

Carolyn Jackson Discusses the EU's Investment Firms Regulation and What It Means for US Prop Traders

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Financial Services partner Carolyn Jackson expressed concern to *Risk.net* over Europe's new Investment Firms Regulation (IFR), which could drain liquidity from European futures exchanges and block US proprietary traders without a legal presence in the region. The IFR would require prop traders to be subject to "comparable capital requirements to those they would apply if they were established in the [EU]." Carolyn stated, "I can already see, potentially, that if you apply a line-by-line reading of the applicable regulations for an equivalence decision, the US would have a hard time being deemed equivalent if there are these pockets of traders not currently subject to [similarly detailed] regulation." While larger firms likely have data available, although not necessarily “broken down according to those categories," she noted that it presents a larger "sea change" for other top-tier foreign liquidity providers.

Also of concern is the how the trend towards "gradual protectionism" could undermine the cooperation efforts of the G20 to improve supervision in the cross-border derivatives markets. Carolyn agreed that the requirements in IFR "do seem to be turning away from or devaluing the importance of all the already agreed international sharing arrangements" for supervisory information.

Another factor is Brexit. Carolyn stated, "Everyone facing the threat of a no-deal Brexit is certainly hoping the EU would take the view that if [the IFR] has been incorporated almost word-for-word into UK law, regulation should be deemed equivalent. But there isn't perfect certainty on that point." ("New EU Rules Threaten to Lock Out US Prop Traders," April 4, 2019)

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