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**Julia:** Welcome to a DerivSource podcast. I'm Julia Schieffer, the founder and editor of DerivSource.com.

2014 has been a whirlwind of a year for most in the derivatives space, with firms and professionals keeping their noses to the grindstone as regulatory reform continues and implementation kicks in to full swing.

The highlights or issues that really dominated the last 12 months of course vary depending on who you're talking to, but many will have been focused very much on EMIR trade reporting deadlines, the slow start of SEF trading, and of course slow progress on the CCP clearing front in Europe.

In this podcast I spoke to a few industry experts to hear their views on what were the biggest milestones in 2014, and what were really the biggest issues that most of them faced in the last 12 months.

EMIR trade reporting had two big deadlines this year, with many firms and of course trade repositories as well, focused on getting to grips with the complexities of this EMIR requirement and the issues that crept up as a result.

I spoke to Allan Yip, Partner at Simmons & Simmons in London, who offered a recap on the trade reporting deadlines and the issues raised.

**Allan:** I would say Julia, the industry getting to grips with the reporting obligation under EMIR, it's under EMIR different from under Dodd Frank, the reporting obligation is a two-sided obligation, meaning that it's not just the dealer community that has to report to authorised trade repositories, but also the end user community, and that was just not something that the end user community was used to or that they were set up to do.

The reporting obligation under EMIR came in in two waves in 2014. Firstly in February when the main obligation kicked in, but then 6 months later the obligation to report on a daily basis valuation and collateral information. And this caused a lot of operational issues in terms of setting up the connectivities to the relevant trade repositories, but also for the end user community, deciding how they were going to tackle this, and rather late in the day, the dealer community almost as a whole agreed to accept delegated reporting, but because it was rather late in the day that gave rise to quite a few issues in terms of the legal documentation associated with that delegation because the regulatory obligation, even post-delegation, still rests with the end user who had the obligation to report, and

then there are issues in relation to allocation of legal risk associated with that.

Hopefully now the main bulk of the work in relation to that has been done. There remain some operational issues with respect to certain trade repositories, but by and large the industry has got to grips with the reporting I sense, barring little niggles and some fairly significant niggles, albeit that the main hulk of the work has been done now.

**Julia:** **The mandate for CCP clearing under EMIR slowly started making progress in the last year with the authorisation of CCPs.**

**I spoke with Rafael Plata, Secretary General at EACH (the European Association of CCP Clearing Houses), about what he viewed to be the biggest milestone for CCP clearing in 2014.**

*Rafael:* I believe the biggest milestone that was accomplished in 2014 was a re-authorisation of CCPs by their national competent authorities in the European Union. Since the month of March this year, 14 CCPs have been authorised and what this means is that while CCPs are now subject to harmonised requirements in terms of governance, conduct of business rules, and prudential requirements. What does this mean in reality? Well, it basically means for instance that CCPs need to have an adequate governance structure with risk committees, where the clients and the clearing members are represented. They also need to have rules to protect their clients, their assets and position, and then equally importantly the CCPs need to have rules for risk management, and they all are subject to the same harmonised lines of defence in case of default of a clearing member.

All in all, the news that 14 CCPs so far have been given a quality seal in the European Union that would hopefully help having a safe and efficient derivatives market.

**Julia:** **Looking more broadly, cross border issues between jurisdictional regulation (namely the US and Europe), and conflicts related to this remained top-of-mind for market participants. Obviously, cross-border harmonisation is clearly essential to establish a smooth operating global market, but there remain some conflicts which were highlighted in the last year.**

**Damon Batten, Principal Consultant at Catalyst Consulting, talked about this conflict.**

*Damon:* Well, actually I think one of the biggest and most visible items during 2014 in terms of the regulatory reform agenda is a very public disagreement between regulators in the EU and

US when it comes to recognising one another's clearing houses. So at the end of October we saw a first wave of recognitions from the EU regulators, but it was very noticeable that the US was not included in that first wave of CCP recognitions. There have in fact even been some accusations that maybe there are some politics behind the scenes which are shaping that discussion, rather than necessarily just being driven by the risk items that are concerned.

I think the most important consequence from this is that firstly there's a real impact for bank capital resulting from a lack of recognition because of the item on QCCPs, but also this could have a very important role in shaping the future kind of competitive dynamic in the clearing market; it would become significantly more expensive to use an overseas CCP from the US for an EU bank, for example.

**Julia:** **Of course there are many issues that were not mentioned here, including MiFID, concerns over managing margin requirements for non-cleared derivatives, and much more, but we will be covering some of these issues in our 2015 preview podcast which will offer a preview into some of these issues but also look at how they might evolve in the coming year, so please look out for this 2015 podcast.**

**On the website podcast notes page you'll also see the full transcript of this podcast, additional articles that may be useful, including the full recap on 2014, and other related resources that DerivSource offers.**

**Thank you for listening to this DerivSource podcast.**