

Transparency: What Has Changed in Derivatives Markets Since 2008?

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What is Better Markets?

Nonpartisan, nonprofit organization that promotes the public interest in the domestic and international financial markets

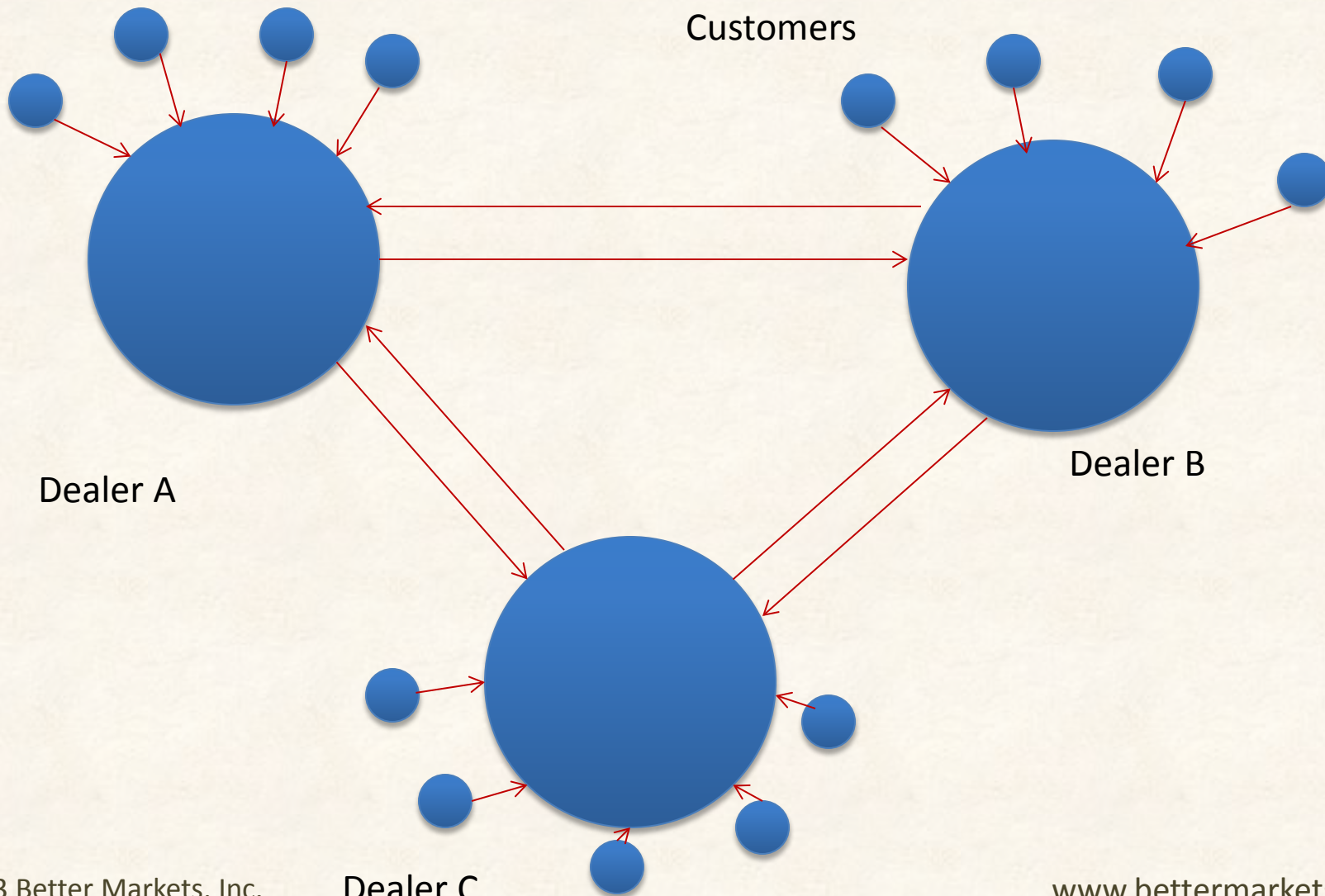
- **Three pillars: transparency, accountability and oversight**
- **Been referred to as a “Wall Street Watchdog”**

Why Transparency in Derivatives Markets Matters

- Reduces Hedging Costs for Businesses
- Enables Regulators to Spot Risks Early
- Lack of Transparency Led to 2008 Panic
- Prevents Dealers from Overcharging/Misleading Customers, Municipalities, Pension Funds, etc.

