THOMSON REUTERS

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The Committee of European Securities Regulators
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Dear Sirs

Response to CESR Consultation Paper: *Standardisation and Exchange Trading of OTC derivatives*

Thomson Reuters is the world's leading source of intelligent information for businesses and professionals and provides a range of financial products and services. Active in over 120 countries, we provide real-time pricing data from more than 250 equity and derivatives exchanges worldwide, updated at over 200,000 times per second at peak times. A further 7,500 data sources contribute to our information coverage of over 8 million different instruments, spanning the range of asset classes.

Thomson Reuters Markets Division provides market information, technology and connectivity between market participants to help enable transparent, efficient and orderly markets. The Company has pioneered many developments in both Exchange and over-the-counter (OTC) markets, and so has deep expertise in electronic transactions processes across the asset ranges. The organisation offers exchanges, brokers and the liquidity providers and market makers with the domestic and cross-border capabilities, connectivity, trusted independent data, risk management and back office functionality that are essential to enable reliable and resilient market participation. Over half a million financial professionals in over 40,000 organizations in more than 155 countries manage risk, price portfolios and drive trading strategies and reach their clients and trading partners seamlessly across the Thomson Reuters community.

Thomson Reuters welcomes the opportunity to provide comments to the CESR consultation on OTC derivatives. We hope our input is useful to the work of CESR and stand ready to provide any further assistance that may be helpful.

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Exchanges and Exchange Trading

In addition to answering the questions posed by CESR where relevant, Thomson Reuters would like to highlight the benefits of trading OTC derivatives on organised markets or trading venues which include not only exchanges but also electronic markets and multi-lateral trading facilities as envisaged by MiFID[1]. Organised trading venues can provide the high level of transparency, lead to greater efficiency including automated trade affirmation/confirmation and links to clearing houses and trade repositories, enhance risk management, as well as provide for equitable access and treatment for market participants, which are the objectives of the European framework.

The G20 called for the strengthening of OTC derivatives markets by ensuring that "all standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate", and although the consultation paper calls for rules which would ensure that eligible trades for exchange trading take place on organised trading venues, as defined by MiFID, it was not clear from the language used in the paper that this is CESR's intention.

Thomson Reuters believes that it is important that regulation looks to improve the OTC derivatives markets but does not attempt to mandate the transfer of OTC trading onto a regulated exchange which would concentrate trading onto a single venue, thus reducing competition, and could risk the long term utility of these markets. We believe that it should be clear that CESR's advice takes into account the wide spectrum of trading venues which are available to the OTC markets and should use the terms "exchange" and "exchange trading" to include all organised trading functionalities recognised under MiFID.[2] We also recall that MiFID, by overturning the concentration rules that had hitherto operated in a number of EU Member States, has been the positive catalyst for achieving a more competitive and efficient market place for trading European equities. It would be anomalous and wrong for MiFID2 to be the catalyst for imposing concentration rules over European derivatives markets.

We agree with CESR's view that the market for derivatives is primarily a wholesale market, with the exception of the market for equity derivatives and that this is why they are largely traded OTC, including on regulated markets, MTFS or other electronic trading platforms (note 9). Equity derivatives are often used as economic substitutes for the underlying security, whereas other derivatives are used to mitigate risk.

[1] The characteristics of organised trading functionalities required under MiFID are non-discretionary and transparent rules, objective criteria for the efficient execution of orders, non-discriminatory access, authorisation/regulation and monitoring by the relevant competent authorities. (MiFID Article 4(1)(14) and (15)

[2] We were pleased and reassured by the remarks made by Alexander Justham, who chaired the CESR public hearing in Paris on 11th August, which appeared to support this position.

Responses to questions set out in the consultation paper

We set out below our responses to a number of the specific questions set out in this consultation paper.

Q1: Do you agree with CESR's assessment of the degree of standardisation of OTC derivatives? Is there any other element that CESR should take into account?

We agree with CESR's assessment of the different degrees of standardisation across the different OTC derivative asset classes.

