
# SIFMA Insights

## Asset Management Derivatives Forum Debrief

March 6, 2018

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SIFMA is the voice of the U.S. securities industry. We represent the broker-dealers, banks and asset managers whose nearly 1 million employees provide access to the capital markets, raising over $2.5 trillion for businesses and municipalities in the U.S., serving clients with over $18.5 trillion in assets and managing more than $67 trillion in assets for individual and institutional clients including mutual funds and retirement plans. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit: http://www.sifma.org.

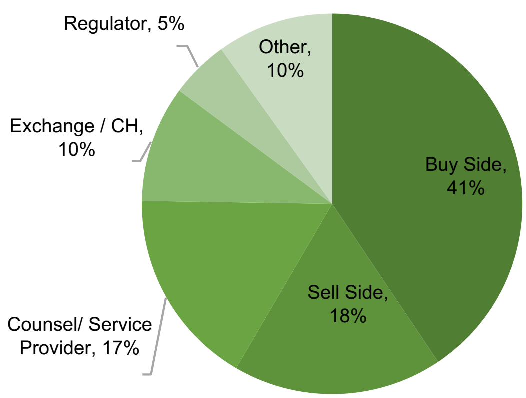
## Executive Summary

The SIFMA Asset Management Group and the Futures Industry Association (FIA) co-hosted our annual Asset Management Derivatives Forum. With three days of presentations, events and meetings, and over 360 people in attendance, we gained insights into top-of-mind topics for market participants around global derivatives regulations. Inside this note we recap hot topics including cross-border harmonization, fintech solutions, clearing, and more.

The industry remains focused on establishing smart regulations, ensuring economic incentives and costs are calculatable, and enabling capital markets to run efficiently. The goal is not to start the regulatory process over, but rather to recalibrate those regulations which may have had unintended consequences. This objective is in line with many regulatory jurisdictions which are undertaking reviews, such as the “call for evidence” in Europe; Project KISS at the CFTC; and the expected review of the SLR by the Fed.

After all, the derivatives markets exist to help manage risk. Market participants want to make sure regulations do not impede this process for investors, financial institutions and end users. In this note we review what was seen and heard at the conference, which, based on responses to this audience poll question (147 responses), had the following composition:

**Composition of Attendees**



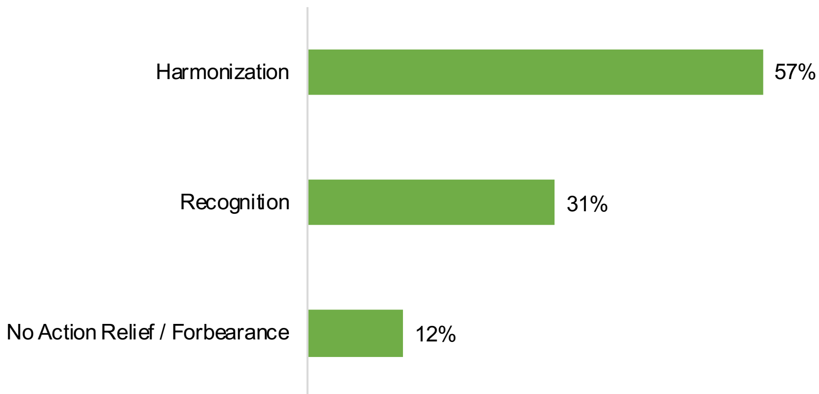

Source: Audience polling

Note: CH = clearing house. Figures may not add to 100% due to rounding.

## Seeking Cross-Border Harmonization

As financial institutions on both the buy and sell side continue to work through the onslaught of post-crisis regulations – Basel III, Dodd Frank, EMIR, MiFID II, etc. – one of the main concerns expressed during our Asset Management Derivatives Forum was the lack of cross-border harmonization. 57% of audience participants indicated harmonization (or lack thereof) was the missing piece of the regulatory puzzle, blocking the route to finding the new normal for financial market operations.

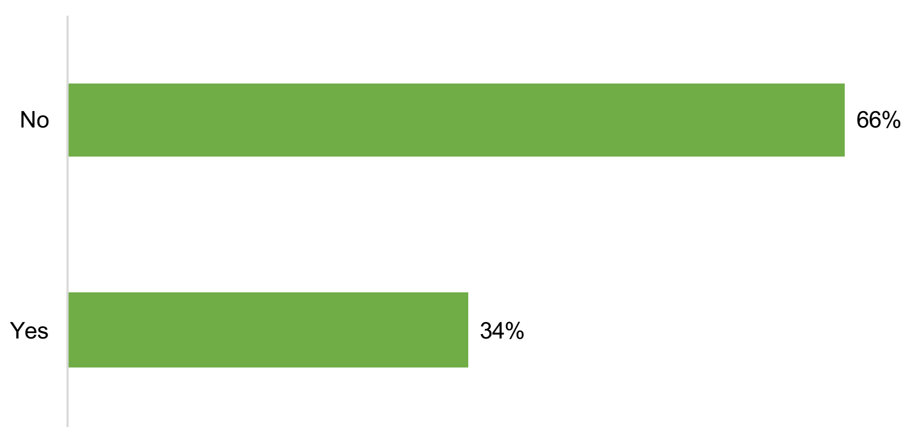
**Missing Piece of the Puzzle?**




Source: Audience polling

Global banks face multiple layers of complexity, as they must trade where clients direct them, interacting within the corresponding regulatory regime of that trade. Panelists at our conference indicated they are monitoring ~60 regulatory topics in the derivatives space alone. There are regulatory differences across regions in product scope and implementation timing, and rules can be duplicative or contradictory. One example given by a panelist was the split jurisdiction between the CFTC and SEC, and therefore different rules for index versus single-name CDS – yet market participants often trade these instruments together. The spider web of global regulations has created confusion on trading desks about jurisdictional differences. This led 66% of attendees to respond that they are <u>not</u> spending less time on regulatory change versus three years ago.

