

OTC derivatives regulation in Asia and Financial Speculation

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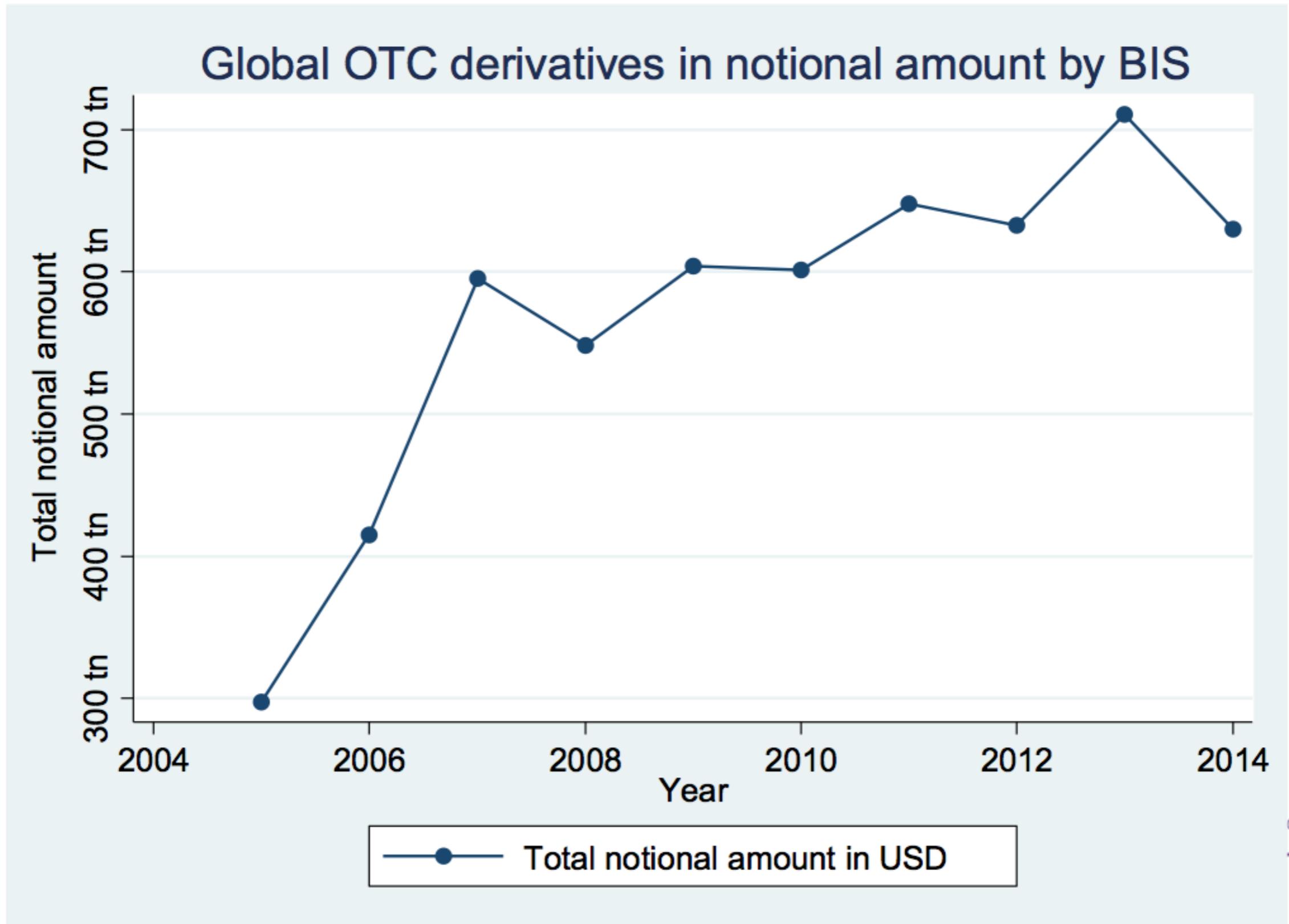
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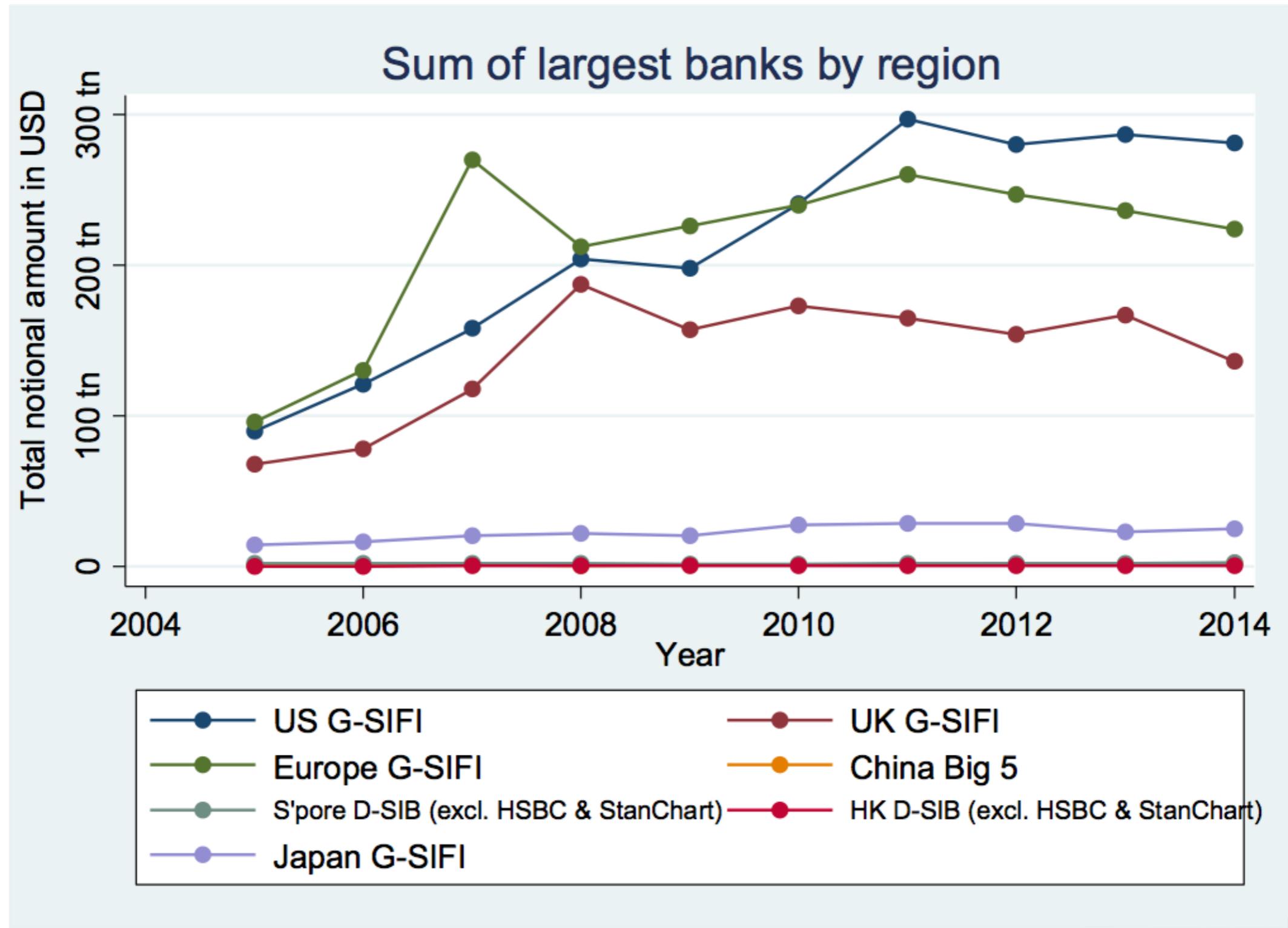
Questions

