

## Evolution and innovation in commodities and OTC derivatives trading

By *Oliver.bradley*

Created 19/10/2009 - 16:18

The ramifications of the financial crisis have extended further and will last longer than few could have imagined two years ago. Iconic investment banks have disappeared, governments have been forced to take stakes in many of the surviving financial institutions and the costs of the bailout have pushed budget deficits to unprecedented levels.

From the re-packaging of mortgage debt in securitized products to the spectacular growth of CDS, derivatives markets have been at the centre of both the boom and subsequent crisis. They are, therefore, an area of particular focus for regulators' efforts to make the financial system in future more robust and safer. Exchanges, such as NYSE Liffe, are ideally placed to play an important role in this process. By building on the successes of its existing derivatives services, NYSE Liffe can help facilitate the transaction of existing business flows in a more transparent and efficient manner as well as provide the necessary market infrastructure for emerging trade and investment flows.

In October 2005 NYSE Liffe launched its Bclear OTC wholesale service as an equity derivatives platform covering 300 underlying stocks from 16 different countries. Bclear today is a cross-asset class platform covering futures and options on over 1,000 underlying instruments from over 20 countries.

As a concept, Bclear is very simple. It provides a simple and cost-effective way to register and process wholesale derivatives trades through the platform to clearing at NYSE Liffe Clearing. This reduces the counterparty, credit, legal and operational risks often associated with OTC trades. Bclear offers users the best elements of both the OTC and listed derivatives markets – flexibility and privacy, together with the ability to better manage counterparty and operational risk.

The award-winning service has enjoyed rapid growth from launch. In 2006, its first full year of operation, Bclear handled 52m contracts and volumes increased by 133 per cent and 56 per cent respectively in 2007 and 2008. By August 2009 volumes processed through Bclear in the year-to-date were over 50 per cent higher than in the same period of 2008 and in June 2009 the total volume in equity derivatives futures and options registered through the service passed the 500 million milestone.

Bclear's success is due, in part, to the broad adoption by both the buy-side community and member firms benefiting from the broad range of underlying stocks and indices and the flexibility available on the service. On reaching the 500 million contract milestone Adrian Valenzuela, Managing Director, head of equity derivatives flow marketing at J.P. Morgan, said: "The relevance of the Bclear service to the equity derivatives community is greater today than it has ever been." Phil Doherty, Director at BlackRock Investment Management UK Ltd said: "Bclear has proven to be a valuable way for us to access the tailored benefits of OTC style options within an exchange environment, the service is clearly designed to meet the needs of market participants."

Building on this success, NYSE Liffe is now extending the benefits of Bclear to commodity derivatives, starting with underlying contracts in cocoa, coffee and sugar. Future development will leverage NYSE Liffe's capabilities in agricultural commodities futures, further extending the provision of necessary infrastructure for investors to take full advantage of one of the coming decade's most exciting investment themes.

This special report is in two parts. The first analyses the factors behind the secular long-term trends in the global supply and demand for foodstuffs, putting NYSE Liffe's expansion into commodities into context. The second discusses recent developments and trends in the OTC markets for financial derivatives offering insights into the probable direction of future market development.

- [Articles and Features](#)

**Source URL:**

<http://www.hedgeweek.com/2009/10/19/evolution-and-innovation-commodities-and-otc%20derivatives-trading>