Good Afternoon. I'm Bill Herder, Regional Head of Asia Pacific for FIA.

I'd like to thank AFM for the opportunity to speak today

FIA is the leading global trade organisation for the futures, options and centrally cleared derivatives markets, with offices in London, Singapore and Washington, D.C. FIA's membership includes clearing firms, exchanges, clearinghouses, trading firms and commodities specialists from more than 48 countries as well as technology vendors, lawyers and other professionals serving the industry. FIA's mission is to support open, transparent and competitive markets, protect and enhance the integrity of the financial system, and promote high standards of professional conduct.

I would like to state before I begin that the views I express today are my own and not necessarily those of FIA or our members

I've been asked to talk to you today about how global market changes impact regional markets.

The easy answer to this question is "In more ways then you can imagine". The reason I say this is that the financial markets today are completely and irrevocably global. Whether it is regulation, product design, technology or even market maker incentive schemes, nothing is done without global market influence and consideration. Even a small local trader, day trading one local market, is affected by global market dynamics as markets become increasingly borderless.

Some of these changes have been for the better, some of these changes have been detrimental, and an even greater number have been neutral. The fact remains that all changes come with a cost and smaller markets have less wherewithal to absorb additional costs. One obvious observation is that the regional markets, pretty much by definition, are smaller than the global markets. This leads to the markets being reactors to rather than the agents of change. Whether the change is positive or negative, the timing of these changes is dictated by forces outside the control of the regional participants and can greatly affect priority planning for local projects both in terms of funding and time to market.

There are basically two types of global market changes affecting the regional markets - direct and indirect. At the simplest level the direct changes consist of regulatory and policy implementations which have the express purpose of affecting the way cross border activities are conducted while indirect changes consist of the consequences, either intentional or not, of decisions and actions focused on other matters. Where direct changes often have the effect of essentially prohibiting cross border trading, the indirect changes usually are centred around increasing the costs to a point where conducting business in certain regional markets from a global firm perspective, becomes untenable.

I would like to state that not all changes have been negative, it's just that one rarely hears the good news stories. There are examples of regulatory changes in the large European and US markets which have pushed businesses to our region, but these are fewer and usually more theoretical than actual. The fact is "regulatory arbitrage" which was a huge concern has not come to fruition.

I will be primarily focusing on global regulatory changes today and how they have affected the regional markets. Regulation could possibly be the greatest market change we have seen in the exchange traded derivatives industry in recent years. Misguided regulation could be the greatest threat.

Over the past decade, since the global financial crisis of 2008, there has been countless regulations enacted with the express intent of protecting the investor community and providing greater transparency. Almost a decade later, we are still working on this "new" regulatory framework.

We have seen the passage of Dodd-Frank in the United States, which alone generated more than 22,000 pages of regulation. The massive set of European regulations, MiFID II was effective from 3 January this year with significant cross border implications. And here in Asia, various reforms are being or have been implemented across the Asia-Pacific region relating to execution, central clearing and reporting of derivatives.

Overall, FIA supports the goal of these regulatory changes to make the derivatives markets safer. However, it is becoming clear that the unintended consequences and costs of some of the regulatory rules are having an adverse impact on the health of the markets and making it more challenging for participants to access markets.

I'd like to preface my further comments by stating that I believe that regulators may have the most difficult job to perform in the financial industry. They are under a tremendous amount of pressure from political, legal and market development forces which almost always have contradictory agendas. Regulators are expected to be independent entities and are required to establish rules and regulations that comply with the legislative mandates of the home country but not be unduly influenced by the prevailing political environment. This may be the case in theory but rarely has this been seen in practice. If a governing doctrine is leaning towards protectionism, most often the industry has seen the regulatory agenda following suit. Regulators have a duty to oversee and protect the markets under their jurisdiction. This is a very delicate balancing act especially as markets become so interconnected and cross-border. A key challenge for the regulators is addressing the dynamic nature of the exchange traded industry.

The core framework of the rules we have are based on markets from many years ago. As the industry has evolved, the regulators have been forced to keep up. The issue is that by the time the regulations have been written, vetted and implemented they are often no longer fit for purpose which has led to over-regulation to try to prevent issues that never existed. In a perfect scenario, the industry would go through a wholesale global regulatory redesign looking at the purpose of the capital markets and working outwards rather than the current situation which reforms rules to try to fit an imperfect and outdated core framework. Redesign is most likely too impractical to implement but could be a worthwhile basis for further regulatory restructuring.

