MINUTES OF THE FEBRUARY 13, 2023 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 Monday, February 13, 2023, at 9:31 a.m., at the U.S. Commodity Futures Trading Commission's ("CFTC" or "Commission") Headquarters Conference Center, located at Three Lafayette Centre, 1155 21st Street, N.W., Washington, D.C. The meeting consisted of three panels. Panel I provided an overview of the current state of global market structure and access to markets including trading, liquidity, clearing, and trade reporting. Panel II provided an overview of volatility in the global commodity markets including market fundamentals, end-users, and market disruptions. Panel III provided an overview of the state of the digital assets markets including international policy and regulation, and how these assets are being used.

GMAC Members in Attendance

Chris Allen, General Counsel for Banking and Markets, and General Counsel of HSBC Bank plc, HSBC
Bill Bolton, Chief Financial Officer, Refining, Products, and Low Carbon Americas Trading and Shipping, bp
Perianne Boring, Chief Executive Officer, Chamber of Digital Commerce
Darcy Bradbury, Vice Chair, GMAC, and Managing Director and Head of Public Policy, D.E. Shaw & Co.
Isaac Chang, Head of Central Execution, Global Fixed Income, Citadel
Chris Childs, Head of Repository and Derivatives Services, Chief Executive Officer, and President, DTCC Deriv/SERV
Jason Chlipala, Chief Operating Officer, Stellar Development Foundation
Gerald Corcoran, Chief Executive Officer and Chairman of the Board, R.J. O'Brien & Associates
Adam Farkas, Chief Executive Officer, Global Financial Markets Association and Association, and Chief Executive Officer, Association of Financial Markets Europe
Scott Fitzpatrick, Chief Executive Officer, TraditionSEF
Amy Hong, Head of Market Structure and Strategic Partnerships, Global Banking and Markets, Goldman Sachs
John W. Horkan, LSEG Post Trade and LCH Group Chief Operating Officer and LCH Head of the Americas, LSEG
Angie Karna, Managing Director and Head of Legal for Global Markets, Americas, Nomura
Steven Kennedy, Global Head of Public Policy, ISDA
Agnes Koh, Chief Risk Officer SGX Group
Mary-Catherine Lader, Chief Operating Officer, Uniswap Labs
Ben Macdonald, Global Head of Enterprise Products and President of Bloomberg SEF LLC, Bloomberg LP
Jacqueline Mesa, Chief Operating Officer and Senior Vice President, Global Policy, FIA
Erik Tim Müller, Chief Executive Officer, Eurex Clearing AG
John Murphy, Global Head of Futures Division, Mizuho Americas
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, Japan Securities Clearing Corporation
Christopher R. Perkins, President, CoinFund
Thomas Pluta, President, Tradeweb
Sachiyo Sakemi, Global Head of Legal for Global Markets Group, BlackRock
Andrew Smith, Senior Vice President, Global Business Development and Market Structure, Virtu Financial
Brad Tully, Global Co-Head of Corporate Derivatives and Private Side Marketing, J.P. Morgan
Thane Twiggs, Chief Compliance Officer Cargill Risk Management
Jason Vitale, Global Head of Foreign Exchange, Fixed Income & Equities, BNY Mellon
Stuart Williams, Chief Operating Officer, ICE
Julie Winkler, Chief Commercial Officer, CME Group
Tom Wipf, Chairman, GMAC and Vice Chairman, Morgan Stanley
Vadim Zlotnikov, Head of Fidelity Institutional, Fidelity Investments
Chris Zuehlke, Partner and Global Head of Cumberland, DRW

<u>CFTC Commissioners and Staff in Attendance</u>
Rostin Behnam, Chairman
Christy Goldsmith Romero, Commissioner
Kristin N. Johnson, Commissioner
Summer K. Mersinger, Commissioner
Caroline D. Pham, Commissioner and GMAC Sponsor
Gates S. Hurand, Chief Counsel, Commissioner Caroline D. Pham, GMAC Designated Federal Officer ("DFO")

<u>Invited Speakers in Attendance</u>
Paulina Dejmek-Hack, Director for General Affairs, Directorate-General for Financial Stability Financial Services, and Capital Market Union, European Commission
Michael Demissie, Head of Advanced Solutions, BNY Mellon
The Honorable Joshua Frost, Assistant Secretary for Financial Markets, U.S. Department of the Treasury
Mike Golding, Transatlantic Chief Operating Officer, Optiver
Derek Kleinbauer, Global head of Fixed Income & Equity e-Trading, Bloomberg and President, Bloomberg SEF LLC

I. Opening Remarks

Mr. Hurand called the meeting to order and turned the meeting over to Mr. Wipf, the GMAC Chair. Mr. Wipf welcomed the speakers, Commissioners, and Commissioner Pham as the sponsor of the GMAC. He introduced Commissioner Pham and noted that this was the first meeting under her leadership.

