

CME Group Customer Forum

- Regulatory Updates

Spring 2016

Singapore	April 12
Hong Kong	April 14
London	April 28
U.S. Webinar	May 5

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Agenda

- Regulatory Updates
- E-Trading Update
 - New iLink Architecture – MSGW
 - Drop Copy 4.0
 - Implied Volatility-Quoted Options
 - Streamlined Fix Binary
 - Cyber-Security Plans
 - Consolidated Fills
- CME DataMine & CME Wechat Account
- New! CME Customer Center
- Partner Exchange Updates
- Global Repository Service

APAC Regulatory Developments

Hong Kong

- On 1 March 2016, the SFC published its conclusions to the consultation paper proposing amendments to the Guidelines for the Regulation of Automated Trading Services ("ATS") to allow CCPs to register for OTC clearing.
- As from 25 March 2016 new requirements in relation to Professional Investors became effective. The changes are intended to ensure that specified categories of professional investors who were previously not covered by the Code of Conduct will be covered to ensure adequate protection.

Australia

- On 24 February 2016, ASX released a Consultation Paper on clearing participant liquidity risk management.
- In December 2015, the clearing mandate went into force for basis swaps, fixed-to-floating swaps, forward rate agreements and overnight index swaps which are denominated in AUD, USD, EUR, GBP and JPY. The clearing mandate applies to major domestic and foreign banks that act as dealers in the Australian OTC derivatives market.
- On 25 February 2016, APRA released a consultation package for regulated institutions with respect to non-centrally cleared derivatives' margining and risk mitigation requirements for non-centrally cleared derivatives.

APAC Regulatory Developments

PRC

- As from 1 May 2016, the previous types of licenses issued by CSRC relating to securities and futures business operation would be replaced with one unified license called Securities and Futures Business Operating License.

South Korea

- On 22 March 2016, the European Securities and Markets Authority (ESMA) signed a memorandum of understanding with the South Korean Financial Services Commission (FSC) and the Financial Supervisory Service (FSS).

EU Regulatory Update: MiFID II / MiFIR

Broad regulatory reform package, the key provisions being:

- **Algo/HFT:** Regulatory controls on algorithmic trading/HFT and market making
- **Commodities reg:** Position limits and scope of regulation
- **Transparency:** Pre- and post- trade transparency requirements
- **Trading requirements:** TV obligations, and trading obligation (OTFs)
- **Clearing:** Indirect clearing, portfolio compression, STP
- **Reporting:** Transaction reporting for monitoring against market abuse
- **Data publication:** Data availability, disaggregation, reporting mechanisms, fees

EU Regulatory Update – Algorithmic trading/HFT

2016 EU Legislative and Policy Priorities – MiFID II / MiFIR

- **Legislative Outcome**

- MiFID II is the first EU initiative to introduce regulatory controls for HFT / algorithmic trading. It includes a series of measures addressed to both trading venues and market participants that use algorithmic and HFT trading strategies.
- ESMA has prescribed in its RTS detailed organisational requirements, trading system controls and obligations for market-makers.

- **Implementation**

- In its final RTS, ESMA has reduced the requirements on trading venues for algorithm testing and amended upwards the threshold defining market making activity.
- In addition, the obligations on trading venues regarding market making schemes are limited to equities, ETFs, and equity derivatives.

EU Regulatory Update – EMIR / Clearing Obligation

Scope

- **Interest Rate Swaps** - 14 products:
 - Basis swaps (EUR, GBP, JPY, USD)
 - Fixed-to-float / plain vanilla (EUR, GBP, JPY, USD)
 - Forward rate agreements (EUR, GBP, USD)
 - Overnight index (EUR, GBP, USD)
- *Note:* Exemption for OTC IRS derivative contracts associated with covered bond programmes, subject to conditions as set out in RTS; also exemption for certain pension schemes.
- **6 additional IRS products** proposed by ESMA in RTS submitted to the Commission on 10 November 2015 (non-G4 IRS):
 - Fixed-to-float (NOK, PLN, SEK)
 - Forward rate agreements (NOK, PLN, SEK)
- **CDS – 2 products** adopted by the European Commission on 1 March 2015:
 - European untranchet index (EUR).
- **Other asset classes / additional products** – pending review by ESMA

US Regulatory Developments: Reg AT Rule Proposal

In November, 2015, the CFTC issued proposed rules on automated trading as Regulation Automated Trade (Reg AT). The 90-day comment period expired on March 16, 2016. Reg AT would regulate persons (AT Persons) engaging in algorithmic trading and persons that have direct electronic access to exchanges. Key points are:

- **Registration:** Reg AT imposes a registration requirement for any party utilizing algorithmic trading which has direct electronic access and obligates Exchanges and the NFA to have oversight exams and procedural and documentation obligations.
- **Pre-trade risk controls:** Reg AT would require AT Persons to implement pre-trade risk controls including maximum order rate and maximum execution rate (message and execution throttles) and order price parameters and maximum order size limits (fat-finger limits). The pre-trade risk controls must be set at least at the level of each AT Person.
- **Reporting to Exchanges:** The rules would require each AT Person to maintain prescriptive procedures regarding development, testing, monitoring and compliance and prepare an annual report assessing these procedures, their effectiveness, their algorithmic trading controls and remediation of any issues related thereto.

US Regulatory Developments: Reg AT Rule Proposal

- **Self-Trade Prevention Tools:** The Proposal would require Exchanges to apply self-match prevention tools unless the participant requests approval under certain specified conditions from the Exchange.
- **Source Code:** The Proposal would require an AT Person to keep its source code and detailed, related history available to any representative of the CFTC or the Department of Justice for any reason.
- **Market Maker and Trading Incentive Program Transparency:** Reg AT would require DCMs to post on their websites rules for market maker and trading incentive programs including: the purpose of the program, the products eligible for benefits, a description of eligibility criteria, how a market participant may apply to participate, a description of benefits a market participant may receive under the program, a description of the requirements of the program, disclosure of any affiliation between the DCM and the market maker and where applicable why the program may not be open to all market participants.

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Thank you