**Less Time on Regulatory Change vs. 3 Years Ago?**

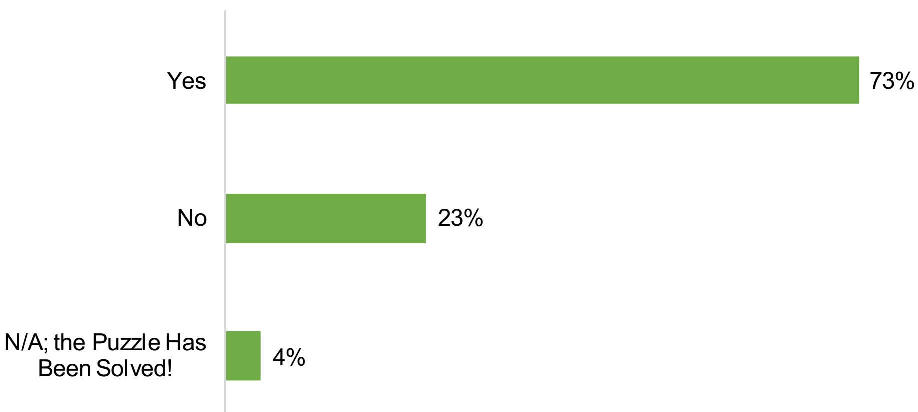



Source: Audience polling

While globalization and technology have allowed buy side firms to reach new jurisdictions, it also means they are now subject to new regulations in multiple regions. Clients in different countries need to deal with cross-border regulatory disparities and overreach. One example given on a panel was that the definition of the term "spot" triggers different regulations and reporting requirements in different jurisdictions – what used to be a standard term can now mean something completely different to a regulator in another jurisdiction.

Further, in terms of client onboarding, buy side firms must explain to prospective non-U.S. clients that they may be subject to CFTC oversight, which has caused issues with documentation (particularly with clients new to doing business in the U.S.). This led 73% of attendees to respond that the cross-border regulatory puzzle is more complex for the buy side.

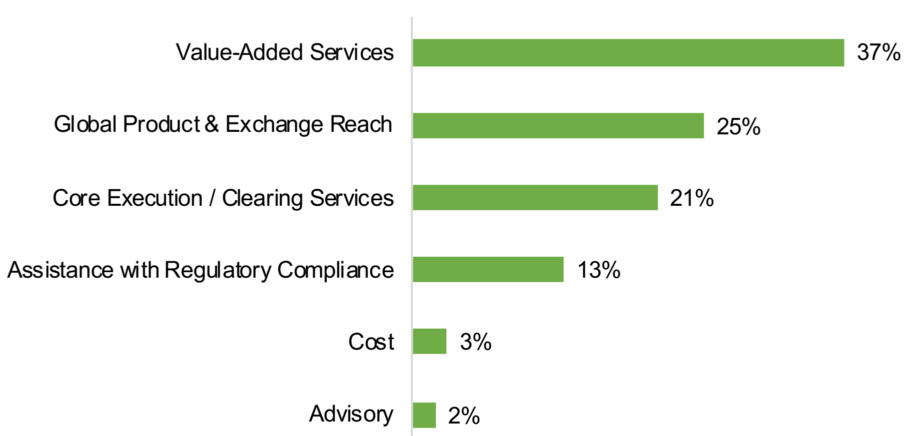
**Regulatory Puzzle More Complex for the Buy Side?**




Source: Audience polling

One impact from the complex regulatory environment is a change in relationship between FCMs and buy side firms. These parties need to communicate more frequently to discuss jurisdictional differences, creating an "educational partnership." Now when a buy side firm assesses an FCM, the most important differentiating factor is no longer cost (ranking second to last in audience polling at 3% of the total), but rather value-added services (at 37%). An FCM must, at a minimum, provide the core execution and clearing services, performed efficiently and at a reasonable cost. Then they must also provide clients global product and exchange reach, as well as the means to navigate global regulations.

**The Most Important Differentiating Area for FCMs?**



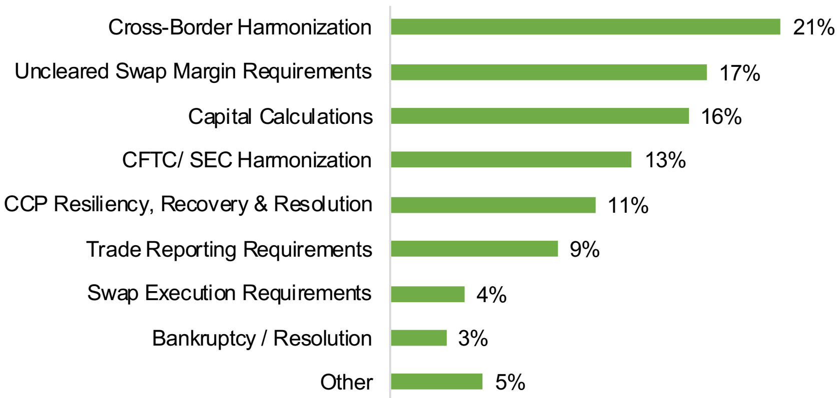

Source: Audience polling

Note: Figures may not add to 100% due to rounding. Value-Added = new products, margin analytics, etc

### *Starting in the US…*

Cross-border harmonization concerns rang true from a regional perspective as well. For the U.S., cross-border harmonization was voted as the top priority of concern of derivatives regulation, at 21% of the total (followed by uncleared swap margin requirements at 17% and capital calculation for derivatives positions at 16%).