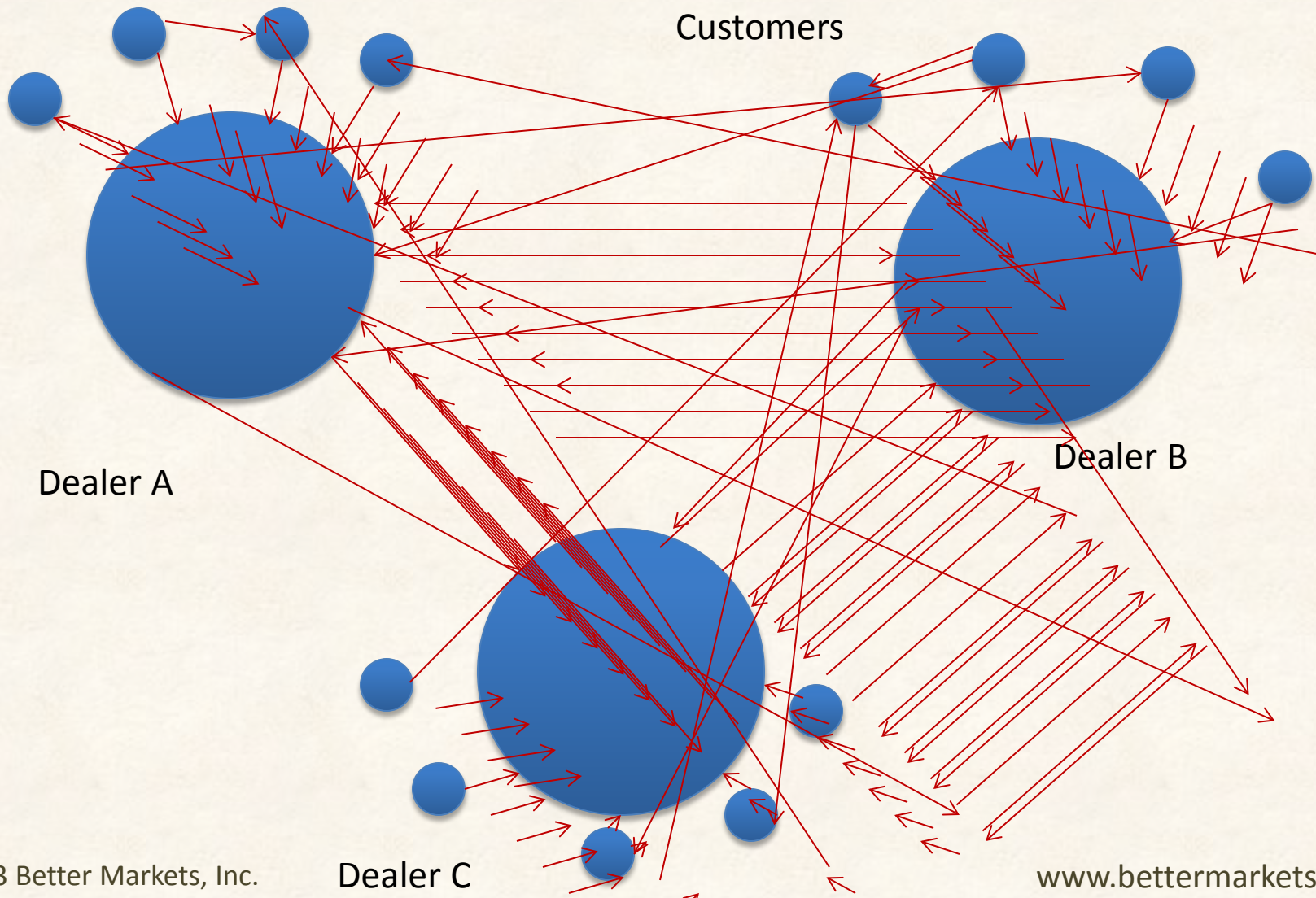
The Derivatives Markets in 2008:

