



End users and derivatives: Current and future trends

A PricewaterhouseCoopers/Futures
and Options Association Survey

Executive Summary

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The derivatives industry continues to evolve at a rapid pace with both exchange-traded and OTC derivatives volumes increasing year on year. This year the FOA, in association with PricewaterhouseCoopers, decided to seek the views of a small cross-representative group of key market intermediaries and end users on the anticipated impact that a number of external factors could have upon the industry's development.

You will see from the survey questionnaire (Appendix 1) that we covered a range of issues including:

- Where do conflicts of interest lie and how are they being managed?
- Whether International Financial Reporting Standards will have an impact upon market development and how market intermediaries should be helping end user clients meet their obligations under these Standards.
- Whether increased regulation will restrict market development and how end user clients perceive the value and cost of regulatory protections.

- How will the relationship between the OTC and exchange-traded markets develop and what factors will influence their respective appeal to end user clients?
- Over the next five years, where do the opportunities and risks lie for market intermediaries and end user clients?

We would like to record our thanks to the selected firms that responded to our survey. We believe that the survey's findings provide an interesting perspective on how the views of market intermediaries and end user clients diverge in a number of key areas. In our view, these findings highlight the need for a more comprehensive survey on the views and market priorities of a broader spectrum of market participants.

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02 Executive summary

The PricewaterhouseCoopers/FOA 2005 Survey offers a revealing and sometimes surprising insight into the challenges facing the UK derivatives market, from the contrasting points of view of market intermediaries and end users.

The most striking finding is the degree to which broker dealers and their clients hold differing opinions on matters such as conflicts of interest, the relative merits of OTC and exchange-traded business, and priorities for investment. It is particularly notable that the two groups have some contrasting views on how the market is likely to develop – a finding that suggests the need for a broader dialogue on the future of the markets.

Another key conclusion is that clients consistently value best execution and price transparency above all other broker services. Timely execution and effective segregation of funds are also important, but investment research, advice and valuation support are the least valued products. These findings may come as a disappointment to broker dealers, suggesting as they do that clients are disinterested in many of the 'value-added' services they offer.

The other major discovery of the survey is the extent to which the introduction of IFRS and the growing burden of regulation are causing concern across all areas of the derivatives market. Both of these developments are expected to have a far-reaching impact on market participants.

The views of broker dealers and their clients diverge over conflicts of interest. Broker dealers are most concerned about the potential conflict of interest between client needs and the priorities of the trading desk but, despite regulatory attention on this area, clients are more worried about conflict between brokers' OTC margins and transparent pricing. Although broker dealers feel that they have adequate processes in place to prevent conflicts of interest from affecting price transparency, they and their clients agree that there is room for improvement.

Clients also show themselves to be less concerned than broker dealers about soft commissions. The bundling of free investment research to clients is identified as a major issue by several brokers, but leaves the majority of clients unconcerned.

Survey respondents predict that the introduction of International Financial Reporting Standards (IFRS) will have a considerable impact on the derivative markets, and particularly on the area of OTC trades. Most respondents expect IFRS to lead to smaller OTC deal sizes, as clients seek greater hedging precision. A slight majority also expect the total size of the OTC market to reduce, owing to the valuation and documentation requirements of IFRS making hedging with OTC instruments less attractive. In contrast, the exchange-traded market is expected to be less affected; although some respondents predict smaller deal value, overall levels of business are not expected to change.

When asked to rank the challenges facing the derivatives market as a whole, respondents identified IFRS as a major challenge for both exchange-traded and OTC business. Among clients, it is seen as the single largest challenge for the future. Broker dealers are comparatively less worried but could face other repercussions; clients are much more reluctant than brokers think to use IFRS valuation support services from their intermediary. Instead, the majority would prefer to use a third party valuation.

Regulation emerges from the survey results as the single greatest challenge facing the derivatives market. Broker dealers consider regulation to be the pre-eminent threat to their business, and clients also predict that the growing compliance burden will have far-reaching effects. Respondents expect the cost of regulation to reduce the number of smaller players in the derivatives market and lend a competitive advantage to large scale players. A third of respondents predict that increasing regulation will reduce significantly derivative volumes.

