Financial Markets Regulation

Dr. L. OUDAIFIA

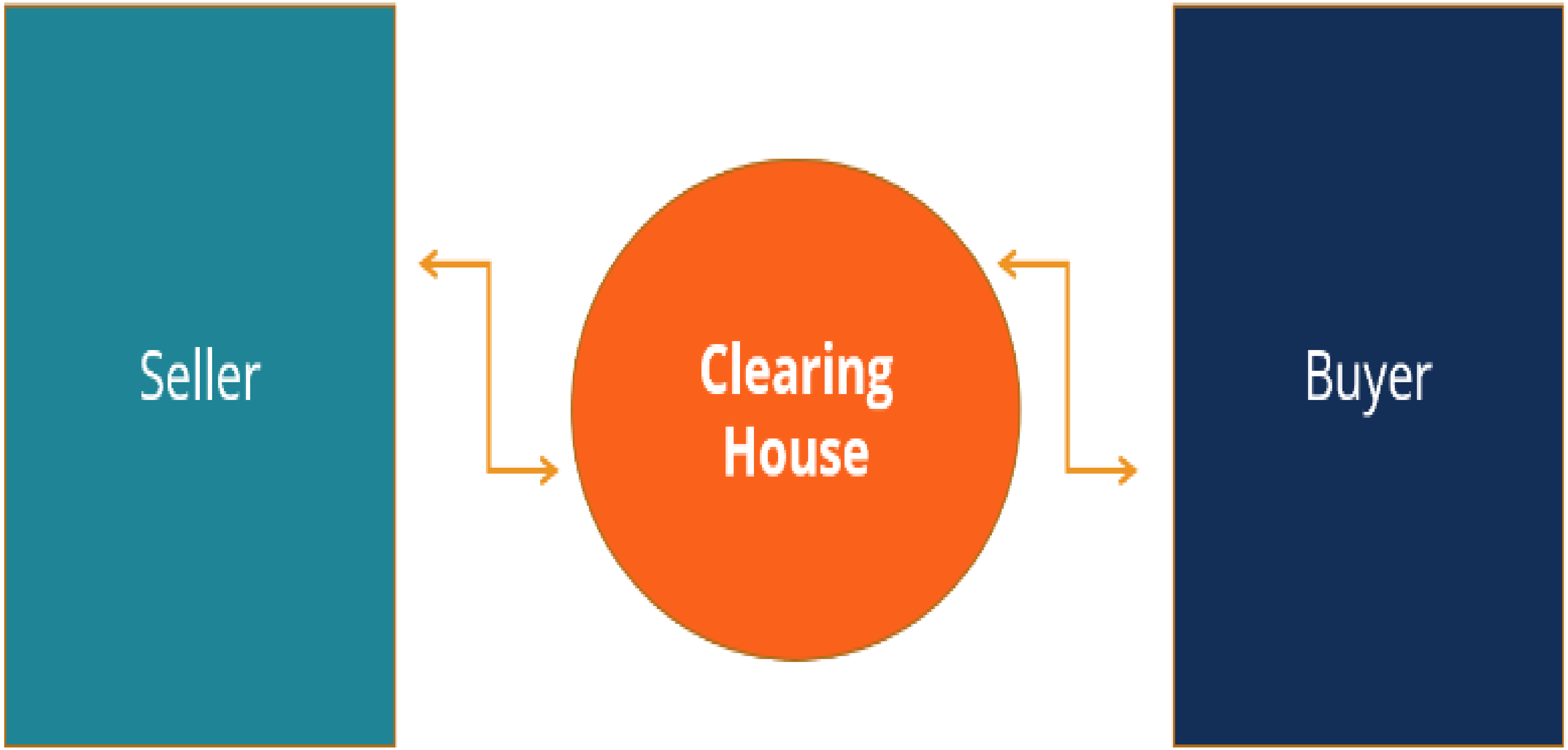
- The Clearinghouse: An Overview
- Introduction to Financial Intermediation
- Collective Bargaining

A regulated market is a market over which government bodies or, less commonly, industry or labor groups, exert a level of oversight and control. Market regulation is often controlled by the government and involves determining who can enter the market and the prices they may charge.

