

CHART OF THE DAY

Japan's yen selling intervention



The yen tumbled against the dollar after Japan began heavily selling its currency in foreign exchange markets. Japan's yen selling intervention stepped up as part of Quantitative Easing, then ceased in 2004.

TODAY'S TOP NEWS

- Japan intervenes to drag down yen, warns of more
- U.S. industrial output growth slows; import prices up
- Greenspan, in switch, now favors higher taxes
- U.S. industry, lawmakers urge action on China's yuan
- EU unveils clampdown on financial speculators
- Swaps players clash on new rules for venues
- Fannie Mae now sees U.S. home sales drop, not rise

ECON WATCH

FOR THURSDAY SEPTEMBER 16

ET	Indicators	Unit	Reuters	Prior
04:30 GB	Retail sales mm	%	0.3	1.1
08:30 US	Current account Q2	bln	-125.0	-109.0
08:30 US	Initial Claims	k	460	451
08:30 US	Continuing claims	mln	4.46	4.478
08:30 US	Producer prices mm	%	0.3	0.2
08:30 US	Producer prices yy	%	3.0	4.2
08:30 US	Ex-food / energy mm	%	0.1	0.3
08:30 US	Ex-food / energy yy	%	1.3	1.5
09:00 US	Net cap inflows	bln	-	44.4
09:00 US	Foreign buy, T-bonds	bln	-	33.3
10:00 US	Phil Fed business index	ind	2.0	-7.7

Thomson Reuters LPC Loan Conference

Wednesday, September 22, 2010

Marriott Marquis, New York City

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MARKETS TODAY

TODAY'S TOP STORY: Japan intervened in global currency markets to sell yen for the first time in six years in a bid to stop its relentless rise from threatening a fragile economic recovery.

For more please [click here](#)

TREASURIES: Longer-dated Treasuries fell, steepening the Treasury yield curve as investors bet any buying by Japan in the wake of its currency intervention would likely take place in shorter-dated debt.

- 30-yr bonds fell 1-9/32 to yield 3.87 pct from 3.80 pct.
 - 10-yr notes lost 13/32 yielding 2.72 pct from 2.68 on Tuesday.
 - 2-10's part of the yield curve steepened by 6 bps to 224 bps.
 - 2-30's part of the yield curve steepened by 8 bps to 338 bps.
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FOREX: Japan intervened in global currency markets, pushing the yen down 3 percent against the dollar, but it was uncertain the intervention would depress the currency for long.

- Earlier, the dollar had climbed as high as 85.78 yen on electronic trading platform up from a 15-year low beneath 83 yen. It last traded at 85.57 yen, up 3.06 pct.
- Dealers said the BoJ spent \$20 bln or more to weaken the currency against the dollar, which staged its biggest daily gain against the yen in nearly two years.
- The euro rose 0.15 pct against the dollar to \$1.3009.
- The euro rose 3.24 pct to 111.35 yen while the Australian dollar rose 3.02 pct to 80.30 yen and sterling was up 3.65 pct at 133.64 yen.

CORPORATES: Corporate bond spreads were steady to tighter as demand for a stream of new debt sales remained robust, traders said.

- The CDX.IG-14 index was unchanged to 104 bps.
- Last week's \$35.65 bln of high-grade bond sales made it the fourth-busiest week on record for issuance. This week's U.S. investment grade issuance was running at more than \$11 bln through Tuesday.
- Among new issues, Manulife Financial sold \$1.1 bln of senior notes.
- The yield spread on American Honda Finance's 1.625 pct notes narrowed to about 81 bps.

STOCKS: Stocks rose but remained stuck in a recent trading range as disappointing economic data hindered the S&P 500 from breaking through 1,130, a key technical level.

- Dow gained 0.45 pct to 10,573.72, S&P gained 0.36 pct to 1,125.15 and Nasdaq rose 0.50 pct to 2,301.32.
- Chevron slid 0.38 pct, Kraft Foods gained 1.72 pct. Micron lost 4.54 pct and Maxim shed 0.53 pct.

C & E: Oil prices fell a second consecutive day on expectations that a key Canada-U.S. crude pipeline will resume after a week-long interruption, although government data showing a drop in U.S. crude stocks limited losses.

