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SIBOS ISSUES

Preview edition

SIBOS WEEK AT A GLANCE

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Which side are you on?

SWIFT Institute connects research with reality in ground-breaking derivatives reform debate

Osaka will witness a new forum for intelligent, informed debate, brought to Sibos by the recently launched SWIFT Institute.

The subject for debate – will current reforms really reduce risk in the OTC derivatives markets? – is an apt one for the institute, founded to establish a mutually beneficial connection between academic finance research and market practitioners.

From 2013, the SWIFT Institute will offer 12 grants per year to support independent research focused on transaction banking, covering the areas of payments, clearing and settlement, cash management, trade finance and securities.

"Financial markets infrastructures are heavily under-researched and are largely unnoticed by most people until problems arise," said Professor Dr. Ron Berndsen, head of the oversight departments at De Nederlandsche Bank, the Dutch central bank, and endowed professor of financial infrastructure and systemic risk at the University of Tilburg. Berndsen is a member of the advisory council that guides work carried out by the SWIFT Institute.

"SWIFT is well positioned to stimulate research in this area by being able to propose projects that will appeal to researchers, the huge dataset it has access to and its neutral position."

Across the whole host of post-crisis regulatory initiatives that have moved ahead since the financial crisis, few are likely to have as much of an impact as the overhaul of the OTC derivatives market. While the rules are close to being finalised in both the US and Europe ahead of the Group of 20's January 2013 implementation deadline, doubts remain as to whether it will achieve the overall aim of limiting systemic risk in the swaps market.

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The core tenet of the OTC derivatives rules require trades to be cleared via central counterparties, the intention being to shift risk from financial institutions to safe and robust market infrastructures.

Held on Monday 29 October at 11am in Conference room 2, the Sibos Colloquium debate will pitch an academic perspective – led by Manmohan Singh, senior economist at the International Monetary Fund – against a market-led view from Godfried De Vidts, director of European affairs at interdealer broker ICAP.

Swords crossed

During the session, which will be introduced by SWIFT CEO Gottfried Leibbrandt, Singh will present evidence and arguments from his working paper 'Making OTC derivatives safe – A fresh look', which essentially argues that placing clearing houses in the middle of OTC derivatives transactions could create the next set of too-big-to-fail entities. Singh warns the current approach could lead to another taxpayer bailout and proposes a tax on derivatives liabilities to create a public utility model for OTC derivatives market infrastructure.

De Vidts will provide a market response to Singh's views, offering his perspective on whether the structure proposed for the OTC derivatives will ensure market stability. Exchanges will be forthright but insightful – and our duellists will offer Sibos delegates the opportunity to joust before the dust settles.