

**MINUTES OF THE JUNE 4, 2024 MEETING OF THE
U.S. COMMODITY FUTURES TRADING COMMISSION'S
GLOBAL MARKETS ADVISORY COMMITTEE**

The Global Markets Advisory Committee (“GMAC”) convened for a public meeting on Tuesday, June 4, 2024, at 10:00 a.m., at the U.S. Commodity Futures Trading Commission New York Regional Office, in the Ted Weiss Federal Building, located at 290 Broadway, New York, NY 10007. The meeting consisted of several presentations and one panel. The first presentation consisted of the Global Market Structure Subcommittee’s recommendation on the impact of the U.S. Bank capital proposals on end-users that rely on cleared derivatives markets. The panel on swap execution facilities (SEF) then followed. The GMAC also considered a recommendation from the Technical Issues Subcommittee (TIS) on variation margin processes in non-centrally cleared markets. A presentation on global commodity markets and another from the CFTC Office of International Affairs followed. The meeting concluded with updates from the subcommittees on future agenda items.

GMAC Members in Attendance:

Chris Allen, General Counsel for Banking and Markets, and General Counsel of HSBC Bank
Darcy Bradbury, Vice-Chair, GMAC, and Managing Director and Head of Public Policy, D.E. Shaw & Co.
Perianne Boring, CEO, Chamber of Digital Commerce
Issac Chang, Head of Central Execution, Global Fixed Income, Citadel
Jason Chlipala, Chief Operating Officer, Stellar Development Foundation
Gerard Corcoran, Chief Executive Officer and Chairman of the Board, R.J. O’Brien and Associates
Adam Farkas, Chief Executive Officer, GFMA, and Chief Executive Officer, GFME
Scott Fitzpatrick, Chief Executive Officer, Tradition SEF, Tradition Group, CFT
Amy Hong, Chair, GMAC, and Head of Market Structure and Strategic Partnerships, Global Banking and Markets, Goldman Sachs
John Horkan, LSEG Post Trade and LCH Group Chief Operating Officer and LCH Head of Americas, LSEG
Steven Kennedy, Global Head of Public Policy, ISDA
Derek Kleinbauer, President, Bloomberg SEF, Bloomberg LP
Chuck Mack, Vice President, Head of Strategy & Market Structure North American Markets, NASDAQ
Jacqueline Mesa, Chief Operating Officer and Senior Vice President, Global Policy, FIA
John Murphy, Global Head of Future Division, Mizuho Americas, Commodity Markets Council
Eric Muller, Chief Executive Officer, Eurex Clearing AG, Eurex
Joseph Nicosia, Global Trading Operations Officer and Head of Global Cotton Platform, Louis Dreyfus
Dave Olsen, President and Chief Investment Officer, Jump Trading Group, FIA PTG
Tetsuo Otashiro, Senior Head of Global Policy and Regulation, JSCC,
Christopher R. Perkins, President, CoinFund
Thomas Pluta, President, Tradeweb
Sachiyo Sakemi, Global Head of Legal for BlackRock Global Markets Group, BlackRock
Thomas Sexton, President and Chief Executive Officer, NFA
Jason Swankowski, Executive Director, Morgan Stanley

Brad Tully, Co-Chair, Global Market Structure Subcommittee (GMSS), Managing Director,
Global head of Corporate and Private Side Sales and Head of Americas Sales
J.P. Morgan
Thane Twigs, Chief Compliance Officer, Cargill Risk Management, Cargill
Stuart Williams, COO, ICE
Jason Vitale, Global Head of Foreign Exchange, Fixed Income & Equities, BNY Mellon
Chris Zuehlke, Partner and Global Head of Cumberland, DRW

CFTC Commissioners and Staff in Attendance

Caroline D. Pham, Commissioner and GMAC Sponsor
Summer K. Mersinger, Commissioner
Harry Jung, Counselor and Senior Policy Advisor, Commissioner Caroline D. Pham, GMAC
Designated Federal Officer (“DFO”)
Nicholas Elliot, Confidential Assistant and Policy Advisor, Commissioner Caroline D. Pham,
GMAC Alternate Designated Federal Officer

Invited Speakers and Other Attendees

Caroline Butler, Co-Chair, Digital Asset Market Subcommittee, Global Head of Digital Assets,
BNY Mellon
Kyle Glenn, Vice President of US Government Relations, FIA
Tara Kruse, Co-Chair, Technical Issues Subcommittee, Global Head of Derivative Products and
Infrastructure
Adam Lister, Interest Rate Swaps Electronic Trading Product Manager, Bloomberg
Jacqueline Mesa, Chief Operating Officer and Senior Vice President, Global Policy, FIA
Andrea Musalem, Associate Director, Office of International Affairs, CFTC
Thomas Pluta, President, Tradeweb
Derek Sammann, CME Group
Michael Winnike, Co-Chair, GMSS, and Director, Global Head of Market Structure, Global
Trading Group, BlackRock

I. Opening Remarks

Mr. Jung welcomed the attendees, noted the quorum, and outlined the agenda. He stated that there would be a vote after each presentation of the subcommittee recommendation.

