



14th April 2011

Financial Regulation Strategy  
HM Treasury  
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London SW1A 2HQ  
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Dear Sirs

**WMBA and LEBA Response to HM Treasury Consultation Paper  
A New Approach to Financial Regulation: Building a Stronger System**

The Wholesale Markets Brokers' Association and the London Energy Brokers' Association (WMBA & LEBA ["WMBA"]) are the European Industry Associations for the wholesale intermediation of Over-the-Counter (OTC) markets in financial, energy, commodity and emissions markets and their traded derivatives. Our members are Limited Activity firms that act solely as intermediaries in the said wholesale financial markets. As Interdealer Brokers (IDBs), the WMBA members' principal client base is made up of global banks and primary dealers. The replies below to the questions in the paper should be seen in the context of WMBA members acting exclusively as intermediaries, and not as own account traders. (Please see [www.wmba.org.uk](http://www.wmba.org.uk) and [www.leba.org.uk](http://www.leba.org.uk) for information about the associations, its members and products.) For this reason, some of the questions in the Consultation Paper are not entirely relevant to WMBA members' activities even though they are to most of their clients. Further, some answers take into account industry views and experience.

Operating as the hub of the global financial market infrastructure, IDBs are MiFID compliant and highly regulated intermediaries by virtue of their regulatory authorisation and from being subject to supervision under CAD as Limited Activity firms. Our members are neutral, independent, and multi-lateral and provide free, fair and open access to their trading venues for all suitably authorised and regulated market participants. IDBs do not take positions in the markets in which they operate and their collective service as the gateway to the global financial marketplace creates price discovery and significant liquidity. All transactions, whether executed via voice, hybrid or fully electronic means, are immediately captured at the point of trade, are subject to straight-through-processing, and are made available for transparent and timely transaction reporting to the relevant regulators.

WMBA welcomes the new approach to financial regulation outlined in the Treasury document "building a stronger system", and welcomes the opportunity to comment on it. Our response is made from the viewpoint of Limited Licence/Limited Activity firms operating in the wholesale markets and who form a major grouping in the City's financial services sector, notably one in which London retains a dominant and strong leadership role across the globe.

In short, we note that the role and function of wholesale market intermediation will be supervised from the FCA. Therefore, we are pleased to note that ***the Government also recognises that there are wholesale and markets activities which do not directly form part of the transaction chain of products and services sold to retail customers. The scale and importance of these activities makes it imperative that they are effectively, and proportionately, regulated in a way which recognises the particular characteristics of participants in these markets.***

It remains the principal and fundamental role of the UK Financial Services industry to serve as a wholesale and professional business-to-business marketplace with a global hinterland. It remains essential therefore that with the establishment of the FCA, our member firms are not supervised in a retail supervision orientated environment. Therefore, we are pleased to see the creation of a ***specialist markets function which will also contain regulation of recognised investment exchanges, multilateral trading facilities, and other trading platforms.***

Further, we also consider it correct that the FCA represent the UK at ESMA since it is this set of market intermediaries who will require direct representation within ESMA. However, in anticipation of the June White Paper, we would ask the following questions in respect of the trading platforms which our members operate:

1. What will be the ongoing supervision arrangements for Limited Activity and Limited Licence intermediaries for whom the ARROW process does not proportionately, nor directly, address their business models and in an environment where the ARROW methodology would appear to be less favoured going forward?
2. Will there be a distinct category within the ***specialist markets function*** for the regulation and supervision of Wholesale intermediary firms acting under Limited Activity and Limited Licence permissions?
3. Can the UK authorities ensure that the Limited Activity and Limited Licence categories of authorising permissions be maintained inside CRD\_4 and CRD\_5, such that imposition of regulatory capital does become applied to intermediaries who take no principal risk?
4. With respect to Fees and Levies, we note the vastly disproportionate burden of the FSA fee's that fall onto our member firms within Fee Blocks 12 and 13 in relation to either the amount of risks that they pose or the degree of supervision that they require. Indeed we are of the opinion that, because of the diversified nature of firms within these fee blocks, WMBA/LEBA members are being asked to contribute to the additional cost of regulating the retail sector in which they do not participate.
5. We would suggest that, with the advent of the new regulatory structure, to ensure a justifiable and proportional allocation of future funding costs, a review is undertaken of fee blocks A12 and A13 (or the potential new amalgamated fee block) with a view to splitting costs between firms acting purely in the professional markets and those dealing with retail counterparts. For simplicity, these costs could be allocated based on the client types within the permissions regime.

6. Also with respect to Fees and Levies, we note the periodic fees that were first imposed in 2009/10 with the intention of recovering the £8.8m development and implementation costs of the SABRE II monitoring system for security derivatives. The FSA have subsequently released figures under the Freedom of Information Act that the final costs for this development could be as much as £15m. The costs were to be recovered over 4 years and based on the number of contracts a firm executed on Regulated Investment Exchanges during the previous 12 months. As a result of the allocation policy which is grossly unfair on WMBA members who carry out high volume low margin business in exchange traded derivatives and despite numerous requests by WMBA for a review, five WMBA members have contributed approximately 20% per annum of these costs.

Should you have any queries or are able to give any further details on the revised regulatory structure for wholesale market intermediaries, please do not hesitate to contact us.

Yours faithfully



Alexander McDonald  
**Chief Executive Officer**

**Member Firms**

- BGC Partners
- EBS Group Ltd
- GFI Group Inc.
- ICAP plc
- Martin Brokers (UK) Ltd
- Reuters Transaction Services Ltd
- Sterling International Brokers Ltd
- Tradition (UK) Ltd
- Tullett Prebon Ltd
- Vantage Capital Markets
- Evolution Markets Ltd.
- GFI Group, Inc
- ICAP Energy Ltd
- PVM Oil Associates Ltd
- Spectron Group Ltd
- Tradition Financial Services Ltd
- Tullett Prebon Energy Ltd