- How does Asian financial centres respond to global regulatory reforms and development in US and EU?
- Will it lead to more convergence or divergence of financial regulations without international treaties?
- Further, how Asian financial institutions react to the change of regulatory environment? Any pattern of change in derivatives trading by Asian banks?

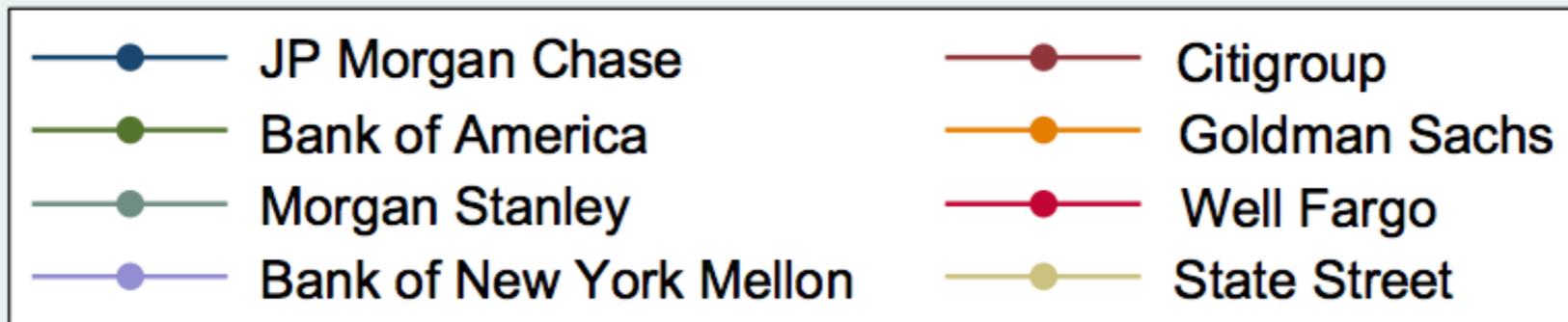
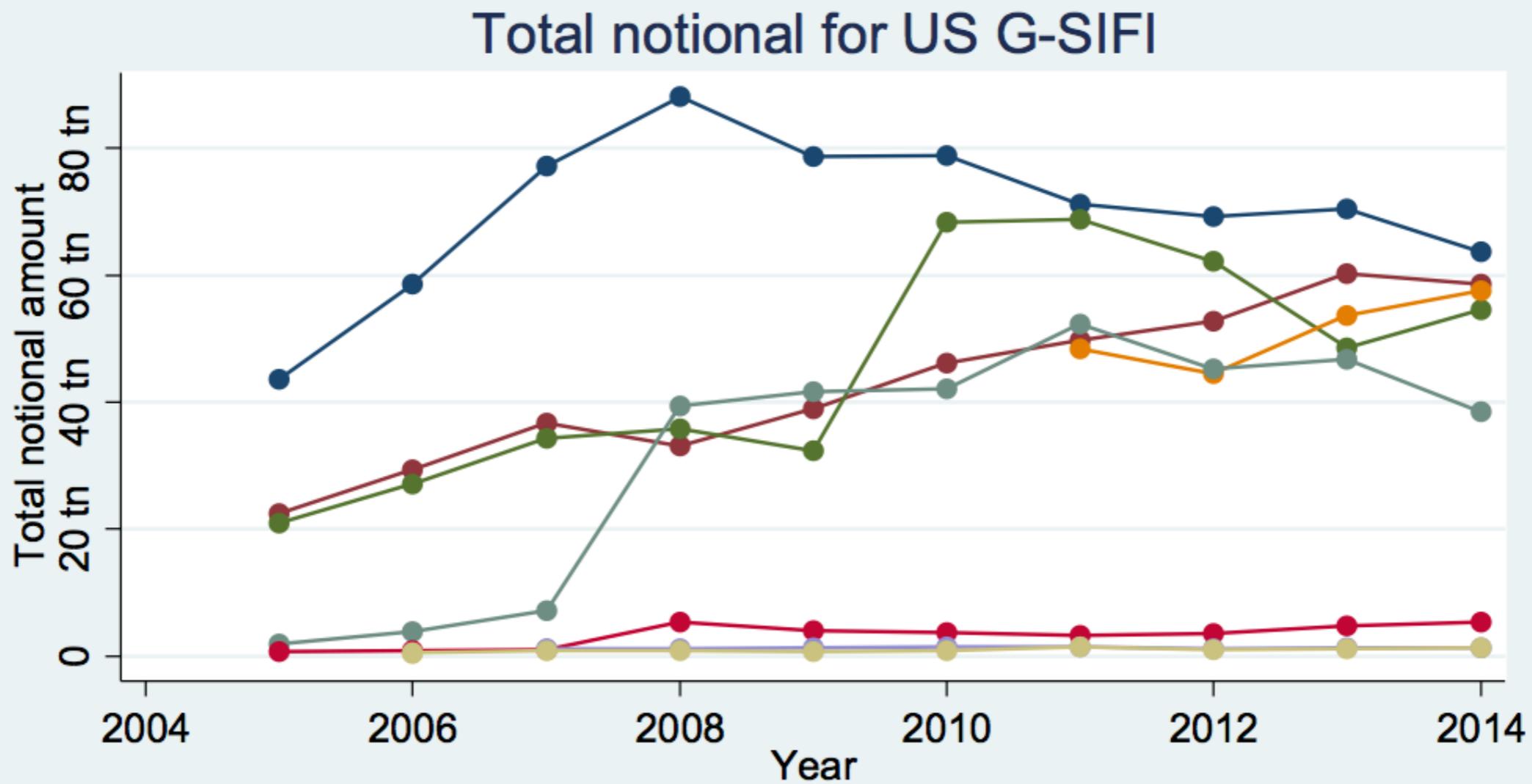
Global trend for OTC derivatives



