

Futures & Options World Discusses the FCA's Latest Consultation on Derivatives Market Risk With Nathaniel Lalone

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Financial Markets and Funds Partner Nathaniel Lalone spoke with *Futures & Options World* on the recent Financial Conduct Authority (FCA) consultation on the derivatives trading obligation (DTO) and post-trade risk reduction (PTRR) services, which aims to reduce systemic risk in UK derivatives markets. Open until September 30, the consultation includes the FCA's plans to update the list of derivatives under the DTO to include certain Secured Overnight Financing Rate (SOFR) swaps, and to expand the scope of PTRR services beyond portfolio compression.

Nate noted his support of the proposals, stating, "I think the FCA proposals will help reduce systemic risk in UK derivatives markets. Portfolio compression service providers have, since the adoption of MiFID II, benefited from some exemptions, but compression services are designed to really address only one set of non-market risks. These other newer service providers that focus on, for example, credit risk mitigation or timing mismatch risk mitigation didn't benefit from that. The FCA's proposals would, therefore, allow the market to solve for three types of non-market risk rather than just one. When you can solve for credit risk mitigation and better align payment flows and trigger dates, you're expanding the types of risks that are being managed, which is only good for financial stability."

He added that expanding PTRR services beyond basic portfolio compression demonstrates the UK's openness to financial innovation and ensures that different service providers receive appropriate regulatory treatment. He anticipates positive feedback on the consultation, stating, "None of what the FCA is proposing strikes me as outlandish or pushing the envelope beyond what any reasonable participant . . . would call inappropriate."

"FCA plans to 'reduce systemic risk' in UK derivatives markets – Katten," **Futures & Options World*, September 9, 2024

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