**Top Regulatory Concern - US**




Source: Audience polling

Note: Figures may not add to 100% due to rounding.

Regulators are still working through where the U.S. might want to break away from global standards, which could have positive or negative impacts. For example, U.S. gold-plating of international standards is viewed as uncompetitive. Panelists indicated initial margin requirements for inter-affiliate transactions – required by U.S. bank regulators, but not the CFTC, EU or other major jurisdictions – could tie up around $29 billion for the 14 largest swap dealers (even though these transactions are often hedges, or risk management transactions, between entities of the same parent group).

On the other side, market participants remain hopeful that U.S. regulators and politicians are looking to simplify regulations, with the objective of ensuring markets operate efficiently. For example, firms remain optimistic about the CFTC's KISS initiative, intended to simplify and modernize its rules. In his remarks, CFTC Commissioner Rostin Behnam emphasized that "the Commission needs to account for its actions, accept responsibility, provide transparency, and act responsibly." He indicated that in the KISS public comment letters, market participants have expressed the need to decrease duplication in regulations. He expressed that reporting rules should be uniform and add value, not just report to report.

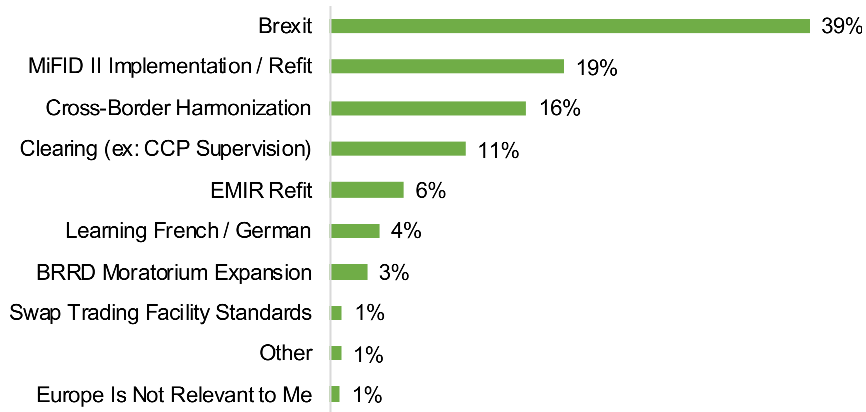
That said, despite the concept being about harmonization across borders, market participants expressed concerns over the lack of harmonization within U.S. borders. Harmonization between the CFTC and SEC ranked fourth in polling, at 13%. Differences in registration, portfolio reporting, etc. create confusion and increase costs, as firms must duplicate processes. Commissioner Benham acknowledged that the CFTC needs a path forward with the SEC.

Despite acknowledgement of the problem, market participants are concerned that the regulatory reform process has been slow. Agendas have gotten hijacked; for example, the bitcoin debate that heated up at the end of 2017 took time from both the CFTC and the SEC (it also highlighted jurisdictional issues within U.S. walls). Many in the industry are concerned that regulatory reform could be forced to an even slower pace when the CFTC reaches a full commission, as this increases the number of people needed to reach agreement.

## *…Then Moving Across the Pond to Europe*

For Europe, cross-border harmonization only registered as the third top concern, at 16% of the total. This is not surprising, given the logistical issues and uncertainties surrounding Brexit (ranked by far as the top concern at 39%) and MiFID II implementation/refit (ranked second, at 19%).

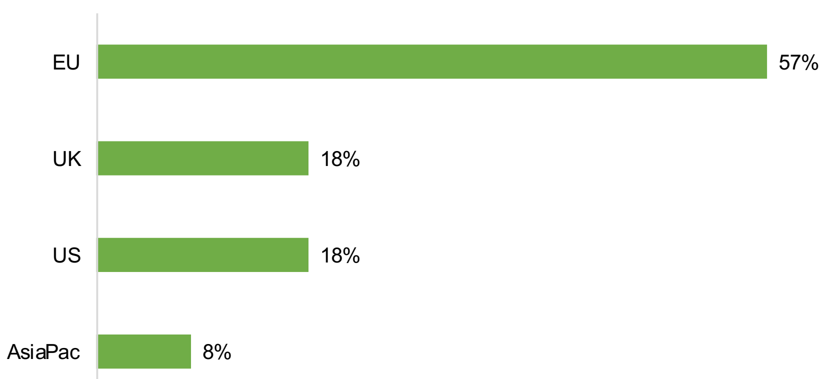
**Top Regulatory Concern - EU**




Source: Audience polling
Note: Figures may not add to 100% due to rounding.

