

The FIA Strategy in Asia

By John Damgard

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Thank you for inviting me to speak at this trail-blazing conference on derivatives in China. I have been asked to discuss the FIA's Asia strategy. As many of you know, the FIA is very interested in the development of derivatives markets in Asia. We sponsored a very well attended conference in Beijing this past August, and we are looking into the possibility of establishing an organization, FIA Asia, to promote communication among the many market centers in this part of the world. We are excited by the progress that you are making, and we are eager to participate in any way that we can.

Before I discuss the FIA's Asia strategy, let me give you some background. The FIA began in New York in 1955, just over 50 years ago, as a small organization of futures brokers. Our aims were fairly modest. We sought to bring together the members of the New York commodity markets and give them a platform to discuss the issues facing the industry.

At that time, the New York futures markets were much smaller than today, and the range of products was completely different. There were no financial futures, no energy futures, no stock options, and no stock index futures. In 1955, all we had were futures on physical commodities such as potatoes, onions, wool and silk. The biggest exchange in the country, the Chicago Board of Trade, traded just 2.4 million contracts that year, just a drop in the bucket compared to where we are today. In 1955, the most actively traded contract at the Chicago Mercantile Exchange was futures on eggs. That pretty much sums up the state of the industry in those days.

Well, we have come a long way in 50 years. Just look at where the CME is today. Total CME volume last year was 665 million futures and options contracts, versus just under 550 thousand in 1955. The dollar value of its volume last year was \$463 trillion dollars. That is trillion with a T. Who could have imagined that kind of growth? To give you a comparison, the total value of all the shares traded on the New York Stock Exchange last year was \$11.6 trillion. In other words, if we compare these two exchanges by the value of the turnover, the NYSE was 40 times smaller than CME in 2004. Given the rate of growth that our industry is currently enjoying, I suspect that the gap will be even larger at the end of this year.

And the range of products? I think we all know the story there. Today there are more than 60 futures and options exchanges around the world. Their contracts cover a wide range of financial instruments as well as a host of physical commodities. Interest rates, stock indices, exchange rates, precious metals, government debt--there are deep and liquid futures markets for all of these instruments in virtually every major financial center around the world. The message is clear: the need for risk management is universal. In

every successful futures market, hedgers and speculators come together to transfer commodity price risk. And money is the ultimate commodity.

If we look back over the years, we can see four major waves in the evolution of futures markets. The great breakthrough came in the 1970s, when the Chicago exchanges began to apply the concept of a futures market to interest rates and foreign exchange. The next wave came during the 1980s when we saw financial futures spreading abroad to places like London, Paris and Sydney. That was also the decade when we launched stock index futures in the U.S.

The third wave came in the 1990s, when electronic trading swept across the industry, starting with the DTB in Germany. That wave has not yet passed all the way through the industry. We are still in the process of converting some of our markets to electronic trading. But I think all of us can see the next big wave coming in our direction. I am speaking, of course, of the growth of new markets in Asia.

Futures have been traded in Asia for many, many years, so futures are not new to this audience. What has changed is the scale of the opportunity. Today we are seeing the emergence of new markets with huge potential, most notably China and India. At the same time, we are seeing the rapid expansion of existing markets, such as Korea, Singapore and Taiwan. Last year, roughly 30% of all futures and options trading worldwide came out of exchanges in the Asia-Pacific region, and clearly there is plenty of room for growth.

Where does the FIA fit into this picture? As I look across Asia, I see a great deal of economic integration. But I do not see much financial integration, at least not yet. By and large, each market is developing on its own, in line with local needs and national economic goals. The progress achieved so far has been tremendous, but I fear that the regional differences in business practices and exchange rules could create an obstacle to cross-border trading. That could deprive your markets of a very important ingredient for success.

The FIA believes that foreign participation in Asia-Pacific markets can make a positive contribution to economic development. Foreign firms bring trading expertise and advanced technology. Some will bring more customers to your markets. Some will want to participate as market makers and liquidity providers. And some will want to invest in local firms. The end result is more efficient price discovery and more efficient tools for risk management, with all the economic benefits that we know so well.

So how can we increase foreign participation? Part of the answer is in standardization and harmonization of business practices. It is a lot more efficient to have a common approach to standard operational issues than to have 15 different exchanges with 15 different solutions to the problem. That was one of the reasons why the FIA was created 50 years ago, and the same need is still there today.

One of the proudest achievements in the FIA's 50 year history was the international best practice recommendations that we issued 1995, shortly after the collapse of Barings. Those recommendations were drafted by a consortium of firms, exchanges and clearinghouses, working in coordination with the FIA. They recognized that events taking place on one marketplace can have a profound influence on markets around the world, and that all market participants need to meet the highest standards for risk management and customer protection. Those best practices are as relevant today as they were when they were issued.

There is no magic solution here. What works on one exchange may not work on another. Our markets thrive when each market is free to innovate, when each market can find its own approach to building liquidity and settling disputes. But we can all benefit by sharing our experiences and developing common solutions to industry-wide issues.

This is where the FIA comes in. Over the years, as the futures industry has grown and spread abroad, our membership has expanded enormously. More than 20 countries were represented at our annual tradeshow, which we held just a few weeks ago in Chicago. We have chapters in London and Japan, and our members include virtually every futures exchange in Asia, Europe, and the Americas.

For those of you who do not know the FIA, I should stress that the FIA is not backed by the U.S. government. We have no power to set rules or punish wrongdoers. We are a voluntary organization. Our members join because they see the benefits in collective action and information sharing. And I should add that we strongly encourage regulators to participate in our conferences and meetings. In fact, we were very pleased to work with the China Securities Regulatory Commission at our Beijing conference.

This is precisely why our members are urging the FIA to become more active in Asia. They want to participate in your markets and they need more information from you. At the same time, many exchanges in this region want to expand beyond their domestic bases, and they are coming to the FIA for help in making their markets more attractive and accessible for foreign firms.

Access is not the only issue, however. A number of Asian institutions, including some represented at this conference, have told us that they would like to establish an organization similar to the FIA to support communication and cooperation within the Asian futures and options community. This organization would be based in Asia and it would be run by its members. Its primary purpose would be to give exchanges, clearinghouses, brokerage firms, and service providers a way to share ideas and information. We think we can help establish such an organization, and we have contacted a number of potential members in the region for their views on what the goals and objectives of such an organization should be.

We don't know exactly what FIA Asia will look like. We are moving forward one step at a time, testing the waters as we go. I invite you to participate.