Structure: A Few Large Dealers With Customers; *Dark Bilateral Deals*

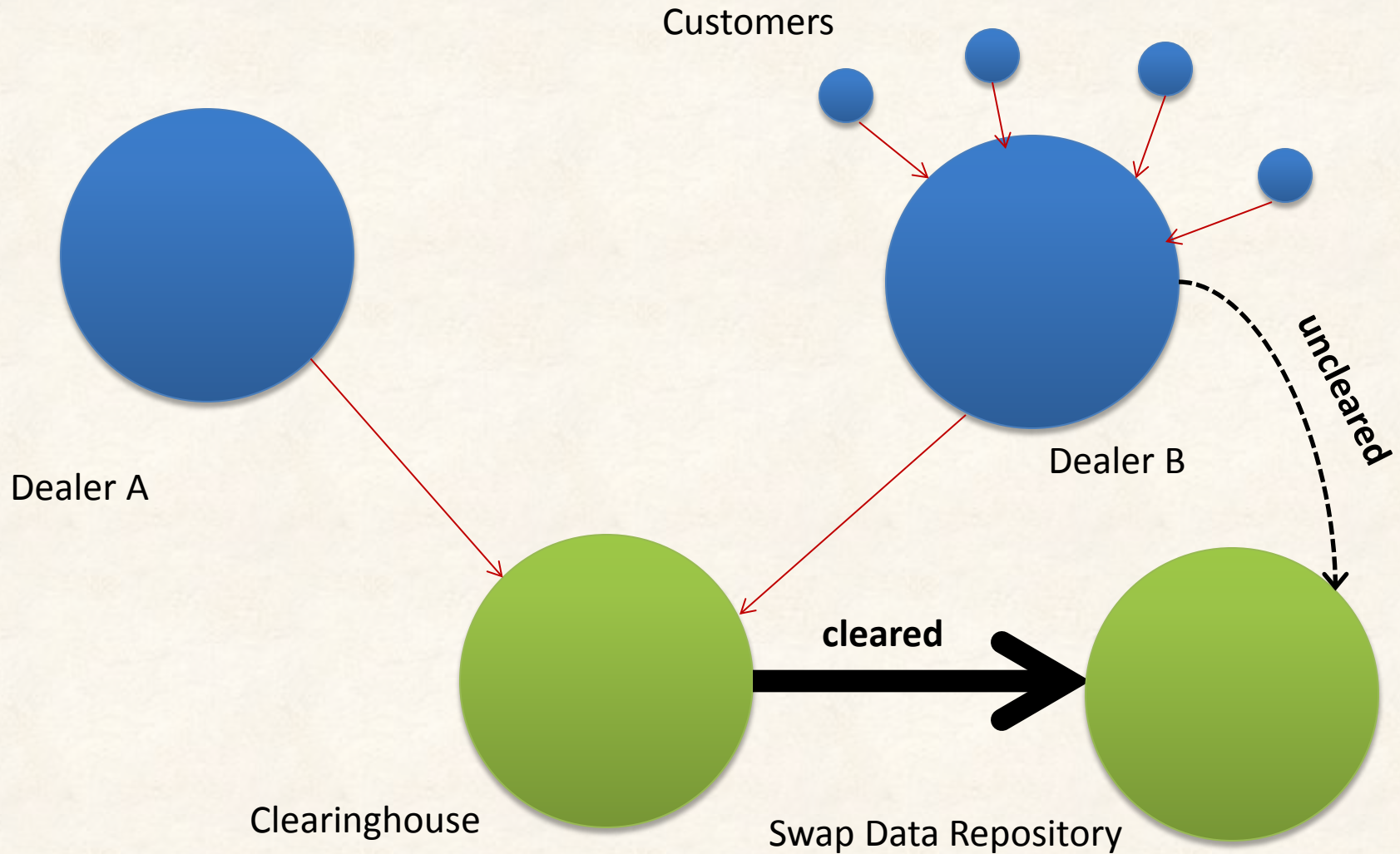


The Derivatives Markets in 2008:

**Reality: Vast Numbers of Opaque Deals With No Netting
And No Transparency**



The Derivatives Markets in 2013: Central Clearing and SDR Reporting;



The OTC Derivatives Market Increasingly Resembles the Futures Market

- Clearing
- Central Limit Order Books
- Netting
- Pre-Trade Transparency
- Post-Trade Transparency

But Some Obstacles Remain

- Block Trades & RFQ
- Clearing Exemptions
- Limited Swap Dealer and Major Swap Participant Registration
- Pressure from Industry and Overseas Regulators
- No Aggregated Reports
- CME Blocking CFTC Economists' Research Efforts

Current SDR Data is Incomplete and Rudimentary

Although the SDRs are disseminating public data in real time, it is hard to get an overview of the entire market.