Market participants noted that implementation of European regulations is moving slowly. An estimated 90% of European financial counterparties are still not subject to clearing regulations (delayed until June 2019). Just around 60% of products that are subject to the trading obligation are being traded on MTFs/OTFs as required. Unlike on the U.S. side, there was no discussion around what could increase the pace of regulatory reform or implementation in Europe. “It is what it is,” as they say. This corresponds to the EU ranking highest in the audience polling question on which region’s regulations keep you up at night: 57% of total said the EU, over 200% greater than the second highest response.

**Which Region's Regulations Keep You Up At Night?**




Source: Audience polling
Note: Figures may not add to 100% due to rounding.

One panelist noted that anyone who thinks other regional regulations do not impact them should rethink their stance. The reasoning is that if one region implements new rules, it could pressure regulators in other jurisdictions to follow (for example: harsher position limits in Europe – could this flow to the US?).

### *Brexit – Prepare for the Worst and Hope for the Best*

Not to be ignored, Brexit was of course a topic of conversation throughout the conference. Regardless of the type of final deal authorized, Brexit makes global harmonization harder. On the side of the worst-case scenario, if there is no deal brokered for financial services at all, panelists indicated that it could be a "big problem." One panelist indicated it could be worse than MiFID II implementation, as it is expected to have greater operational and compliance challenges. The problem facing firms (both buy and sell side) is that even though no one knows what the final deal will be – and we will not for some time now – compliance and operations teams need to be running their businesses today.

Some of the questions market participants are struggling with include:

- If the EU does not give the UK equivalence, how do banks and buy side firms provide clients with uninterrupted access to UK trading venues?
- If the EU takes a hard line, could the CFTC take a retaliatory strike?

In terms of probability of a hard Brexit, some market participants consider this a losing situation for the EU as well, making it less appealing to European regulators and politicians. For example, the USD market would not be moving, and most FX trades have a dollar leg which is settled through the U.S.-regulated yet London-based (in terms of its main operations) CLS Group. This would negatively impact the large European-based global banks, who would need to transact in the UK on behalf of their clients. As London is the largest market for FX, and other markets, large European banks would need to maintain a presence in London to service their clients.

The current passporting system allows a bank licensed in any EU country to operate in any other by establishing branches, which are a more cost-efficient form of operation (from an administrative and required regulatory capital perspective) than a legal subsidiary. A hard Brexit would end passporting.

As a result, according to a July 2017 Boston Consulting Group study commissioned by AFME[1], SIFMA's European affiliate, the additional equity capital requirement could be about €40/$49.2 billion[2] (€20/$24.6 billion in regulatory capital build; €2/$2.5 billion from banking book fragmentation; and €18/$22.1 billion from trading book fragmentation). This would be concentrated on a group of banks which serve European-based clients, meaning the impact could be material for European-based banks, not just UK-based banks as some EU politicians may have hoped.

On the issue of moving Euro-denominated clearing to the European Continent, market participants feel this is mere "rhetoric." Many participants expressed the view that clearing has become a cause for European politicians in the Brexit debate. Yet, market participants on all sides of the table – banks, clearing houses, asset managers and end users of derivatives that need to be cleared – view this as a bad idea that will increase costs for all parties. While interest rate derivatives and FX products may not be equal in terms of clearing logistics, they are global markets that cannot have a prescribed location for clearing. Breaking the liquidity pool of the big three currencies (USD, GBP and EUR) diminishes the impact of netting benefits, which would be a negative for European-based end users, not just punish UK firms. The same AFME study estimated that, should Euro-denominated clearing be forced to move from the UK to European-based CCPs, banks would need to post an additional €30-40/$36.9-49.2 billion of initial margin, an increase of 40-50%. Clearing members would also have to post additional default fund contributions of around €3-4/$3.7-4.9 billion, an increase of 20-30%.

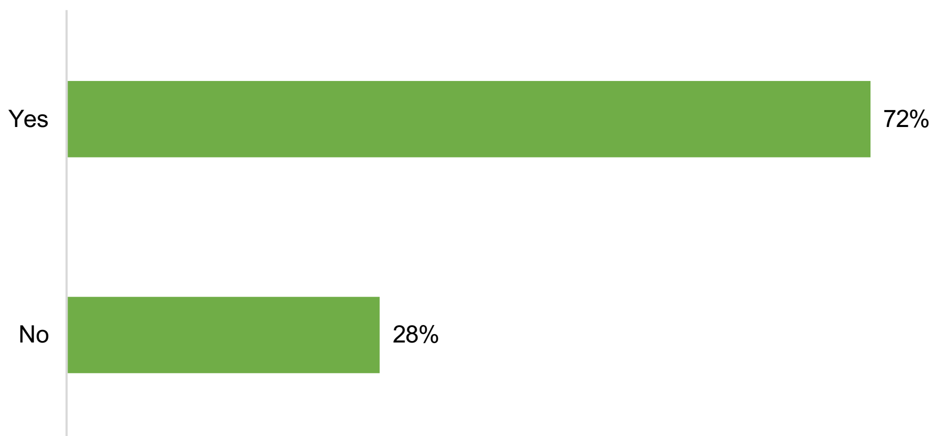
[1]The Association for Financial Markets in Europe (AFME) is the voice of all Europe's wholesale financial markets. AFME in London, Brussels and Frankfurt, ASIFMA in Hong Kong and SIFMA in New York and Washington are, respectively, the European, Asian and North American members of the Global Financial Markets Association (GFMA).