Mr. Jung then turned the meeting over to Commissioner Pham, the GMAC Sponsor. In her opening remarks, Commissioner Pham warmly welcomed all attendees to the second GMAC meeting of 2024, thanked her team for putting together the meeting, and thanked all GMAC members for their dedication in addressing global market challenges. In particular, Commissioner Pham highlighted the GMAC's significant achievements in adopting 11 recommendations on various critical market issues in less than a year. She then provided a detailed update on the status of each GMAC recommendation, showcasing their tangible impact on CFTC's actions and international policy dialogues. These recommendations covered market structure enhancements, improved collateral management, CCP default simulation, trade reporting data streamlining, and a foundational taxonomy for digital asset regulation. Finally,

Commissioner Pham welcomed new members to the GMAC and its subcommittees, highlighting the addition of expertise and leadership to the committee's ranks.

Mr. Jung then introduced Commissioner Mersinger's pre-recorded remarks, in which she expressed gratitude to the members of the GMAC for their hard work and recommendations. She specifically thanked Commissioner Pham for her sponsorship, and Messrs. Jung and Elliot, and the CFTC staff in facilitating the meeting.

Mr. Jung briefly discussed meeting logistics, Q&A format, and read the names of committee members who were attending virtually. Ms. Hong, the GMAC Chair, provided welcoming remarks. Ms. Bradbury, the GMAC Vice-Chair, also welcomed all attendees. She then introduced Mr. Glenn and Mr. Twiggs, who went on to discuss the Global Market Structure Subcommittee Recommendation.

II. Global Market Structure Subcommittee Recommendation: The Impact of the US Bank Capital Proposals on End-Users that Rely on Cleared Derivatives Markets

Messrs. Glenn and Twiggs highlighted the potential adverse impact of the proposed U.S. bank capital rules, specifically the Basel III Endgame and G-SIB surcharge proposals, on the derivatives markets and the end-users who rely on them. The core concern was the significant increase in capital requirements for banks that provide client access to derivatives, potentially leading to a reduction in market liquidity, increased hedging costs for end-users, and heightened systemic risk.

Both presenters emphasized that these rules could disincentivize clearing, a crucial mechanism for risk management in derivatives markets. The increased capital costs for banks could lead to reduced capacity or even withdrawal from offering client clearing services. This could force end-users, especially smaller ones without the resources for self-clearing, to face higher costs or even forgo hedging altogether, increasing their exposure to market risks.

The presenters also indicated that the potential consequences extend beyond just the financial sector. End-users in various industries, including agriculture, energy, and manufacturing, rely on derivatives for price discovery and risk management. The proposed rules could disrupt these essential functions by increasing market volatility and creating an uneven playing field between U.S. and foreign banks.

In conclusion, Messrs. Glenn and Twiggs outlined three recommendations for CFTC action: (1) to continue engaging with U.S. bank regulators, (2) conduct an independent study to understand the proposals' impact on derivatives market users, and (3) organize a roundtable focused on derivatives markets with U.S. bank regulators.

Ms. Bradbury then opened the floor for questions and comments from the GMAC membership. Generally, the concerns raised in this session pertained to the "punitive" impact of the proposed bank capital rules, the decline of FCMs, alongside other factors like technology and consolidation.

Commissioner Pham expressed her appreciation for the speakers' presentations, in particular the connection between commodity markets and food security emphasized by Mr.

Twiggs. She acknowledged the importance of carefully considering any implications that might reduce or restrict access to clearing, given the CFTC's mission to ensure market integrity and the concerns around FCM concentration and clearing model resiliency.

Ms. Bradbury then opened the floor for a motion to vote on the Subcommittee recommendation and to submit the recommendation to the Commission for consideration. Mr. Jung conducted a vote by show of hand with a simple majority needed to approve the recommendation. There were zero no votes, zero abstention, and 28 votes in favor. A simple majority was achieved, and the recommendation was adopted for submission to and consideration by the Commission.

Ms. Bradbury then introduced Messrs. Pluta, Fitzpatrick, and Lister as panelists for the SEF Panel.

III. SEF Panel

The first panelist, Mr. Pluta, began by outlining Tradeweb's significant role in the derivatives market, indicating that the firm operates two SEFs: DW SEF, which offers voice trading and central limit order book trading, and TW SEF, which offers disclosed electronic trading. He highlighted the substantial trading volumes on these platforms, particularly in interest rate swaps, where Tradeweb holds a leading position.