I. The Clearinghouse: An Overview

A clearinghouse is a designated intermediary between a buyer and seller in a financial market. The clearinghouse validates and finalizes the transaction, ensuring that both the buyer and the seller honor their contractual obligations.

Every financial market has a designated clearinghouse or an internal clearing division to handle this function. In the United States, this is the National Securities Clearing Corporation (NSCC), Canada uses the Canadian Depository for Securities Limited (CDS), and the E.U. uses Euroclear as its primary clearinghouse.


Seller
Clearing House
Buyer

A. Understanding the Clearinghouse

The responsibilities of a clearinghouse include "clearing" or finalizing trades, settling trading accounts, collecting margin payments, regulating delivery of the assets to their new owners, and reporting trading data.

Clearinghouses act as third parties for futures and options contracts, as buyers to every clearing member seller, and as sellers to every clearing member buyer.

The clearinghouse enters the picture after a buyer and a seller execute a trade. Its role is to accomplish the steps that finalize, and therefore validate, the transaction. In acting as a middleman, the clearinghouse provides the security and efficiency that is integral to stability in a financial market.

In order to act efficiently, a clearinghouse takes the opposite position of each trade, which greatly reduces the cost and risk of settling multiple transactions among multiple parties. While their mandate is to reduce risk, the fact that they have to act as both buyer and seller at the inception of a trade means that they are subject to default risk from both parties. To mitigate this, clearinghouses impose margin requirements.

2. Functions of a Clearing House

a clearing house is basically the mediator between two transacting parties. However, there is also more to what clearing houses do.

1. **Risk Management:** Clearing houses manage a comprehensive risk management system that includes margin requirements, default funds, and loss-sharing mechanisms. For example, the Chicago Mercantile Exchange (CME) requires traders to post initial and variation margins to cover potential losses.