- U.S. Crude oil fell 1.43 pct to \$75.7 per barrel.
- Gold lost 0.24 pct to 1,267.2 an ounce.
- Reuters-Jefferies index shed 0.39 pct to 279.05.

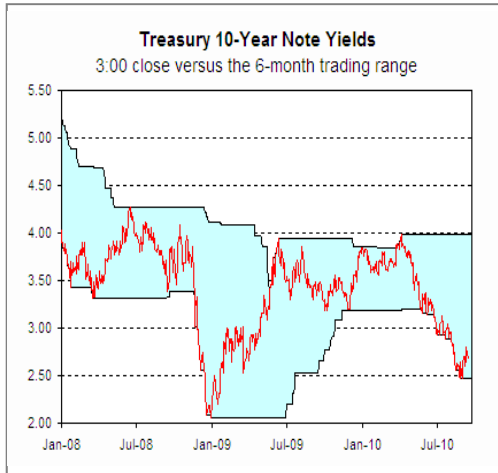
• For MARKET SNAPSHOT [click here](#)

• For NEXT UP [click here](#)

• For DEEP DIVE [click here](#)



MARKET SNAPSHOT as of 3:00 pm EST



TREASURIES <5> <500>

	BID	ASK	YIELD	CHANGE
1-Mo Bill	0.125	0.09	0.127	0.009
3-Mo Bill	0.155	0.145	0.157	0.007
6-Mo Bill	0.190	0.185	0.193	-0.003
1-Year	0.235	0.230	0.239	-0.001
2-Year	99.773	99.805	0.492	0.031
3-Year	99.945	99.984	0.769	0.063
5-Year	99.086	99.125	1.442	0.020
7-Year	98.453	98.500	2.115	-0.094
10-Year	99.172	99.234	2.721	-0.320
30-Year	100.047	100.109	3.872	-1.250

EQUITIES

	INDEX	CHANGE
DJIA	10553.32	26.42
NASDAQ	2297.83	7.97
S&P 500	1122.84	1.65

OIL

	PRICE	CHANGE
NYMEX	75.8	-1.1
BRENT	79.0	-0.2

EURODOLLAR FUTURES

	CLOSE	CHANGE
Oct-10	99.673	0.000
Dec-10	99.600	0.000
Mar-11	99.535	0.000
Jun-11	99.445	0.000

REPURCHASE AGREEMENTS

G/C		MORTGAGE REPOS	
O/N	0.380	O/N	0.380
2-Week	0.300	2-Week	0.320
1-Month	0.300	1-Month	0.310
3-Month	0.310	3-Month	0.310
AGENCY REPOS		i-REPO SM INDEX	
O/N	0.380	10:00 AM	0.310
2-Week	0.300	3:00 PM	0.316
1-Month	0.300		
3-Month	0.310		

IR SWAPS <19901>

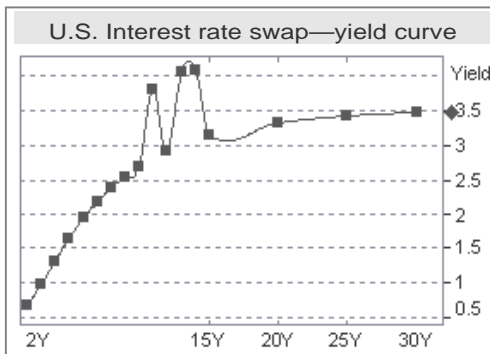
	SPREAD		RATE	
2-Year	17.00	21.00	0.65	0.68
3-Year	19.75	23.75	0.96	0.99
5-Year	18.75	22.75	1.62	1.64
7-Year	6.50	10.50	2.18	2.18
10-Year	-3.00	1.00	2.69	2.69
30-Year	-39.00	-35.00	3.48	3.47

FUTURES

	PRICE	CHANGE
CBOT 5 yr	120.69	-0.07
CBOT 10 yr	125.22	-0.23
CBOT 30 yr	132.06	-0.94

EURODOLLAR DEPOSITS & OIS STRIPS (ASKED)

	BID	ASK	BID	ASK
O/N	0.220	0.250	-	-
1-Month	0.250	0.350	0.181	0.191
3-Month	0.300	0.420	0.183	0.193
6-Month	0.480	0.620	0.183	0.193
12-Month	0.800	1.100	0.214	0.224