Commissioner Pham mentioned that 2022 marked the 50th anniversary of the Federal Advisory Committee Act, which recognizes the benefits of seeking expert advice and recommendations from the public. She emphasized that the GMAC was an international effort and welcomed all who travelled to participate and those that helped organize the meeting.

Commissioner Pham then recognized Mr. Wipf and Ms. Bradbury for serving as the Chair and Vice Chair of the GMAC, and gave an overview of her goals for the panels. For Panel I, "Global Market Structure and Access to Markets," she hoped for GMAC members to get a better understanding of the inherent trade-offs in policy decisions related to global market structure and access to markets across trading, liquidity, clearing, and trade reporting. For Panel II, "Global Commodity Markets Volatility," she wanted GMAC members to understand recent events to be learned and to address global commodity markets volatility, including current challenges in the real economy and the impact on prices, and market disruptions in physical commodities markets and policy responses.

For Panel III, "Digital Asset Markets," she hoped to for GMAC members learn about digital assets, their use cases, and international policy developments to understand what is happening to ensure America remains competitive.

Overall, Commissioner Pham stated that the meeting would help identify the priorities of the GMAC over the next two years. She noted that the GMAC would also vote on the establishment of three subcommittees (global market structure, digital asset markets, and technical issues).

Commissioner Johnson then thanked the organizers and attendees. She stated that she had lengthy thoughts about macroeconomic indicators and volatility, but would rather yield her time to the experts in the room. She stated she was looking forward to being informed by their expertise so that the GMAC can develop and implement pragmatic solutions to support market integrity and market stability in the commodity derivatives markets both at home and abroad.

Next, Commissioner Goldsmith Romero thanked Commissioner Pham, the organizers, and attendees. She highlighted the need to learn from the unexpected global challenges and market disruptions the markets have faced. In one example, she suggested considering whether bumper guards should be in place to help the markets remain resilient through disruptive events. In another example, she emphasized the importance of surveillance of abusive trading so that bad actors do not take advantage during times of stress. Finally, she stated that once we know what to expect regarding cybercrime and climate change, we can plan and manage the risks better.

Commissioner Mersinger then thanked Commissioner Pham, the organizers, and attendees. She emphasized the need to continue the work that the GMAC started during Commissioner Stump's tenure including implementing the uncleared swap margin rules. She also emphasized the need to learn from experts to determine the GMAC's future direction.

Finally, Chairman Behnam thanked Commissioner Pham, the organizers, and attendees. He emphasized that he was looking forward to supporting the Committee and being part of the discussions to come.

Mr. Wipf then introduced Assistant Secretary Frost, who began by giving some updates from the Office of Financial Markets, which is focusing on making the Treasury market more resilient, ensuring a smooth transition away from Libor, and charting a path forward for digital assets and voluntary carbon markets. He stated that this work has been coordinated through interagency working groups and Treasury market surveillance.

Ms. Hack then gave her opening remarks. She highlighted the work going on in the European Union, including international agreements such as the implementation of the Basel III agreement, capital markets legislation, and new policies on sustainable finance, digital assets, and operational resilience. She concluded by stating that it is key to have global discussions and make sure different jurisdictions are in alignment on all of these issues.

II. Panel I: Global Market Structure and Access to Markets

Mr. Wipf introduced the first panelist, Mr. Kleinbauer, who provided his perspectives on recent trends in the adoption of electronic trading (e-trading). He gave an overview of data indicating that electronic trading has been increasing in recent years. He suggested electronic trading could be further maximized by modifying or introducing new regulatory requirements to certain products (*e.g.*, the SEC should harmonize its security-based SEF rule with the CFTC, proposals by the SEC to change the definitions of "exchange" and "dealer" should be mindful of execution methods, etc.).

Mr. Wipf introduced the next group of panelists focused on discussing trading and liquidity.

Mr. Tully began by discussing the key drivers of liquidity in the Treasury market. Last year was a challenging year for Treasury liquidity; the lower liquidity was as a result of two trends: (1) uncertainty regarding inflation and interest rates caused lower Treasury liquidity; and (2) longer-term structural changes to the Treasury markets have resulted in less intermediation capacity (automated trading and regulatory and behavioral changes) and more sensitivity of market liquidity and volatility. Mr. Tully stressed that it was critical to understand how future policy decisions might impact liquidity.

