Regulation as a focus area in Interlaken

Regulation regarded from all angles was at the centre of this year's Bürgenstock Meeting in Interlaken. Renowned keynote speakers and panellists analysed where derivatives markets are going to or should be going to in a number of different sessions. Otto E. Nägeli, Chairman of SFOA, shares his thoughts on the conference and the derivatives industry in general with the readers of the Swiss Derivatives Review.

Swiss Derivatives Review: What were the burning issues at this year's conference?

Otto E. Nägeli: Apart from industry trends and recent market developments, regulation was clearly the most widely discussed field at this year's Bürgenstock Meeting. As in past years, regulators met behind closed doors in order to allow for a free and unrestricted exchange of views. Regulation was, however, also at the core of the 2012 edition of the Bürgenstock Meeting. We were looking into current trends whilst also discussing matters that can trigger or influence regulation, like e.g. ethics.

Have we overcome the financial crisis?

Which one do you mean? – Given that the Euro-Sovereign-Debt-Crisis hit financial markets when the worst effects of the 2007/2008 financial crisis started to weaken, says it all. In most countries the debate about Too-Big-to-Fail or rather its impact on legislation and regulation is not over yet. This is a legacy of the financial crisis which culminated in the collapse of Lehman Brothers. As far as the Euro-Sovereign-Debt-issue is concerned, it would be naïve to think that we are on the safe side there.

What general remarks do you have about this year's Bürgenstock Meeting?

As in past years – and having talked to a lot of participants – I found the conference and its numerous one-on-ones and confidential discussions an enriching and at the same time enlightening experience.

Is there still a case for an emerging markets meeting?

There definitely is. Of course you can argue that some "emerging markets" have overtaken established markets by quite some degree when you look at turnover, number of listed products etc. On the other hand smaller exchanges from the emerging market scene are keen to learn from the experience of their colleagues who are a few years ahead when you look at technology, country-specific regulation – and success.

What do you think about the financial transaction tax?

In an ideal world such a tax would be introduced in every country around the globe simultaneously. Since we do not live in an ideal world, my guess is that it will be to the disadvantage of the countries and the corresponding financial markets which introduce them. Capital markets are dynamic. And once a particular business moves away from one financial centre to the next because conditions have become averse, this business is usually gone for good. Look at gold trading or the Eurobond market where Switzerland and the United States lost a once leading role. Besides, the financial transaction tax will not really hit the financial industry as hoped by the political promoters but will be paid by the "man on the street". As we know from other taxes and stamp duties they will be passed on to the investor. In other words: your pension fund – among others – will be paying such additional fiscal levy.

Can shocks like the failure of MF Global be prevented in the future?

The short answer is: no. For the good reason that not even the best piece of regulation can anticipate future abuse which will usually happen in a different way as compared to the past.

Is high frequency trading a sorcerer's game or a logical development in technology? Should it be forbidden?

As a former exchange executive, I cannot see anything fundamentally wrong in the fact that state-of-the-art technology is developed and subsequently used. Algorithmic trading, i.e. the practice that computers are programmed in order to trade faster than humans, is about 20 years old when considering the first "automated quote machines" at the beginning of electronic markets. Moreover, the principle of equal opportunities is respected by any regulated exchange worldwide. Obviously you need the best hardware and extremely skilled professionals to operate it, in order to play in that league. High frequency trading is just a logical further development. Having said this, the necessary precautions have to be taken. Exchanges need circuit breakers and all the necessary mechanisms and regulations to make "flash crashes" less likely.

What are your thoughts on ethics, governance and sustainability?

Ethics, governance and sustainability are pillars for any business which is well run. For this reason it is normal that regulators have made or are still making efforts to regulate in this domain, what can and should be regulated. Take for example the Corporate Governance Directive which the Swiss Exchange developed ten years ago in order to enforce a sound governance structure for listed companies. Actually ethical behaviour cannot really be imposed by a regulatory body. At the end of the day it is a question of character and the values each individual develops through upbringing and education. For instance: Each individual must ask him or herself whether his or her compensation is fair in the sense that it reflects (overall) responsibility and performance. Somewhere there are a dividing line between fair or even generous compensation and greed.

What are the major industry trends in derivatives markets?

Derivatives markets as indeed cash markets have suffered severe cut backs in volumes since 2008. So that exchanges were forced to become more efficient. Given that most major derivatives exchanges are nowadays listed companies or part of listed exchange groups the pressure on management to cater for solid returns is substantial. All this is happening in an environment where the buy side is pressing hard for lower fees.

The Bürgenstock Meeting has seen dwindling numbers of participants in past years? What is your explanation?

Economic pressures are certainly part of the reason why we – as well as many other conference organisers – are confronted with lower levels of attendance than say before 2007. Exchange executives today need much more time to talk to investors, clients and analysts. Lower down in the corporate hierarchy, the pressure on costs has led to considerably lower budgets for next to everything. Where in the old days three to four representatives of a company attended our meetings, only one or perhaps two will be allowed to do so these days. Understandable though this may be, there is a certain degree of shortsightedness that goes along with this development as well. Conferences like ours are an excellent opportunity for broadening one's horizon and for networking with colleagues and clients. So preventing people to acquire more in-depth knowledge and to meet potential business partners and customers is not in the best interest of companies.

Interview: Werner Vogt, Werner Vogt Communications AG

Otto E. Nägeli is Chairman of the Swiss Futures and Options Association, SFOA.

FIA and SFOA to cooperate

Swiss Derivatives Review: What does the Memorandum of Understanding between FIA and SFOA entail?
Otto E. Nägeli: We have agreed that we will jointly organise the Bürgenstock Conference in 2013. Our cooperation will include joint responsibility for promotion, marketing, logistics and of course the conference program.

What was the rationale behind the decision of the two boards?
Whilst SFOA and FIA are not entirely identical in their mission and outlook, both organisations have a lot of common aims and a membership base which is complementary. Both bodies have a huge experience in organising conferences and industry meetings. We have known each other for over three decades now. Based on the mutual trust and respect of our relationship, we are convinced that by joining forces, we are able to organise an even better conference next year.

What about the years after 2013?
Let me reply in the words of Walt Lukken, the President and CEO of FIA: "After we get one conference under our belt, the MOU would provide us an opportunity after the conclusion of the 2013 Conference to enter into a longer-term, more formal arrangement with SFOA. In other words, we get to date a year before we marry! But our expectations are that this will be a long-term relationship."