

Review of the 25th Bürgenstock Meeting

Summary of the 5th Special Emerging Markets Forum Thursday, September 9, 2004 @ 25th Anniversary Bürgenstock Meeting

Jointly organized by the Association of Futures Markets, AFM, and the Swiss Futures and Options Association, SFOA, the 5th Annual Special Emerging Markets Forum preceded the main Bürgenstock program on Thursday, September 9, 2004.

In his opening remarks, SFOA Chairman Paul Meier highlighted the importance of sound derivatives markets for economic development particularly in emerging markets. Exchanges in such markets need solid foundations, including well functioning underlying markets.

Roundtable 1 – Market Needs

The first roundtable discussion was smoothly moderated by Rod Gravelet-Blondin, General Manager of the Johannesburg Securities Exchange's Agricultural Products Division. He launched the topic of market needs in terms of product development and market making by asking the panelists to discuss who and what determines market needs. Panelist Peter Koster, CEO of the European Climate Exchange stated that he believes the market is always right and espoused free markets in general. But, is the market always right? Peter Shepherd, Director of Marketing at Euronext LIFFE believes that all participants have needs and wants, and can be counted on to act out of self-interest. Dr. Foo-shiung Ho, President of the Taiwan Futures Exchange pointed out that the two types of markets, professional and retail, have different needs and uneven levels of influence on the market. Ireneusz Lazor, Vice President of the

Polish Power Exchange described how the move towards a free electricity market in Poland sees end-users driving the push for transparent and competitive prices, making this market force a positive driver of change. When asked how his exchange is dealing with the market trend towards globalization, Csaba Bugar, CEO of the Budapest Commodity Exchange said that Hungary, as a new member of the EU, is focusing on developing innovative products to meet the demands of their new European market situation. He sees opportunity in regionalization. Roundtable attendee Chitra Ramkrishna eloquently rounded off the discussion by stating that while different elements of the market have various and often competing market needs and wants, the market acts as an intermediary to make products that are interesting to buyers and sellers alike. She thereby won the audience participation prize.

Roundtable 2 – Market Structure and Ownership

György Dudás, CEO of Keler Ltd. in Budapest, moderated the second roundtable discussion. He asked each of the panelists to describe the unique situation of his or her home market. Xiaoqiang Wu, Vice Chairman of the Shanghai Futures Exchange, speaking through his able interpreter, offered a fascinating and detailed history of the development of the derivatives market in China, beginning with the relaxing of central economic planning around 1980. He described the roller-coaster ride this vibrant, yet volatile emerging market has taken, along the way assuming such massive dimensions and offering such vast potential. Representing the gestating Turkish Derivatives Exchange, with just two derivative contracts trading, CEO Hamdi Bagci foresees for his country a single market for all derivative products. Offering a contrasting scenario, John Tierney, Managing Director of the Options Industry Council, is active in the US market in which there is competition for every order. He sees competition's powerful impact on the evolution of markets, keeping prices tight and greatly enhancing liquidity. Liliana Paraipan, Director of Marketing & Public Relations at the Romanian Commodities Exchange sees a big shift approaching this emerging market. A move towards privatization and consolidation in which the stock exchange will also be permitted to trade derivatives will essentially change the shape of things to come. All the panelists agreed that education is a vital requirement for success in emerging markets, whether it is education of regulators as in China or broad brush education for the retail market as in India.

Roundtable 3 – Technology

Patrick Catania, CEO of the Asia West Group in Chicago, expertly steered the discussion about technology from an emerging market's point of view in the 3rd roundtable. He told



Paul-André Jacot, Ferdinand Prisi and Paul Meier –
3 Chairmen in 25 years SFOA



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the story of how the CBOT “awakened” to technology back in 1989 in the wake of an ill-fated trading situation involving human fallibility, which left the exchange scrambling for the perceived integrity of technology, a search which can be argued to have ultimately led to the birth of electronic trading. Chitra Ramkrishna, Deputy Managing Director of the National Stock Exchange of India, stated that her exchange would not exist without technology. She cautioned, however, that while technology has become inevitable, it should be more than a mere facilitator, but should be able to respond to competition in terms of time and cost. The focus in India is on affordable computing which is responsive and scaleable. Mr. Pasi Miettinen, Vice President of OnExchange, intriguingly pointed out that some emerging markets seem to be more technologically advanced and sophisticated than relatively more mature markets. He sees three trends arising in emerging markets: the converging of markets, improved return on investment and the drive to capture the local trading market. Allan Thomson, Director of Equity and Derivatives Trading of the Johannesburg Securities Exchange said that if an exchange is not 100% up-to-date in terms of technology, then it is not even on the playing field. The question for him is, where to source technology. Joakim Lange, Vice President of OM Technology illustrated how the demands and requirements on technology in a high-cost country such as Sweden can be a hindrance to development. He sees a combination of buy and build as the ultimate solution. Nick Garrow, Sales Director of Patsystems in London is a provider of trading systems to emerging markets. He underlined the need for a clear business plan that determines the functionalities needed, as an essential ingredient for successful technological development. The old topic of technology, though often discussed, still seems to have found an echo in this emerging markets roundtable.

