

13th Annual Conference of the Association of Futures Markets AFM
3-5 March, 2010, Amsterdam, the Netherlands

The 13th Annual Conference of the Association of Futures Markets (<http://www.afmorg.net/>) was held in Amsterdam, the Netherlands.

Pre-Conference Workshop: Marketing an Exchange

This year's Conference was preceded by a workshop focusing on the most important aspects when marketing an exchange. Welcoming remarks were provided by Clive Furness, Contango Markets, Gary Delany from OIC and Roderick Gravelet-Blondin, JSE.

Panellists of the first session, Adrienne Muir of Trayport Exchange Systems, Chris Mead from CME Group, Noah Greenhill, JSE and Bruce Goldberg, ISE, examined the theory behind marketing exchanges and spoke about their own experience. Reasons why it was important to engage in marketing, how marketing had to be set up and how promotion should be done depending on asset class were discussed in detail.

Practical issues were tackled in the next session. France Schuster of Eurex, David Setters from Contango Markets, Chris Mead, CME Group, and Cathryn Lyall with BM&F Bovespa analysed the variety of mediums that were used when marketing exchanges and discussed marketing and education linkage.

In the final workshop session three exchange representatives gave practical examples of effective marketing campaigns. Darius Cipariu informed the audience about the educational activities that Sibex carried out. Bruce Goldberg summed up the development of the ISE brand and Lamon Rutten presented the marketing of MCX commodity derivatives.

After the workshop, participants had the opportunity to trade using Oxyor's Trader's Trophy simulation.

Welcoming Remarks and Keynote Address

György Mohai President and CEO of Budapest Stock Exchange opened Conference on behalf of Dr. Mihály Patai, BSE Chairman and Chairman of the AFM, and welcomed Conference attendees. Alan van Griethuysen, Executive Director at NYSE Liffe, the host of this years' Conference, greeted participants and thanked Taifex for inviting AFM to Taipei, Taiwan, for 2011 Conference.

George Möller, founder of Amsterdam Exchanges and Chairman of the Supervisory Board of the Netherlands Authority for Financial Markets, delivered an interesting and thorough keynote address. In his speech "The norm and the animal spirits" historical, philosophical, political and economic references were made by putting the financial crisis in an appropriate context. Emphasis was on human behaviour.

Roundtable 1 - The Dutch Derivatives Triangle: Brokers, Exchange and Liquidity Providers

The Dutch roundtable was moderated in a very entertaining way by Peter van Zadelhoff, Financial Reporter on RTLZ TV. In response to Peter's question how private people can be motivated to invest in options, Marcel Kalse, Consultant, answered that educational seminars for retail investors were essential. Rabobank for example published much data on their website and also worked closely with the exchange as Edwin van Bruggen pointed out.

NYSE Liffe's Frank Ammerlaan emphasized that the retail centricity of many Dutch markets was due to training activity at an early stage and to the service provided by market makers. Markets market makers continued to quote even in volatile markets and investors could therefore trade easily. Egbert Pronk of Alphabay and Erik Engbers, Scrocca Option Trading, confirmed this.

Answering Rod's Gravelet-Blondin's question about incentives, Frank informed the audience that in return for fulfillment market makers received additional capacity to send more quotes.

Speaking about the importance of fees, Egbert pointed out that the reasons why so many MTFs were being set up was seen as the cost factor. Fees were an extremely relevant component for market makers.

Roundtable 2 - Regulation or Self-Regulation

Simon Rostron observed that all roundtable participants were representing jurisdictions with relatively high levels of regulation. In typically perceptive form, turning to Anthony Belchambers of the FOA, Simon wanted to know who regulation was for. Anthony thought that the most important thing about regulation was having the right

balance. The recent financial crisis originated in a mature and regulated country and had then spread to Europe. Highly regulated jurisdictions could also not stop the crisis.