[2]1 EUR = 1.2302 USD, as of 2/14/18

## Finding Fintech Solutions

As discussed in SIFMA's 2018 Outlook, new financial technologies (fintech) present both opportunities and threats to financial institutions. Whatever the use case or challenge to solve may be, financial institutions across the spectrum – banks, broker-dealers, asset managers, etc. – are reviewing and analyzing fintech options in their strategic planning decisions. There was no disagreement at this conference: fintech must be embraced and can be used to help solve the cross-border regulatory puzzle, as indicated by 72% of respondents in our audience polling.

**Can Technology Help Resolve the Regulatory Puzzle?**




Source: Audience polling

The laundry list of potential fintech uses spans many areas of financial institutions and markets, including but not exclusive to:

- Technology can help standardize processing and workflows across multiple FCMs.
- FCMs, individually, are focusing on streamlining core processes (electronifying basic orders; rationalizing legal documentation and onboarding processes; or simplifying material terms in contracts).
- Distributed ledger technologies (DLT) present uses across many of the more administrative functions in clearing and settlement (collateral transfers; legal documents and the use of smart contracts; trade and other reporting; trade confirmation and settlement).
- Eventually, market participants hope to build a golden source for data, locked and managed on a DLT system.

Yet, while lots of fintech opportunities could provide solutions to the cross-border regulatory puzzle, life is not always that easy. Potential roadblocks discussed by panelists include:

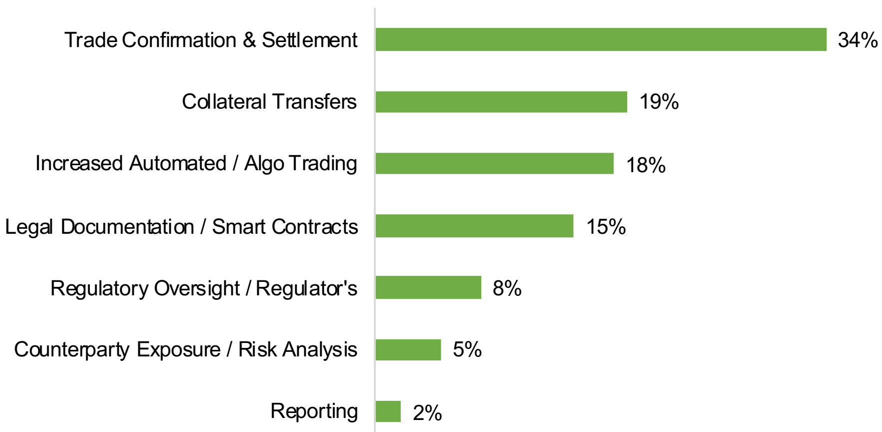
- As regulators like to control data in their own region, information sharing issues could prevent the gain of full technology efficiencies.
- System breaches are often easier in new technology environments, thereby increasing cybersecurity concerns.
- The number of regulations, and lack of global harmonization, is preventing technology from driving

efficiencies in regulatory reporting.

- Utilizing multiple new technologies make it more difficult to run a scalable business, potentially minimizing cost efficiencies for global firms.
- To build a golden source, the market needs authentication of accuracy and authorization to share from the underlying clients/entities, the owners of the data. This includes multiple, "multiple" players, bringing challenges in gathering the data and automating the information consistently into a single system.
- The system can only be as successful as the lowest common denominator. Individual firms building out new technologies alone cannot solve all issues. Market participants of all types must embrace the technologies.

Another issue tackled is the time it takes to build, test, gain regulatory approval and onboard clients onto new technologies. Attendees indicated trade confirmation and settlement will experience the most change due to technological developments in the next five years, at 34% of the total (followed by collateral transfers at 19% and increased use of automated and algorithmic trading at 18%).

**Greatest Technology-Driven Change in 5 Years**




Source: Audience polling

Note: Figures may not add to 100% due to rounding

## *Regtech – Big Brother Is Watching, and Reporting*

One subset of fintech that has received a lot of attention is the regtech space. Many market participants consider adding new technologies to compliance systems easier to achieve than big transformational projects like moving processes onto the blockchain.

Some examples of regtech opportunities discussed at the conference include:

- Firms can add systems to improve employee monitoring;
- Technology solutions can expedite processes such as the sign off for legal documents in the onboarding process;
- Chat collaboration platforms can share information across multiple parties, while monitoring for compliance;

- For MiFID II compliance, systems can capture who counts as a systematic internaliser (SI), eliminating double reporting or under reporting;
- Technology solutions can help operations teams move from the old and less efficient process of emailing counterparties and getting back a spreadsheet for trade confirmation;
- Robotics can be used to vet data, with an AI overlay to sort through it; and
- Regtech solutions can prevent firms from reporting the same data multiple times, such as under MiFID II where firms need multiple pieces of information to trade into Europe, and then the same trades need to be reported to multiple jurisdictions.

An area ripe for technology solutions is regulatory reporting. Market participants view the scale and duplicative nature of reporting requirements as unnecessary and creating a negative impact on end users, and they see opportunities to improve reporting requirements. For example, one operations executive indicated that they need at most 15 fields to match a trade. Yet, they must report around 90 fields. They question why regulators require 500% more line items than operations and compliance teams need to perform their job.