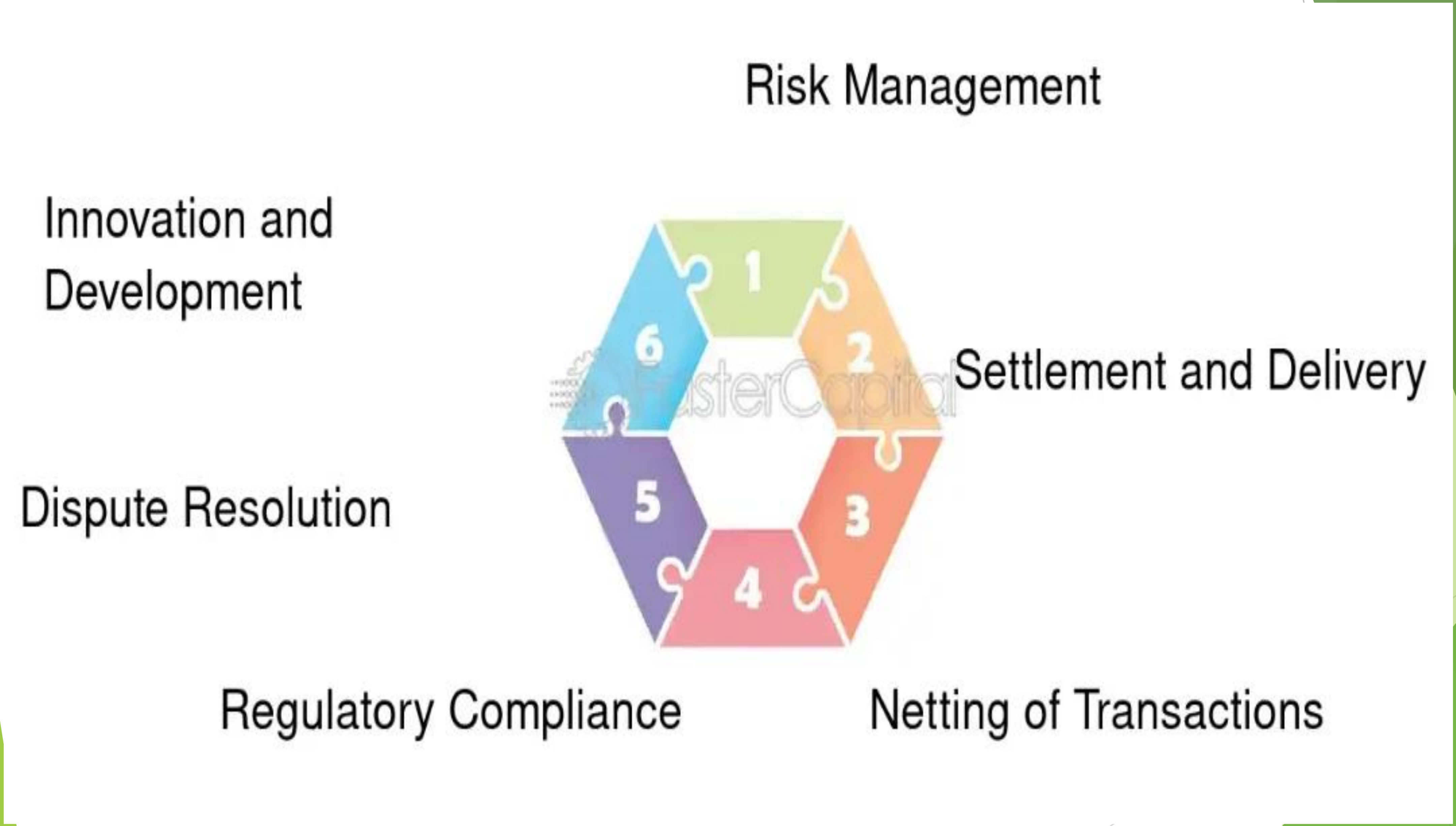
2. Settlement and Delivery: They ensure the timely settlement of trades and the delivery of the underlying assets. The Depository Trust & Clearing Corporation (DTCC) in the United States, for instance, settles a vast majority of securities transactions in the country.

3. Netting of Transactions: By netting off positions, clearing houses significantly reduce the volume of transactions, thereby lowering the cost and increasing the efficiency of the settlement process. The London Clearing House (LCH) is known for its clearing services across multiple asset classes, utilizing netting to streamline settlements.

4. Regulatory Compliance: Clearing houses are subject to stringent regulatory oversight to ensure they operate within the prescribed guidelines and maintain adequate financial resources. The european Securities and Markets authority (ESMA) oversees clearing houses within the EU, ensuring compliance with the European Market Infrastructure Regulation (EMIR).

5. Dispute Resolution: In the event of a dispute, clearing houses provide a mechanism for resolution, thus avoiding lengthy and costly legal battles. The National Securities Clearing Corporation (NSCC) has procedures in place to handle disputes and ensure fair outcomes.

6. Innovation and Development: Clearing houses also drive innovation in financial markets by developing new products and services. For instance, the introduction of central counterparty clearing for over-the-counter (OTC) derivatives has been a significant development in recent years.


Risk Management
Innovation and Development
1
2
3
4
5
6
Settlement and Delivery
Dispute Resolution
Regulatory Compliance
Netting of Transactions

II. Introduction to Financial Intermediation

Financial intermediation is a pivotal concept in the world of finance, serving as the backbone of modern economies. It refers to the process by which financial intermediaries—such as banks, investment funds, and insurance companies—channel funds from savers to borrowers, thereby facilitating the flow of capital within the economy. These entities act as the middlemen that bridge the gap between those with excess funds and those in need of funds. The role of financial intermediaries is not just limited to the efficient allocation of resources; they also play a crucial role in risk management, maturity transformation, and providing liquidity to the financial system.