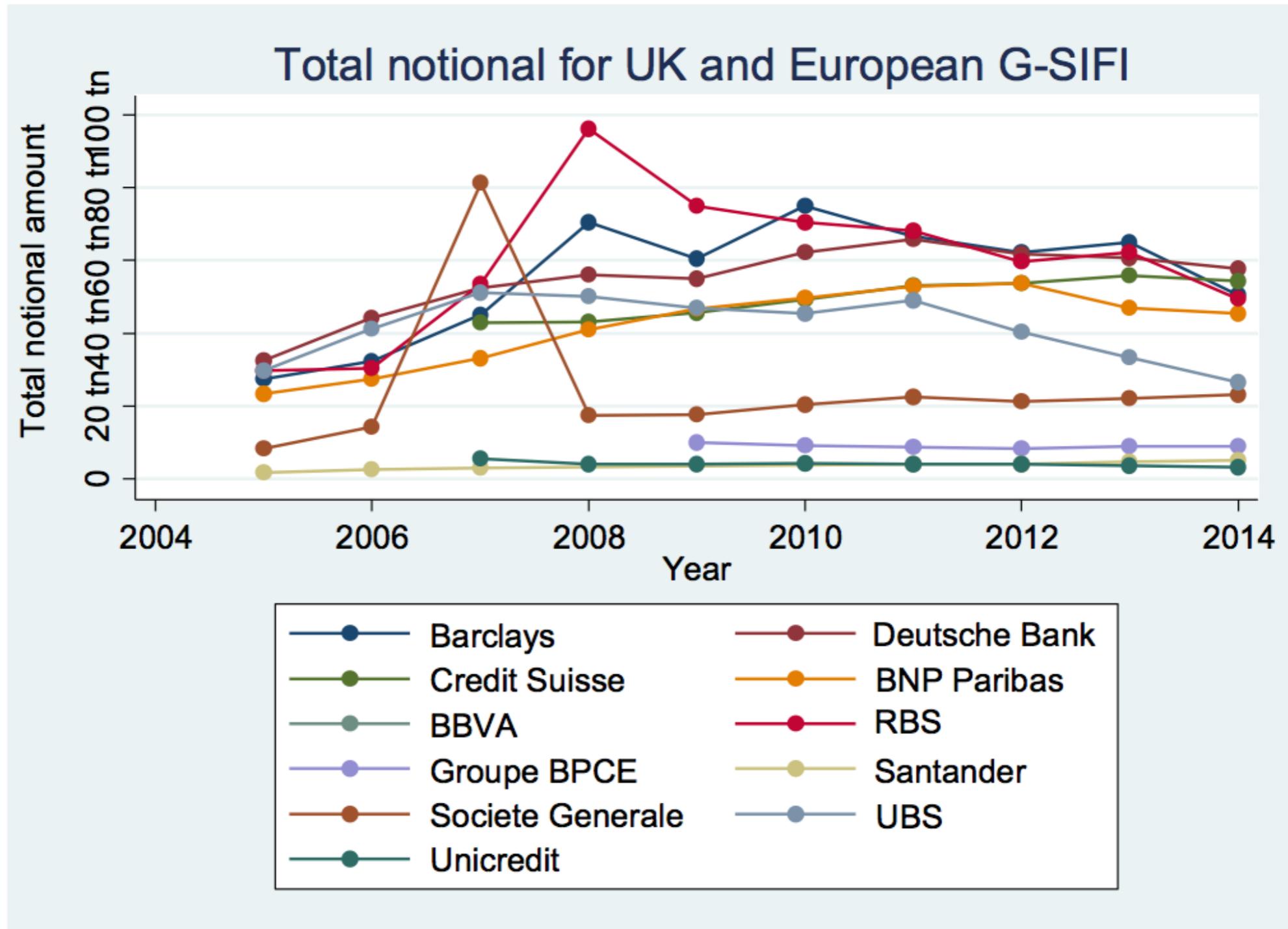
Derivatives trading by banks



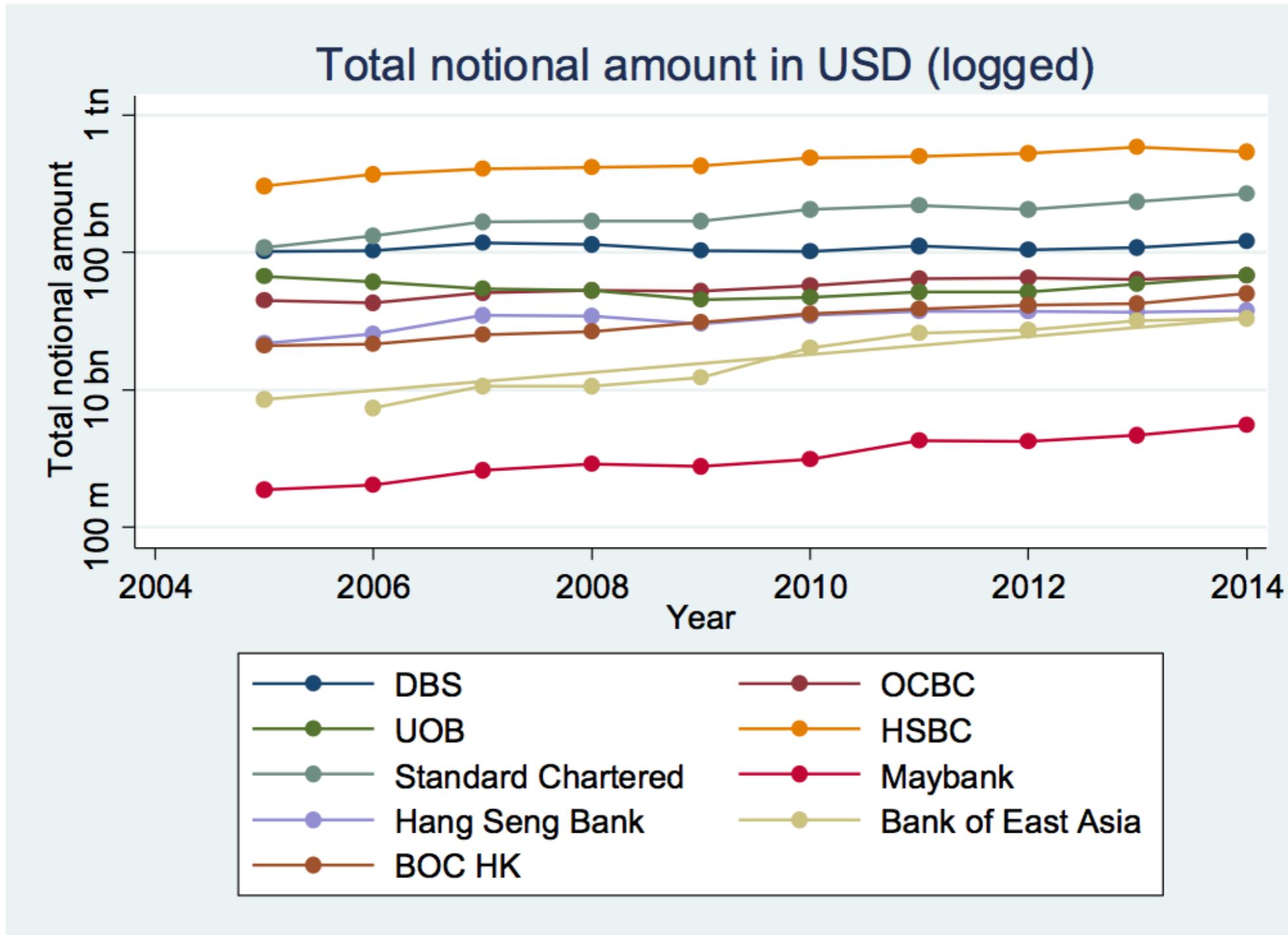
8 US G-SIBs



Some UK/European G-SIBs



S' pore/HK D-SIBs



Strategic concerns

- Maintaining domestic financial system
- Potential for growth of the Asian derivatives market
 - Asia taking advantage of a flight (if any) from stringent regulations in the US?
- How to attract trades from US and/or UK/Europe?
 - But without offending US/EU regulators, while American, British or European banks still dominates the global derivatives market

Strategies

- Race-to-the-bottom
 - But not seen so far
- Overwhelmingly accepting the Western standards?
- US and European regulations are not exactly the same.

