



Safe,
Efficient
Markets

26th Annual General Meeting
April 12-14, 2011
Prague

Opening Remarks

Robert G. Pickel
Executive Vice Chairman
ISDA

9:00am
Thursday, April 14, 2011

OTC Derivatives Market Structure

<u>Characteristic</u>	<u>OTC Swaps</u>	<u>Listed Futures</u>
Trading Counterparties	< 1,000	>> 100,000
Retail Participation	None	Significant
Daily Trades	< 20,000	> 1,000,000
Tradable Instruments	>> 100,000	< 1,000
Trade Size	Very Large	Small
Market Structure	Bilateral (OTC)	Exchange

OTC Derivatives Market Structure: IRS

5500 Daily Trades

- 3600 swaps
- 1900 caps, floors, etc.

1200 USD and 830 EURO IRS are traded daily

Less than 50% of daily swaps trading is standardized

- Most liquid standardized swap (10y USD) trades 200x per day

OTC Derivatives Market Structure: CDS

6700 Daily Trades

- 4900 single-names
- 1800 indices

13 out of 3000 single-names trade 20 or more contracts per day

- 99% of single-name CDS trade less than 20x per day

5 CDS indices comprise 60% of daily CDS index trading

Trading Facility Issues

OTC derivatives markets distinctly different than futures market

Regulation should not reduce liquidity

Why should trading facilities be mandatory for cleared trades?

- Clearing will lead to voluntary development and usage of trading facilities

Real-time reporting should be done with care

- Effect on equity markets
- High speed trading

Need to preserve market-making/client involvement for large trades

Phase-in of trading facility requirements needed

Trading Facility Issues

Current pricing extremely competitive

Recent blind test of IRS market

- Executable quotes were 0.001% over mid-market

Benefits

- Participants should be able to decide when and if using trading facilities provides benefits.
- Mandate locks in one way of trading, reducing flexibility.

Costs

- Higher prices on block trades
- Cost of linking to facilities
- Start-up and operating costs of facilities
- Regulatory costs

Market Structure Issues

"All standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate"

- G20, 2009

"It is appropriate to trade standardised derivatives contracts with a suitable degree of liquidity on "exchanges or electronic trading platforms," provided that a flexible approach encompassing a range of platforms... for derivatives trading is taken"

- IOSCO, February 2011

"Our idea [in Europe] is not to disturb existing business models for trading of OTC derivatives"

- Maria Velentza, head of the securities market unit at the Commission, March 2011

ISDA[®] | Safe,
Efficient
Markets