Regardless of the regtech solution discussed, market participants again indicated the need for standardization. Firms can then move onto optimization, a longer-term strategy. Unfortunately, compliance teams have been "firefighting" rather than proactively finding regtech solutions, with Brexit, CAT and MiFID II all presenting near-term challenges to be solved. On the bright side, many expect the pricing of regtech solutions to come down over time, as more competition enters on the development side.

### *Crypto Currencies – Did You Think You'd Get Through This Note Without Talking about It??*

Last year, you could not attend an industry conference without hearing the term blockchain. This year, crypto currencies are the new blockchain. At the conference, a group of panelists were asked to rate on a scale of 1-10 if the market would be using a crypto currency for collateral in 10 years. While panelists refrained from putting down numbers, this answer sums up the crypto currency conversation nicely: "Now, no because the volatility is too outrageous; but 10 years is a long time."

People were able to understand blockchain through practical comparisons of its analog to conventional databases; they have traded securities online or used encrypted emails. They understand that these underlying protocols are similar to blockchain. However, part of the current concerns around crypto currencies like bitcoin are the tremendous amount of uncertainty.

The understanding is not yet at the same level for bitcoin. For example, there was conference chatter about the volatility of "spot" bitcoin trading and the self-certification process for bitcoin futures. A panel with derivatives exchanges and electronic market makers argued that the self-certification process works – it is efficient, trackable and business friendly (in terms of time to market for customer demanded new products). CFTC Commissioner Benham also indicated the process has worked since implementation. Yet, he did ponder that, in the case of bitcoin, perhaps the process was not transparent enough (maybe needed a public comment period). On the other side, it was noted by panelists that the self-certification process had not worked in the SEF world. In the beginning of the MAT[3] process, bad actors attempted to "MAT the world," trying to force business onto SEFs. While these bad actors failed from essentially manipulating the market, the self-certification MAT list has basically not changed in years, i.e. essentially no new products have come to market.

[3] Swaps trades subject to the clearing mandate that have been Made Available to Trade by a DCM or SEF must be executed on a DCM or SEF.

## Clearing Remains in Focus

To set the scene, in 2007, around 15% of swaps transactions were cleared. According to ISDA data for 2017, these figures were: 87.6% of notional IRD transactions and 79.7% of notional index CDS transactions (80.3% and 79.8% of trade count, respectively). Market participants attribute much of the growth to uncleared margin rules. People chose to move to cleared products because clearing is more cost efficient and eliminates any question as to whether you are within new regulatory standards.

A few examples of market participants choosing to clear include:

- Single-name CDS: Lack of SEC action on anticipated regulations left market participants unclear what the rules would be in the future. They self-chose to clear ahead of the regulations.
- European government bonds: 50% of the European government bond markets are now cleared. This is not a regulatory mandate, rather market participants seeking efficiencies and netting benefits from clearing.

As uncleared swaps margin rules continue to phase in and reach additional market participants, customers need solutions to combat the associated increased costs for these transactions. Clearing provides costs efficiencies, standardized transactions (it is easier for firms if trades have the same rules) and standardized CSAs. According to one of our panels, banks now view clearing as a standalone business, while the buy side views it as a utility where the benefits outweigh the costs.

### *Limited Growth in the Indirect Clearing Model*

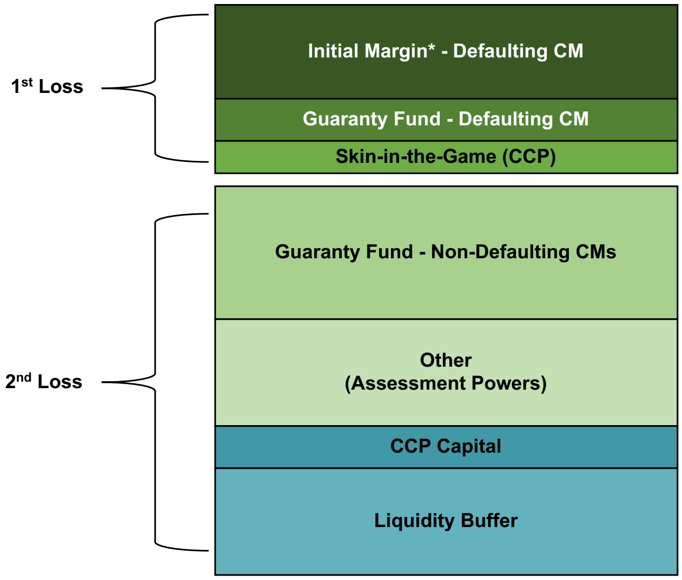
That said, it is still costly for sell side firms to clear for clients. Banks are under pressure from regulatory constraints and the capital costs to use their balance sheets. Therefore, market participants continue to seek out solutions, such as indirect clearing. This is essentially a sponsored principal model, where the FCM still covers the guaranty fund contribution, handles the day-to-day logistics and sponsors the buy side firm. Yet, the collateral is not hitting their balance sheets. Currently, there is less demand for this in the U.S. than Europe. Although, some market participants indicate they are seeing increased demand from U.S. clients for greater segmentation of collateral.

Many questions remain – such as capital treatment for FCMs – before we can assess the size of the opportunity for the buy side under this model.

