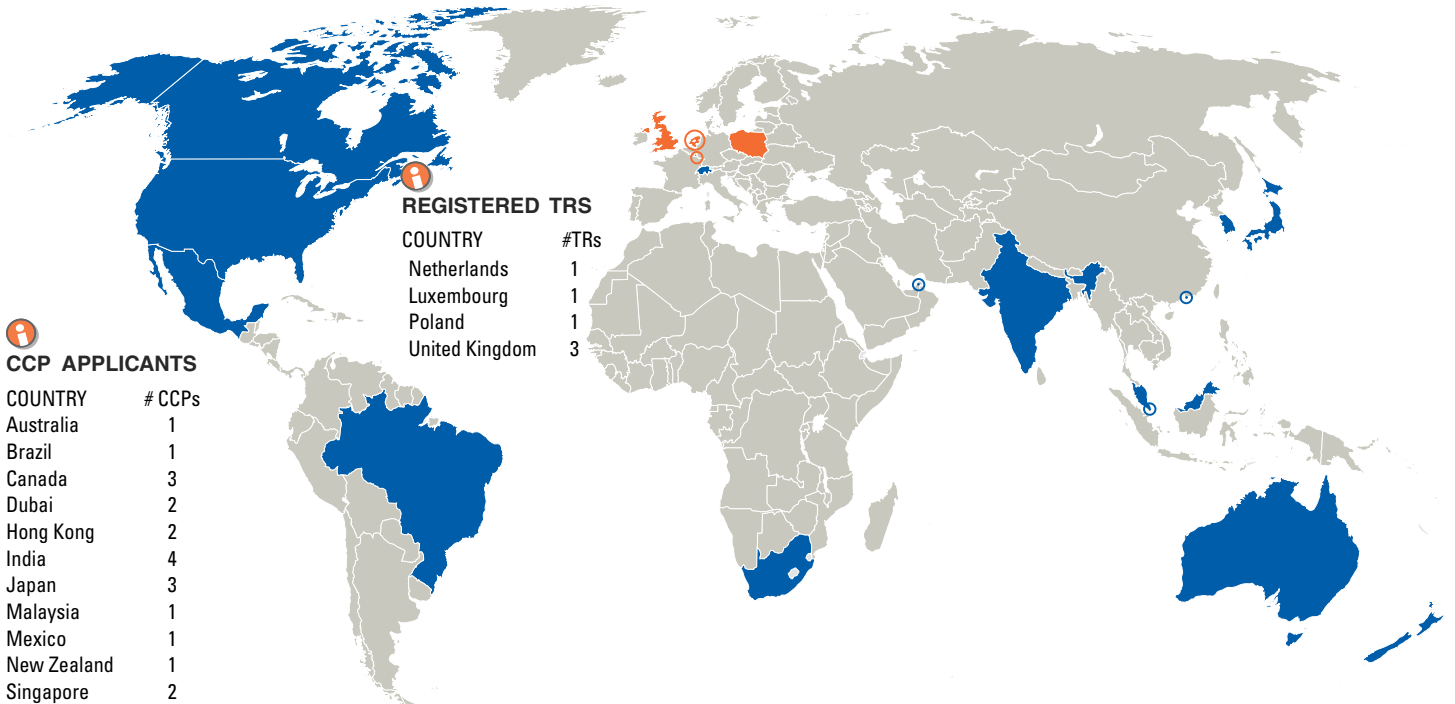
– Emmanuelle Choukroun, based in France, is the head of new business for asset managers & asset owners at Societe Generale Securities Services.

WORLD VIEW

U.K. Home to Most EMIR Trade Repositories, U.S. to Most Potential Central Counterparties

The 15 blue countries in the map below represent those outside of the European Economic Area with **central counterparties** that have applied to ESMA for recognition under EMIR, as of Jan. 30 (see: <http://bit.ly/1cDqsXL>). The four orange countries in Europe are host to **trade repositories** that have already been registered ahead of the Feb. 12 reporting obligation (see: <http://bit.ly/1fqM8VE>).