CURRENCIES

	BID	ASK
Euro	1.2999	1.3002
Sterling	1.5611	1.5616
JP Yen	85.62	85.64
Swiss Franc	1.0039	1.0042
Can Dollar	1.0271	1.0274
Mexico	12.8135	12.8202

FED FUNDS NYFRSM - 10AM

Open	0.2200	1m	0.2582
High	0.2500	3m	0.3168
Low	0.1400		

ACTIVE FANNIE MAE AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD		YIELD
2-Year	0.625	24/09/2012	13	<blank>	0.61
3-Year	1	23/09/2013	22	21	0.98
5-Year	1.75	10/09/2015	29	28	1.73
7-Year	3.75	27/03/2019	7.5	6.5	2.79
10-Year	-	-	-	-	-
30-Year	6.25	15/07/2032	23	19	4.1

ACTIVE FREDDIE MAC AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD		YIELD
2-Year	1.125	27/07/2012	10.5	9.5	0.59
3-Year	0.875	28/10/2013	22.5	22	0.98
5-Year	2.375	28/07/2015	25	24.5	1.68
7-Year	5.125	18/10/2016	7	-	-
10-Year	-	-	-	-	-
30-Year	-	-	-	-	-

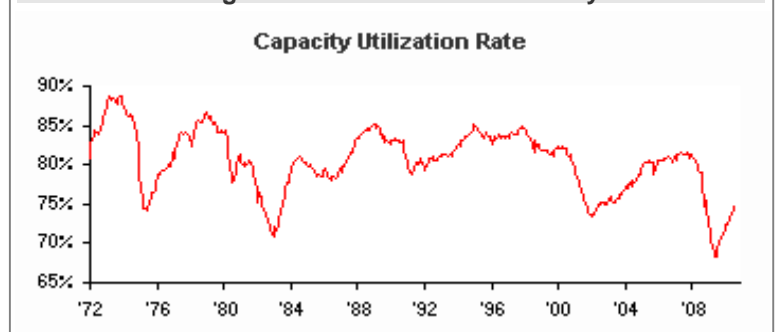
Active MBS 15YR

	CPN	BID	ASK	YIELD
FNMA	4.0	104.2030	104.2070	2.469
FHLMC	4.0	104.2060	104.2120	2.504

Active MBS 30YR

	CPN	BID	ASK	YIELD
FNMA	4.5	104.1000	104.1000	2.983
FHLMC	4.5	104.0430	104.0470	2.989
GNMA	4.5	105.1710	105.1750	2.966

Wrightson ICAPSM Chart of the Day



TODAY'S TOP NEWS

Japan intervenes to drag down yen, warns of more

Japan intervened in global currency markets to sell yen for the first time in six years in a bid to stop its relentless rise from threatening a fragile economic recovery.

Fresh after victory in a party leadership contest, Japanese Prime Minister Naoto Kan appeared to be stepping up efforts to wrench the country out of deflation by targeting yen strength, which has weighed on stock prices and corporate profits. Kan said that Wednesday's intervention had some effect but the government was watching foreign exchange moves with a sense of urgency.

A Japanese monetary source told Reuters that Japan continued to intervene in the currency market during New York trading hours, and traders at major foreign exchange dealers estimated Wednesday's efforts amounted to around \$20 billion.

Japan faces the stiff task of trying to put a halt to yen strength while other major central banks such as the Fed may take more steps to ease policy that could weigh on their currencies.

Separately, The re-election of Naoto Kan as Japan's ruling party leader has removed some political uncertainties, but a Moody's official said the agency will await Kan's detailed deficit-cutting plans before it reviews Japan's credit rating.

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Greenspan, in switch, now favors higher taxes

Former Federal Reserve chief Alan Greenspan said all Bush-era tax cuts should be allowed to expire at the end of the year in order to rein in the budget deficit and stop it from crowding out private investment.

Greenspan warned of "very grave problems ahead" if the budget deficit, swollen to around \$1 trillion by massive amounts of stimulus spending, is not tackled soon. "I am in favor for the first time in my memory of raising taxes," Greenspan said. "I would love to see taxes go down, and I would hope that what we would do is we allow the tax cuts, the so called Bush tax cuts, all to lapse as they will ... on December 31 and then gradually bring the level of expenditure down," he said.