A. Brokerage

An intermediary who connects a seller and a buyer to facilitate a transaction.

A brokerage provides intermediary services in various areas, e.g., investing, obtaining a loan, or purchasing real estate. A broker is an intermediary who connects a seller and a buyer to facilitate a transaction.

Individuals or legal entities can act as brokers. The broker performs its actions according to the client's instructions. The broker is then compensated, receiving either a flat fee or a certain percentage of the transaction amount.

B. Types of Brokers

Brokers can be one of three types:

1. Online brokers

A new form of digital investment that interacts with the customer on the internet. Online brokerages offer the main advantages speed, availability, and low commissions.

2. Discount brokers

A discount broker is a stockbroker who performs buy and sell orders at a reduced commission rate.

3. Full-service brokers

A full-service brokerage provides a wide range of professional services to customers, such as tax tips, investment advisory, equity researching, etc.

C. Different Brokerage Specializations

Let’s take a closer look at the main specializations of brokers and their respective features:

1. Stock brokerage

A stockbroker is a professional intermediary on stock or commodity markets who sells and buys assets in the interest of the client on the most favorable terms.

Operations on the exchange market are difficult for outsiders and require a certain number of special approvals and permissions to finalize transactions. It is useful to address professional participants on a stock exchange, such as to brokers.

2. Credit brokerage

Credit brokers are specialists with the necessary information and professional contacts with credit institutions. They provide individual assistance to clients in selecting optimal lending options. They also assist with obtaining the needed financing, its conversion, and repayment, etc.

3. Leasing brokerage

A leasing broker is a specialist who is similar to a credit broker but in the field of leasing equipment. A leasing brokerage's main clients include legal entities and commercial organizations.

4. Forex brokerage

A forex broker is an intermediary who provides access to the forex currency market. Since the forex market is open only to a certain number of organizations, access to it for individuals is possible only through the mediation of forex brokers.

5. Real estate brokerage

A real estate broker searches for buyers and sellers of real estate, e.g., warehouses, offices, retail, as well as residential properties. A real estate broker receives a certain percentage commission of the real estate transaction.

6. Business brokerage

A business broker offers its services for buying and selling an existing business. They usually deal with a business valuation, take part in negotiations with potential buyers, and generally help in the sale of the business.

7. Insurance brokerage

The main goals of contacting an insurance broker are as follows:

- Mediators draw up insurance policies at a discount.
- It saves time required to fill out an insurance contract.
- It allows searching for better offers from insurers.

III. Collective Bargaining:

A. Definition:

The term “collective bargaining” refers to the negotiation of employment terms between an employer and a group of workers. Employees are normally represented by a labor union during collective bargaining.

The terms negotiated during collective bargaining can include working conditions, salaries and compensation, working hours, and benefits. The goal is to come up with a collective bargaining agreement through a written contract. According to the International Labour Organization, collective bargaining is a fundamental right for all employees

B. Collective Bargaining Steps

Collective bargaining can be an intense process that can be stressful and difficult for all parties involved. It often involves a lot of back-and-forth, with offers and counteroffers. But the end goal is to reach an agreement.

The process goes through a number of stages. These steps can be summed up as follows:

1. Identifying the issues and preparing the demands: This may include a list of grievances, such as abusive management practices or low salaries.

2. Negotiating: The union will hire a team of professional negotiators to reach an agreement with the employer. The employer will also hire negotiators, and the two teams will continue to meet until they find a satisfactory agreement.

3. Coming to a tentative agreement: Once an agreement is reached, both teams of negotiators will submit the agreement to their constituents. At this time, any last-minute issues will be raised as the details are hammered out.

4. Accepting and ratifying the agreement: The agreement will be submitted to union members, who will have the opportunity to vote for or against the new contract.

5. Administering the agreement: After an agreement is finalized, workers and shop stewards will continue monitoring to ensure that the company is abiding by its obligations.


THANK YOU
FOR YOUR
ATTENTION