Good morning Ladies and Gentleman and welcome to the Johannesburg stock exchange Market Opening ceremony. My name is Selloua Chakri and I am Head of Market Structure Strategy for Middle East and Africa at Bloomberg. I would like to express my sincere appreciation to the Johannesburg Stock Exchange for inviting Bloomberg to participate in the opening ceremony. This marks the 3rd consecutive year that we’ve partnered with the JSE on supporting the Building of African Financial Markets (BAFM).

We are really proud to be part of this and as a global company I would like to take this opportunity to talk about what has been shaping and continues to shape the world of finance - I am of course referring to the exciting subject of financial regulation. Actually I have to take that back, exciting and regulation don’t go along in the same sentence. Anyway, it is one of the most challenging issues facing market participants around the globe. I would like to specifically focus on regulatory changes that have impacted the OTC derivatives and exchange traded derivatives markets as we are starting to see the development of these markets more and more across Africa.

I would like to briefly cover three topics with you:

- First I would like to give you some background on why world leaders have been focusing on regulating these markets
- Secondly, what are the main commitments and where are we with their implementation?
- And thirdly, why is this relevant for Africa?

OTC derivatives have long been used as a flexible tool to hedge against large range of risks. However, since the 2008 financial crisis, these financial instruments have come under more scrutiny. Critics have blamed OTC derivatives markets of magnifying the financial crisis due to the large size of the swap market and its lack of transparency. In the meantime, cases such as Lehman Brothers have brought to the forefront the systemic importance of OTC derivatives for the overall financial system – Lehman Brothers was a big player in the OTC derivatives market.

In the wake of the financial crisis, the G20 countries met in Pittsburgh in September 2009 and decided to make a number of commitments that aim alleviate systemic risk in the OTC Derivatives and Exchange Traded derivatives (in the EU) markets, and to make transparent pre and post trade transactions that were widely viewed as opaque.

Following the goals set by G20, the US and Europe have introduced measures to regulate the OTC derivatives and ETDs markets. In the US, Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act is regulating derivatives markets. Across the Atlantic, in the EU, it has taken the form of EMIR, the European Market Infrastructures Regulation, and MiFID II/MiFIR (Markets in Financial Instruments Directive/Regulation).
What are these G20 commitments?

<< - All standardised OTC derivatives contracts should be traded on an exchange or electronic trading platforms, where appropriate
  - Cleared through central counterparties /Clearing house, and for non-centrally cleared, they should be subject to higher capital requirement
  - All OTC derivatives should be reported to a Trade Repository>>

Where are we in terms of the implementation of these commitments or principles globally?

Although there is a common goal on the need for consistent application of financial regulations, regulations vary by geography and instruments, with different areas to comply with, including different enforcement timelines. In short, issues are global, but politics will always be local.

On the execution commitment, the US has been taking the lead. Regulations under Dodd Frank Act have already taken effect, OTC derivatives contracts are being traded on Swap Execution Facilities (SEFs). In fact, Bloomberg was the first vendor to apply to the CFTC and implement a SEF. In Europe, under MIFID II/MIFIR these trading venues will take the form of an OTF (Organised Trading Facility) intended to be similar in scope to a SEF.

For mandatory clearing, we have seen OTC derivatives clearing mandates already taking effect in the US. Europe is a bit behind and we won’t see European implementation until 2016 the earliest.

Mandatory reporting - bilateral OTC derivatives trades must be reported to a trade repository, which in turn must disseminate information about those trades to the public via their website.

In the US, the Dodd-Frank Act requires firms to report their OTC derivatives trades on an almost real-time basis to swap data repositories (SDRs) – basically, giant warehouses of trading data. There are four registered SDRs in the US (DTCC, CME, ICE, Bloomberg SDR) which publish anonymized data on each trade. In Europe, the situation is slightly different as trade repositories only need to publish aggregated weekly reports on the OTC derivatives market data they collect. There are 6 registered Trade Repositories in Europe, half of them backed by stock exchanges.

Although there is a clear move towards transparency, there are big problems with the quality of the data published by Trade Repositories in Europe and SDRs in the US. But despite these issues banks in US particularly are using this data as a way to monitor OTC derivatives markets.

So why is that relevant for Africa?

Although most countries in Africa have no derivatives markets, with the exception of a few like South Africa, Morocco and Egypt for instance. Initiatives to introduce or grow derivatives markets are underway in several African countries such as Kenya and Nigeria, which is looking to introduce exchange traded derivatives by 2016 and already has an OTC derivatives market. This means that Africa will need to be in line with international norms and standards. The International Organization of Securities Commissions (IOSCO) has recommended the trading of OTC derivatives products to stock exchanges on the continent, following a request from the Financial Stability Board (FSB) to
promote the practice. Countries like Morocco are already looking at introducing regulatory framework that will provide for a trade repository, likely to make it one of the first in Africa.

In the case of South Africa, it is part of the G20, it also has to commit with these principles. The Financial Market Act (FMA) will regulate the OTC derivatives market and also provide for the establishment of a trade repository to which OTC derivatives trades will have to be reported and will be monitored by the regulators. However, there are still question marks on the mandatory clearing and execution of OTC derivatives contracts.