Ms. Sakemi then discussed the liquidity challenges traders are facing across assets classes in different regions. She attributed this change to recent changes in market volatility, which has resulted in dealers that are less likely to warehouse risk and traders with higher costs. She suggested regulators take steps to alleviate some of this market stress through better calibration and transparency of CCP margin practices, considering the cumulative impact of bank capital requirements on their market-making capacity, and expansion of eligible collateral for margin.

Mr. Zlotnikov then discussed two topics critical to the global risk marketplace: (1) the growing course of proposed and potential reforms that could impact the U.S. Treasury market, and (2) the FSB and IOSCO focus on enhancing liquidity in the government debt and corporate debt markets. With regard to increasing Treasury market transparency, he suggested regulators consider principles-based ways to increase central clearing of repo agreements backed by

Treasury securities. He urged regulators to strongly consider costs in new policies and to allow for flexibility as well. With regard to the bond markets, while he recommended that pre-trade transparency should be studied further, he applauded TRACE (the Trade Reporting and Compliance Engine) for being successful in the United States and for providing much needed post-trade transparency. He stressed the importance of calibrating regulatory changes very carefully to avoid unintended economic consequences.

Mr. Chang further discussed preserving and promoting liquidity and resiliency in the global interest rate ecosystem. He stated that a number of proposed enhancements to the regulatory framework and market structure could strengthen liquidity and resiliency. These include the central clearing of treasuries with a broad section of market participants having access; developing an appropriate client clearing solution; the SEC's ultimate definition of the term "dealer"; increased transparency; and the preservation of international agreements regarding clearing and trading obligations in the swaps market.

Mr. Fitzpatrick discussed market intermediation from the SEF perspective, stating there were three phases for SEFs: pre-trade, management, and communication. He highlighted the inconsistencies of the CFTC rules for SEF and stated that some were misplaced. For example, the inefficiency of handling market liquidity and the processing of orders is a stress point with his clients. Entities still have to explain to clients that they have to rely on several no-action relief letters and verbal agreements with CFTC staff to operate. These inconsistencies put SEFs and their clients at risk of breach and/or noncompliance with the rules. Mr. Fitzpatrick urged the CFTC to give SEFs the chance to resolve these issues and stated many of the issues were non-controversial operational procedures.

Mr. Wipf introduced the next group of panelists focused on discussing clearing.

Mr. Corcoran stated that he would like to talk about the impact of the maintenance margin requirement as it drives the capital requirements for FCMs. If the maintenance margin requirement is too high, it reduces the return on capital to FCMs; if it is too low, the markets may not be as well protected. He suggested the GMAC consider whether there should be a more surgical approach to margin requirements, instead of a one-size-fits-all.

Ms. Koh discussed the impact of regulatory capital changes over the past decade on commodities clearing. She noted that the change in regulatory capital requirements in the past decade has decreased the risk appetite of bank-related clearing members. The stringent capital requirements of Basel 3 have limited these clearing members commodity derivatives business to only client clearing. These clearing members have exited clearing of proprietary positions. She suggested that the GMAC review regulatory capital market requirements to see if there are any unintended consequences.

Mr. Otashiro presented on U.S. customer access to a non-U.S. exempt DCO. He stated that some customers may want to access a non-U.S. exempt DCO as it might have higher liquidity, improve price efficiency, mitigate the negative effect of fragmentation, allow for better cross-margining, and provide access to products that are only available on such DCOs. To increase U.S. customer access, they would like to propose changes to the Commission's Part 30 regime that sets the treatment of customer funds by FCMs. Proposed changes would include adding some safeguards, such as allowing customer clearing through U.S. FCMs or a foreign clearing broker, bankruptcy risk disclosure, measures to mitigate systemic risk flowing back from non-U.S. markets, and a comparability analysis on non-U.S. DCOs risk management.

Mr. Müller discussed trends in the European cleared repo market. He stated that he expected that the market share that is cleared will further increase for three reasons: (1) technology and the emergence of electronic trading platforms, (2) bank balance sheets are constrained and the cleared repo market share is increasing, and (3) the cleared repo market may be a helpful tool to mitigate the liquidity risk management that the buy side is facing. He then discussed the benefits of the cleared repo market and the need to work together to come up with ways the buy side can find better access to the cleared repo market.

Mr. Horkan began by stating that the GMAC should always think of equal market access as its guide. Equal market access leads to well-functioning markets by reducing market fragmentation and reducing barriers. He then discussed deposit access to central bank accounts by central counterparties. The ability to deposit client margin at a Federal Reserve Bank is an important systemic risk mitigation tool, especially in times of market stress.