Separately, House Majority Leader Steny Hoyer signaled a willingness to compromise to resolve an impasse over the looming expiration of trillions in tax cuts for nearly every American.

He affirmed the Democrats' preference to only renew tax cuts for those families earning less than \$250,000 a year.

EU unveils clampdown on financial speculators

The European Union's executive unveiled a blueprint to curb or ban short-selling and tighten controls on derivatives in one of its most ambitious financial reforms since the economic crisis unfolded.

The shake-up tackles two of the most opaque parts of financial services, seen by many politicians as the hunting ground for speculators seeking quick profits. It gives unprecedented powers to a new pan-European agency to impose 3-month bans on short-selling -- the sale of a security the seller does not have, often betting that the stock price will fall. The two laws, set to come into force in 2012, also lay the foundation for the overhaul of the \$600-trillion-plus derivatives market as well as imposing strict curbs on "naked" short selling. Derivatives, once described by billionaire investor Warren Buffett as "financial weapons of mass destruction", were blamed for triggering panic after the collapse of Lehman Brothers two years ago while some politicians say short-selling exacerbated Greece's problems as it grappled with heavy debt. AFME said most derivatives were bespoke for specific users to hedge risks and.

U.S. industrial output growth slows; import prices up

U.S. industrial output slowed last month and a regional measure of factory activity touched a 14-month low in September, pointing to a cooling in manufacturing as the boost from an inventory build-up fades.

Industrial production rose 0.2 percent in August, Fed data showed, matching economists' forecasts for a sharp slowdown from July when unusually strong auto manufacturing lifted output. Excluding motor vehicles and parts, total industry output increased 0.4 percent in August, compared with July's 0.3 percent advance.

Separately, the New York Fed's "Empire State" general business conditions index slipped to 4.14 in September from 7.10 in August. September's reading marked the lowest since July 2009 and was below market expectations for 8.0.

Capacity utilization rose modestly to 74.7 percent, a rate 4.7 percentage points above the year-ago level but 5.9 points. Import prices increased 0.6 percent in August after rising 0.1 percent in July. Excluding petroleum, import prices rose 0.2 percent, reversing the prior month's 0.2 percent decline. Export prices were boosted by a 4.3 percent jump in food prices, the biggest rise in 14 months.

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U.S. industry, lawmakers urge action on China's yuan

U.S. industry and senior Democrats ratcheted up pressure on Congress for a tough new trade law to punish China for what they see as an undervalued currency that threatens American jobs and profits.

While congressional efforts to pressure China over its currency have yielded little in the past, U.S. anger over the issue is now so strong that political analysts are not ruling out action before the Nov. 2 congressional elections.

But Beijing could counter with measures of its own, dealing a blow to President Barack Obama's efforts to ease U.S.-China tensions on a range of economic and foreign policy disputes.

The House bill would instruct the Commerce Department to apply anti-dumping and countervailing duties against injurious imports from countries that persistently undervalue their currencies. The United States and Europe have long pressed China to let the yuan rise against the dollar, although the White House has banked on quiet diplomacy to achieve that goal.

Swaps players clash on new rules for venues

Financial companies clashed at a public meeting over how much information about swaps they must disclose as regulators get ready to explore the secretive over-the-counter derivatives market.

Trillions of dollars are at stake and exchanges, big investors and other market players are trying to ensure that the rules go in their favor. PIMCO warned against disclosing too much information and forcing more customized swaps onto the swap execution facilities, or SEFs. Under the legislation, SEC and CFTC must define what type of swap will be traded on the facilities. Swaps participants expressed concern that there was a very small market for some of the swaps.

Separately, a top banking regulator questioned the need for legislation intended to speed development of a U.S. covered bonds market. But a limited legislative calendar and doubts about the need for formal congressional action make it unlikely that a law will be passed soon. An official from the FDIC told the Senate Banking Committee that existing guidance from federal regulators may be all that is needed for this market to thrive.



TODAY'S TOP NEWS

Fannie Mae now sees U.S. home sales drop, not rise

Fannie Mae sharply cut its forecast for annual home sales following weaker-than-expected activity in the second quarter. The company is predicting total U.S. sales of new and existing homes in 2010 will drop 7.4 percent from 2009, compared with expectations for a 0.8 percent rise in its forecast last month. It means sales would fall to about 5.12 million homes from 5.53 million units in 2009.