### *The CCP SIG Debate*

As clearing continues to remain a focus, so does scrutiny on the resiliency, recovery and resolution of CCPs. Asset managers continue to ask, “What insight do we have into CCPs to gauge and manage risk?” (As a reminder, asset managers are not clearing members; big banks are.)

One topic discussed is the CCP’s skin-in-the-game (SIG). The role of a CCP is to manage risk, risk which clearing members (for their house account and on behalf of their clients) bring to the CCP. A CCP has several tools to manage this risk, including the default loss waterfall (a series of pre-funded and contractually committed resources to manage a clearing member default). SIG is the part of this waterfall contributed by the CCP. Waterfalls have proven to be resilient – there have only been three failures in the history of clearing houses. A LCH (a clearing house subsidiary of the London Stock Exchange Group) executive on a panel indicated they have managed eight clearing member defaults since 1990, and none of those used up resources past the first layer of the waterfall (the initial margin of the defaulting clearing member).




Source: SIFMA estimates

Note: *Can haircut unpaid variation margin and auction off the book of the defaulting clearing member at this stage of the waterfall

Sizing SIG is a balancing act – too low and it may not incentivize the CCP to monitor risk taking, yet set it too high and (a) the CCP might pass these costs to clearing members (who might pass these on the end users) or (b) it could hinder the operations of the CCP. Many of the large clearing houses actually have two tranches of SIG (not shown above): (1) a layer located after the defaulting clearing member's contributions yet before the mutualized pool of the guaranty fund; and (2) a tranche pari-passu with the clearing member's mutualized guaranty fund. The size and structure of SIG is not standard across regions or clearing houses. Under Europe's EMIR regulations, a CCP must contribute at least 25% of its regulatory capital into the waterfall, located before member contributions.

Further, increasing SIG/capital can cause an unwanted increase in clearing costs. Our audience polling indicated that, despite questions around the amount of SIG/capital contributed, conference participants still lean more toward keeping costs down. 52% said they would not want to enhance CCP capital requirements if it increases clearing costs.

**Enhance CCP Capital If It Increases Clearing Costs?**

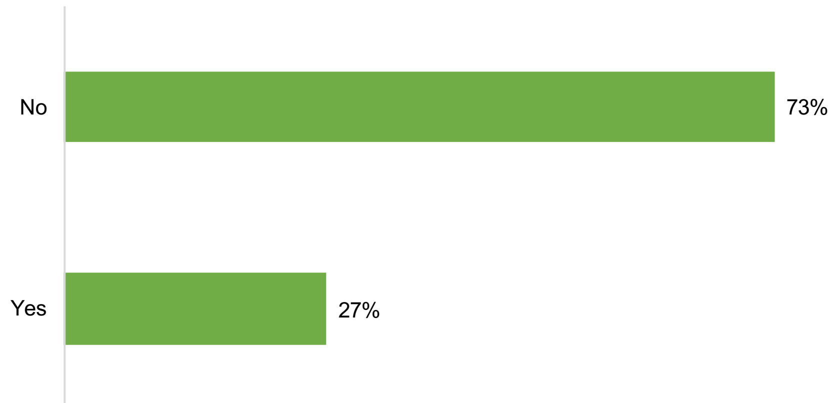

Source: Audience polling

Note: Figures may not add to 100% due to rounding.

### *Addressing CCP Non-Default Losses*

SIG's role in managing the risk to the CCP via the default loss waterfall is different from CCP capital. This capital is used to cover non-default losses, such as operational, investment, or cyber. 73% of audience polling participants stated the waterfall should not be used to cover non-default losses. We have not heard any of the large CCP management teams disagree.

**Should the Waterfall Cover CCP Non-Default Losses?**




Source: Audience polling

Market participants struggle to answer how the losses should be shared across the CCP and clearing members or other end users. The IOSCO Principles for Financial Market Infrastructures set standards for operational losses, establishing a buffer of liquid net assets to continue operations as a going concern if a CCP incurs general business losses. CCPs heavily regulate their investment procedures, which are typically done in a conservative manner. Cyber is considered the most critical issue, but is also a difficult area to create a defense buffer. It is even more challenging to determine fault and therefore who pays.

### *CCP Stress Testing Standards*

While it is difficult to develop standardized stress tests for CCPs – each CCP can be very different in terms of products cleared and clearing member characteristics, even within same parent group – market participants would like to be able to see published stress test results with benchmarks on which to compare individual CCPs. Additionally, since many of the large global CCPs have the same clearing members and clear the same products, the same clearing member default(s) could impact multiple clearing houses. Many market participants are therefore asking for interdependency tests in CCP stress testing. In our audience polling, 94% said they would like to see interdependencies tested.

**Should Stress Tests Address Interdependencies?**

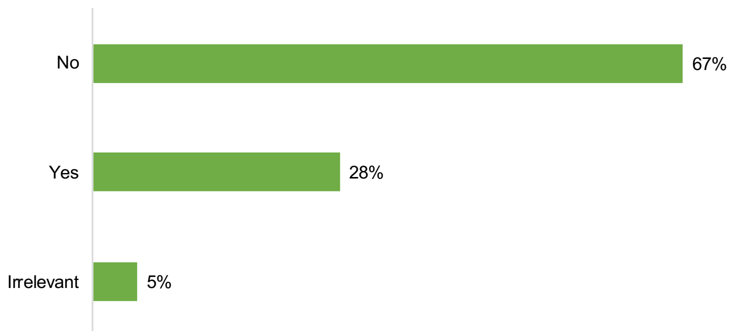

***No***

Source: Audience polling
Note: Interdependencies include relationships among CCPs, clearing members, products, etc.

