

• **Keynote Remarks of Chairman Timothy G. Massad before the Futures Industry Association – Tokyo, Japan January 21, 2015**

As Prepared for Delivery

**Introduction**

Good evening. I want to thank [Mitch Fulsher] for that kind introduction and FIA, especially FIA-Japan, for all their work organizing this event. I also want to thank the U.S. Treasury attaché Christopher Winship. I appreciate his assistance during my visit to Japan. I am very pleased to be here, and have the opportunity to share my thoughts. I look forward to hearing your thoughts and questions also.

The relationship between the U.S. and Japan is fundamentally important to us, as are ways that we can work together on economic issues and issues of financial regulation. This is an important time as we continue to implement the new regulatory framework for derivatives based on the G-20 commitments. I want to thank the JFSA in particular for the very constructive engagement we have had. I had the pleasure of meeting with Vice-Commissioner Masamichi Kono, Deputy Commissioner Shunsuke Shirakawa and some of their colleagues earlier today, and we have had many good meetings and discussions before. I have also had the pleasure of meeting with Mr. Terazawa from METI and Mr. Ichida from MAFF. I look forward to continuing to work closely with all them.

While this is my first trip here as Chairman of the CFTC, I am no stranger to Asia or Japan. I spent five years working in the region and living in Hong Kong, during my legal career. It was a great experience. I am delighted to have the opportunity to visit the region again.

I often explain to people how the United States derivatives industry began with agricultural futures. We take pride in the fact that these have helped our farmers for over a century. But I am honored and humbled today to be in the land where rice futures started over three hundred years ago.

I want to talk today about where we are in the process of financial regulatory reform in response to the global financial crisis. But being here also reminds me of the Asian financial crisis, because I first came to Hong Kong in early 1998, just after the onset of the crisis. Much of my first year here, I worked on transactions involving sales of distressed debt by Thailand and Korea. I didn't know at the time that a decade later, I'd be overseeing the Troubled Asset Relief Program, the principal response by the U.S. to the 2008 crisis.

I recall how many in the West said, at the time of the Asian financial crisis, that our markets and financial regulatory system were more mature, more transparent, and better supervised. Therefore, we were more resilient to shocks. Well, of course, the 2008 financial crisis proved we weren't resilient enough. And I recall in the years after Asia had recovered from its crisis, and before 2008, how some in Asia started talking about how the Asian economies had grown to the point that they had "decoupled" from the West. No longer would they be affected by slow growth or more serious problems in the West. Well, that wasn't true either.

So, I try to approach these issues first, with a little humility, but second, with the recognition that our economies and markets are interconnected. The challenge is to fulfill those G-20 commitments to create a new, global regulatory framework for derivatives – a new framework that not only brings the swaps market out of the shadows, but also allows our financial markets to thrive. We can only fully succeed if we act together.

**Progress on the G-20 Commitments and Challenges**

As you know, in 2009, the leaders of the G-20 nations agreed to bring the swaps market out of the shadows by implementing four fundamental reforms: require central clearing of standardized swaps; require regular reporting so that regulators and the public can have a view of what is happening in the market; require regulatory oversight of the largest market participants; and require transparent trading of swaps on regulated platforms.

The fact that the nations comprising the G-20 agreed on how to reform the swap market was in and of itself, an achievement.

A G-20 communique only goes so far, however. The task of actually implementing those reforms remains with individual nation states, each with its own legal traditions, regulatory philosophies, political processes, and market concerns. This can lead to differences.

Of course, the laws in most areas of financial regulation vary by country.

But because the swap market was already global, many participants expect harmonization in regulation from the start. That is a good goal, and we are making good progress, but it will take time.

I can assure you that we in the United States want to continue to work with Japan on that goal. We are very aware that there are limits to the reach of any one country's laws. We recognize the importance of building a global framework and harmonizing our rules with those of other nations where possible.

So let's talk about the progress that has been made and some next steps. In terms of clearing, for example, the percentage of transactions that are centrally cleared in the markets the CFTC oversees has gone from 15% in December 2007 to about 75% today, with the percentage even higher in the case of credit default swaps. The FSB reports the globally is close to half, having increased substantially in the last year. I know Japan is making good progress also. Japan has had a clearing mandate in place for certain interest rate and credit default swaps since 2013. I look forward to the G-20 as a whole making further progress on this important issue.