Despite the perceived risks of increased regulation, it is surprising to note that several respondents see the OTC market as being insufficiently regulated. Presumably not all broker dealers would agree with this assessment.

When assessing OTC products versus exchange-traded derivatives, respondents agree that price transparency and the central counterparty are major benefits of trading on an exchange. Nonetheless, the majority of clients would like to see exchanges develop more flexible OTC-style products. It is also surprising that a majority of broker dealers believe clients prefer dealing on an exchange, given that the balance of client responses is slightly in favour of the OTC contract. Other results too imply that exchange brokers should not be complacent. For example, a significant minority of clients believe that greater transparency will see OTC volumes increase at the expense of exchange-traded business.

When asked to consider the coming five years, broker dealers and their clients make some interesting predictions for the derivatives market. Overall, the major sources of client business are expected to continue as they are now. Hedge funds in particular are being relied upon for growth – a finding that could indicate considerable scope for disappointment should the growth in this sector stall. A surprising – and potentially worrying – result is that broker dealers identify systemic risk as a real threat to their business.

In terms of investment, broker dealers seem to believe that back office systems and processes need more attention. System controls, technology, documentation and settlement are all identified as challenges for the derivatives market, particularly the OTC market. In contrast, clients want to see spending prioritised on the development of OTC trading platforms.

Looking to future developments in trading, clients and broker dealers predictably give differing responses. On the OTC side, brokers hope electronic platforms will streamline trade processing and settlement; clients hope electronic trading will reduce broker fees and pricing spreads significantly. Clients and brokers also disagree over the likelihood of credit derivatives becoming electronically traded, with clients being far more bullish. There is a similar pattern for exchange-traded business. Several respondents see credit derivatives as the products most likely to migrate to exchanges, but others take a strongly opposing view. This polarisation suggests that many clients or potential clients do not fully appreciate the complexity of these products.

04 Question by question commentary

Conflicts

1. How much of an issue is the potential conflict within a broker dealer between its trading desks and the client-facing desk?

Client and broker perceptions diverge over potential conflicts of interest. Most brokers identify conflicts between trading and client prerogatives as a growing issue. Client responses are more varied; although some identify conflicts as a major issue, others are surprisingly unconcerned. Apparently the negative publicity generated by Eliot Spitzer is not worrying the end users of derivatives as much as might have been expected.

2. Please rank the following in order of what you think are the major areas for conflict of interest.

As in Question 1, answers given here show clients and broker dealers differing over conflicts of interest. The conflict between trading and client priorities is identified as the leading area of risk by the majority of broker dealers; by contrast, clients see a clash between more transparent pricing and the desire to protect OTC margins as the greatest risk.

3. Broker dealers and brokers are required to manage their conflicts effectively. In your opinion, how well do they do this?

Responses to this question add further colour to market views on conflicts of interest. Despite stating in Question 2 that price transparency is not a major area of potential conflict, broker dealers say that the management of this conflict could be improved. Clients, naturally sensitive to pricing issues, agree. It is also interesting to note that the potential conflicts of interest posed by the provision of investment research concern the broker community more than its clients, who consider this the least worrying area of conflict.

International Financial Reporting Standards (IFRS)

4. IFRS requires all derivative products to be fair-valued and makes hedge accounting more difficult to achieve. What impact do you think this will have on the size of the market?

Question 4 prompts a surprising response from survey participants. A considerable number predict that the OTC market will suffer a significant decrease in volume

as a result of IFRS. In contrast, few predict that the exchange-traded market will be affected. Given the flexibility and precision that the OTC contract offers, this result suggests clients are more concerned about the reporting and valuation burden under IFRS.

5. IFRS rules on hedge accounting make portfolio hedging of net risk positions difficult. One possible consequence might be that clients seek to do smaller trades to get greater hedging precision or alternatively deals may become bigger because exposures have not. Do you think IFRS will have an impact on trade sizes?

Responses to this question suggest that IFRS will encourage customers retaining OTCs as a hedging tool to seek greater precision through smaller trades. Although there is little evidence of this happening so far, respondents may be expecting a change over time, as clients use OTC flexibility for more efficient risk management.

