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Japan Closes In On Limited Liability CCP

The Japan Securities Clearing Corp. is planning to limit clearing member liability for its coming over-the-counter derivatives clearinghouse.

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DEUTSCHE BANK REPORTEDLY SUSPENDS TWO TRADERS

Deutsche Bank has reportedly suspended two senior equity derivative traders in Hong Kong. The move comes in the wake of an investigation by the South Korea Financial Services Commission into derivative activity that led to a stock market crash Nov. 10.

Derek Ong, head of absolute strategies for the Asia Pacific in Hong Kong, and Phillip Lonergan, head of equity trading and risk for the Asia Pacific in Hong Kong, have both been suspended from the firm, according to a person familiar with the decision. Ong and

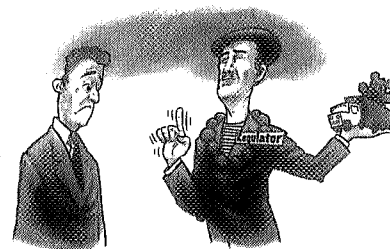
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French Cap?

FRANCE TAKES AIM AT REG CAPITAL TRADES

France's Autorité de Contrôle Prudentiel, which regulates banks and insurance companies, has been quietly imposing stricter rules on regulatory capital trades over recent weeks. The regulator stipulates that the trades should result in an actual transfer of risk, and officials say the requirement may cut down on the number of trades that are executed by firms.

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INVESTMENT ADVISERS EYE VOL, EXOTIC PAYOFF STRUCTURES

Investment advisers are increasingly turning to structured products linked to volatility or with more exotic payoffs and wrapped in certificates of deposit. The moves are being made now as advisers, who have a fiduciary duty to hold clients' interests above their own, tackle investor concerns over lack of transparency through approaches such as developing in-house valuation systems. "It's pretty apparent structured products are the new frontier for fiduciary advisers in terms of getting ahead of the curve for clients," John Farrall, senior v.p. and

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HONG KONG TARGETS MANDATORY OTC REPORTING

Hong Kong regulators want to mandate that all locally incorporated financial institutions report all OTC derivatives trades to the coming local trade repository in Hong Kong. Foreign financial institutions will also be mandated to report OTC trades to the local repository under some yet-to-be defined circumstances.

The ideas were outlined in a presentation Hong Kong Monetary Authority officials made to industry participants the week before last, the slides of which were obtained by *Derivatives*

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Structured Products Association Conference

Officials from major dealers, investment advisors, asset managers, and distributors gathered at the Grand Hyatt Hotel in New York for the Structured Products Association's 2011 Conference last Tuesday to discuss developments in retail distribution, the infusion of structured products into the investment advisor sector, and general regulatory and compliance-related developments. Associate Reporter Mike Kentz filed the following stories.

INVESTMENT ADVISERS

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director of derivative strategies for PNC Wealth Management, told *Derivatives Week* on the sidelines of the conference.

Farrall said PNC is looking to utilize volatility products, as well as bearish oil and natural gas structures. The latter products are in response to the growing political uncertainty in oil-producing countries in the Middle East, with structured products being a suitable investment for its clients, especially energy producing companies.

Eric Greschner, a registered investment advisor at Regatta Research and Money Management in Beverly Hills, Calif., said his firm had invested in a few rainbow asset allocation baskets recently and is currently considering two cliquet structures, both offered within certificates of deposit by Union Bank and linked to the S&P 500. Cliquet structures utilize consecutive forward start options that activate when the preceding option expires. In the Union Bank structure, for example, the cliquets reset quarterly, paying out at each expiry date subject to an upside cap of 3.5-4.5%, to be determined at inception. Rainbow basket structures attach different weights to



Eric Greschner

several different underlying assets, but uniquely attach a 0% or negative weight to one of the underlyings in hopes of gaining a measure of negative correlation, said Greschner.

Though this does not mark the first time fiduciary IAs have invested in these products, it does represent a shift. Investment advisers are required to give their "best advice" to investors, yet consider structured products to be one of the more complicated financial products in the market. Officials say IAs as a result often shied away from such structures in the past for fear of misunderstandings over pricing, losses or muted returns leading to conceivably being viewed as not meeting regulatory standards.

Both Farrall and Greschner explained that these concerns arise from a general lack of confidence among investment advisers that they are not receiving full information disclosure from issuers. "What we're most concerned with is servicing and pricing throughout the life of a note, as well as being able to show that an algorithm, to use an example, is performing the way the prospectus said it would," said Farrall. "[Issuers should] help fiduciaries meet their higher standards through full and complete disclosure and transparency," said Greschner.

—Mike Kentz

Broker Participation Critical For Growth

The key to growth in the structured product market this year will be broker participation, according to panelists and attendees.

One structurer in New York said he expects to see more webinars and automated presentations to educate brokers. "We're always trying to innovate new products," said the structurer, "but right now we're seeing brokerage firms who learn about our products but then put them on the shelf, and the individual brokers forget about them, regardless of how good the product is. We're keeping the products simple and focusing on education at this point."

One senior distribution official told *Derivatives Week* on the sidelines that he estimates approximately 30% of his brokers utilize structured products when working with their clients. He noted that three ways of improving pitching structures to brokers would be by having ratings on products on a Bloomberg terminal, along with

the size of an issued deal and a link to the prospectus.

Officials noted, however, that the structured products industry experienced an increase in broker participation over the last year, though approximate rates were not given.

Sales of structured products in the U.S. were cited to have jumped 61% in 2010 on 2009, according to a consultant at the conference, with global U.S. sales jumping 14% in the last year.

Seen 'N' Heard

The NCAA Div. I Men's Basketball Big East Tournament was the hot topic of discussion among some conference attendees in between structured product panels on Tuesday. One St. John's University alum remarked he planned on "cutting work" at the end of the day Thursday to get to the games. Another attendee, a former Brown University basketball player, scored tickets to the Tournament's Championship Game while at the conference.