Summary of the 25th Anniversary Bürgenstock Meeting Thursday, September 9, 2004

Crossfire – Old Pros View the New Game

Corks flew as Paul Meier, Chairman of the SFOA, warmly welcomed the conference participants with a champagne toast to the Bürgenstock meeting’s 25th anniversary. He then introduced a stellar panel of distinguished contributors to the phenomenal growth of derivatives markets over the past 25 years, all well known throughout the community.

As Crossfire moderator Hal Hansen put it, “we were the guys who took the old game and gave it a new twist”. He outlined the movement of exchanges from mutual organizations to

for-profit companies and wondered if it truly benefits the market. Sir Michael Jenkins, Chairman of E-Crossnet, pointed out that while today’s for-profit exchanges may be more innovative, he is not sure if this is due to their for-profit status or to rampant advances in technology. Olof Stenhammar, Chairman of OM Hex AB, an early pioneer of and driving force behind electronic trading, believes that demutualization has improved everything, enabling greater flexibility and faster reaction times. Ivers Riley, Chairman of the International Securities Exchange, stated that today’s competitive environment makes these the “good old days”. He sees integrity and self-regulation as the answer to conflicts of interest. Robert K. Wilmouth of the National Futures Association warned that self-regulation taken too far can potentially thwart competition. The conversation moved into the area of the eventual demise of floor trading. Hal Hansen wondered if there might not be nuances in floor trading which cannot be replaced by electronic trading. Dr. Jörg Franke, Chairman of the Supervisory Board of RTS Realtime Systems, sees the inevitable represented by the emerging markets which typically are starting up exclusively electronic and have no reason to go “back” to open outcry. The panel ended on a lighter note as the panel of Bürgenstock veterans traded their favorite stories of conferences past.

Book with a Golden Cover

Patrick Young, Chairman of derivatives.com unveiled the SFOA 25th Anniversary Book, “An Intangible Commodity”, in the creation of which he was a driving force. The quality of the book speaks for itself. The special conference edition with the golden cover is available to all attending participants.

Hats Off to SFOA

In his welcoming address, Rudolf Ferscha, CEO of Eurex, congratulated the SFOA, both for its 25-year anniversary and the record attendance at this year’s conference. He noted that with the everincreasing presence, interest and influence of emerging markets, the SFOA in Geneva seemed poised to become the “United Nations” of the derivatives industry. He went to introduce this year’s keynote speaker Ken Griffin, President and CEO of Citadel Investment Group.

Keynote Visions

In a riveting address, remarkable both in content and delivery, Ken Griffin outlined in broad strokes how the forces of innovation are reshaping our industry. He believes that electronic exchanges are creating better market places that encourage the growth of trading and contribute to a better world. Corrosive market structures and internalization impede market growth and ultimately lower market value. The future is here now and

floor-based markets will become a thing of the past. As competition increases, new opportunities will arise. Ken stated that we are moving past the mindset in which markets should not compete among themselves. He anticipates the rising of global investors but not necessarily of a monolithic global market. Regional, cultural and national interests will continue to bear their influences.

Opening Panel – One Global Market Place: Utopia or Reality Soon?

Moderated by FOA Chairman Roy Leighton, the opening panel covered a range of topics with a distinct accent on Switzerland. The white cross on red was borne admirably by Ambassador Alexis P. Lautenberg as he praised the strides this country has taken in regulatory matters in recent years. Chairman of the Swiss Bankers' Association, Pierre Mirabaud, commented that as a global market place becomes more and more of a reality, with no real natural resources to speak of, the proper place for Switzerland is at the forefront of that globalization. He also views his country's improved regulatory environment positively, but warns of the hampering effect of over-regulation. Rudolf Ferscha made a plea for greater transparency and competition in world markets, stating that competition pushes the whole system in the right direction, ultimately leading to end-user benefit. When asked what advice he would have for Switzerland, Ken Griffin replied that he saw this country as the ultimate safe haven with regulation that helps decrease uncertainty of the kind affecting US markets. While other subjects were discussed, Switzerland came through this panel discussion looking about as handsome as the view over the lake from the terrace outside the conference room window.