6. What extra support services should be provided for by the broker dealer community to help support clients to value OTC and exchange traded derivative instruments in accordance with IFRS?

The results of Question 6 will come as a disappointment to broker dealers. Brokers believe they should provide valuation support to clients, creating a useful source of revenue. Unfortunately for the broker community, most clients seem to disagree and would say they would prefer to use the services of third party valuation/pricing specialists.

7. For OTC contracts how do you rate the support currently given to clients for valuation of derivative products?

Clients answering this question appear to be concerned about the quality of valuation support they are receiving. Positively, broker dealer responses show that they recognise this issue; hopefully they are taking steps to improve matters. The expectation gap appears to be particularly marked for structured product valuations, suggesting that brokers should be doing more to help their customers understand the complexities of valuing these instruments.

8. Which of the following best describes the way you report information to clients/receive information from brokers for OTC contracts?

Client and broker responses to this question paint a consistent picture. The majority of respondents use electronic, automated client reporting for OTC business, but a surprising number say that manual, paper-based reporting remains the norm. Even allowing for the difficulty of automating structured product confirmations, this is an unexpected result and suggests that there may still be scope for greater investment in client reporting.

Regulation

9. Will increasing regulation have any impact on market volumes? (Regulation is defined by financial services legislation emanating from the FSA or the European Union.)

Although the majority of respondents do not expect growing regulation to affect market volumes, over a third do expect a significant decrease in volumes. Understandably, clients are less concerned than brokers about the possible impact of regulation.

10. What will be the effect of the cost of increased regulation on small-size market participants?

Clients and broker dealers are equally concerned about the impact of regulation and deliver a strong warning to smaller market participants. Most respondents expect regulation to thin the ranks of smaller players, and several predict the growing compliance burden will give large players a scale advantage. Not a single respondent expects smaller market players to escape the effects of greater regulation unscathed.

11. Which of the following investor protections/services are most valued by clients?

Answers given here provide a clear overview of clients' priorities. Best execution and price transparency are the attributes most valued in a broker dealer, followed by timely execution and effective client money segregation. Unfortunately for brokers seeking to provide further services, clients are far less interested in research, investment advice and valuation support.

OTC versus exchange-traded products

12. Are clients more comfortable with dealing on an exchange as opposed to an OTC basis with a broker dealer?

When asked to assess the preferences of clients, there is a noticeable discrepancy between broker dealers and clients themselves. Broker dealer respondents say that clients prefer exchange-traded products, but clients themselves take a more balanced view. A small majority of clients prefer the flexibility of an OTC contract, suggesting that brokers may need to make more effort to understand their clients' priorities.

13. Will increased transparency increase the volume of OTC business at the expense of exchange-traded?

Increased transparency is expected to lead to steady or higher OTC volumes, according to almost all the respondents to this question. Since greater transparency will always tend to erode margins and stimulate demand, this is not surprising. Even so, it makes an interesting contrast with Question 9, where it is predicted that more regulation will reduce overall market volumes. It may be that the potentially conflicting effects of IFRS, new regulation and greater transparency are making it harder for participants to predict aggregate market volumes.

14. What do you see as the benefits of using exchanges?

Clients and broker dealers appear to hold similar views on the benefits of using exchanges. Both recognise the value of price transparency and the role of the central counterparty, not only to reduce credit risk but also to simplify credit checking and confirmation. However, respondents do not agree on every point: the standardisation of exchange trades is one area where clients see more value than broker dealers.

15. Rate the following challenges facing both markets.

Some interesting themes emerge from the responses to this request. One major contrast is that over-regulation is identified as a challenge for exchange-based trading, while insufficient regulation emerges as a concern for the OTC market. Given that regulation is currently quite even-handed on both areas of the market, this implies that exchange-traded business is seen as meriting a lighter touch.

06 Question by question commentary

A second notable contrast is that poor client understanding is identified as a greater challenge for exchange-traded than for OTC business. At face value this is surprising, but may indicate that end users take more care when entering the 'jungle' of the OTC market than they would when trading in futures.