### **Clearinghouse Oversight**

Now that we are requiring more clearing, we must make clearinghouse supervision a top priority. We must make sure that clearinghouses themselves do not pose risk to the stability of the financial system.

A small number of clearinghouses are becoming increasingly important single points of risk in the global financial system. Their importance transcends national borders. It transcends swaps – they handle clearing for many products.

I believe this is an area where regulators must work closely together. And we are doing so today with Japan. Japan Securities Clearing Corporation has applied for registration with us, which would permit it to handle clearing for U.S. participants. It has been doing so on a limited basis under a temporary arrangement, and we are working with JSCC to broaden that and make it permanent.

We are also continuing to work with Europe to harmonize our rules with theirs as much as possible and on cooperative supervision arrangements.

In the years ahead, I expect that there will be significant dialogue among regulators about clearinghouse standards and strength. Margining standards will be a critical piece of this discussion. So will stress testing, clearinghouse recovery and resolution, and cybersecurity, a topic I will return to in a moment.

### **Oversight of Swap Participants**

In the area of oversight of swap dealers, as you know we have recognized Japan's regulations under our substituted compliance determinations. Currently, a big task in this area is to set margin requirements for uncleared swaps. These are critical because we cannot and should not try to require all swaps to be cleared. Margin requirements will help to mitigate risk of those uncleared positions. We have recently proposed rules on margin, and I am pleased that the proposed rules being considered by the U.S., Japan, and Europe are substantially similar and reflect internationally agreed standards. But there are some differences, and I hope that we can minimize those in the months ahead.

### **Market Data**

While we have come a long way from 2008, when we knew very little about the exposures in this market, there is a considerable amount of work still to do to collect and use derivatives market data effectively.

We and the ECB co-chair a task force that is seeking to standardize data standards internationally. Japan and other Asian countries are participating in that process, but I encourage you to become even more active in this effort and take a leadership role.

An area related to market data also is benchmark reform. The attempted manipulation of LIBOR, other IBORs and foreign exchange benchmarks has provoked great concern in the U.S. and I know here as well. We have been working together to improve the administration of existing benchmarks to assure integrity. I look forward to continuing that effort.

### **Trading Rules**

Finally, most of the G-20 nations have not yet implemented trading mandates for swaps. But I want to touch on a related area, which is trading of futures. The CFTC does not generally regulate the trading of futures by U.S. persons on offshore exchanges. If a foreign futures exchange wishes to provide direct electronic access to people located in the U.S., we have in the past required the exchange to apply for relief from our registration requirements. We have formalized that process and now foreign exchanges, which we refer to as foreign boards of trade or FBOTs, can be officially registered with us.

Today I am pleased to announce that we have approved the FBOT registration application for the Tokyo Commodities Exchange or TOCOM. This approval recognizes the increasing interconnectedness of the global derivatives markets and the importance of Asia in that development. The FBOT registration approval also demonstrates our commitment to a coordinated regulatory approach that relies on foreign supervisory authorities and ongoing cooperation. I am pleased that we have Mr. Hamada, the COO of TOCOM, and his colleagues, as well as METI and MAFF here as we announce this. We look forward to continuing to work with all of you.

### **Cybersecurity**

Finally, I want to say a few words about cybersecurity. This is perhaps the single most important new risk to financial stability, and it is an area we are very focused on. It is a global threat. Every market participant is at risk. And because of the interconnectedness of financial institutions and markets, a breach at one institution can have significant repercussions for the system as a whole.

The need to strengthen the security and resilience of our financial markets against cyber attacks is clear. It is an area we all have a stake in and one which requires an ongoing, coordinated commitment. At the CFTC, we have been taking a number of steps. We require clearinghouses, exchanges and other market infrastructures to implement safeguards, and we are focusing on this issue in our examinations. Among other things, we want to make sure the board of directors and top management are making this a priority. We all need to be making it a top priority.

### **Conclusion**

Let me conclude with this: markets thrive where there is confidence and integrity. In the long term, this requires transparency and good regulation. Japan and the U.S. have strong traditions in this regard. The global community has made good progress generally, but there is more to do. I look forward to continuing our work together on that task, and to creating a foundation that will allow all of our markets to thrive, and our economies to grow.

Thank you again for inviting me today. I would be pleased to hear your thoughts and questions.

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