Mr. Pluta emphasized that the growth of electronic swaps trading, though catalyzed by Dodd-Frank and MiFID regulatory reforms, predated these mandates. He cited the development of a request-for-quote (RFQ) protocol in the U.S. Treasuries market in the late 1990s as a proof of concept, demonstrating the viability of electronic trading for large banking institutions. Mr. Pluta then noted key milestones such as the “made-available-to-trade” (MAT) determination and the introduction of new benchmark rates. He highlighted Tradeweb's proactive role in advocating for regulatory changes that promote global connectivity and market efficiency, such as its request to the CFTC to expand MAT requirements to include SOFR and SONIA.

Lastly, Mr. Pluta indicated that the growth of electronic trading has extended beyond MAT instruments, noting the increased volume of non-MAT swaps executed electronically, partly due to structural issues and partly due to the evolving preference for electronic trading.

The next panelist, Mr. Fitzpatrick, presented an overview of the SEF landscape 10 years after Dodd-Frank, focusing on the distinction between swaps that are MATs and those that are non-MATs, and highlighting the significant volume of non-MAT swaps executed on SEFs that are not subject to a clearing and/or trading mandate. He explained that while interest rate and credit derivatives, which include MAT swaps, account for 42% of executed transactions, currencies and equities, which have no MAT swaps, account for 58%. This indicates that SEFs are utilized for a broader range of swaps than those currently mandated for on-SEF trading.

Mr. Fitzpatrick also outlined the operational and regulatory intricacies arising from the U.S. nexus and Footnote 88 of the SEF rules. He argued that the current rules create unnecessary logistical and regulatory hurdles, as they assume a direct U.S. connection for nearly every swap a U.S. person enters into, regardless of its MAT status. Lastly, he highlighted the revenue disparity between MAT and non-MAT swaps, with MAT swaps generating more revenue due to the full-

service offering provided by SEFs. In contrast, non-MAT swaps are handled as an administrative processing function.

After Mr. Fitzpatrick's presentation but before the open member discussion, Commissioner Pham inquired whether the difference between the CFTC's market structure and that of the SEC or non-U.S. markets inhibits market access, and whether the CFTC should consider any changes to its unique structure.

Mr. Fitzpatrick clarified that the CFTC's market structure doesn't necessarily inhibit access. He highlighted the evolutionary nature of the OTC markets and suggested that the CFTC adopt a flexible approach in designing regulatory models for liquidity formation, price discovery, and execution. Similarly, Mr. Pluta agreed that the CFTC's structure doesn't hinder access by emphasizing the advantage of having multiple protocols and ways to access the markets.

Mr. Lister, the third panelist, then presented his observations on the derivatives marketplace, focusing on the significant growth in electronic trading since the introduction of SEFs and the MAT process in late 2013 and early 2014. According to him, the growth of interest rate swaps (IRS) trading on SEFs has been a success, demonstrating increased transparency, fair market access, and operational efficiency. However, the percentage of IRS trades subject to the MAT requirements has decreased over time. Many customers voluntarily trade on SEFs even for non-MAT instruments due to the associated benefits. In contrast, the credit default swaps (CDS) market has seen consistent growth, with MAT trading being the standard.

As for market participation and access, Mr. Lister indicated that SEFs primarily function as Dealer-to-Client (D-to-C) marketplaces, noting that anonymous order book trading is limited, with only CDX indices seeing significant activity. In addition, Mr. Lister highlighted how SEFs have expanded from trading three to four currencies in the early days to offering products in 27 currencies, allowing for greater participation by local liquidity providers and increased price transparency. He acknowledged, however, that non-U.S. dealers who are not registered as swap dealers with the CFTC face limitations in providing liquidity to U.S. persons, even though trades would be intermediated by their ECO/FCM per the SEF and CFTC rules. In closing, Mr. Lister recommended that the Commission consider revisiting the swap dealer exemption to weigh the benefits of improved pricing access for U.S. investors against any potential adverse impacts. He also asked for more regulatory clarity on the permissibility of trading the swap leg of an invoice spread on SEF.

Ms. Bradbury then opened the floor for questions and comments from the GMAC membership. Generally, the discussions in this session questioned the necessity of MAT requirements for further market expansion, given the industry's growing preference for electronic trading of swaps even for products not mandated by MAT, due to the operational efficiencies and risk reduction this platform offers.

After the conclusion of the member discussion, Chair Hong then introduced Ms. Kruse, who presented the TIS recommendation on variation margin processes in non-centrally cleared markets.