## *Cross-Border Regulatory Harmonization Issues for CCPs*

Many CCPs are global and transact across multiple asset classes. This creates concerns on cross-border regulatory harmonization such as who is primary regulator, how do they coordinate, etc. One example is the differences in proposed recovery and resolution tools in Europe. While regulators have taken haircutting initial margin off the table, they have still proposed variation margin gains haircutting (VMGH), partial tearups of derivatives contracts and cash calls. Asset managers view these measures as extreme and in violation of customer protections. 67% of audience polling participants indicated VMGH should <u>not</u> be used as a recovery tool.

**Should VMGH Be Used as a Recovery Tool?**




Source: Audience polling

Another area of concern is who would maintain regulatory oversight of a CCP in resolution. Should a bank regulator be in receivership of a failed CCP? A bank failure is typically the result of an unmatched book. However, a CCP's entire business model is based on maintaining a matched book, and it has the waterfall in place to get back to matched book should a clearing member default. If a bank regulator, such the FDIC which handles receivership of banks in the US, would be put in charge of a CCP in distress, market participants do not believe they would be well suited to manage auctions or port client positions to surviving clearing members (crucial risk management tools CCPs can use in a clearing member default). Some market participants believe this would not be in the best interest of clearing members or their clients, the end users.

## A Quick Look at Other Hot Topics

- MiFID II: Market participants indicate that while the initial setup costs for MiFID II compliance are much greater then what the per annum run rate operating costs should be, the ongoing operating costs will be significant (and the largest changes will be to the buy side, who historically have not paid for research, i.e. costs are increasing from a $0 base). However, the changes in behavior from sales and trading staff is greater than other initiatives they have experienced. The regulations have substantially increased the time spent per transaction. Instead of having this become business as usual, sell side firms are looking to see how much of their trading processes they can make electronic to cut down on time per transaction. Some believe MiFID II is driving the next round of electronification.
- BRRD II: Europe's proposed amendments to its Bank Recovery and Resolution Directive (BRRD II) would significantly increase the length of the stay period for termination rates in derivatives contracts. Currently, bank resolution regulations include limited stays on termination rates, two days post bank resolution in Europe, based on the global standard. The EU proposal adds to this by including:
  - A five-day stay starting even before the bank has been determined to fail (still operating in business as usual mode);
  - A five-day stay post determination of bank failure, but before resolution; and
  - A two-day stay once in bank resolution, which can be repeated multiple times.

  Many asset managers view anything greater than a total of a two-day stay period as an unacceptable erosion of investor protections and at odds with other laws. They believe the European BRRD II proposal could stop funds from executing bilateral transactions (derivatives, sec lending or repo) and investments in European bank debt. It could also stop funds from using European custody banks (which creates a catch-22, because European regulators require the use of a European custodian). 92% of the audience poll respondents said BRRD II would negatively impact trading with, investing in and custodying with European banks.

**Would the 14-Day Stay Impact Activity with EU Banks?**


Source: Audience polling

Note: Activity includes trading with, investing in and custodying with European banks

## Appendix: Terms to Know

| | |
|---|---|
| **CDS** | Credit Default Swap |
| **CSA** | Credit Support Annex |
| **FX** | Foreign Exchange |
| **EUR** | Euro |
| **GBP** | Great British Pound |
| **USD** | US Dollar |
| **AsiaPac** | Asia Pacific Region |
| **EU** | European Union |
| **US** | United States |
| **UK** | United Kingdom |

| | |
|---|---|
| **CCP** | Central Counterparty Clearing House |
| **CH** | Clearing House |
| **CM** | Clearing Member |
| **FCM** | Futures Commission Merchant |
| **IM** | Initial Margin |
| **SIG** | Skin-in-the-Game |
| **VM** | Variation Margin |
| **VMGH** | Variation Margin Gains Haircutting |

| | |
|---|---|
| **AI** | Artifical Intelligence |
| **DLT** | Distributed Ledger Technology* |
| **Fintech** | Financial Technology |
| **Regtech** | Regulatory Technology |

** Blockchain is one type of DLT*

| | |
|---|---|
| **CFTC** | Commodities Futures Trading Commission |
| **Fed** | Federal Reserve System |
| **IOSCO** | International Organization of Securities Commissions |
| **SEC** | Securities and Exchange Commission |

| | |
|---|---|
| **Basel III** | International Regulatory Framework for Banks |
| **Brexit** | British + Exit from the European Union |
| **BRRD II** | Bank Recovery and Resolution Directive (amendments) |
| **CAT** | Consolidated Audit Trail |
| **Dodd-Frank** | Dodd-Frank Wall Street Reform and Consumer Protection Act |
| **EMIR** | European Market Infrastructure Regulation |
| **KISS** | Keep It Simple Stupid |
| **MiFID II** | Markets in Financial Instruments Directive (revised) |
| **SI** | Systematic Internaliser |
| **SLR** | Supplemental Leverage Ratio |

| | |
|---|---|
| **DCM** | Designated Contract Market |
| **MAT** | Made Available to Trade |
| **MTF** | Multilateral Trading Facility |
| **OTF** | Organized Trading Facility |
| **SEF** | Swap Execution Facility |

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