Mouse Over Countries in the Tables to See the Names of CCP Applicants or Registered TRs



Source: European Securities and Markets Authority

COMMENTARY

BY CHRISTIAN RÖTHLIN AND DR. DANIEL VOGEL, EY

EMIR Opportunities Go Beyond Regulatory Compliance, Bring Innovation to Service Offerings

**Christian Röthlin**

(top left), partner in legal and compliance, and **Dr. Daniel Vogel** (bottom left), senior consultant in legal and compliance, at EY in Switzerland, say firms will benefit from using trading platforms for derivatives transactions under EMIR, including those that are less active in this area. More specifically, they say the firms will benefit from better access to multiple intermediaries, post-trade transparency and the automation of processes. They outline opportunities for market participants as a result of the new rules that go beyond regulatory compliance.



EMIR not only applies to regulated financial market participants (so-called Financial Counterparties, or FC), but to all other undertakings dealing in OTC derivatives (so-called Non-Financial Counterparties, or NFC). EMIR will significantly change the derivatives industry as a whole. Considering the current economic environment, most market participants have primarily focused on achieving compliance with minimal costs.

The course has been set to a large extent and firms may start to address questions beyond regulation now, such as:

- Will a pure regulatory compliance mindset be sufficient to successfully participate in the derivatives industry in the future?
- What opportunities may arise from the regulation?

There are no final answers to these questions yet. However, certain impacts are known:

- Compliance with EMIR will have impacts on the costs of dealing in derivatives for each market participant.
- Capital costs arising from capital requirements will influence pricing or of-

ferings of derivative products.

- At the same time, price transparency shall be improved in Europe as well.

The following points outline some opportunities market participants may consider, which go beyond regulatory compliance.

ELECTRONIC MANAGEMENT AND PLATFORM TRADING

Higher costs require market participants to improve efficiency where possible. The use of trading platforms or derivatives confirmation systems has already improved, and current regulatory requirements such as timely confirmation of trades, portfolio reconciliation and trade reporting are additional drivers to intensify these efforts. Dealing on platforms might become best practice, even for firms less active in this area. Beside automation of processes, firms will benefit from better access to multiple intermediaries as well as to post-trade transparency information.

VOLUNTARY CLEARING AND COLLATERALIZATION

Intermediaries will face capital requirements resulting in capital costs. However, capital requirements themselves may be mitigated by bilateral collateralization or transactions which are centrally cleared.

Whether the positive effects exceed the costs associated with (voluntary) collateralization and clearing needs to be assessed on a case-by-case basis. Ideally, both counterparties would profit from these advantages. On the other side, end users could face situations that certain non-collateralized or non-cleared transactions will not be accepted anymore. Considering collateralization, a cleared portfolio may provide positive netting effects, especially if the portfolios contain bi-directional trades and multiple counterparties. Non-cleared portfolios may therefore face higher collateral requirements than the cleared ones.

There are those in the U.S., for example, who say that the amount of voluntarily cleared transactions will equal mandatorily cleared transactions. Overall, there is some indication that central clearing

may become market practice in certain derivatives, such as credit and interest-rate derivatives.

REDUCTION OF PORTFOLIO SIZES

Another field where innovation could help market participants is portfolio compression. EMIR only requires counterparties to assess the possibility of a compression when a portfolio with another counterparty exceeds 500 outstanding contracts. Most market participants will therefore not become subject to this requirement. Nevertheless, counterparties with bi-directional portfolios may voluntarily assess compression possibilities. The number of contracts will decrease after a compression exercise, which also means decreasing costs for portfolio management and decreasing frequency of portfolio reconciliations (as the required frequency of portfolio reconciliations relates to the number of contracts in a portfolio). Beyond the bilateral compression, market participants may also perform multilateral compression exercises, which have even more potential to reduce the amount of contracts.

CLIENT SERVICES

EMIR creates significant potential in the area of service offerings. Opportunities not only arise for third parties, such as clearing houses and trade repositories, but exist for intermediaries as well. One example is the offering of reporting services. Furthermore, collateral management and clearing services provide additional opportunities for market participants.

As outlined above, the global regulation of OTC derivatives contains compliance burdens as well as business opportunities. How the industry will adapt to both components has yet to be observed.