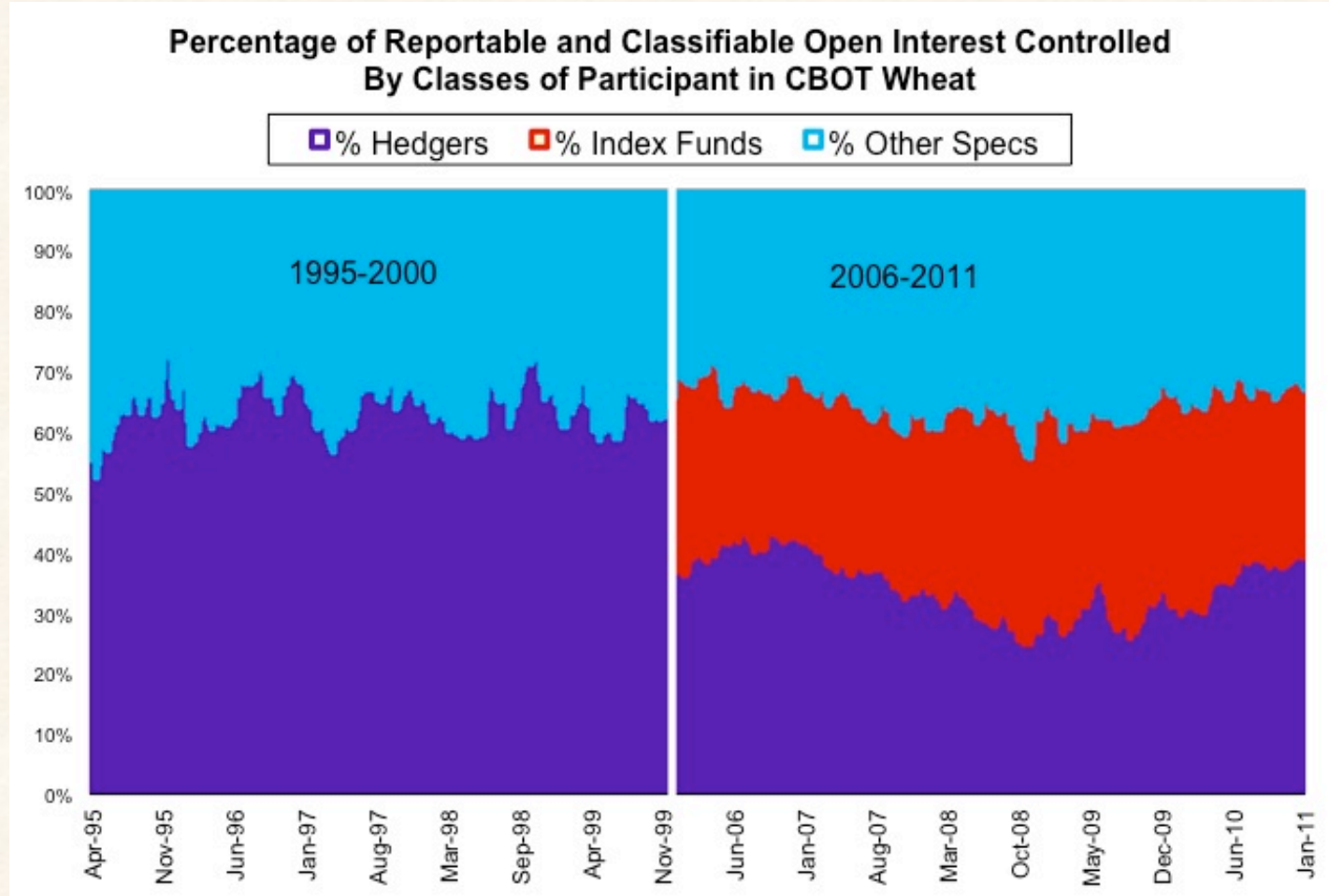
DTCC DDR SDR Services															
Home	Ticker	Search	RSS Feeds	DDR RT Dashboard Quick Reference Guide						09-Oct-2013 11:34:53 PM EDT					
DTCC Data Depository (U.S.) LLC SDR Reporting															
Commodities - Swaps															
Action	UPI/Taxonomy	Publication Timestamp (UTC)	Execution Timestamp (UTC)	Underlying Asset 1	Underlying Asset 2	Maturity Date	Rounded Notional Currency/Quantity	Notional Quantity UOM/Currency	Clear	Price Notation	Price Notation Type	Bespoke (Y/N)	Refresh	Maximize	
NEW	Commodity:Energy:Oil:Swap:Cash	2013-10-10 03:34:39.202533	2013-10-10 03:33:43	OIL-WTI-NYMEX		10/11/2013	25+	BBL	U	101.509	USD:BBL	N			
NEW	Commodity:Metals:Precious:SpotFwd:Physical	2013-10-10 03:13:43.311686	2013-10-10 03:12:34	Gold		10/15/2013	1,000+	OZT	U	1304.14	USD:ozt	N			
NEW	Commodity:Agricultural:Softs:Swap:Cash	2013-10-09 23:03:53.435755	2013-10-09 23:03:14	COCOA-NYBOT		12/13/2013	310+	T	U	2400	USD:t	N			
NEW	Commodity:Metals:NonPrecious:Swap:Cash	2013-10-09 22:51:22.367802	2013-10-09 02:14:50	LMECopper-Cash		10/22/2013	10+	MT	U	7220	USD:MT	Y			