IV. TIS Recommendation: Variation Margin Processes in Non-Centrally Cleared Markets

In her presentation, Ms. Kruse asked the GMAC to adopt the TIS Recommendation of four BCBS-IOSCO key recommendations, namely:

1. **Addressing Operational and Legal Challenges:** The first recommendation emphasizes the use of online negotiation tools and digital solutions to foster the seamless exchange of margin and collateral calls during stress periods.
2. **Providing Flexibility in Collateral:** The second recommendation encourages firms to consider providing flexibility in bilaterally-agreed acceptable collateral to mitigate liquidity issues during stress periods.
3. **Standardization and Automation:** The third recommendation advocates for the standardization and automation of non-centrally cleared margin processes to reduce friction and operational delays. The use of open-source data standards is also encouraged to further enhance these benefits.
4. **Utilization of Third-Party Services:** The final recommendation suggests that firms lacking the infrastructure to build efficient in-house operations could benefit from third-party providers with robust technical offerings.

Chair Hong then opened the floor for questions and comments from the GMAC membership. As there were no questions or comments from attendees, Chair Hong then opened the floor for a motion to vote on the Subcommittee recommendation and to submit the recommendation to the Commission for consideration. Mr. Jung conducted a vote by show of hand, with a simple majority needed to approve the recommendation. There were zero no votes, one abstention, and 27 votes in favor. A simple majority was achieved, and the recommendation was adopted for submission to and consideration by the Commission.

[Break]

V. Presentation: Global Commodity Markets

Chair Hong introduced Mr. Sammann, the presenter on Global Commodity Markets. His presentation highlighted several key trends, including the faster growth of commodities compared to other sectors at CME Group, with metals, energy, and agricultural products experiencing double-digit growth in volumes and open interest. The increasing preference for options trading, particularly in copper, where open interest in options has surpassed futures for the first time, is another notable trend. He also underscored the expanding participation from various client segments, including commercials, buy-side, banks, and professional retail traders. Thus the globalization of commodity markets has been evident, with the fastest growth originating from EMEA and APAC regions. Furthermore, he observed a convergence across asset classes, with traders venturing into new markets, blurring the traditional lines between energy, agriculture, and metals.

Chair Hong then opened the floor for questions and comments from the GMAC membership. Generally, the concerns and discussions raised in this session included: the impact of the Russia-Ukraine war on market volatility and the subsequent scrutiny of liquidity preparedness for non-bank financial institutions (NBFIs); the growth in retail participation, particularly in the options markets, and reporting requirements for overseas entities, especially concerning their cash positions and trading activity justifications; and CME Group's potential plans to enter the electricity market, given the observed growth in Europe and Asia.

VI. Presentation: CFTC Office of International Affairs (OIA)

Ms. Musalem gave a presentation on OIA's international regulatory activities, focusing on its collaborations with IOSCO, CPMI, and BCBS. OIA's efforts include examining margin requirements, streamlining variation margin processes, and considering the liquidity preparedness of market participants during stress periods. In addition, OIA participates in IOSCO's Fintech Task Force, which focuses on developing regulatory approaches to crypto-asset markets, tokenization, and artificial intelligence. OIA also contributes to the FSB's work on assessing financial stability risks associated with crypto assets and tokenization.

Ms. Musalem also discussed OIA's membership in the newly established CPMI-IOSCO Operational Resilience Group, which focuses on the operational resilience of financial market infrastructures like CCPs and SDRs. Lastly, she indicated that OIA supports Chairman Behnam's co-leadership of a carbon markets initiative under IOSCO's Sustainable Finance Task Force.

VII. Updates from Subcommittees on Future Agenda Items


Before the meeting concluded, Ms. Hong then asked the leadership of the Subcommittees to comment on topics that their committees are working on that may be ready for discussion at the next meeting. Mr. Tully, from the Global Market Structure Subcommittee, plans to further explore derivatives market structure issues. Ms. Kruse, from TIS, will focus on trade reporting inconsistencies, i.e., the global use of identifiers and data standards, and the use of money transfer ACH for broker payments. Ms. Butler, from the Digital Asset Market Subcommittee, planned to provide recommendations on non-fungible tokens (NFTs) and utility tokens, tokenized assets as eligible collateral, bankruptcy remoteness for custodial assets, and a report on the risks and attributes of private and public chains.

VIII. Closing Remarks

In closing, Chair Hong expressed gratitude to GMAC Subcommittee members for their efforts and insights.

Commissioner Pham concluded the session by acknowledging the meeting's success in highlighting the CFTC's core mission in overseeing derivatives markets. She acknowledged OIA's international leadership and also highlighted her recent opportunity to present the GMAC recommendations at the IOSCO annual meeting, emphasizing the Committee's vital role in promoting the integrity and resilience of the global markets.

Mr. Jung adjourned the meeting at 12:43 p.m.



Amy Hong
Chair, GMAC

September 10, 2024

Date