Finally, it is interesting to note that accounting changes are expected to impact all areas of the market, exchange-traded as well as OTC.

16. What added value products/services should exchanges develop?

In answering this question, clients and brokers arrive at a similar conclusion by different routes. Understandably, clients would strongly favour the flexibility of OTC-style products if they could be introduced to an exchange environment. Brokers would also welcome the introduction of OTC features, but with a focus on the development of straight-through processing.

17. What are your views on bundling – i.e. offering free research to clients in exchange for their business?

Question 17 reveals a surprising divergence between clients' and broker dealers' views. Several brokers identify the bundling of research as a major issue; but, despite the extensive publicity over soft commissions, most clients report that they are unconcerned. With Question 1, this is the second result that suggests end users may be less aware – or less concerned – about regulatory activity than might be assumed by the other market participants.

18. Within the next two years which OTC products will migrate to electronic trading platforms?

The responses to this question illustrate how poor understanding can lead to expectation gaps. There is some agreement between clients and broker dealers on which OTC products may migrate to electronic platforms, with equity and commodity derivatives and interest rate swaps considered the most likely. However, in contrast to brokers, many clients also expect credit derivatives to migrate to electronic platforms soon, suggesting they underestimate the complexities of credit trading.

19. What effect will electronic trading have on the OTC market?

In answering this question, clients show why they hope to see the OTC market shift further towards electronic trading. Overall, clients expect electronic platforms to have a far greater impact on the market than brokers do, with particular expectations that electronic trading will reduce fees and spreads and increase liquidity. While this might be true, clients may well have unrealistic expectations about how fast electronic trading will develop.

20. For OTC products how important do you see the role of DTCC and Swapswire to resolve some of the operational issues?

Few clients responded to this question. With custodians such as DTCC and Swapswire competing for market share in the clearing and settlement of credit derivative transactions, it is not surprising to find that broker dealers are more aware of these entities than clients are.

Technology

21. What key technology solutions are required in the market?

In identifying the market's major requirements for technology investment, clients and broker dealers again reveal their differing priorities. Clients want to see the development of electronic trading and matching for OTC products, which they hope will lead to lower margins and more transparent pricing. By contrast, broker dealers are more interested in improving the effectiveness and efficiency of clearing and settlement activities. These may not be mutually exclusive if the benefits of lower costs are shared with clients.

Developments over the next five years

22. Please rank in order the OTC derivative contracts you think will become the next significant contributors to exchange-traded volumes.

The predictions made in response to this question tally closely with the findings of Question 18. Interest rate swaps, equity derivatives and commodity derivatives are identified as the products most likely to migrate to exchanges. The major surprise, as before, is in the area of credit derivatives. These are apparently expected by some respondents to become exchange-traded within five years – a prediction that looks highly optimistic.

23. Please rank your perceived growth for new clients.

In identifying client groups likely to generate growth, respondents seem not to expect any significant change from current patterns of business. Hedge funds are considered to be the most likely source of future growth, closely followed by asset managers, then pension funds and broker dealers. Based upon this finding, continued vibrancy in the hedge fund sector is likely to remain a crucial driver of activity levels in the derivatives market.

24. What do you see as the three biggest challenges in the derivatives market going forward?

Clients' responses to this question reveal some highly consistent themes and a number of possible concerns. Unsurprisingly, the topical issue of IFRS emerges as the most widespread concern. The other predominant worry is the regulatory and compliance burden, seen as a major driver of costs. Price transparency is again identified as a concern, along with liquidity issues. And looking further forward, consumer ignorance, the risk of mis-selling and the need for a better IT support infrastructure are also seen as challenges.

Brokers and broker dealers identify an even wider range of challenges. Regulation is clearly the leading concern, with both European and local compliance requirements seen as adding to costs and reducing trading efficiency. However, IFRS is a far lesser worry than it is for clients. Respondents trading on exchanges identify a number of issues, including exchange consolidation and the need to respond

to the challenge of OTC business. For the smaller exchanges, the need to resolve open outcry versus screen-trading issues is cited. By contrast, OTC respondents are less concerned about competition; in their view, major challenges for the OTC market include settlement and operational issues, credit risk, maintaining liquidity and the need for product innovation as a defence against developing markets and new entrants.

