



DSG WEEKLY UPDATE – MAY 4-8, 2015

Please see below for an end of the week regulatory and legislative update. We will continue to actively monitor the activities of the regulators over the coming weeks and will send out updates when appropriate. As always, please let us know if you have any questions.

Looking Forward

SEC EMAC Meeting: The SEC will host its first Equity Market Structure Advisory Committee (EMAC) meeting on May 13. The meeting will focus on Rule 611 of SEC Regulation NMS, known as the “Order Protection Rule” or “Trade-through Rule.” Please click [here](#) for the agenda.

CFTC Reauthorization Bill Markup: The House Ag Committee plans to meet to consider legislation to reauthorize the CFTC on May 14, subject to amendment. The bill makes several changes to Dodd-Frank, mostly related to commercial end-users, cross-border, and position limits.

CFTC GMAC Meeting: The CFTC will hold the Global Markets Advisory Committee (GMAC) meeting on May 14. The meeting will focus on clearinghouse capital contributions and stress testing, and the CFTC’s proposal regarding cross-border application of its margin requirements for uncleared swaps. Please click [here](#) for additional information.

Senate Ag Hearing: On May 14, the Senate Ag Committee will hold a hearing entitled “Regulatory Issues Impacting End-Users and Market Liquidity.” CFTC Chairman Tim Massad, Terrence Duffy (CME Group), Bruce Barber (ADM), Jeffrey Walker (ACES), Michael Bopp (Gibson Dunn), and Sean Cota (Commodity Markets Oversight Coalition) will serve as hearing witnesses.

HFSC Meeting: On May 14, the full House Financial Services Committee (HFSC) will meet to consider a package of bills that are focused on capital formation issues. Among others, one potential bill will require the SEC to establish a new type of trading venue known as venture exchanges.

CFTC

CFTC Chairman Massad’s Speech before the EU Parliament: On May 6, CFTC Chairman Massad gave a [speech](#) before the European Union (EU) Parliament’s Committee on Economics in Brussels, Belgium. With regard to the ongoing negotiations over the central counterparty (CCP) equivalence determination, Chairman Massad noted that margin methodologies must be reviewed holistically. For customer margin accounts, he said one-day gross futures margin posting (in the US, versus two-day net futures margin in the EU) will enhance financial stability and customer protection, and also pointed out that the EU has granted equivalence to other jurisdictions using the US methodology. As for house accounts, Massad said that EU and US regulators “should reconcile differences in the treatment of affiliates.” Further, he indicated that if we feel that a clearing member’s own initial margin, together

with its guaranty fund contribution are not sufficient in the event of a default, to look at ways of changing that, but “should avoid creating incentives for evasive behavior.”

Joint Statement of CFTC Chairman Massad and European Commissioner Hill: On May 7, European Commissioner for Financial Stability, Financial Services and Capital Markets Union, Jonathan Hill, and CFTC Chairman Massad, met in Brussels to discuss a possible equivalence decision by the European Commission for CCPs regulated and supervised by the CFTC. Commissioner Hill and Chairman Massad did not agree on an equivalence determination but said “discussions are constructive and progressing,” and both parties will “aim of finalizing an approach by the summer.”

SEC

SEC Approves Tick Size Pilot: On May 6, the SEC approved a proposal by the national securities exchanges and FINRA for a two-year pilot program that would widen the minimum quoting and trading increments (tick sizes) for stocks of some smaller companies. The SEC plans to use the pilot program to assess whether wider tick sizes enhance the market quality of these stocks for the benefit of issuers and investors. The pilot will begin by May 6, 2016, and will include stocks of companies with \$3 billion or less in market capitalization, an average daily trading volume of one million shares or less, and a volume weighted average price of at least \$2.00 for every trading day. Please click [here](#) for the SEC order and click [here](#) for additional details on the pilot program.

David Grim Named IM Director: On May 8, the SEC announced that David Grim will become the Director of the Division of Investment Management (IM). Grim served as the division’s acting director since February 2015, following the departure of former director Norm Champ.

The Hill

Senate Appropriations Subcommittee Hearing: On May 5, the Senate Appropriations Subcommittee on Financial Services and General Government held a hearing to review the fiscal year 2016 funding request and budget justification for the SEC and CFTC. SEC Chair White stated that security based swaps, crowdfunding, and executive compensation rulemakings were priorities for 2015. CFTC Chairman Massad indicated that fine-tuning existing rules, international harmonization, and margin for uncleared swaps rulemakings were priorities for 2015.

Prudential Regulators

OFR Working Papers on CCP Risk: On May 7, the Office of Financial Research (OFR) [released two working papers](#) that focus on the potential risks of central clearing of over-the-counter derivative transactions. Click [here](#) for a the link to the study entitled “Systemic Risk: The Dynamics under Central Clearing,” and click [here](#) for the study entitled “Hidden Illiquidity with Multiple Central Counterparties.”