Mr. Wipf introduced the next group of panelists focused on discussing trade reporting.

Mr. Childs provided a historical summary from 2008 to the present regarding trade reporting. He highlighted that data quality has improved within each jurisdiction. However, he also emphasized that there is more work to be done be able to amalgamate data from multiple repositories and jurisdictions for the purpose of systemic risk oversight. He emphasized that regulators must establish frameworks and governance structures that will allow data amalgamation.

Mr. Kennedy discussed issues related to trade reporting. He stated that in the U.S. every time a member or reporting entity reports a derivatives trade, it is required to fill out 128 fields (and in the E.U., 170 data fields) by analyzing, interpreting, building, populating, and validating the information that it provides in each of those data fields. This process is prone to inconsistency and all the data gathered may not be able to be used. He suggested a better method for trade reporting, the digital regulatory reporting initiative, which uses crowdsourcing and digitization to increase data quality, consistency, and regulatory transparency.

Mr. Wipf asked Mr. Pluta and Ms. Hong to provide their perspectives on Panel I. Mr. Pluta noted the discussion of challenges in trading and liquidity conditions and the decline of the role of banks as intermediaries, and the potential of innovation, algorithmic trading, and block trades to potentially address market challenges. Ms. Hong recognized Commissioner Pham for organizing the GMAC and highlighted the interlinked and global nature of markets and the importance of dialog such as the GMAC. Ms. Hong also discussed the CFTC's block regime and the importance of flexibility.

[Break]

III. Panel II: Global Commodity Markets Volatility

Ms. Bradbury began by introducing the first speaker, Ms. Winkler, who gave an update on the state of the commodities market. She stated that the commodities markets just went through a super cycle with high commodity prices caused by supply and demand issues created by the pandemic and a major land war. She stated that she predicted prices would now normalize and discussed her analysis in the context of wheat and energy prices. She gave an overview of risks they are continuing to monitor including Chinese growth, Russian oil production, and volatile weather conditions.

Ms. Bradbury introduced the next group of panelists focused on discussing market fundamentals and end-users with perspectives on key issues from producers and merchants.

Mr. Bolton stated that the scale of the supply disruption over the last year associated with the loss of just a fraction of the world's fossil fuels has highlighted the need to transition away from hydrocarbons to avoid energy shortages and higher prices. The disruptions of the last year have also highlighted the need to address energy security and affordability and the need to promote low carbon energy.

Mr. Nicosia gave an overview of supply chain disruptions over the last few years. He examined in detail the various disruptions to transportation including ocean and international freight and domestic freight.

Mr. Twiggs discussed the global report on food crisis and how two hundred five million people are expected to face acute food insecurity as a result of the state of the financial markets. He emphasized the need to examine how these people can be helped.

Ms. Bradbury introduced the next group of panelists focused on reactions to recent market disruptions from financial market infrastructures and market participants.

Mr. Williams discussed the various market disruptions of the last few years. First, he stated that legislators should be careful in what they legislate so as to avoid negative consequences. Second, he stated the GMAC should think about where these globally interconnected markets risk being fragmented to ensure that the global regulatory system is as coherent as possible across different jurisdictions. Third, he suggested that the GMAC carefully consider the role of the public sector in the transition away from a hydrocarbon intensive economy.

Mr. Murphy discussed how the combination of the energy trade along with the nickel trade has pushed volatility to levels that were unsustainable. He suggested it was important to look into ways in which to curb this volatility.

Ms. Mesa discussed the volatility following the Russian invasion of Ukraine. Specifically, she stated that many commodities went up in price, especially metals. She further noted that trading volume has still not come back and that there is a loss of confidence. She highlighted items that can be examined in anticipation of such market events such as reviewing large positions, position and accountability limits, rehearse default management, and volatility controls. She highlighted that better volatility controls were needed across the industry and that different products would need different controls.

Mr. Golding provided guidance on price controls, such as price limit and circuit breakers, and their impact on volatility. First, he stated when there is a malfunction, they want to make sure it does not have ripple effects throughout the market and disorderly trading is minimized. Second, when there is a legitimate extreme price movement, they want to make sure the market can maximize liquidity and that it does not malfunction. Third, they want to minimize unneeded liquidations.

Following Mr. Golding's presentation, Ms. Bradbury moved to the next agenda item concerning the creation of two new subcommittees, the Global Market Structure Subcommittee and Technical Issues Subcommittee. She asked for motions, which were made and seconded, to establish both subcommittees. She then called for votes on the motions and both motions to establish the subcommittees were adopted.