Q2: Do you agree with the benefits and limitations of standardisation noted above? Please specify. Can you also describe and, where possible, quantify the potential impact of the limitations to standardisation? Are there any other elements that should be considered?

We broadly agree with the benefits of standardisation as outlined and we agree with CESR's view that preserving the ability of non-financial institutions to use OTC derivatives to hedge their risk is an important consideration (note 40). We would comment that standardisation does not always take into account the flexibility required to mitigate risk, such as customised maturity dates, notional amounts and other features that vary by contract. OTC trading venues have the flexibility to handle these different trade characteristics.

Unless the flexibility is maintained, it is possible that essential derivative markets will not form within the regulated area and the market activity could migrate to other jurisdictions. Strong, multi-dealer electronic markets combined with open access to clearing venues provide transparency and efficiency while preserving market structure with regulated jurisdictions.

Also, standardisation does not always lead to transparency and liquidity improvements and we believe that there needs to be a fair assessment by regulators of the impact which such standardisation has on the operation of the markets themselves and be prepared to balance the potential benefits of standardisation with the needs of market participants and users in these markets.

Q4: How can the industry and regulators continue to work together to build on existing initiatives and accelerate their impact?

We believe that the industry has responded both proactively and responsibly in working with the regulatory authorities to identify and mitigate the range of risks which trading in OTC derivatives can give rise to, while ensuring that the markets continue to fulfil their important, if not critical, economic role. CESR, and the new European Authorities, should continue to consult widely, both formally and informally, to ensure that its proposals and the measures it puts in place are appropriate, proportionate and support the objective of financial stability in the markets.

EXCHANGE TRADING

Please refer to our preliminary comments on Exchanges and Exchange Trading

Q18: In the OTC derivatives context, should any regulatory action expand the concept of "exchange trading" to encompass the requirements set out in paragraph 86 and 87 or only the requirements set out in paragraph 86? Please elaborate.

As set out in our preliminary comments, Thomson Reuters believes that the concept of "exchange trading" must be broader to include all organised trading venues, including electronic markets and multi-lateral trading facilities as envisaged by MiFID.

Q19: Do current trading models and/or electronic trading platforms for OTC derivatives have the ability to make pricing information (both pre- and post-trade) available on a multilateral basis? Please provide examples, including specific features of these models/platforms.

Thomson Reuters believes that the broad range of organised trading facilities that have been developed for OTC derivatives have substantially assisted in increasing the transparency of these markets and aided in developing price discovery mechanisms in these instruments.

Through these trading venues, price makers compete for customers which provides price takers with the best price possible given their credit. Additionally, the data created by these trades is aggregated and then distributed to the broader market providing a continuous flow of information to the market.

Thomson Reuters has supported its clients and users for many years in developing products which allow for access to aggregated content and provide better and more efficient trading information. Our trading platforms and our information products provide our clients both pre and post trade pricing transparency. The best bid/offer prices are collated for comparison across the market and also specifically for a customer's available credit on either a streaming real time or a request for quote (RFQ) basis. There is also a time and sales function for viewing completed trades.

Q24: The Commission has indicated that multi-laterality, pre- and post-trade transparency and easy access are key aspects of the concept of "on exchange" trading. Do you agree with CESR applying these criteria in its further analysis of what this means in the EU context, in particular in applying MiFID to derivatives trading?

As set out in our preliminary comments, Thomson Reuters believes that existing organised trading facilities including multi-lateral trading facilities as recognised by MiFID provide equivalent benefits to trading on regulated markets given the additional complexities of the instruments users of those markets demand. However, the application of certain regulatory concepts which have been derived largely from the equities markets is not helpful and further work should be undertaken by CESR to understand the consequences of applying these concepts to quite different and diverse markets.

We very much hope our comments are useful and stand ready to provide any further information as may be required.

I would also like to thank you for arranging the public hearing in Paris on 11th August, which proved most constructive.

Yours faithfully

Henry Manisty