25. What are the greatest risks to your business and the economics of your trading activity in financial instruments?

This question produces a number of striking results. Firstly, systemic risks (defined here as over-leveraging and global inter-linkage) are identified as one of broker dealers' greatest worries. Secondly, credit risk in the OTC market emerges as a genuine concern among both clients and brokers. Performance-related remuneration is seen as the smallest risk among clients and brokers alike, despite recent regulatory focus.

The views of clients and brokers diverge over several risks, some of which follow familiar themes. For broker dealers, system controls and technology are among the more notable risks. Clients' concerns not shared by brokers include competitive pressures and product complexity.

Nonetheless, one risk generates concern among both clients and brokers – the ever-present challenge of regulation. This is the primary worry of broker dealers and also emerges as one of clients' greatest concerns.

26. How well do you think the following manage the risks to their business?

Clients and broker dealers reveal a degree of wariness for one another in their answers to this question. Although very few respondents believe risk management in the derivatives market is poor, both groups seem to think that the other is less well managed than they are themselves. Views on regulators are more mixed, but it is interesting to note that clients rate their risk management capabilities slightly more poorly than broker dealers do.

08 Appendix 1 – Survey questionnaire

Instructions to fill out survey

- All respondents should answer questions with a pink background.
- Clients should answer any questions with a red background.
- Broker/dealers should answer any questions with a dark red background.

Please complete the survey by Friday 29 April and return in the enclosed envelope to:

Carly Taylor
PricewaterhouseCoopers
Southwark Towers
32 London Bridge Street
London SE1 9SY
Tel: 020 7804 7625

Name of person filling out survey: _____

Position: _____

Name of institution: _____

Email address: _____

Which of the following are you (see definitions)?

Please tick

Broker/dealer

Client

Specialised proprietary trading/market making firm

OTC derivatives user

Exchange derivatives user

Replies are in confidence, but if you are willing to be quoted in our report, please tick

If you wish to receive an electronic copy of the final report, please tick

Definitions

Clients – Financial institutions who are end users of derivative products. Clients are often referred to as the ‘buy side’ and include corporate treasurers, asset managers, hedge funds, pension funds and monoline insurers.

Broker – Intermediary between financial intermediaries. A broker introduces buyers of derivative contracts to sellers. Brokers are not market makers and do not hold positions.

Broker/dealer – Financial institutions which are market makers in a specific derivatives product and deal for their own account as well as for the account of clients. They can include banks and securities houses. Broker/dealers can operate with or without a clearing house.

Specialised proprietary trading/market-making firms – Low capital-based institutions which focus on exchange traded products, often referred to as proprietary traders, market makers or local arcades and which cannot operate without a clearing house. These firms should not be confused with the specialised trading affiliates of commodity groups.

Over the counter (‘OTC’) – Bilateral contracts which do not usually need a central counterparty to be transacted. They include vanilla interest rate swaps, vanilla credit default swaps, vanilla commodity derivatives and foreign exchange. They exclude structured products.

Exchange-traded derivatives – Exchange-executed derivative products which are centrally-cleared, largely futures and options.

Centrally-cleared product – OTC product cleared through a separate counterparty.

Structured products – Non vanilla OTC contracts, which include products such as CDOs, CDO2, structured interest rate products, options combined with exotic swaps, quartos etc.

Bundling – A product offered by broker/dealers to clients to offer research or other services inclusively within commission charges.

10

Q1. How much of an issue is the potential conflict within a broker dealer between its trading desks and the client-facing desk?

Please tick one box

	Client response	Broker/dealer response
Major issue		
Increasing issue		
Not an issue at all		
Comments		

Q2. Please rank the following in order of what you think are the major areas for conflict of interest?

1 – most important, 5 – least important

	Client response	Broker/dealer response
Price transparency vs protecting OTC margin		
Own trading interest vs client interest		
Offer of exchange-traded or OTC product		
Provision of valuation services		
Provision of investment advice/research		
Other (please specify)		

Q3. Broker dealers and brokers are required to manage their conflicts effectively. In your opinion, how well do they do this?