The decline in sales was also reflected in a drop in construction spending, which suggested housing would be a bigger-than-expected drag on the U.S. economy, they said.

Separately, Congress should extend beyond December the increased loan limits on mortgages backed by Fannie Mae and Freddie Mac, the powerful chairman of the House Financial Service Committee, Barney Frank, said.

Slower euro zone inflation confirmed, Q2 employment flat

Euro zone inflation slowed as expected in August, data confirmed, thanks to an easing of fuel prices from July and less expensive food.

The EU's statistics office Eurostat said consumer prices in the 16 countries using the euro rose 0.2 percent month-on-month for a 1.6 percent year-on-year increase.

Eurostat said food prices fell 0.2 percent on the month in August to rise 1.1 percent year-on-year. Energy prices fell 0.1 percent month-on-month but were still 6.1 percent higher than a year earlier. Without the volatile unprocessed food and energy prices grew 0.3 percent against July for a 1.0 percent.

Eurostat said that the number of people employed held stable in the second quarter of 2010 at about 144.4 million people.

The euro zone's GDP grew by 1.0 percent in the second quarter. Eurostat said employment rose in the financial sector -- by 0.6 percent on the quarter -- and on public administration, health and education, by 0.2 percent.

It declined on all other sectors -- by 0.5 percent quarter-on-quarter in manufacturing, 0.3 percent in construction, 0.2 percent in trade, transport and communications and 0.9 percent agriculture.

BoE can respond if British economy falters -King

Britain's central bank stands ready to act if the economic recovery turns out to be weaker than expected, Bank of England Governor Mervyn King told trade unions in a speech.

King made no specific policy comment on inflation, which has been above the BoE's 2 percent target since December 2009, indicating that the central bank is currently more worried about the risks facing Britain's fledgling economic recovery. "If the recovery is slower than expected then the automatic fiscal stabilisers -- the lower tax receipts and higher spending that result from weaker growth -- will act to stimulate demand," King said.

"And monetary policy can react too, especially when there is a credible plan to reduce the deficit," he told the Trades Union Congress, the umbrella group for British unions.

Separately, the ONS said claimant count unemployment rose by 2,300 in August, confounding expectations for a modest decline and bringing to an end a six-month period in which it had fallen by more than 150,000.

Canada July factory sales sag on weak U.S. demand

Waning U.S. demand for exports like cars and paper products hit Canadian manufacturing sales in July and threatens to sap economic growth in the months ahead.

Factory shipments dropped 0.9 percent in July, Statistics Canada data showed. Statscan also revised its estimate of June sales to a 0.1 percent decline from a gain of 0.1 percent.

Overall, new orders tumbled 3.9 percent in July, largely due to weakness in the auto industry, while unfilled orders fell 1.1 percent. Inventories grew 0.3 percent and the inventory-to-sales ratio rose for the second straight month to 1.33 from 1.32 in June. Stripping out autos, factory sales were down a more modest 0.4 percent in July, Statscan said, pointing to larger-than-usual declines in vehicle production in the month.

Meanwhile, the pace of Canada's economic growth is slowing as fiscal stimulus measures wind down, said S&P's in a commentary. The credit rating agency expects Canada's GDP growth will slow to an average rate of 2.5 percent in the second half of 2010 from 3.9 percent in the first half.

NEXT UP

Geithner's testimony on China's currency practices

U.S. Treasury Secretary Timothy Geithner, who steered clear of branding China a currency "manipulator" under U.S. law earlier this year, presents the Obama administration's view before the House panel and the Senate Banking Committee in Washington.

Many U.S. lawmakers accuse Beijing of deliberately undervaluing its currency to give Chinese exporters an unfair trade advantage, and are pushing for action to protect U.S. jobs, especially as U.S. midterm elections approach (1000 ET/1400 GMT).

U.S. House of Representatives' Ways and Means Committee Chairman Sander Levin said Treasury Secretary Timothy Geithner's testimony on China's currency practices will be "very important" in deciding how to move on a bill that would levy duties against Beijing.

