



**Testimony before the SEC and CFTC Joint Meeting
Yvonne Downs, Senior Director, Newedge USA, LLC
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Thank you. It's an honor to appear before this important assembly. As you may know, Newedge has consistently supported efforts to harmonize CFTC and SEC rules, and has been an advocate for the creation of a single financial services regulator.

Given the political reality that a single regulator will not be created, harmonization of CFTC and SEC rules is the next best thing. In our opinion, this will be an important step in the management of market risk. In addition, it will be good for business in the US.

Currently too much of our institutional business needs to be directed to the UK where the regulatory environment is less complicated but requires portfolio margining of multi-asset accounts.

As background, Newedge was created through a merger in 2008 and we are now one of the world's top derivatives brokers – handling directly or indirectly all types of financial assets for our institutional clients.

From this global viewpoint, we are able to think about the potential harmonization of U.S. financial regulations with a unique perspective. Although we do not handle retail clients, we at Newedge have always been struck with the idea, in theory that, we might be required to decline a customer under FINRA rules as “unsuitable” to buy or sell shares of an ETF like US Oil, but could offer the same customer an opportunity to buy or sell crude oil futures or options. Generally, we operate in the U.S. as if we have only one set of regulations – namely, the “toughest” of the applicable rules of either regulator. However, just because the rule is the toughest does not mean it is the best.

In our opinion, the most critical area for harmonization is in portfolio margining. Newedge has been a leader in providing this service on equities and options to its customers under various SRO rules. It has reduced our customers' risk to us, to themselves, and to the markets. It allows customers to maintain both their equities and options positions in one account and to obtain the benefit of any off-sets. However in the US, true portfolio margining – combining both futures and securities products in one account -- has not gained traction because the CFTC and SEC have not recognized each other's “good customer funds” location. This has prevented the advance of a program that is beneficial for both customers and brokers, and, perhaps most importantly, could reduce systemic risk.

Comprehensive portfolio margining is critical to encourage some brokers, such as Newedge, to participate in the clearing of credit default swaps and other OTC products. CDS products are anticipated to have higher margin requirements than traditional futures. Thus, holding them outright over a long term for customers would generate significant capital requirements for the firm. This is because our capital requirements are driven by our customers' margin requirements as we operate under the futures model today. The higher these requirements are, the more capital we must maintain. And, in a near zero interest rate environment, the opportunity cost of maintaining large amounts of capital is not attractive.

However, with true portfolio margining, holding credit default swaps with their offsetting hedges would potentially moderate our customers' margin requirements, reduce our clients' overall risk with us, and reduce our potential capital requirement. We hope the CFTC and SEC will expedite the resolution of any issues that have prevented comprehensive multi-asset portfolio margining.

There are several other areas that we believe harmonization should occur.

In the area of:

- Books and records and disclosures: All requirements should be simple, consistent and identical across both agencies.
- Client type definitions: There are too many different types of sophisticated and institutional client definitions under both the SEC and CFTC; for example ECPs and QIBs. These should be simplified into 2-to-3 types and made consistent across both regulators;
- Customer funds protection: We have already discussed this in the context of portfolio margining. There should be only one way that customer assets are protected. This will ensure the fair and prompt distribution of customer assets if a combined Broker Dealer/FCM were to file for bankruptcy;
- And, access to foreign markets: Institutional clients should be given equivalent access to non-US-traded products. This should be through overseas brokers who are subject to comparable regulations whether the products are securities or futures.

In addition, two areas driven by public policy considerations include:

- Manipulation and anti-fraud. Policy in this area needs to be harmonized. However new rules should not inhibit transactions done for bona fide hedging or risk management purposes; and
- And, lastly, Suitability. All private or retail clients should be protected from brokers selling unsuitable products – no matter what type of product.

I will be pleased to answer any of your questions. I thank you for providing this forum and for seeking input in this important discussion.

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