

INTERVIEW WITH: THOMAS BOOK, EUREX

## “MiFID II gives us opportunities”

CEO: We aspire to become the leading derivatives exchange for global indices

Börsen-Zeitung, 5 May 2017

• **How satisfied are you with your business performance for the year to date, Mr Book?**

Our trading revenue stayed at approximately last year's level in the first quarter. That's a good result, given the extremely strong first quarter of 2016. The second quarter has gone very well so far. Uncertainty about future interest rate development but also political events such as the election in France create an increased need for hedging among investors.

• **How have the individual product categories developed?**

Our business is partly cyclical, but we also see structural growth drivers for the exchange trading of derivatives. Revenue from bond derivatives began to recover in the first few months. Futures on French government bonds performed particularly well. There was a great need for hedging before the presidential elections here. We see considerable cyclical potential for interest rate derivatives in particular. We remain in a low interest rate environment, but the discussion about an end to the European Central Bank's bond purchases has begun. In addition, volatility is currently low on the equity markets.

• **Where do you see structural potential for your business?**

We see rising revenues from institutional investors such as funds and pension funds. For example, revenues from MSCI index products on Eurex are currently growing particularly fast. Institutional investors use the MSCI index family as a benchmark due to its global coverage. That's a good example of how the trend for passive investments in the form of ETFs is also positively reflected on Eurex as a derivatives exchange.

• **How do you compare to your competitors with these products?**

MSCI futures are currently listed on four stock exchanges. In addition to Eurex, they're also listed on the platforms of the Intercontinental Exchange in the USA and London and on the Singapore Exchange. At the start of 2015, we had a 6% share of the global MSCI futures business based on open interest. This share has now risen to 30%, which is great news; it means we're growing significantly faster than our competitors. In the first quarter, our MSCI futures revenue already increased by around 170% year on year to more than 2.2 million contracts traded. Following the great success as derivatives of first national, then European indices such as Deutsche Börse's Stoxx index family, the need to hedge global, broad indices is now increasing. We aspire to become the leading derivatives exchange for global indices.

• **How many MSCI products do you have, and how do you plan to develop this business further?**

We currently offer 76 futures contracts and 15 options contracts on MSCI indices, which is the largest range offered anywhere in the world and provides almost complete global coverage of all important equity markets. We are already planning to add further products such as total return futures for MSCI indices. These products replicate total return swaps, a key segment in the still important off-exchange equity derivatives market. We are thus attracting OTC volumes that were previously entirely bilaterally traded and cut out stock exchanges and clearing houses. In this way, we already very successfully transferred trading of dividend swaps to the exchange as a regulated market some years ago.

• **So you are focusing on the trend away from OTC towards exchange trading.**

That's an important structural trend and very much favoured by the regulator. Having learned from the financial crisis, the G20 decided as early as 2009 to transfer trading in standardised OTC derivatives to exchanges and clearing houses. The reforms are aimed at

strengthening risk management and transparency in derivatives trading. We as Eurex can make a major contribution to this. We operate one of the world's leading derivatives markets on our system with transparent pricing and the greatest reliability. Eurex Clearing sets global standards with regard to risk management. And our customers, such as banks, save on collateral and capital requirements by trading via central counterparties due to the central clearing. That will bring more OTC business to the exchanges.

• **What further opportunities does the regulation offer you?**

Fundamental reforms of the OTC derivatives market have begun in recent years, which in some cases are still in the process of implementation. After the EMIR regulation, the revision of MiFID, also known as MiFID II, comes into force on 3 January 2018 in Europe. This regulates the trade in financial instruments and is now being expanded to derivatives. MiFID II provides opportunities for us, specifically the opportunity to provide new services. To protect investors, the best-execution requirement, for example, will be expanded to all derivatives in the coming year. An opportunity to use our strength of offering the highest liquidity and transparency. The very strong trend away from concluding transactions by telephone, in favour of electronic trading platforms, a core competence of Deutsche Börse, also offers potential. Eurex has stood for innovation leadership from the start. We will continue that with our customers. Structural upheavals are the best opportunity to do this.

• **How are the volatility products performing?**

That's also a segment that is experiencing increasing interest from market participants. Revenue in our VStoxx contracts increased by 100% year on year in the first quarter. The volume of all Eurex's volatility products

was 6.4 million compared to 3.2 million contracts in the first quarter of 2016.

• **How important are the Asian markets for you?**

Eurex is already globally positioned. Only 5.3% of our revenue comes from Germany, whereas the significance of Asian markets and the USA is continually rising for us.

Unlike in Europe, the growth momentum in many Asian countries is unbroken, and demand for our products is increasing. Connecting new trading and clearing participants in Asia but also the USA is therefore one of our priorities. In the USA, we're working in particular on acquiring further participants as general clearing members.

In Asia, we plan to connect more direct trading participants. The Singapore UOB is connected as a general clearing member, and the revenue coming through it has grown significantly.

**The interview was conducted by Christopher Kalbhenn.**

.....