WRITTEN TESTIMONY OF
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BEFORE THE
HOUSE AGRICULTURE COMMITTEE

JULY 29, 2015

Chairman Conaway, Ranking Member Petersen, I am Chris Edmonds, Senior Vice President of Intercontinental Exchange (ICE). I appreciate the opportunity to appear before you today to testify on the fifth anniversary of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

BACKGROUND

Since launching an electronic over-the-counter (OTC) energy marketplace in 2000 in Atlanta, Georgia, ICE has expanded both in the U.S. and internationally. Over the past fifteen years, we have acquired or founded derivatives exchanges and clearing houses in the U.S., Europe, Singapore and Canada. In 2013, ICE acquired the New York Stock Exchange, which added equity and equity options exchanges to our business. Through our global operations, ICE's exchanges or clearing houses are directly regulated by the U.K. Financial Conduct Authority (FCA), the U.S. Commodity Futures Trading Commission (CFTC), the Securities and Exchange Commission (SEC) and the Manitoba Securities Commission, among others. As such, ICE is uniquely impacted by financial reform efforts in the U.S. and abroad.

FIVE YEARS OF FINANCIAL REFORM

ICE continues to support global financial reform efforts. When Dodd-Frank was passed, ICE already had been leading in the development of electronic trading and clearing of OTC derivatives, two primary goals of global financial reform efforts. As such, ICE believes that increased transparency of electronic trading and proper risk and capital management of clearing are central to efficient and transparent markets. However, as we stated at the time, we believe derivatives clearing and trading would ideally evolve naturally as opposed to top down mandates.

Looking at the derivatives market now, five years into financial reform, it is more transparent and risk management is more robust. Many more products are centrally cleared today, including the important interest rate and credit default swap markets. Also importantly, market participants have invested greatly in compliance systems and staff, which in turn have resulted in safer and more resilient derivatives markets. However, now that we have come to the later stages of Dodd-Frank implementation our larger questions are related to global regulation and harmonization. Other jurisdictions have chosen to develop on a much slower schedule, which has caused uncertainty in the market. Frankly, we are not globally harmonized as the market demands. The

goal of global regulatory cooperation and protection from regulatory arbitrage was the original goal of the G-20 and must be paramount going forward. It is only through such efforts that we can prevent fragmented liquidity pools and divergent regulatory structures. Both outcomes would be detrimental to market participants and ultimately, the public. With this in mind, I have two recommendations for what we could have done better in financial reform, which I hope are helpful for policy makers going forward.

RELIANCE ON PRESCRIPTVE RULES

At the time of passage, regulators and Congress were very concerned about the ability of market participants to exploit loopholes. Therefore, Dodd-Frank was very prescriptive, and in turn, the regulators have implemented very prescriptive rules. In some ways, a prescriptive rule is helpful to market participants as it provides clarity. However, prescriptive rules can also have a negative impact on a dynamic market like the derivatives market and in some cases make the market less safe.

As an example of how prescriptive rules can go awry, in the late 1800s, the British government passed rules mandating that passenger liners over 10,000 metric tons have 16 lifeboats. The Titanic's shipbuilders over-complied with the regulations -- they had 20 lifeboats. What the rule did not contemplate is that the technology of shipbuilding would change dramatically over the next few years. Thus complying with that prescriptive rule in part lead to the tragedy in 1912. In retrospect, a better rule would have been a flexible one that required enough lifeboats for all passengers -- whether that was 10, 16, or 30.

We should review the financial reforms put in place for these types of prescriptive rules and eliminate the ones that do not account for technological advances or which constrain competition. We should then replace those rules with more flexible regulatory principles that are able to best meet the evolving nature of markets and technology, while making certain all of the rules in place are making markets safer.

CONFLICTS IN FINANCIAL REFORM EFFORTS

In the early days of financial reform efforts, the G-20 nations agreed in Pittsburgh to harmonize financial reform legislation. In derivatives, this is vitally important as the markets are global and the U.S economy has benefited greatly as the home to international derivatives markets. Unfortunately, the past five years have demonstrated the clearly stated goal of harmonization has not been achieved internationally or domestically.

At the outset, the broad mandate of Dodd-Frank created great uncertainty for international transactions. The sole recognition of applicability of Dodd-Frank to international transactions is in Section 722 of the Act which states "[t]he provisions of this Act relating to swaps that were enacted by the Wall Street Transparency and Accountability Act of 2010…shall not apply to activities outside the United States unless those activities:

> (1) have a direct and significant connection with activities in, or effect on, commerce of the United States, or
> (2) contravene such rules or regulations as the Commission may prescribe…or to prevent the evasion of any provision of this Act…

This broad provision led the United States to export many of its regulations globally. The impulse to regulate global markets is understandable as the United States issued its financial reform rules faster than most other jurisdictions. However now, as other jurisdictions, particularly Europe, finalize their financial reform laws, we are seeing major differences across borders. These differences are compounded as each jurisdiction's rules are prescriptive and thus harder to harmonize. This continued development of compounding regulatory standards is leading to

fragmented derivatives markets, in turn impairing the ability of end users to access efficient and liquid markets to manage their risk.

Domestically, we have also seen regulations working at cross purposes. For example, the prudential banking regulators, through the Basel III process, have instituted a Supplemental Leverage Ratio (SLR) on cleared transactions. The SLR, in effect, penalizes banks for collecting margin from customers, even though the bank acts only as an agent between the customer and clearing house. The rule directly conflicts with the clearing goals of Dodd-Frank as the SLR will make access to clearing more difficult and expensive for customers. In addition, the rule could add to systemic risk as clearing firms leave the market, leaving risk concentrated in the remaining firms.

Going forward, I believe that future financial reform efforts should take great care to harmonize major rules, both domestically and internationally, before the rules are issued. While this would inevitably slow down the process, coordination would save considerable time and expense for both regulators and market participants in the overall.

CONCLUSION

ICE has always been and continues to be a strong proponent of open and competitive markets and supports robust regulatory oversight of those markets. As an operator of global futures and OTC markets, and as a publicly-held company, ICE understands the importance of ensuring the utmost confidence in its markets. We look forward to working with Congress and regulators in the U.S. and abroad to address the evolving regulatory challenges presented by derivatives markets.

Mr. Chairman, thank you for the opportunity to share our views with you. I would be happy to answer any questions you may have.

BIO

Chris Edmonds is Senior Vice President, Financial Markets at Intercontinental Exchange (NYSE: ICE). In this role he oversees the development of initiatives within ICE's OTC financial markets, including Creditex, ICE Link and ICE Swap Trade. Since February of 2010 Edmonds served as President of ICE Clear Credit, ICE’s wholly-owned credit default swap (CDS) clearing house. As president of ICE Clear Credit, Edmonds was responsible for ICE's North American credit derivatives clearing operations.

Prior to joining ICE, Edmonds was Chief Executive Officer of the International Derivatives Exchange Group (IDCG) a clearing house for interest rate swaps. Prior to IDCG, Edmonds was the Chief Development Officer for ICAP Energy. Edmonds held a variety of positions at ICAP between 2002 and 2008, and at APB Energy between 1997 and 2002. His professional career prior to APB Energy focused on advising businesses on strategic planning in the areas of technology, sales and marketing and operations.

Edmonds earned a Bachelor of Arts degree in Political Science from the University of Alabama at Birmingham and is Series 3 and Series 30 licensed.