– Christian Röthlin is a partner in legal & compliance, and Dr. Daniel Vogel is a senior consultant in legal & compliance at EY in Switzerland.

Q & A

ESMA May Issue Further Q&As on Trade Repositories Under EMIR, Says Post-Trade Official



Fabrizio Planta, the team leader for post-trading at the European Securities and Markets Authority, told Bloomberg's Melissa Karsh that the data collected from the reporting of over-the-counter derivatives transactions in the European Union to trade repositories under the

European Market Infrastructure Regulation will give ESMA a better view of the related risks. Planta says the Feb. 12 reporting requirements will have the largest impact on less sophisticated, non-financial entities.

Q: What does new reporting data under EMIR mean for regulators?

A: ESMA has a special role because it's both the regulator defining the rules and providing the implementation guidance, but it's also the supervisor of the trade repository and a user of the data in view of the financial stability mandate. So depending on the different roles, we will have different answers. For the other authorities, it means that from Feb. 12 they will start accessing a trade repository and seeing if things are being reported in accordance with EMIR, which will provide a huge set of new data. There will need to be time to really get used to this data, and for its analysis, etc. All of the competent authorities are now starting to request access and we also invite them to do so. We expect the relevant competent authorities to be ready to access trade repositories and access the derivatives data. ESMA will be helping in facilitating the exchange and common format of that data between the EU's national regulators. We would provide further guidance for common reporting to a trade repository if needed.

Q: Will this new level of transparency help to tackle shadow banking?

A: The reporting will bring a lot of transparency. It will also allow us to get a better view of the risks related to OTC derivatives, because we have a very broad reporting obligation, capturing both financial and non-financial counterparties with the regulation. This will also improve transparency on shadow banking since

any derivative contract will need to be reported. As EMIR also includes non-financial companies, this means even a non-regulated entity will need to report.

Q: How are you accounting for potential problems?

A: We are trying to prevent any potential problem, being both the regulator but also as the supervisor, and making sure that the trade repositories are actually ready to receive this data, that they have a reliable onboarding process and the clients are ready, too. Now it's not just "wait and see." We have already published a number of Q&As about the different scenarios, including trade reporting, data formatting and the necessary identifiers. We expect to issue other Q&As on both trade repositories and other aspects. We are not just waiting for Feb. 12 to pass by and then solving possible problems afterwards.

“

It's such a big change that we cannot expect that from day one everything is perfect and functioning properly.

”

Q: Why clarify reporting of on-exchange-traded derivatives (ETDs)?

A: It's because the trading scenario is quite different from an OTC perspective. You have a number of counterparties within the same trade, and each of them plays a different role so we needed to clarify how the reporting occurs. It's not just an OTC trade where the two counter-

parties clear. You have a number of parties involved in the trade, so although it's the same trade, they have different roles and obligations. When the trading gets done you also have the clearing members that effectively become a counterparty. Therefore we needed to clarify how the reporting actually occurs, and who needs to report what to whom including the necessary data fields and identifiers.

More important than the ETDs is the issue of collateral information and the valuation of contracts. They are essential for identifying risks. We were the first to introduce such a requirement. But there will still be some time before the valuation kicks in. The reporting of collateral and valuation, which will come 180 days after the first reporting date, is an essential element of reporting to a trade repository.

Q: How prepared are those entities that fall under the requirement?

A: Of course we are looking into that. In the process of onboarding clients we know that there are still entities out there that do not have a Legal Entity Identifier that will have a problem reporting. It's not necessarily a matter of the buy side or sell side; we will have a bigger problem with the non-financial entities, particularly with the less sophisticated and small- and medium-sized ones. It's such a big change that we cannot expect that from day one everything is perfect and functioning properly. We are providing constant guidance, answering all of the questions in order to ensure to the maximum extent possible that people are prepared to start reporting from the reporting start date.

Q: Will other regulators follow suit with the adoption of these regulations?

A: Following the G-20 agreements, each region came up with their legal implementations, which follow the same goals, but sometimes differ in detail. The dual reporting is an EU requirement, whereas the U.S. opted for single reporting. We are working with our international counterparties to make the different systems work together, and avoiding the risk of duplication through constant dialogue.