Being asked by Simon if no regulation would lead to “jungle mentality”, SFOA’s Michel Legler pointed out that regulation had always been part of human culture. As a quintessential part, it worked when it was put in place by practitioners, i.e. via self regulatory associations.

Had derivatives regulation been satisfactory within the last 24 years, Simon asked. Rene Geskes from NYSE Euronext informed the audience that exchanges had been part of the solution to the financial crisis. As a former regulator, he thought it is imperative to weigh up light-touch regulation against overregulation. Robert Ray from CME Group suggested looking at the big picture, for example, how structures defined by supervisory authorities aligned with accounting standards. Monitoring had to take place on a day to day basis and rules had to be adapted if required.

John Mathias from Aequitas Associates pointed out that regulation in emerging markets looked different to that in established markets. The lack of dialogue between regulators and end-clients was the biggest issue in Asia that needed to be solved before well functioning markets could be achieved.

Roundtable 3 - Regional Commodity Exchanges

Moderator Robert Ray asked panellists to provide an update on the exchanges that they represented. Cathryn Lyall explained that BM&F Bovespa ran markets where volumes were mainly domestically generated, offered clearing services and also acted as a settlement bank active in tax and legal advisory services. Araceli Basurto informed the audience about MATba’s latest development as the biggest agricultural exchange in South America and about the educational activities MATba undertook in cooperation with the agricultural industry. Ismael Caram spoke about recent development at Rofex, an exchange which organised electronically traded markets in commodity and financial derivatives. Rofex was working on obtaining approval for direct market access (DMA).

After giving an overview about commodities traded at NYSE Liffe, Aaron Gill suggested that prerequisite to the success of a derivative product was dialogue with the physical market. Robert wanted to know if the exchanges had experienced increased demand for creation of products during the financial crisis. In Aaron’s view the financial crisis has not lead to a change in product specification.

Dr. Nitus Patrayotin, AFEX, spoke about challenges in Thai markets. AFEX was investing not only in training market participants but also in informing and developing dialogue with their government.

Roundtable 4 - Environmental Products and Markets

Clive Furness asked roundtable participants if the European Emission scheme could continue in its current form. Patrick Birley of ECX viewed the European system as very successful because emissions trading was conducted in a good way in the region.

Answering Clive’s question regarding what was needed to be done, Sasha Bloemhoff from Climex added that certain regulations had to be rolled out in a consistent way in the EU. Emission certificates were considered partially as non-financial products and partially as financial in Europe. Peter Boehmwalder of Nord Pool saw emissions as financial products with an environmental impact.

Clive wanted to know how new participants could be brought into emissions markets. Tobias Pantenburg from Greenmarket saw potential because the market was legally guaranteed until 2020. Patrick drew attention to the fact that there was a fixed supply curve in emissions markets. He was convinced that nobody was trading because of “green” ideology. Rather, they wanted to do business.

Eurex’ Kai Silbach proposed that the fair level of prices could be used as an argument to bring new participants into the market. Hans-Christian Koltze with Innovative Energy GmbH is convinced that traders wanted to make money with this capped commodity.

Chris Sturgess from JSE asked participants if their exchanges measured their own carbon footprint. All affirmed that this was the case. Panellists agreed that, due to the potential size of emissions markets, a global solution was almost certainly required at the end of the day.

The first Conference day concluded at the Amsterdam headquarters of NYSE Liffe where participants joined the trading floor daily closing ceremony.

Roundtable 5 - Structured Products in Emerging Markets

Paul Meier of SFOA saw a lot of opportunities arising from structured products that were very popular in Switzerland and Germany. Paul queried how markets could be better informed about this asset class.

Scoach’s Bernhard Bleuler was convinced that there remained the need to improve transparency and to educate investors. With specific reference to emerging markets, Michael Barmettler from Flow Traders thought that the focus had to lie on regulation. Warsaw Stock Exchange (WSE) offered around 70 structured products, Jaroslaw Ziebiec informed Conference. In Poland education related to structured products was carried out by the exchange but there were also road shows with several brokers.