"After he testifies, I'm going to sit down and talk with this committee, and with the leadership, and with the Senate, as well as with the administration, and decide on the next step," said Levin, who gave no indication on what course he favors in the contentious debate over a currency bill.

EU leaders push for efforts to avert crises

EU leaders will call on Thursday for more efforts to prevent Europe sinking into a new financial crisis and consider calls for tougher sanctions on countries that miss debt and deficit targets.

The leaders of euro zone will also discuss relations with big trade and political partners such as China and the U.S. to start drawing up a strategy to enhance the EU's standing on the world stage. The EU's leaders say Europe's economic recovery is gathering pace after the global financial crisis, and the bloc almost doubled its economic growth forecasts for 2010 this week, but plenty of risks remain for the economic outlook.

It is also seeking agreement on tighter fiscal discipline.

The task force, headed by Van Rompuy and grouping EU finance ministers, is due to recommend reforms at a summit in October and the Commission will make its own proposals on Sept 29.

EU finance ministers have agreed to submit budget plans for early review by the Commission and other EU governments but frustration is growing with the lack of progress in other areas.

DEEP DIVE Commentary and Analysis

Japan faces difficult war on yen intervention

By John Noonan and Rick Lloyd

Japan appears to have scored an early victory with Wednesday's intervention to stop the yen's rise. But if previous bouts of unilateral intervention are anything to go by, today's success is only the start of what will be a difficult war.

The Bank of Japan's intervention to buy dollar/yen after it hit a 15-year low of 82.87 early in the Asian session can be deemed a success, lifting USD/JPY above the psychologically important 85.00 level by the end of the Asian day as a very short market was forced to cover.

The effort to boost the USD/JPY through intervention alone is unlikely to succeed and a test of 80.00 at some stage is probable. But if the intervention is coupled with an aggressive increase in quantitative easing from the BOJ, and the USD/JPY could move back above 90.00.

Scepticism is running high that the Ministry of Finance will intervene with anything like the "awesome" amounts, as former Federal Reserve Chairman Alan Greenspan dubbed them, seen in the three-month, 15 trillion yen (\$180 billion) spree in early 2004.

Not to mention that daily foreign exchange turnover is twice as big as it was six years ago at \$4 trillion.

Once the weak USD/JPY shorts are stopped out or the Bank of Japan takes a break from intervening, the market will commence selling dollar/yen -- and that wave of selling will not only come from the speculative community.

Japanese exporters have been selling anaemic rallies in the USD/JPY since it broke below 85.00 a few weeks ago and they are likely to be aggressive sellers on rallies above the 85.00 level, trying to finish hedging before the end of the quarter and first half of the fiscal year.

Japanese life insurers will also be keen to take advantage of any spikes in USD/JPY as they approach the fiscal half year end, as will speculative retail accounts.

Market players who were around back in 2003 will remember the failure of the MOF to hold USD/JPY up that year, and past unilateral intervention efforts show that the market and authorities will end up in a game of cat and mouse.

The market will look to sell extended rallies above 85.00 and take profit when the MOF/BOJ buys below 83.00.

Past unilateral interventions that attempted to draw a line in the sand have typically resulted in the market getting rewarded if it is patient enough: just look at EUR/CHF near record lows despite the Swiss National Bank's big intervention campaign earlier this year.

The only chance the Japanese authorities have in putting an end to medium-term USD/JPY weakness and preventing a move below 80.00 is to couple the direct intervention efforts with a significant ramp up in quantitative easing from the BOJ -- effectively monetizing debt.

The BOJ has publicly stated it is against taking further quantitative easing steps. Last week, BOJ Governor Masaaki Shirakawa noted that past efforts to employ "quantitative easing" to boost the economy and increase price pressures had "little effect".

The independent BOJ does not want to be seen supporting government fiscal spending by buying government debt beyond what it already purchases in its "rinban" operations.

Some analysts see the major Japanese political parties finding a consensus that will effectively end the BOJ's independence, including one proposal for a law forcing the BOJ to adopt an inflation target between 2 percent and 3 percent.