NEW	Commodity:Energy:NatGas:Swap:Cash	2013-10-09 21:45:47.992555	2013-10-09 17:45:34	NG_NYMEX		12/31/2016	690,000+	MMBTU	U	4.05	USD:MMBTU	N			
NEW	Commodity:Index:Swap:Cash	2013-10-09 21:37:47.619896	2013-10-09 21:32:41	MQCC007E		07/18/2014	36,000,000+	Amt	U	81.22279	USD:Index Units	N			
NEW	Commodity:Agricultural:GrainsOilSeeds:Swap:Cash	2013-10-09 20:57:06.902511	2013-10-09 16:57:05	Westem Europe		10/15/2013	10,000+	MT	U	197.25	EUR:MT	N			
CORRECT	Commodity:Energy:Elec:Swap:Cash	2013-10-09 19:42:31.305762	2013-10-09 19:41:50	PJM_WH		10/10/2013	800+	MWH	U	40	USD:MWh	N			
NEW	Commodity:Agricultural:Dairy:Swap:Cash	2013-10-09 19:35:08.150806	2013-10-09 19:34:12	MILK-NONFAT-DRY-CME		01/02/2014	260,000+	LB	U	1.5441	USD:LB	N			
NEW	Commodity:Metals:Precious:Swap:Cash	2013-10-09 19:14:33.688087	2013-10-09 11:14:00	Silver		12/02/2013	1,000,000+	OZT	U			N			
Commodities - Options															
Action	UPI/Taxonomy	Publication Timestamp (UTC)	Execution Timestamp (UTC)	Option Type	Underlying Asset 1	Underlying Asset 2	Exercise Date	Maturity Date	Rounded Notional Currency/Quantity	Notional Quantity UOM/Currency	Clear	Option Level	Price Notation Type	Option Premium	Bespoke (Y/N)