[Lunch]

IV. Panel III: Digital Asset Markets

Following the lunch break, Mr. Wipf introduced the next panelist, Mr. Zuehlke, who gave an overview on the state of digital asset markets. He highlighted several trends in the digital asset markets that have emerged since the events of 2022. First, several leading crypto organizations filed for bankruptcy. As a result, market participants and regulators have been focusing on risk management by focusing on separating custody of funds, mitigating conflicts of interest, increased adoption of traditional finance best practices, and focusing on using fiat-backed stablecoins as a payment mechanism. Then he discussed the markets evolving structure and liquidity landscape. In the post-2022 world there are lower amounts of lending, lower valuations by venture capitalists, and increasing amounts of liquidity moving offshore. One of the most interesting developments is the industry is moving away from exchanges and more directly to OTC marketplaces. He also discussed a recent innovation called DeFi (decentralized finance). In closing, he highlighted that the innovation and regulation are not mutually exclusive concepts. For example, one of the most fascinating elements of DeFi is its potential ability to rapidly evolve to an ever-improving state.

Mr. Wipf introduced the next panelist focused on discussing international policy and regulation.

Mr. Farkas began by highlighting how regulators and standard setters have started numerous initiatives to try to tackle the issue of how regulators should react to all of the innovation related to and development of digital assets. One of the main ways to further this work is to further develop the classification of digital assets and coordinate globally so that these assets may be appropriately regulated. He emphasized the need for close coordination between regulators and industry. He also stated that there must be taxonomy that is developed for classification of digital assets based on key attributes so that the right regulatory approach could be applied.

Mr. Wipf introduced the final group of panelists focused on use cases.

Mr. Demissie spoke next, stating that he believed the digital asset space is in a defining period. He emphasized the need for proper regulations to avoid the mistakes seen in other markets. He stated that the innovation underlying these assets is going to revolutionize finance because it solves problems clients care for by expanding the access, liquidity, and mobility of assets. He emphasized that it would be a big mistake to treat all digital assets the same from a regulatory perspective just because they share underlying technology.

Mr. Chlipala spoke next discussing the use case of Stellar Aid Assist, the first of its kind aid disbursement system that enables the delivery of urgently needed cash assistance to vulnerable populations. This system is currently being piloted in Ukraine. The system is great because it allows cash to move quickly and allows the aid organization to trace each step of the transaction and minimizes the potential for fraud.

Mr. Perkins discussed some non-financial use cases. First, he discussed nonfungible tokens and how they include not only profile pictures but also provide opportunities for creators to create, tokenize, and monetize art, music, and videos. Second, he discussed gaming and how earned in-game assets can be financialized to enable new studio and player business-oriented modes. Third, he discussed decentralized autonomous organizations and how they allow token-enabled democratic governance mechanisms to be form communities that are not controlled by individuals or central authorities. Fourth, data sovereignty allows users to monetize their own data. Fifth, artificial intelligence can introduce open source development, community ownership, governance, and universal access that creates new models and efficiencies. Sixth, this new technology can be used to better the environment since the immutability of blockchain technology unlocks new ways to identify carbon credits.

Ms. Lader spoke next and discussed the opportunities of block-chain and open system based decentralized exchange using these protocols. First, the blockchain combination of data storage with money movement lowers cost by removing friction and operational overhead and allows for nearly instant settlement. Second, open systems improve liquidity, transparency, security, and sharing allowing systems to become interoperable.

Finally, Mr. Wipf introduced Ms. Boring to kick off a membership discussion. She discussed how the lack of regulatory clarity around digital assets impacts the industry and how it is absolutely critical to have a regulatory structure that works. Multiple regulators attempting to regulate has created an unclear and inconsistent regulatory environment and business is going to other jurisdictions as a result.

Mr. Wipf opened the floor to questions and comments from the GMAC membership. Generally, the concerns and discussions raised in this session included: members of the buy side are straddling to find ways to hedge their risk, the importance of creating a taxonomy that classifies digital assets, how well-calibrated regulation can facilitate innovation, and looking at self-regulation as a means to regulate.

Mr. Wipf then moved to the next agenda item concerning the establishment of the GMAC Digital Asset Markets Subcommittee. He asked for a motion, which was made and seconded, to establish the subcommittee. He then called for a vote on the motion, and the motion to establish the subcommittee was adopted.

V. Closing Remarks

In closing, Commissioner Pham thanked all for the excellent discussions and stated she was looking forward to future discussions.

Mr. Hurand adjourned the meeting at 2:58 p.m.

Darcy Bradbury
Vice-Chair, GMAC

7/6/2023
Date