

**Forum for
Financial Stability**
at the Deutsche Bundesbank

**7 July 2016
10 am – 1 pm**

**“The New Architecture of OTC Derivatives Markets
– a blueprint for other financial markets?”**

Issues Note

1. Introduction

In 2009, as part of their initiative “to turn the page on an era of irresponsibility”¹ the G20 leaders committed to make OTC derivatives markets safer. Up to then, OTC derivatives markets were mainly bilateral and opaque with insufficient provision of collateral dominated by a couple of major dealer banks. To strengthen these markets it was decided at the Pittsburgh Summit to, *inter alia*, increase transparency by obligatory reporting to trade repositories and to enhance the robustness by conducting more business on exchanges or electronic trading platforms and clearing through central counterparties complemented by further measures to avoid regulatory arbitrage, e. g. higher capital requirements for non-centrally cleared derivatives contracts.

Implementation of the new rules, e. g. by EMIR and the Dodd-Frank Act, has proven to be quite difficult and takes much longer than anticipated. It is worth discussing to what extent these reforms really make OTC derivatives markets safer and if implementing them or parts of them in other market segments characterised by the same opaqueness, bilateral trading and low levels of collateralization – in particular Fixed Income, Currency and Commodities markets - would foster financial stability.

2. Issues for Discussion

2.1 **Given the cornerstones of the OTC derivatives reform agenda (central clearing, multilateral trading, transparency), which elements are conducive to and which are counterproductive for the stability of OTC derivatives markets?**

Introductory statement held by Professor Jan Pieter Krahen (Frankfurt Goethe University) [15 minutes]

The subsequent discussion should cover the following issues:

1. Pros and Cons of centralised trading and clearing
 - Reallocation or reduction of overall risk in the financial system with a focus on counterparty risk and concentration risk
 - Trade-off between efficiency (e. g. by saving collateral) and stability (e. g. by increasing the systemic leverage)
2. Impact of OTC derivatives market reforms on market participants (banks, asset manager, corporates etc.) and market functioning
 - Role of dealer banks (e. g. attractiveness of market making)
 - Impact on liquidity of derivatives markets
 - Costs of derivatives trading
 - Incentives for financial innovation
3. Trade transparency and trade repositories
 - Potential need for a global trade repository (TR)
 - Need for further standardization (LEI, UPI, UTI)

¹ Leaders' Statement, The Pittsburgh Summit, September 24 – 25 2009

- Cornerstones of a global framework to use TR data efficiently and effectively

2.2 Would the application of the new principles for OTC derivatives markets or part thereof to other financial market segments like Fixed Income, Currency and Commodities Markets make the financial system safer?

Introductory statement held by Guido Fürer (Swiss Re) [15 minutes]

The following discussion should cover these issues:

- Adequacy of central clearing, multilateral trading and a high level of transparency for all markets (“one size fits all”)
- Markets where need for reform is most urgent
- Criteria regulators should apply when designing new market structures