NEW	Commodity:Energy:Oil:Option:Cash	2013-10-09 23:39:44.315146	2013-10-09 19:39:41	P-	WTI_NYMEX		06/30/2015		600,000+	BBL	U	90		2,868,000	N
NEW	Commodity:Agricultural:GrainsOilSeeds:Exchange:Option	2013-10-09 22:10:46.54524	2013-10-09 22:10:03	C-	CBT C		02/21/2014	02/25/2014	37,000+	USD	U				N
NEW	Commodity:Agricultural:Softs:Option:Cash	2013-10-09 22:00:04.19561	2013-10-09 17:59:55	C-	SUGAR # 11 (WORLD)-NYBOT		04/15/2014		2,000,000+	LB	U	0.2		7,235.2	N
NEW	Commodity:Energy:InterEnergy:Exotic	2013-10-09 20:46:23.648802	2013-10-09 20:43:58	RC	HEATING OIL-NEW YORK-NYMEX		10/31/2014	10/31/2014	84,000+	GAL	U			90,619.2	N
NEW	Commodity:Metals:Precious:Option:Physical	2013-10-09 20:34:34.566287	2013-10-09 12:34:00	C-	Gold		10/11/2013	10/01/2013			U		USD:ozt	10,000	N
NEW	Commodity:Energy:NatGas:Option:Cash	2013-10-09 19:56:05.882421	2013-10-09 15:55:51	P-	NG_NYMEX		06/30/2015		14,000,000+	MMBTU	U	3.93		5,576,215	N
NEW	Commodity:Agricultural:Livestock:Option:Cash	2013-10-09 19:05:12.490131	2013-10-09 19:04:33	p-	LEAN HOGS-CME		12/13/2013		120,000+	LB	U	0.78		690	N