The Board celebrating 25 years SFOA

Summary of the 25th Anniversary Bürgenstock Meeting Friday, September 10, 2004

Four interesting and well-attended panel discussions were held on Friday, 10 September 2004, the second day of the 25th Anniversary SFOA Bürgenstock Meeting.

Panel 1 – New Environment

The first panel discussion addressed the topic of new rules for hedge funds and the issue of regulation in general. The panel was moderated by Nick Durlacher, CBE, Chairman of ELEX-ON. Achim Pütz, Senior Partner of SJ Berwin and Council Member of the AIMA in London lent his expertise as he unwound the tangled web of European hedge fund regulation, or at least attempted something of the sort. Martin Schweikhart, Regional Team Leader at Man Investments, representing the market-making side, feels that regulations in Germany and elsewhere are still too tight to move hedge fund products on-shore. The downside to this is that certain countries and institutions still retain a sense of the negative connotations historically associated with off-shore-based funds. However, there does seem to be some ponderous movement towards hedge fund-friendly regulation throughout the Continent. Carlos Gonzales Vilbazo, Head of Product Management at Credit Suisse, provided a buy-side perspective and believes that hedge funds are transitioning from a professional-oriented investment instrument to a retail product with easier access. He views taxation as the primary impediment to bringing hedge funds on-shore in Europe. Roseanne Kelly, Head of Investment Fund Listing at the Irish Stock Exchange wisely added that no form of regulation can make an honest man out of a dishonest one. She pointed out the London model in which investment managers dealing with hedge funds are registered and regulated, but products are not, as a potential alternative to hodgepodge national regulation. Nick Durlacher attempted to stimulate the early morning audience by asking for a show of hands of all those who favored pan-European regulation of hedge funds. However, it was unclear whether the 3 or 4 raised hands indicated a genuine distaste for such regulation or the late hour of the previous night's social activities.

Panel 2 – Providing and Handling Liquidity

The second panel discussion addressed the topic of providing and handling liquidity. Moderating the panel was Edward Tilly, Vice Chairman of the Chicago Board of Options Exchange. He set the discussion in motion by asking the panelists to discuss their views of what the future holds. John Foyle, Deputy Chief Executive of Euronext LIFFE, stated that with his company's wide palette of products and market models, the prime issue



CNBC Europe reporting live from Bürgenstock

concerning their customers is the degree of market liquidity. We are living in a much more competitive time and need to offer greater flexibility to market makers. Bernard Dan, President and CEO of the Chicago Board of Trade pointed out that his exchange has focused on global distribution, access and speed, all of which attract liquidity, and incidentally, record volumes on the CBOT this year. He also mentioned that particularly complex trades can be facilitated by the CBOT's open outcry platform, which indeed has been made fully automated, and augmented by other platforms. CBOT today provides 22-hour a day accessibility. Luc Bertrand, President and CEO of the Montreal Exchange and Vice Chairman of the Boston Options Exchange, noted that his exchange keeps barriers of market entry as low as possible in order to provide equal access to market makers. Michael Barmettler, a trader at Timberhill filled in at the last moment for Rudolf Ferscha. He called for a central order book to lower barriers for market makers, to foster transparency and to promote high on-screen spreads. While he strongly favors electronic trading, Bernard Dan pointed out that proprietary trading platforms can adapt to all deployed algorithms. For him, transparency is the reason markets exist and he believes that consolidation to a few giants will not foster industry growth. While the topics of liquidity, internalization and bandwidth were also discussed by the panel, the discussion largely tended to revolve around the issues of consolidation and competition.

Panel 3 – New Frontiers in Commodities

The third panel lit up with a discussion of the future of energy products. Moderator John V. Rainbolt, Attorney with Rainbolt Law Practice, paraphrased an 18-months old Wall Street Journal article, which described energy trading as just the latest of a long series of boom and bust industries. The other panel members, all representing the industry, begged to differ and went on to present the very real plans, solid basis and progress of their various endeavors. First off was Mr. Takamichi Hamada; President of the Tokyo Commodity Exchange, who presented an in-depth look at his company's activities in the energy sector and also traced the dramatic rise of oil prices in recent months. TOCOM is now the second largest commodities market after NYMEX, with whom it has recently struck a cooperation agreement. And from NYMEX itself, Joseph Raia, Vice President of Marketing, outlined his 132 year-old company's leading position as the largest physical commodities exchange worldwide, one that uses both electronic and open outcry platforms. Leslie Hosking, Managing Director and CEO of NEMMCO in Australia made an interesting presentation of his country's unique approach to outpacing the "bad boy" image of the electricity market in the wake

