FOCUS ON

DERIVATIVES CLEARING

Renaud Huck, of Eurex Clearing, talks to *HFMWeek* about the derivatives clearing market of 2012 and what the new year holds in store for this sector

> "IT WILL BE AN OPPORTUNITY FOR HEDGE FUNDS TO BETTER MITIGATE THEIR POST-TRADING RISK, AND MOVE AWAY FROM THE COUNTERPARTY CREDIT RISK"
>
> RENAUD HUCK, EUREX CLEARING

Q HFMWEEK (HFM): DUE TO THE CHANGING REGULATORY ENVIRONMENT ON BOTH SIDES OF THE ATLANTIC, OTC CLEARING IS RECEIVING MORE INTEREST. HOW WILL THIS IMPACT THE DERIVATIVES CLEARING MARKET?

A RENAUD HUCK (RH): Regulatory initiatives on both sides of the Atlantic are mandating central clearing of OTC trades with the goal of reducing systemic risk, therefore driving fundamental change for market participants (buy- and sell-side) as well as infrastructure providers such as Eurex Clearing.

In Europe, by the time Esma writes the technical standards, the 2012 deadline mandated by the G20 will have passed. In the US, the CFTC process started earlier and they are still writing rules. Despite this, the European and American regulators are moving in the same direction – the market will eventually move to the CCP world.

The impact will be significant with many trades which were so far bilaterally negotiated being brought to clearing houses. In order to respond to these new needs, Eurex Clearing will launch our EurexOTC Clear solution for interest rate swaps in March 2012. We want to provide clients with more robust protection through better risk management and greater efficiencies through, for example, cross margining between listed and OTC products which will be rolled out in due course.

In November 2011, the simulation phase commenced giving buy-side participants the opportunity to submit sample portfolios to Eurex Clearing. In turn, we then provide the participants with their margin information, i.e. variation margins as well as initial margins at the component level.

Q HFM: DEPENDING ON THE NATURE OF THE INVESTMENT ENTITY INVOLVED, WHICH STRUCTURES WILL BE THE MOST AFFECTED BY THE SECTOR'S NEW REGULATORY ACTS?

A RH: Both sides of the fence, buy- and sell-sides, will be affected. However the buy-side will face new situations and structural challenges compared to the sell-side brokers. At Eurex Clearing, in deep consultation with the buy-side, we have developed a new range of clearing services such as our OTC IRS clearing.

These services will be further enhanced over time to assist the buy-side in complying with the new regulatory environment.



Renaud Huck, senior vice-president and head of UK institutional investors at Deutsche Börse Group, has been head of UK Institutional Investors of Deutsche Börse Group since October 2011 with core responsibilities for developing relationships with buy side investors (hedge funds, asset managers, high frequency/algo firms) in the UK, Ireland and Gibraltar.

Q HFM: WITH CLIENT ASSET PROTECTION BECOMING A MORE PROMINENT ISSUE, HOW WILL THIS IMPACT THE DAY-TO-DAY DEALINGS OF FUNDS?

A RH: The defaults of Lehman Brothers in 2008 and more recently MF Global, highlighted the need to provide the asset management community complete protection of their funds in the event of a clearing member default. The location of their collateral is a major concern for the buy-side, i.e. during a risky situation, where the collateral they have posted is and what happens to it.

Under Eurex Clearings' Client Asset Protection solution – what we call the registered customer solution – funds will post collateral to segregated accounts, therefore the funds will not be comingled with the funds of other clients or the clearing members' proprietary accounts. Eurex Clearing will provide full segregation of assets for buy-side clients from day one of the launch of our OTC solution in March. The solutions we are bringing to the industry take into consideration the concerns these new situations have raised and they are structured very much with the buy-side in mind.

Q HFM: ARE CONCERNS OVER POSTING COLLATERAL IN EXTREMIS CASES WELL FOUNDED?

A RH: From a clearing house perspective, in the exchange-listed and cleared space, posting collateral is the norm; whereas in the OTC space we recognise buy-side clients are not always used to this. As there is a regulatory shift from OTC to clearing houses this will progressively become the norm.

Q HFM: WHAT WILL 2012 HOLD FOR THE HEALTH OF DERIVATIVES CLEARING IN HEDGE FUNDS?

A RH: First and foremost, increased transparency for hedge funds. Eurex Clearing's registered customer solution will ensure better health for derivatives clearing. It will be an opportunity for hedge funds to better mitigate their post-trading risk, and also move away from the counterparty credit risk. Eurex Clearing's services will reduce the uncertainty and risk in the case of defaults. Our objective in the OTC clearing space is to continue to bring solutions to the industry and, in addition, with the industry as whole, continue to push toward the G20 mandate of central clearing. This should ensure greater health in derivatives clearing. ■