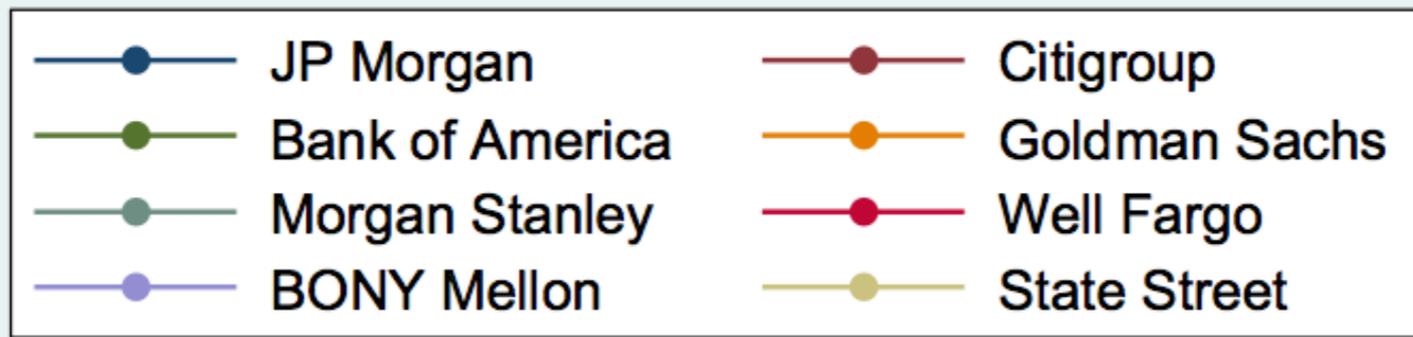
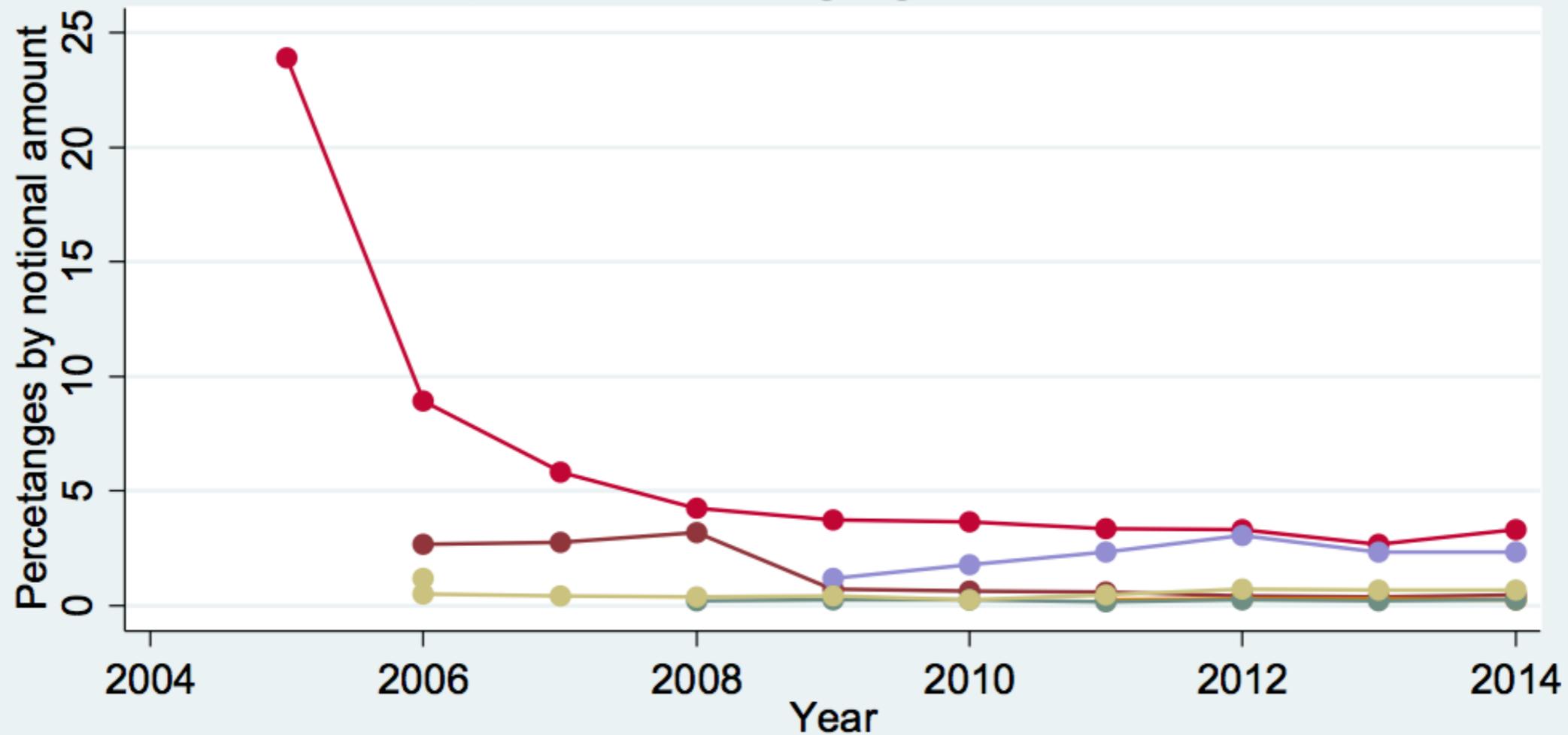
- Signs where some forms of convergence has been achieved:
 - Reporting rules are largely similar.
 - Substituted compliance allowed at least in Singapore.
 - SGX or HKEx gaining recognition from CFTC or ESMA.
- But some areas might require more development
 - Mandatory exchange trading
 - Addressing extraterritorial affect from global giants from banks to CCPs