of the Enron scandal. In contrast to many other countries, Australia is moving away from public ownership of the electricity industry to a privately held structure, which is nonetheless powerfully centralized, a veritable monopoly. He believes this will reduce the greatest risk in the electricity market, which he views as volatility. Giorgio Szegő, Chairman of Gestore del Mercato Ellectrico in Rome, presented the Italian energy market, launched in January 2004. There too, the aim is centralization of the national electricity market. A derivatives market based on a day-end energy product and adjustment product are also part of the process. He mentioned that regulatory issues, particularly concerning the EU, remain open. Philippe Lautard, Deputy General Manager of Gas and Power Trading for Total represented the top player in the UK market. He sees trading volumes in European electricity exchanges consistently increasing as well as promising developments in futures and OTC-traded products. John Rainbolt summed it all up by stating that perhaps the Wall Street Journal article ought not to be taken too seriously in view of electricity markets which are apparently alive and thriving.

Panel 4 – Prospects for European Clearing

The burning issue of the future of European clearing was handled with fireproof gloves, which seared nonetheless, in Friday's final panel discussion. It was an interesting exchange among panelists with widely differing views. Of course, the main bone of contention were the Giovannini recommendations, issued by the EU commission charged with seeking ways to harmonize the settlement and clearing sector among its members. Moderator Bill Templer, Managing Director and



Record attendance

European Head of ETD for UBS Investment Bank asked the panel participants to reflect on whether they believe the Giovannini recommendations were a clear road map to harmonization. Matthias Ganz, Member of the Board of Clearstream, emphatically stated 'no'. He finds the recommendations too diffuse and not entirely practical in terms of implementation. They are certainly not the final answer. Daniel Gisler, Member of the Executive Board of Eurex Zürich AG, offered another view. While supporting the harmonization process in theory, he is unsure how national regulatory bodies will react to the commission's recommendations. Symbolically representing the EU, Professor Mario Nava was under pressure to defend the Giovannini report as a good starting point and cautioned that the recommendations within it require cooperation between the private and public sectors. The ultimate aim is to remove national barriers. David Hardy, Chief Executive of LCH. Clearnet, mused that the balance between the public and private responses to any upcoming EU requirements will be interesting to watch. Daniel Gisler pointed out that there are not yet any concrete plans and all problems and barriers remain on the table to be discussed. Nevertheless, the concerned parties do seem to be anticipating the commission's decisions and are in the process of pre-positioning themselves to prosper in the perceived harmonized market landscape. Bill Templer opined that this pre-positioning could be viewed as counterproductive to the harmonization process itself. Mario Nava made it clear that the commission is not proposing tighter regulation, but seeks to provide a level playing field in the settlement/clearing market and in no way seeks to impede competition.

**Presentation – Adventure, a State of Mind:
the Metaphor of the Round-the-World Balloon Flight**

Conference attendees were thrilled to take things to a higher note on Friday afternoon when the ultimate high-flyer Dr. Bertrand Piccard rounded up Friday's conference session



The spirit of Bürgenstock



Exchange of ideas and networking

with an inspiring keynote speech. Captain of the Breitling Orbiter 3 – the first non-stop around-the-world balloon flight – Dr. Piccard took the conference audience soaring on a metaphorical flight. When flying around the world in a balloon, he learned that we always have to deal with the wind, whether it is the jet stream or the winds of market change. Following old paradigms of struggle, we often try to fight and control those winds instead of going with them. On his lofty journey around the world, as well as through life, Dr. Piccard has learned that in a balloon you have no power, no choice but to go with the wind. The only parameter that can be influenced in ballooning is changing altitude. Yet this means you have to drop ballast. Figuratively speaking, this means dropping preconceived notions, paradigms and dogmas. In everyday life, it is crucial to realize, which factors can be changed – and put an effort there – and to let those be, which cannot be changed and will only create stress if tried. Dr. Piccard underlined that this ought not be confounded with fatalism, which means not to fight at all.

Reflecting on the perception of his achievement, Dr. Piccard explained that adventure is not what you do – i.e. spectacular events – but how you do it – i.e. to look for the extraordinary, to leave the usual safety and to try the unknown. That is also how unknown capabilities are explored. Pioneering spirit means to accept failure. The Breitling team was confronted with failure many times and yet succeeded, because they accepted the unknown. Dr. Piccard found that releasing control leads to greater efficiency of flight. This may lead into a crisis, that is a combination of danger and opportunity, but it definitely leads to adventure, an experience each of us must say yes to in our own lives, whether those lives are spent drifting high above the clouds or sitting firmly behind a desk. Approaching life as such an adventure forces us to get in touch with ourselves, to rise above accustomed responses and to seek new solutions. While the adventurous and courageous Dr. Piccard traveled around the world in the Breitling Orbiter 3, it would seem he traveled even further on his own personal journey, inspiring us all to follow him.