Source: <https://rtdata.dtcc.com/gtr/tracker.do>

Swaps Data Will Gradually Improve Just Like Futures Data Did

Prior to 2009, the CFTC's reports on the futures market were simply divided into "commercial" and "non-commercial"

Many bank activities, including index funds, were classed as "commercial"



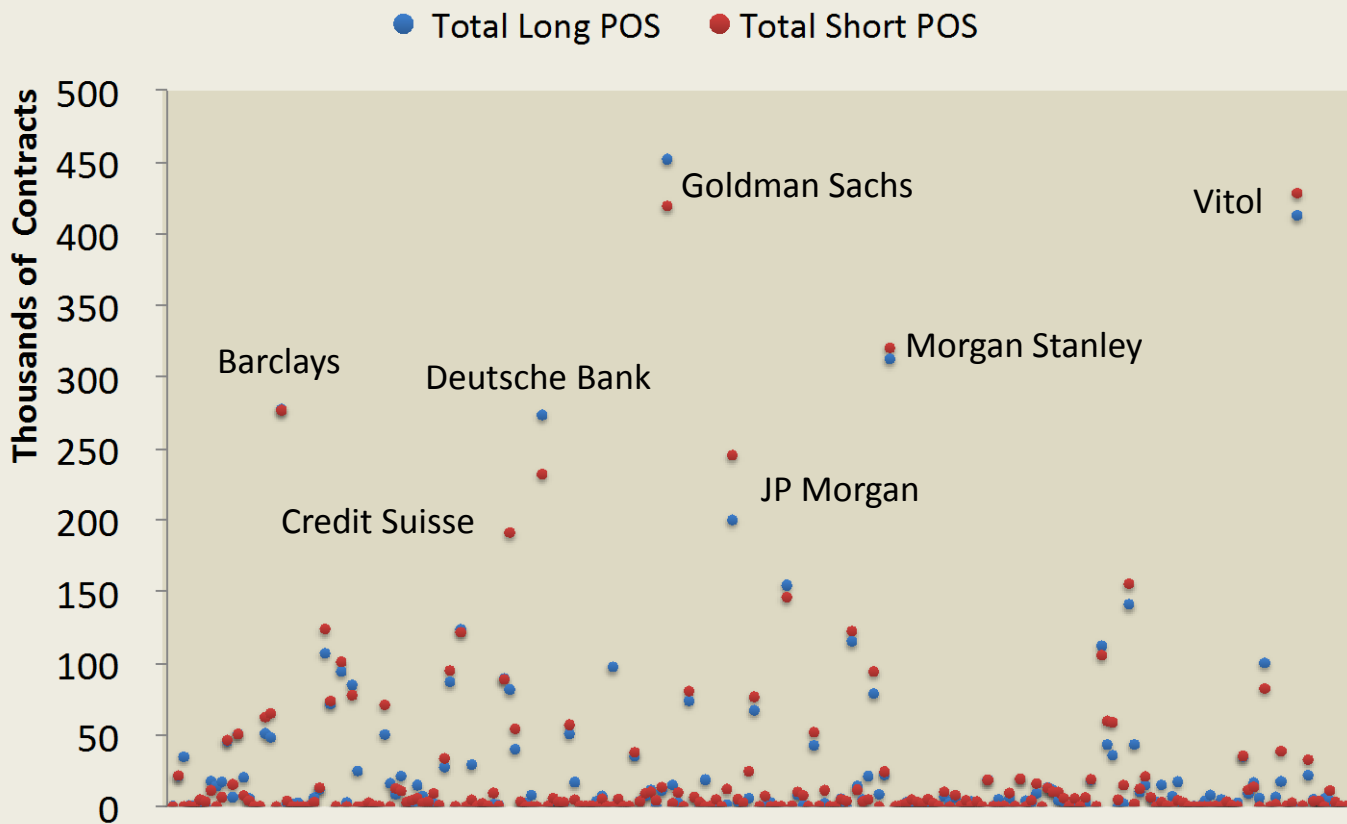
Source: 1995-2000 CFTC COT reports, 2006-2011, CFTC CIT reports.

Although, Much Depends On The Regulators Actually Using the Data



In 2008, the CFTC knew about the huge bets banks were making on commodities, but did not act despite the huge price distortions