Jesper Koll, JPMorgan's Japan head of equity research, wrote in a recent note that some lawmakers are discussing forcing the BOJ to step up direct debt monetization to boost base-money

growth by adding up to 50 trillion yen in JGB purchases. Naoto Kan was victorious in retaining his role as prime minister and head of the ruling Democratic Party of Japan. But a day later, the government's actions are starting to look like those of Ichiro Ozawa, his opponent who had promised aggressive measures to defeat deflation -- including unilateral intervention.

-- John Noonan is head of Asia FX at IFR Markets and Rick Lloyd is a Reuters FX analyst. The views expressed are their own --

EU, U.S. supervisors face derivatives test

By Huw Jones

Differences between new European Union and U.S. rules to crackdown on derivatives will be a key test of how well transatlantic regulators can coordinate to iron out loopholes banks may be tempted to exploit.

The United States has already approved a law to tighten supervision of the \$615 trillion off-exchange derivatives markets and the EU published its own draft law on Wednesday.

Both implement pledges the EU and United States made as members of the Group of 20 countries (G20) to require central clearing of as many contracts as possible, reporting of trades to repositories and where appropriate, trading on an exchange.

"The crunch item to get right is for trade repositories to make sure every regulator has access to all the data they have," said Damian Carolan, a partner at Allen & Overy law firm.

"I don't think there are any massive showstopper obstacles and there is enough recognition for third country solutions," Carolan added.

EU Internal Market Commissioner Michel Barnier is to meet his U.S. counterparts to ensure "we are operating in parallel".

But industry experts and lawyers say plugging the gaps will test how much supervisors in the EU and United States can go beyond the positive noises to actually trust each other's day-to-day supervision on the ground.

Will they be willing to allow the banks they regulate to clear and report trades across the Atlantic, lawyers ask.

CROSS-BORDER ACCESS?

The fear among supervisors is there will not be full and unfettered access to trading data held outside their jurisdiction when the next crisis hits.

Off-exchange derivatives trading has largely been a seamless, transatlantic market focused on London and New York.

It is dominated by a handful of banks like Morgan Stanley, Goldman Sachs and Deutsche Bank who want to avoid duplication of supervision, conflicting rules and extra red tape that could distort competition.

A U.S. clearer ICE has come to dominate credit default swaps clearing in Europe.

The U.S. DTCC has become the world's main repository for CDS transactions but recently agreed to set up a subsidiary in Europe to reassure local supervisors they have full access to data at all times.

Asia faces its own challenges about what to do with clearing and trade reporting as many of its banks carry out the trades in Europe or the United States and local markets are too small to support a clearer or data bank.

The EU draft law toned down earlier hints that clearing houses and repositories should be based on the bloc's soil to ensure speedy access to data at any time.

"Every difference between the U.S. and EU approach can lead to regulatory arbitrage. It can be at the price of distorting market functionality and taking away core freedoms," said Anthony Bel-



DEEP DIVE Commentary and Analysis

chambers, chief executive of the Futures and Options Association, a European industry lobby.

"It's difficult to convert the differences into costs but in the EU text it does look like we have moved away from this sort of nationalism around the location of central clearing houses and trade repositories," he said.

Transatlantic differences include:

The United States law says transactions that are centrally cleared must be executed on an exchange or swap execution platform. The EU derivatives draft does not look at execution venues and the bloc won't examine this until 2011.

The U.S. law forces banks to "push out" trading of equity and commodity-linked derivatives to affiliates but there is no such provision in the EU draft.

U.S. derivatives dealers may be subject to the Volcker Rule's curbs on proprietary trading in some derivatives. The EU has rejected such a rule.

Clearing house collateral from a U.S. derivatives customer will

have to be held in the United States. Unclear if the EU will insist likewise for EU customer collateral.

There are differences in how the United States and EU want to ring-fence a client's collateral to safeguard it from any insolvency of a clearing member.

Both EU and U.S. laws offer clearing exemptions to non-financial companies that use derivatives to hedge risks such as adverse currency moves, but it's unclear if these exemptions will work in the same way.

The U.S. law regulates large size swaps participants but there is no intention to do this in the EU unless they are carrying out a lot of business.

Although the United States has already approved its sweeping reform of Wall Street, much of the implementing details have yet to be fleshed out.

Policymakers and legal experts hope this process will take place at the same time as EU approve its draft so that transatlantic differences can be largely ironed out.

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Marriott Marquis, New York City

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