A message from Walt Lukken, president and CEO, FIA

EIGHT YEARS AGO, in response to the financial crisis, the political pendulum justifiably swung in the direction of more regulation. But the unforeseen political events of 2016 may represent the high-water mark for regulatory reform as we see the pendulum swing back the other way.

The cover story for this issue of our magazine talks about the new administration in Washington and its potential impact on the listed and cleared derivatives markets. President Trump has not yet spelled out the reforms he wants to make to the framework of financial regulation, but as our article explains, his appointments to key policy-making positions send a clear message of change.

At the CFTC, Commissioner Chris Giancarlo has been named acting chairman. From the day he arrived at the CFTC in 2014, Chris has been a true thought leader on the future of regulation, and I am confident that the CFTC under his leadership will be more attuned to the realities of our markets and the need for growth and innovation.

President Trump also has appointed two people with extensive private sector experience to lead his economic policy team. Steven Mnuchin, the new Treasury Secretary, and Gary Cohn, the new head of the National Economic Council, have given every sign that they are determined to deliver on the President's promise to remove impediments to economic growth.

I should also mention Jay Clayton, the lawyer who has been nominated as chairman of the Securities and Exchange Commission. His impressive track record in corporate transactions and practical experience with the challenges of raising capital in the current regulatory environment should prove to be a very helpful guide to what needs to be changed at that agency.

I caution, however, that change will not happen overnight. No matter who is at the helm of these agencies, the many layers of regulation that we have implemented since the financial crisis will not magically disappear, nor should they. Today our financial system is on a much more secure foundation than it was before the crisis, and there are some elements of the new regulatory framework that have broad support among investors and end-users. The challenge ahead will be to sift through the rules and intelligently identify which parts to preserve and which parts to revise or remove. That is why I believe the next few months will be crucial. This is the time when the new administration will define its priorities. That is why we chose this moment to issue our own statement of principles on financial reform.

In January, FIA issued an open letter to President Trump calling for a comprehensive review of all financial reform regulation. We urged him to take stock of how the post-crisis regulatory framework is functioning in practice rather than concept, and consider the impact of the cumulative regulatory burden on competition, liquidity and innovation.

As part of this review, FIA has urged the new administration to keep in mind the following three principles.

First, we must strive for smart regulation and enforcement. Policymakers should ensure that rules are properly tailored to the risks they seek to address and keep markets safe without stifling growth. We also encourage thorough analyses of costs and benefits, using both qualitative and quantitative data, before rules are implemented. Such smart regulation is strengthened by enforcement that focuses on unlawful acts that harm investors and markets, rather than technical violations caused by the complexities of regulation.

Second, regulators must create a regime that allows customers to use these risk markets wherever they may be located and avoid discouraging cross-border competition among clearing firms. U.S. regulators have an opportunity to lead globally by eliminating duplicative rules that serve as barriers to access and recognizing jurisdictions where comparable rules apply. According to data from the Commodity Futures Trading commission, more than a third of the $220 billion in customer funds held in futures accounts in the U.S. is held at futures commission merchants run by financial institutions based outside the U.S. Another $26 billion in customer funds is held in cleared swaps accounts at FCMs run by non-U.S. companies. It would be a huge loss for our industry and our customers if these non-U.S. clearing firms were forced to withdraw from the U.S. because of excessive regulation.

Finally, regulators must focus on innovation and competition. Regulators are tasked not only with maintaining orderly markets and preventing fraud and manipulation, but also with promoting responsible innovation and fair competition. All around us we can see exciting advances in the technology of everyday life. It would be a great loss to our industry if outmoded regulations blocked our customers from enjoying the improvements in efficiency and market access that these advances can bring.

I was pleased that after we issued our letter, the President signed an executive order asking the Treasury Department to lead a 120-day review of the entire framework for financial regulation. The CFTC will be part of this process and I look forward to sharing our views on the findings of this review.

Our letter was primarily aimed at the new leadership in Washington, but I believe that these three principles are just as appropriate as a guide for regulatory review in other jurisdictions. As the pendulum starts to swing back around the world, it is absolutely essential that we avoid making our markets even more fragmented than they already are. I urge policy makers in the U.S., Europe and Asia to redouble their efforts to coordinate their actions and harmonize the rules that govern the global derivatives markets.

> "The challenge ahead will be to sift through the rules and intelligently identify which parts to preserve and which parts to revise or remove."
>
> **Walt Lukken**
> FIA

The international standard-setting bodies—the Basel Committee, the CPMI, the FSB and IOSCO—should consider how their post-crisis standards have been implemented in various jurisdictions and consider whether they are truly fulfilling the intended purposes. Equally important, they should consider how the different regulations are interacting with each other and what unintended consequences they may be having on the market ecosystem. I was pleased to see that IOSCO recently issued a report on financial technology that encourages regulators to support innovation, and I hope this spirit spreads across all of its work. But ultimately the direction of travel will depend on our political leaders.

That is why the next Group of 20 summit, scheduled to take place in Frankfurt this summer, will be especially important. I know how skeptical many of you are about the proclamations that come out of these summits, but remember how much of an impact the 2009 summit had. I sincerely hope that the upcoming summit will send a clear signal of support for a new approach to regulation, with more emphasis on promoting growth, innovation and competition.

After all, the regulatory pendulum does not have to swing wildly back and forth. Instead of oscillating between the extremes of over-regulation and deregulation, we should pay heed to the lessons of the past and aim for sensible reform that can be sustained over the long term. That is what smart regulation is all about.