SPEECH 1: OTC DERIVATIVES CONFERENCE

Holiday Inn, Rivonia Road

Deputy Minister speaks at 8.30am

Emerging Markets Dialogue on OTC Derivatives Reform

Keynote address

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Your Excellency, Mr Ambassador,
Ladies and Gentleman,
Good morning, and welcome to South Africa

Last week, President Zuma attended the G-20 Heads of State Summit in Russia. It was a particularly important meeting in light of the many things we as the G-20 need to discuss. These topics ranged from the very political, the very mundane, to the very technical.

One of the key issues raised at the Summit was the need for ongoing dialogue between members of the G-20, standard setters, regulators and policy makers, on the myriad of issues that affect us as G-20 countries.

This conference today is an opportunity to have that dialogue. It is a joint initiative between the German and South African governments, reflecting the deep ties between our two countries, and the strong relationship we have at all levels.

South Africa takes its role as a G20 member very seriously and for this reason, we as the Ministry of Finance and National Treasury are particularly proud to join together with our German partners and co-host this conference with the Financial Services Board and the South African Reserve Bank.

Progress with implementing reforms

At the G20 Summit, our Leaders reviewed progress made with regards to implementing the G20 commitments on financial regulation.

In particular, Leaders reviewed progress made with implementing the 2009 Pittsburgh statement, which asked jurisdictions to clear all standardised Over The Counter (OTC) derivatives and to move them onto exchanges or trading platforms where appropriate. G20 countries were also asked to mandate that all OTC contracts be reported to a trade repository.

The 2009 Statement has led to substantial thinking and work in our respective countries.

The topic, *derivatives*, considered a dirty word by some, has polarized the debate around the way in which individuals, businesses and countries should manage the risks that they face.

Many believe that the risks associated with derivatives contributed to the most recent financial crisis. Others recognize the useful role that derivatives play in risk management.

On the one side of the debate therefore, we have those asking for *more* regulation to manage financial stability and systemic risks. And on the other side we have those asking for *less* regulation to ensure that businesses can continue to use derivatives to manage the everyday risks they face from fluctuating asset prices.

Those of us in the audience today will understand that the most appropriate regulatory framework will balance those risks in a way that allows capital markets to operate efficiently whilst maintaining stability. Achieving this regulatory framework is no easy task. It will require robust debate in conferences like this one.

Ahead of the Summit, the Financial Stability Board (FSB) released its **6th Progress Report** on implementation of OTC Reforms and the resultant story is a positive one.

Most FSB member jurisdictions have legislation in place to require reporting of OTC derivatives contracts to trade repositories and more than half of the jurisdictions have legislation in place that allows for adoption of clearing and trading obligations.

But much work still needs to be done.

The end-2012 deadline for reform envisioned by the G20 has passed. But much of the delay has been due to unforeseen challenges in implementation, for example the mandating of clearing in jurisdictions where a local CCP may not exist. Regulators in many jurisdictions have also had to spend time getting to understand an unregulated sector, with technical risk management techniques.

So I stress again the timeliness and importance of this conference, not only for G20 countries but also for all emerging and developing markets that are striving to find the balance between growing their financial sectors and modernizing their regulatory frameworks.

When the G20 made its recommendations for reform of the OTC derivatives market, there were those of us who welcomed them but there were those of us that were skeptical. The skeptics recognized that the reforms would take time. More importantly, they recognized the practical difficulties of implementing such far reaching and sweeping reforms for a sector that, up to now, had been pretty much unregulated.

While the skeptics and believers may have disagreed on many aspects of the reform proposals, all agreed on the ultimate objective of reform - the need to manage risks *better*. The disagreement is on *how* to achieve this.

This is exactly why this conference is so necessary. There needs to be rigorous debate about *how* to implement the reforms. But this debate needs to be honest about recognizing that there may be unintended consequences and that a “one size fits all” approach may not be appropriate.

In particular, we need to be aware of the distribution of benefits and costs across the sector, across the industry players and across jurisdictions.

We are very pleased to have **Mr Stephen Cecchetti** from the Bank for International Settlements here today as he will be talking us through the economic study that quantified the macroeconomic implications of OTC derivatives regulatory reforms. While the study shows a net benefit from reform, I am sure that Mr Cecchetti’s talk will lead to a lively debate on how those reforms are distributed.

We are also very pleased to have **Mr Rupert Thorne** here today from the Financial Stability Board who will be talking us through OTC reform in the context of the broader G20 regulatory agenda.

In addition, we have a range of speakers from all types of backgrounds, countries and professions with us here today including the **Deputy CEO of ISDA**, foreign regulators, foreign and local service providers and foreign and local banks.

The international character of this conference is testament to the cross-border reach of the sector and the reforms. Indeed, some 60 per cent of South African interbank derivatives are traded with foreign banks. Therefore, in determining one's own regulatory framework, countries have to take into consideration the way in which their frameworks align with those in other countries and the extent to which such regulation may lead to regulatory arbitrage.

In developing one's own regulatory framework countries must also understand the impact of their framework on foreign participants and other jurisdictions and the manner in which differing frameworks may lead to the re-organization of business across jurisdictional lines. The G20 communique released last week speaks directly to this point.

Against this background, we are looking forward to the panel discussion on *International Harmonization of OTC Regulatory Frameworks* which will address some of these issues. We thank:

- **Jack Katz**, former Secretary of the Securities and Exchange Commission
- **Mark Fajfar**, Assistant General Counsel from the CFTC
- And **Jeff Carmichael** formerly the head of the Australian Prudential Regulation Authority

for travelling so far to sit on that panel and share their insights with us.

Conclusion

Implementation of the G20 reforms has thrown up a few challenges that were unexpected. For example, the central reporting of derivatives to trade repositories has raised issues of data sharing and privacy and the costs of data aggregation across multiple repositories.

The global financial crisis highlighted that financial services are highly interconnected. We need to regulate across borders and cooperate closely, working together.

The Emerging Markets Dialogue is an excellent initiative that will help stimulate and encourage discussion between countries, large and small, developed and emerging.

As South Africa, we are honoured to host of the first of these dialogues. We look forward to GIZ hosting many more.

To the delegates – I hope your interactions are lively, frank and honest. I hope that we make progress on seemingly impossible questions. Over the next two days, I hope we learn from one another.

We share one common vision, which is a safer financial sector that benefits all.

Thank you!