Daniel Nevidal of Intercapital Securities explained that no structured products were currently traded in Croatia. Structured products were sold indirectly as insurance papers. A common market for all former Yugoslavia countries would be most efficient, but there were many regulatory issues that needed to be solved including establishment of a CCP and clearing house.

John Matthias explained that banks needed certain products but that exchanges were not always able to offer them. There was thus a reliance on structured products.

Paul wanted to know what the requirements of a market maker were in such markets. Speaking as a professional market maker, Michael was looking for legal stability, reliable trading and clearing infrastructure and efficient technical connection to markets.

Responding to Paul's question regarding education, Bernhard was convinced that the only way to start to invest in these products was to explain to investors the dynamics of products.

Roundtable 6 - IT Solutions in Emerging Markets

In the chair, Chip Dempsey wanted to know what role was played by IT in each of the panellists' areas. Michelle Janke's organisation, STT, provided software for the JSE and developed applications for trading physically delivered products. NASDAQ OMX' Henri Bergström pointed out that emerging markets were not homogenous and each country had its own needs and requirements.

Taking up on Chip's question as to whether IT needed to be more comprehensive, Graeme Neilly with Patsystems saw the client as responsible for defining requirements. In Paul Constantinou's view emerging markets were often in privileged positions because they could capitalize on IT suppliers' experience.

Chip asked roundtable participants what were the most important things for a successful launch. Huang Nai-Kuan from Taifex thought that the main distinction between emerging and established markets could be seen in market rules.

Speaking from Taifex' own experience, Huang informed the audience that "getting connected" was very challenging. In the early days the Taifex market had been domestic. In recent years cash and derivatives markets had adopted FIX which made connectivity easier.

Henri stated that his company often experienced challenging issues in the clearing and settlement areas, this also being because these areas were heavily regulated. Michelle suggested that emerging markets had big advantages in going electronic directly.

Roundtable 7 - Market Makers and Their Added Value for Exchanges

Simon Simon from Eurex wanted to know what the role of market makers was. Alan van Griethuysen from NYSE Liffe emphasized that the main feature was to provide permanent bid and ask quotes in markets. In Chris Sturgess' experience it was crucial in commodity derivatives markets that big producers and market makers liaise and that regulation favours the activities of market participants.

Gary Delany from OIC underlined the pivotal role of market makers, liquidity providers and education. In Flow Traders' Jan van Kuijk's opinion underlying market liquidity was key. Speaking for Dutch markets, retail flow played a crucial role. Jan pointed out that in setting up functioning businesses, market makers needed to employ skilled people and have suitable regulatory environments, infrastructure, connectivity and low fees. Chris spoke about the South African markets where vendors were offering straight forward solutions for market makers that were easy to implement and use.

Alan Thompson queried what the proportion of on-exchange versus OTC volumes was in emerging markets. Jan replied that OTC flow was not transparent in his eyes.

Next on Simona's agenda were panellists' opinions on different market maker models. MCX was struggling with a market maker model in an attempt to improve the quality of the market Lamon Rutten reported. Intriguingly, the Rofex market maker model featured rebates based upon open interest according to Ismael Caram.

Concluding, participants agreed that there were several suitable market maker schemes for emerging markets.

Marketing an Exchange: Wrap Up Session

The last session was chaired by JSE's Roderick Gravelet-Blondin. Rod wanted feedback on what had been highlights of this year's Conference. Gary Delany thought George Möller's keynote speech "The norm and the animal spirits" had hit the nail on the head. David Setters agreed that George's speech had been outstanding. The regulatory debate had also been a high point. Simon Rostron suggested that in addition to panel discussions he had enjoyed the case studies presented in the Marketing Workshop.

Rounding off a more successful than ever Annual Conference, Rod expressed enthusiasm for the practical examples that had been provided by exchange representatives.