CFTC View of Crude Oil Market in June 2008

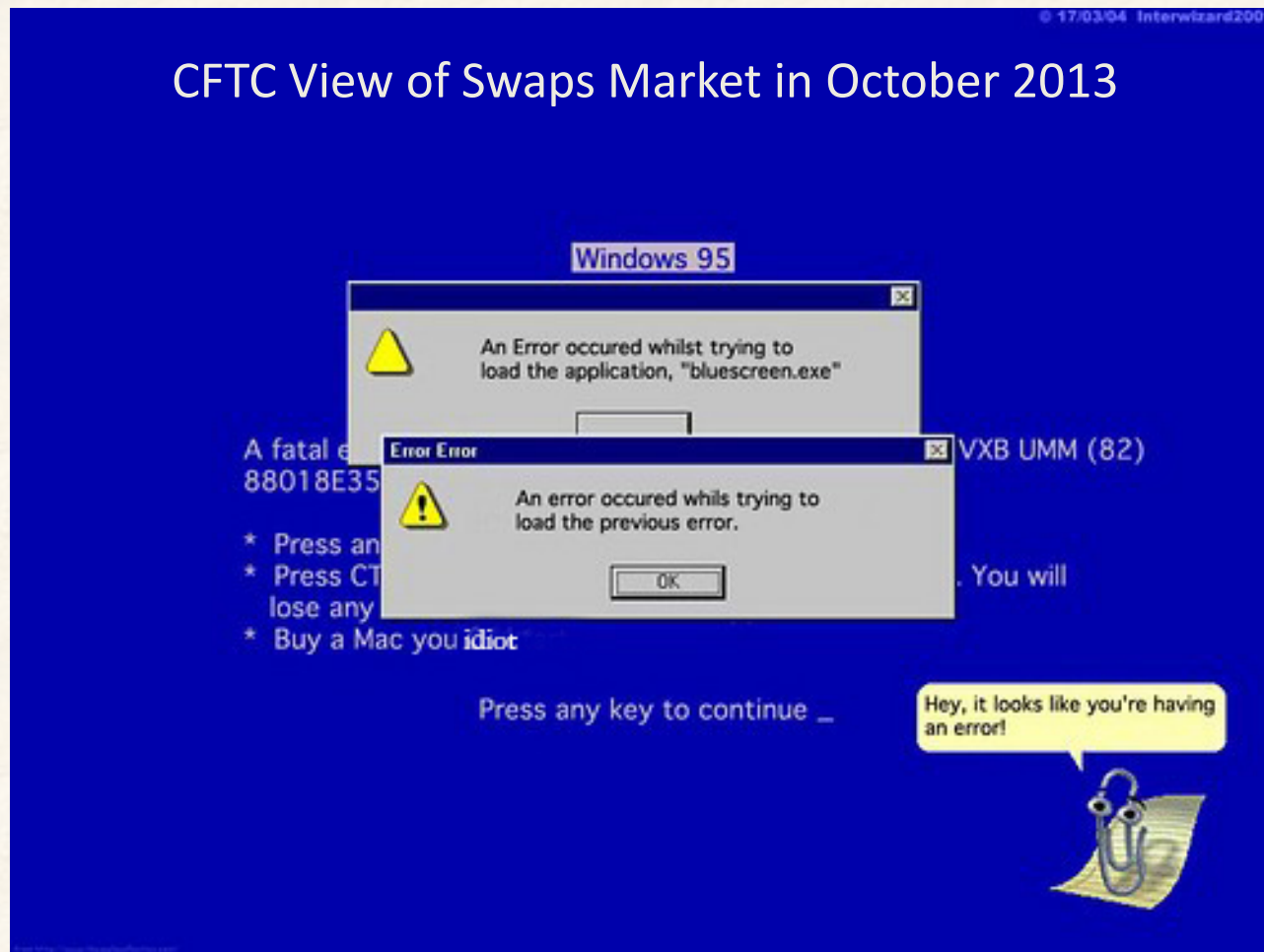


Source: Confidential CFTC Data Publicly Leaked in 2010

And Without Adequate Funding, The Regulators Simply Cannot Do Their Job



***CFTC
Commissioner
Scott O'Malia
has claimed
that the CFTC
computers
cannot load the
SDR data
without
crashing***



Not All Industry Stakeholders Are Keen On Transparency

Under intense pressure from the CME, the CFTC shut down its research program into excessive speculation and its impact on prices



Going Forward, The Onus is On Regulators and Funding

- CFTC (and SEC, Fed, etc.) must use the data at their disposal.
- Congress must fund the CFTC at a level sufficient for adequate staff & technology.
 - Better Markets has advanced a user-fee funding model similar to that used for all other financial regulators in the US.
- Data must be published and disseminated in usable format.
- Transparent trading must not be undermined by actions of exchanges, dealers and others.



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