Curbing speculation

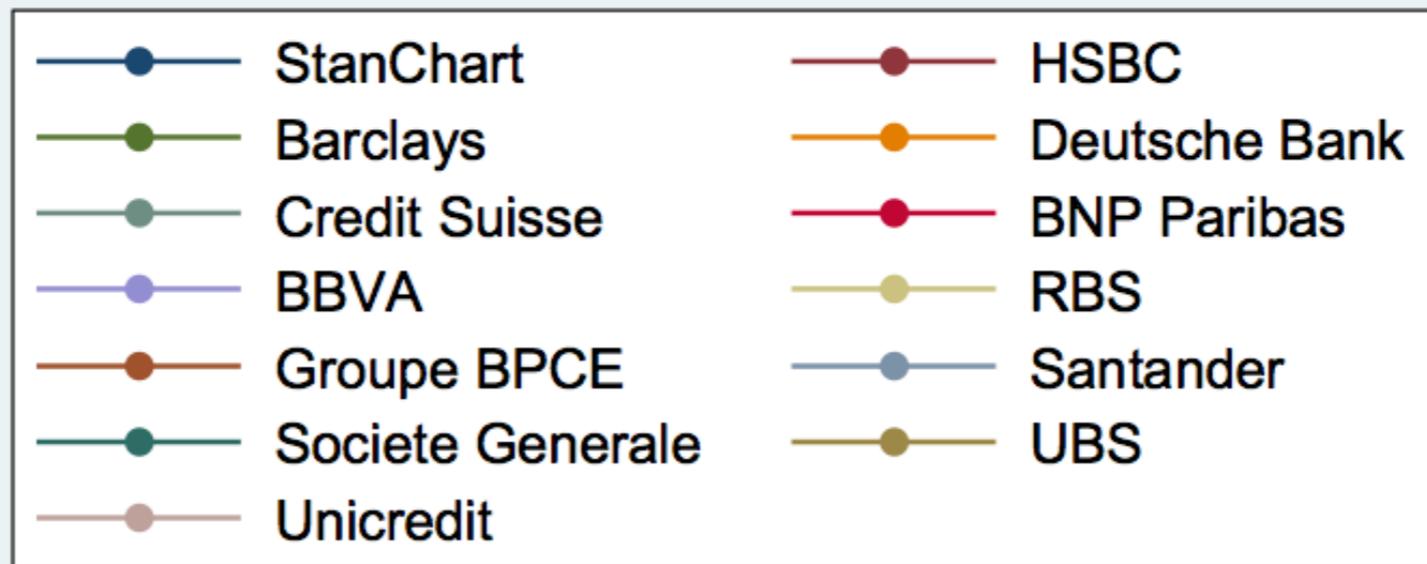
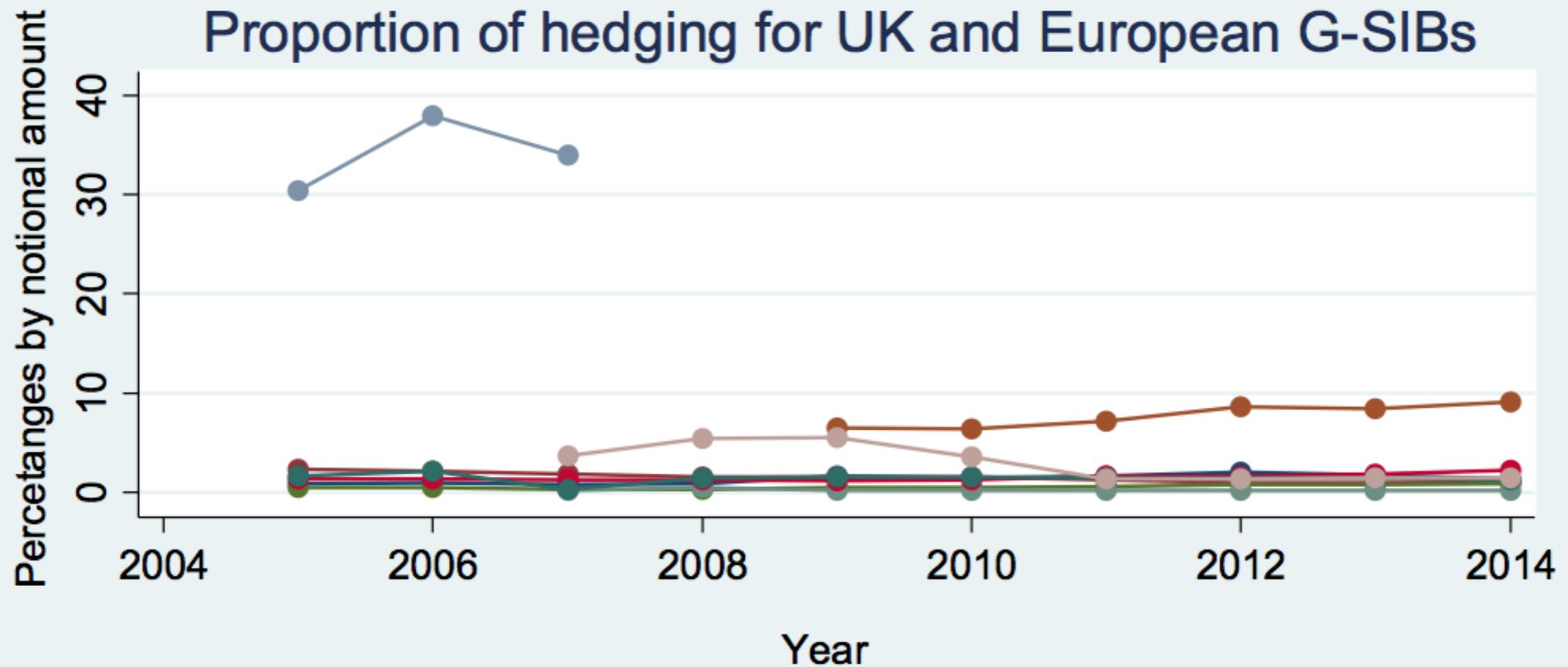
- Even with a global convergence of OTC derivatives regulation, have the regulation reached one of its goal - curbing financial speculation by banks?
- Clearly the trading volume has gone up.
- Most efforts are spent on making banks safer (e.g. Basel III, centralised clearing, position limit, etc). Would it lead to more speculation (i.e. moral hazard)?
- Nothing similar to the Volcker rule in Singapore.