A further challenge and one of the major disconnects is in the makeup of the decision-making bodies themselves. The regulators with which I have interacted with have been, with very few exceptions, dedicated, intelligent, hard working individuals. Many are career staffers at the agencies, accomplished academics or former executive, partners or senior managers at law firms and financial services companies. A surprisingly few have hands on experience in the industry which they are regulating. This disconnect between the theoretical and practical knowledge leads to a great deal of frustration. Much of the proposed and implemented regulation, which seem to accomplish the stated goals of the jurisdictional tenets, become impossible to implement, enforce or monitor when enacted in a real time trading and clearing environment. This is not even considering the cost of said implementation which is a wholly separate discussion in itself.

As mentioned earlier, regulators are tasked with overseeing the markets within their jurisdiction. Of course, this is the singularly most important role of the regulator. However, this cannot be effectively accomplished within a localized vacuum. Regulators should focus on the safe, secure and transparent operation of the local markets. Markets that encourage the ability of all participants to have open access to trading to ensure the ability to hedge, speculate or otherwise trade in a market that is a level playing field.

Too often we find that regulators enact regulations which construct barriers to offshore participants. Additional regulations are not a threat. They may be an inconvenience and add additional costs to trading the home markets but these are usual costs of doing business and should be considered by the participants when they are evaluating the overall logic of trading in the particular location.

The threat to our industry is when regulations are enacted without taking into consideration how they may conflict with those in other jurisdictions. All markets can and should be global. Therefore, cross border regulation and its impact on local markets should be considered. Of course, I believe there are and should be differences between how each country might regulate, depending on the size of the marketplace, its maturity, its demographics and even cultural distinctions. However, it is important that in all markets, these differences are minimized for example, through adherence to international principles developed by global standard setters such as IOSCO and cooperative oversight and enforcement arrangements.

Regulators should also not limit participation through regulatory encumbrances, in the name of local market protection. If that is pursued, the regulators and policymakers are, in fact, threatening the integrity and growth of the local market. This only succeeds in creating a local market which is devoid of international specific knowledge, limits diversity of trading participants and limits additional liquidity. Liquidity is the foundation for efficient price discovery and proper risk mitigation across all types of trading participants and should be encouraged, not restricted. It is concerning that we are seeing a global trend towards populist politics such as Brexit in the UK and Europe and the Trump administration gaining control in the United States and whether this will mean a greater move towards protectionism across markets, but it is far too early to see what the fallout from these mandates will be.

A key global change that I believe has had unintended and indirect impacts on regional markets are the rising capital requirements (for example under Basel III) and what that has meant for market access.

Following the global financial crisis, the Global Prudential Regulatory authorities felt a way to protect the integrity of the financial markets was to impose onerous requirements on the capital which firms (including bank clearing firms) must maintain on their balance sheets to provide risk coverage for all trading activities. As the cost of setting aside the capital to meet these requirements can be extremely high, the ability for large, global firms to onboard smaller or regional firms has diminished as many global firms have re-evaluated their business models. Many have offboarded smaller, riskier customers as they become too expensive to service. Many are becoming far more selective in which markets they offer in their product set and a few others have deemed the costs involved in maintaining the required capital too high to continue conducting clearing services in the exchange traded derivatives industry.

Many regional firms are now finding themselves in a situation where they either cannot find a clearing member to accept their business due to the high cost or they are only to able to clear through a firm which they may not feel is appropriate to handle their business.

This has also led to the contraction of the number of FCMs offering clearing services to the trading community. It has become no longer viable for small FCMs to offer services in a global market. With the advancement and proliferation of execution systems, the main differentiation became the number of exchanges a clearing firm could access and the overall basket of products an intermediary could provide. Many small firms either merged with larger firms or stopped doing business altogether.

This consolidation has been further magnified by a multitude of regulatory forces. Implementation of new regulation such as Dodd Frank and MiFID II were and are hugely costly to the intermediaries from many fronts. Not only have many small and midsize firms been forced to cease operations, a few large global banks have either scaled back or shuttered their clearing operations.

In the US alone, the number of FCMs dropped from 190 at the end of 2004 to 65 at end of 2016.

This consolidation of the FCMs especially at the large, global bank level, has led to issues which are threatening the futures industry. The most significant of these, I believe, is the concentration of risk. This concern manifests itself in two ways; First, with less firms there are less clearing participants with which to dilute the fund coverage in the case of a catastrophic clearing member default. The fundamental basis for risk mitigation is the mutualisation of risk among clearing members at any given CCP. It stands to reason that with less members the default risk for any given firm, and at the CCP, will be increased. One of the essential attributes of central clearing is the ability for customers to move or port their trades and collateral from a failing clearing member to a healthy one. With increasing capital costs, it is less likely that a healthy clearing member will have the capital capacity to take on a large book of clients from a failing clearing member, thereby increasing the possibility that a clearinghouse would be forced to conduct a fire-sale of these client positions in a distressed market. This could leave many clients unhedged during a crisis and intensify market stress at exactly the wrong moment.