**Summary of the 25th Anniversary Bürgenstock Meeting
Saturday, September 11, 2004**

Saturday's conference session began with a moving tribute to the victims of the 9/11 attacks by Joseph O'Neill, Senior Vice President, Strategic Planning of the New York Board of Trade. He reminded the conference attendees of the extraordinary sacrifice made by the financial community on that fateful day.



A fascinating presentation by balloonist Bertrand Piccard

The beautiful musical offering by Sara Terzano on harp and Giuseppe Tripodi on violin gave all those present time to reflect.

After a short break, Alfred Meyer, “the most experienced SFOA member ever”, revived the convivial tone, which generally marked the SFOA conference this year with reminiscences of the raucous beginnings and early days of the SFOA and the Bürgenstock Conference.

Crossfire: “What can be expected of the future?”

The final Crossfire of the 25th Anniversary Bürgenstock Conference was comprised of a star-studded panel of giants in the financial world. Wonderfully moderated, as always, by the capable Patrick Young, Chairman of derivatives.com, in his smooth and humorous style, the panel addressed the question: What can be expected of the future? Mr. Young ventured that the derivatives industry is at the edge of the greatest period of expansion ever, but wondered about the effects of the growing competition among exchanges. Richard Sandor, Chairman and CEO of Chicago Climate Exchange, Inc. opined that competition has been tremendously helpful by spurring development and the invention process, in a business, which “reinvents itself every 5 to 10 years like Madonna.” Offering his view of what the future holds, Peter Wuffli, President of the Group Executive Board of UBS AG, in his first SFOA appearance, anticipates an economic shift from West to East that will spur dramatic growth. He sees a European market stifled by national regulation. Michael Spencer, CEO of ICAP, sees a convergence between the OTC and exchange markets and feels that both have benefits to offer: The OTC market is traditionally more innovative, while exchanges work better with large volumes and many different players. When asked about areas of future expansion, James Newsome, formerly of the CFTC, now President of the New York Mercantile Exchange, indicated that his new company intends to take a horizontal approach, including OTC clearing and plans to take NYMEX global. Peter Wuffli sees the advent of unmanageable conflicts of interests hindering growth. However, Richard Sandor feels that in terms of competition, the question is: how is the customer best served? How are you going to get markets to be the best transaction vehicle? He pointed out that the history of this business sector has been one of innovation of products, in which 90% of current products did not exist 20 years ago. Exchanges are a for-profit utility model and will last as long as they serve their purpose. Peter Wuffli believes there are two requirements for successful for-profit utility management from a European perspective: clear separation from the regulatory function and the opening up national borders.

There was also a lively discussion about the future number

of European exchanges, with the number ranging from three to just one. No consensus about the exact figure could be found.

In regard to the essential issues going forward, James Newsome feels that costs, while important, are not as vital as value to the customer. He also warns that we must be careful not to allow regulators to get involved in business decisions. Prescient words coming from a former regulator. Michael Spencer joined in the fray, which consistently marked this year’s conference, regarding electronic versus open-outcry trading, by envisioning a continued co-existence of both trading models. He does not feel that all contracts are suitable for electronic trading and sees a future in which the pie is sliced three ways, electronic, voice and a mixture of the two. Richard Sandor begged to differ by predicting that open-outcry trading will “diminish, diminish, diminish and then further diminish.”

The issue of competition was brought up again when James Newsome stated that the number of exchanges will decrease, both in the US and in Europe. Richard Sandor pointed out that excess profits produce ruinous competition and that market is currently in that latter phase. Michael Spencer sees demutualization further driving competition and leading to an approaching wave of acquisitions and mergers, particularly in Europe. Peter Wuffli agreed with these views, but foresees a much slower timeframe for changes and mergers in Europe.

The consensus seemed to be that competitive pressures will continue to drive innovative and change within the industry, leading to consolidation. Remaining open, however, were the questions of trading formats and the actual number of future exchanges that will survive. Undoubtedly, these questions as well as many others will become clearer at next year’s SFOA Bürgenstock Conference.



The Saturday Crossfire, chaired by Patrick L Young, SFOA, gathered Richard L Sandor, CCX, Peter A Wuffli, UBS, Michael Spencer, ICAP, and James E Newsome, NYMEX