US G-SIBs

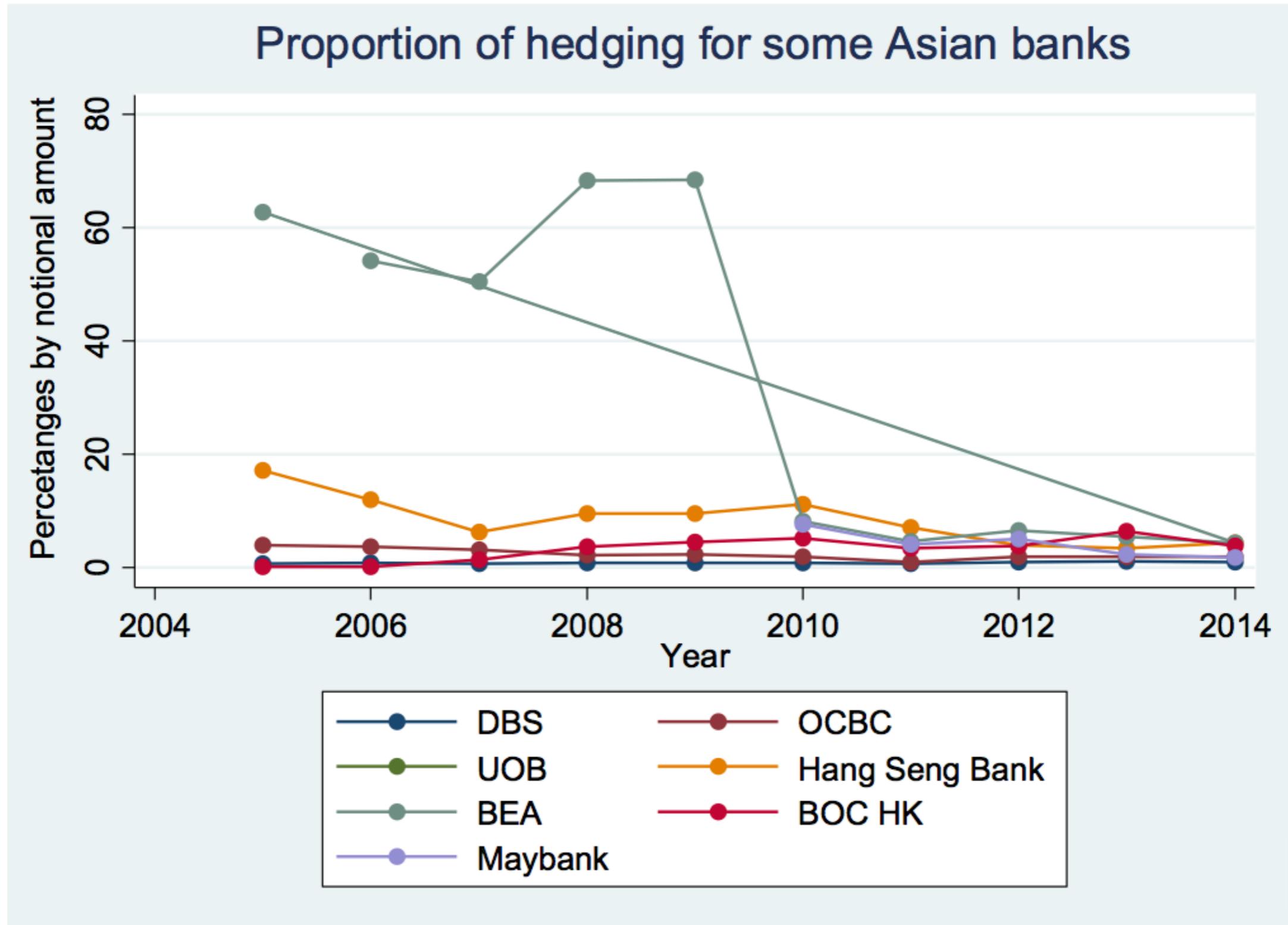
Proportion of hedging for US G-SIBs



UK/European G-SIBs



Some Asian banks



Conclusive remarks

- There is room for growth in the Asian OTC derivatives market.
- There are signs that Singapore and Hong Kong picks up global regulatory reforms and market operators gain recognition from US, UK and Europe.
- But it is inconclusive so far whether reforms targeting the OTC derivatives market has helped to control financial speculation conducted by banks no matter in Asia or in the Western world.