The second threat directly related to risk concentration lies in the make up of risk profile of a clearing firm's overall customer base. The large global bank FCMs, which have the largest balance sheets and therefore greatest ability to weather a default situation, have found it too costly to retain a number of smaller, riskier customers. These customers have had to move their business to nonbank FCM's who have been less impacted by the increasing capital costs. Though no empirical evidence is available, this theoretically leads to a scenario where, riskier customers are concentrated in the riskier FCMs.

These issues are even more acute in the regional markets when there are additional costs attributed to non- recognized jurisdictions and non qualified CCP's under the new capital rules. If a market is costlier to trade, it only makes sense that the amount of activity will diminish. This is not only detrimental to current trading levels but is also magnified for nascent markets trying to gain liquidity.

In a developing economy, one of the cornerstones of a robust capital market is an exchange that not only facilitates the raising of capital but can also support speculation, price discovery and risk mitigation. The one thing that allows these capital markets to thrive is liquidity. In today's market, the clear majority of liquidity is provided through large global banks which, as stated above are finding it increasingly expensive to conduct business in regional markets.

Another regulatory impact is the implementation of the indirect clearing rules under MiFID II which may have a profound effect of regional markets. Historically smaller local brokers have gone through regional brokers, who have a relationship with a large global clearer to gain access to European exchanges. Under the newly implemented rules the customers of the local broker will no longer be able to trade via this arrangement. There is a limit to the number of agents allowed between the European exchange and the actual customer. This could result in one of the following:

- The local broker will have to establish a direct relationship with the global FCM. This may be difficult due to the inability of the global firm to onboard the local firm and would remove a source of revenue and diversification from the regional FCM

- The customer could establish a direct relationship with the regional FCM which would mean a loss of business for the local broker
- The customer doesn't trade European markets. This would harm the local market as we have seen that access to a greater number markets leads to greater volume across all markets.

As you can see, higher capital, clearing and regulatory costs and changes to market structure are only going to drive further consolidation. It is ironic that the rules meant to mitigate risk in our markets or protect our markets may have the unintended impact of concentrating risk, discouraging new entrants and harming access to regional markets. Therefore, it is important for us as an industry to continue to monitor these global changes and advocate when change is needed. Away from regulation, I'd now like to briefly talk about a singular change that has e brought about the greatest nonregulatory effect in both global and regional exchange traded derivatives markets - the demutualization of exchanges.

Over the past 25 years, exchanges have undergone the most profound transformation of any other participant in the futures and options arena. Where they used to be a member owned meeting place which facilitated the physical transactions between actual human beings in a face to face setting, they have, for the most part, evolved into publicly held computer based order matching facilities where the participants are wholly anonymous.

The new model has changed almost every aspect of the decisions that an exchange makes. Launching products under the open outcry model was extremely time consuming from a logistical point of view. Not only did the floor space need to be allocated, dedicated resources had to be provided from the actual brokers and traders to trade in a single market. Today a new product can just be added to screen in a relatively short period of time. It can be added to all trader's platforms and algorithmic market making applications can provide orders without having to dedicate any manhours. This has led to a proliferation of products and exchanges arguably, have become far less specialized in their product offerings

Under a mutualized model, the members of the exchange were also the owners. Like any business, there is a huge incentive to make the owners happy. If your owners are also your customers, as they were prior to demutualization, it is quite easy to align these incentives. It may not be the most strategic or efficient model from a business standpoint, and it may also stymie growth and inhibit innovation, but the incentives are extremely well aligned.

With the shareholders now being the owners, the incentives have switched to maximizing the share value. As in any profit maximizing firm, this means operating in a cost-effective manner while also presenting a solid investment picture. With exchanges, the investors seem to view an increase in volume as a growth indicator, even if this volume is either bottom-line neutral or unsustainable. It is always important to remember that the role of the capital markets, and in this case the derivatives industry, is to service the financial needs of the real economy. When misleading prices are creating anomalies in the underlying goods it becomes a case of the tail wagging the dog.

I am not here to argue that demutualization is good or bad or that industry was better off or worse off under the mutualized structure. I only want to point out the issues that we currently face as the focus of the decision- making process and alignment of incentives has shifted.

To close I'd like to reiterate that not all global market changes have been negative or detrimental to regional markets. This can be evidenced by the increasing volumes in the region, product and technological innovations, liberalisation of market access and growing interest from a diverse range of market participants. As we move forward global changes will inevitably continue to affect the regional markets. In the very near future, the fallout from the Brexit referendum will most likely cause dramatic transformations to our industry. And when these happen, I'm sure the regional markets will adjust to the environment and prove themselves again to be as dynamic and forward thinking as they have in the past.