1 – very well, 5 – very poorly

	Client response	Broker/dealer response
Price transparency vs protecting OTC margin		
Own trading interest vs client interest		
Offer of exchange-traded or OTC product		
Provision of valuation services		
Provision of investment advice/research		
Other (please specify)		

- Q4.** IFRS requires all derivative products to be fair-valued and makes hedge accounting more difficult to achieve. What impact do you think this will have on the size of the market?

Please tick one box

	OTC	Centrally-cleared products	Exchange-traded
No difference in volumes of trades executed			
Significantly decrease the volume of trades executed			
Significantly increase the volume of trades executed			
Comments			

- Q5.** IFRS rules on hedge accounting make portfolio hedging of net risk positions difficult. One possible consequence might be that clients seek to do smaller trades to get greater hedging precision or alternatively deals may become bigger because exposures have not. Do you think IFRS will have an impact on trade sizes?

Please tick one box

	OTC	Centrally-cleared products	Exchange-traded
Decrease the size of each trade			
No effect on the size of each trade			
Increase the size of each trade			
Comments			

- Q6.** What extra services should be provided for by the broker dealer community to help support clients to value OTC and exchange traded derivative instruments in accordance with IFRS?

Please tick one box

	Client response	Broker/dealer response
Not a broker dealer problem – solution should be provided by third party specialist		
Broker dealer should provide valuation services directly to clients		

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Q7. For OTC contracts how do you rate the support currently given to clients for valuation of derivative products?

Please tick box

	Client response		Broker/dealer response	
	Vanilla OTC	Structured products	Vanilla OTC	Structured products
Excellent				
Average				
Poor				
Nothing offered				

Q8. Which of the following best describes the way you report information to clients/ receive information from brokers for OTC contracts?

Please tick box

	Client response	Broker/dealer response
Paper based, heavily manual		
Electronic and automatic		
No reporting		

- Q9.** Will increasing regulation have any impact on market volumes? (Regulation is defined by financial services legislation emanating from the FSA or the European Union.)

Please tick one box

	Client response	Broker/dealer response
No difference in volumes of trade executed		
Significantly decrease the volume of trades executed		
Significantly increase the volume of trades executed		

- Q10.** What will be the effect of the cost of increased regulation on small-size market participants?

Please tick one box

	Client response	Broker/dealer response
It will reduce the number of smaller players participating in the market		
No effect on smaller players		
It will give larger players a competitive advantage		

- Q11.** Which of the following investor protections/services are most valued by clients?

Please rank them in order of priority

	Ranking
Segregation of client money	
Best execution	
Assessment of suitability of transactions	
Price transparency	
Research	
Investment advice	
Valuations	
Timeliness of execution	
Other – please specify	

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Q12. Are clients more comfortable with dealing on an exchange as opposed to an OTC basis with a broker/dealer?

Please tick one box

	Client response	Broker/dealer response
Indifferent		
Strongly prefer OTC contract		
Mildly prefer OTC contract		
Strongly prefer exchange-traded contract		
Mildly prefer exchange-traded contract		
Strongly prefer OTC but centrally-cleared		
Mildly prefer OTC but centrally-cleared		
Comments		

Q13. Will increased transparency increase the volume of OTC business at the expense of exchange-traded?

Please tick one box

	Client response	Broker/dealer response
Increase volume of OTC		
Decrease volume of OTC		
No change		
Comments		

What do you see as the benefits of using exchanges?

Q.14 Please rank (1 – biggest benefit, 6 – least benefit)

	Client response	Broker/dealer response
Increased standardisation		
Central credit counterparty		
Increase speed of transactions		
Cost per trade reduction (lower operational support)		
Greater price transparency		
Regulated market		
Arbitration services		
Other (please specify)		

Q15. Rate the following challenges facing both markets.

1 – highest challenge, 5 – lowest challenge

	OTC	Exchange-traded
Insufficient regulation		
Over-regulation		
Operational issues such as booking trades/confirmations		
IFRS and US GAAP		
Poor client understanding		
Bad press		
Other (please specify)		

Q16. What added value products/services should exchanges develop?

Please tick one box

	Client response	Broker/dealer response
Pricing tools		
OTC-style products		
OTC trade capture, matching & route to clearing		
New standardised exchange contracts		
Other (please specify)		

Q17. What are your views on bundling – i.e. offering free research to clients in exchange for their business?

	Client response	Broker/dealer response
Not an issue		
Major issue		
Comments		

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Q18. Within the next two years which OTC products will migrate to electronic trading platforms?

Please tick products which will migrate

	Client response	Broker/dealer response
Credit derivative		
Interest rate swap		
Equity derivatives		
Inflations swaps		
Emissions		
Weather derivatives		
Commodity derivatives		
Property derivatives		

Q19. What effect will electronic trading have on the OTC market?

Please rank in order of importance (1 – biggest impact, 6 – least impact)

	Client response	Broker/dealer response
Significantly reduce operational and booking errors		
Disintermediate the brokers		
Broker fees will reduce significantly		
Brokers will redefine their business model focusing on voice broking		
Reduce spreads significantly		
Increase liquidity		

Q20. For OTC products how important do you see the role of DTCC and Swapswire to resolve some of the operational issues?

Please tick one box

	Client response	Broker/dealer response
Very important		
Not important at all		
Never heard of them		
Comments		

Q21. What key technology solutions are required in the market?

Please tick as many boxes as you believe applicable

	Client response	Broker/dealer response
Offering fully integrated cash and derivative execution		
Electronic trading of OTC products		
Use of matching engines for OTCs trades		
Specialised matching engines to cater for OTC markets		
Trade processing and trade life cycle management		
Clearing OTC business		
Other (please specify)		

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Q22. Please rank in order the OTC derivative contracts you perceive as becoming the next significant contributors to exchange-traded volumes?

1 – most likely to become exchange-traded, 5 – least likely to be exchange-traded

	Client response and broker/dealer response
Credit derivatives	
Interest rate swap	
Equity derivatives	
Inflations swaps	
Emissions	
Weather derivatives	
Commodity derivatives	
Property derivatives	

Q23. Please rank your perceived growth for new clients.

1 – most growth, 5 – least growth

	Client response and broker/dealer response
Asset managers	
Pension funds	
Retail investors	
Broker dealers	
Mono-line insurance	
Companies	
Corporates	
Hedge funds	
Governments	

Q24. What do you see as the three biggest challenges in the derivative market going forward?

Client response	Broker/dealer response
1	1
2	2
3	3

Q25. What are the greatest risks to your business and the economics of your trading activity in financial instruments?

Please rate the severity out of 5 (1 – lowest, 5 – highest)

	Client response	Broker/dealer response
Performance-related remuneration		
Lack of adequate products		
The cost and complexity of regulation		
Systemic risk (e.g. excessive leveraged exposures/ global interlinkage)		
Weak corporate governance		
Market volatility		
Fraud		
Competitive pressures		
Market risk		
Credit risk management		
Poor systems controls		
Technology risk		
Inadequate regulation		
Product complexity		
Mis-selling		
Legal and regulatory risk		
Poor business standards		

Q26. How well do you think the following manage the risks to their business?

Please tick one box

Brokers

	Client response	Broker/dealer response
Moderately well prepared or better		
Mixed		
Poorly or worse		

Regulators

	Client response	Broker/dealer response
Moderately well prepared or better		
Mixed		
Poorly or worse		

Clients

	Client response	Broker/dealer response
Moderately well prepared or better		
Mixed		
Poorly or worse		

The Futures and Options Association

The FOA is a European Industry trade association for firms and institutions carrying on business in futures, options and the other derivatives or which use such products in their business. Its principal role is to represent the interests of members in the public and regulatory domain and deliver a wide range of support services to the core membership, which includes banks and financial institutions, brokers, commodity trade houses, energy and power market participants fund managers, exchanges and clearing houses.

The FOA fulfils its role by:

- constructive liaison with regulators, governments and other political and trade bodies at national, European and international levels;
- producing standardised industry documentation, publications and guidelines;
- delivering training courses and workshops;
- raising public awareness and understanding of the futures and options industry.

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