Crisil
Coalition
Greenwich

Impartial access encourages, but does not require, an agency model

November 25, 2013

In the past I've spoken about buy side incentives for using an agency model – chief among them the reluctance or inability to navigate the slew of legal documents an institutional investor would need to sign in order to gain access to the needed SEFs. (Other incentives are discussed in a good post on the topic here.) What's changed since the November 14th guidance is the last part – the number of needed SEFs. On November 13th, buy side firms trading index CDS needed access to three SEFs. Post-October 15th they need access to at least 8 to ensure they find the true best price. This also reintroduces and makes more real the idea of SEF aggregation. So while direct access is nice, the number of asset managers and hedge funds with the budget, legal, and technology staff to get this done is relatively small.

But despite the buy side's new incentive to trade via an agency model, they don't have to. Those small few with the budget and staff to connect directly are excited to gain access where they never could before. Furthermore, the impartial access rule applies to the SEFs, not to the FCMs. So while SEFs need to allow access for all, FCMs can use their own discretion when deciding to which SEFs they want to provide clients access. This does leave a lot of the power with the dealers, however their incentives to limit access are small. The FCM side of the business makes money on volume and notional outstanding, not on the spread. So the more chances they give their clients to trade the better. And competition now exists; either via a relatively long list of emerging FCMs or by connecting directly (see slew of legal documents required above).

SEFs have new incentive to support dealer agency offerings now as well. Many of the incumbents have dragged their feet on providing API access to their platforms, instead encouraging users to trade via their native screens as they have for years. I get this approach – like many technologies that allow API access, the richest way to interact with the underlying technology is directly through their front end (think Facebook vs. social media aggregators). But that logic starts to fall apart when competition grows. Per my above credit market example, investors won't settle for 8 different trading screens like they did with equity markets in the 90s, they'll want one (or maybe two). The Facebook analogy holds as well – now that I look at a half a dozen social media networks an aggregator is the only way to go. Not an aggregator that shows all posts (or available swap prices) in a single stream, but an aggregator that lets me view and post to all of those networks as I see fit. I know the analogy is an over simplification, but the parallels make a complicated story much easier to understand.

All of this still leaves the cleared swaps market in a pretty unique market structure position compared to other cleared markets: many SEFs to many CCPs, clients can connect directly or via a broker, trade execution can occur in numerous ways, etc. This is the first "new" market created after both the e-trading boom of the 2000s and the credit crisis, and despite some flaws it does seem we're using lessons learned to make it work.

www.greenwich.com | ContactUs@greenwich.com

Coalition Greenwich, a division of CRISIL, an S&P Global Company, is a leading global provider of strategic benchmarking, analytics and insights to the financial services industry.

We specialize in providing unique, high-value and actionable information to help our clients improve their business performance.

Our suite of analytics and insights encompass all key performance metrics and drivers: market share, revenue performance, client relationship share and quality, operational excellence, return on equity, behavioral drivers, and industry evolution.

About CRISIL

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics, and data to the capital and commodity markets worldwide.

CRISIL is India's foremost provider of ratings, data, research, analytics, and solutions with a strong record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights and efficient solutions to over 100,000 customers through businesses that operate from India, the U.S., the U.K., Argentina, Poland, China, Hong Kong, and Singapore.

For more information, visit www.crisil.com

Disclaimer and Copyright

This Document is prepared by Crisil Coalition Greenwich, which is a part of Crisil Ltd, a company of S&P Global. All rights reserved. This Document may contain analysis of commercial data relating to revenues, productivity and headcount of financial services organisations (together with any other commercial information set out in the Document). The Document may also include statements, estimates and projections with respect to the anticipated future performance of certain companies and as to the market for those companies' products and services.

The Document does not constitute (or purport to constitute) an accurate or complete representation of past or future activities of the businesses or companies considered in it but rather is designed to only highlight the trends. This Document is not (and does not purport to be) a comprehensive Document on the financial state of any business or company. The Document represents the views of Crisil Coalition Greenwich as on the date of the Document and Crisil Coalition Greenwich has no obligation to update or change it in the light of new or additional information or changed circumstances after submission of the Document.

This Document is not (and does not purport to be) a credit assessment or investment advice and should not form basis of any lending, investment or credit decision. This Document does not constitute nor form part of an offer or invitation to subscribe for, underwrite or purchase securities in any company. Nor should this

Document, or any part of it, form the basis to be relied upon in any way in connection with any contract relating to any securities. The Document is not an investment analysis or research and is not subject to regulatory or legal obligations on the production of, or content of, investment analysis or research.

The data contained in the Document is based upon a particular bank's scope, which reflects a bank's data submission, business structure, and sales revenue Reporting methodology. As a result, any data contained in the Document may not be directly comparable to data presented to another bank. For franchise benchmarking, Crisil Coalition Greenwich has implemented equal ranking logic on aggregate results i.e., when sales revenues are within 5% of at least one competitor ahead, a tie is shown and designated by = (where actual ranks are shown). Entity level data has no equal ranking logic implemented and therefore, on occasion, the differences between rank bands can be very close mathematically.

The data in this Document may reflect the views reported to Crisil Coalition Greenwich by the research participants. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Crisil Coalition Greenwich compiles the data received, conducts statistical analysis and reviews for presentation purposes to produce the final results.

THE DOCUMENT IS COMPILED FROM SOURCES CRISIL COALITION GREENWICH BELIEVES TO BE RELIABLE. CRISIL COALITION GREENWICH DISCLAIMS ALL REPRESENTATIONS OR WARRANTIES, EXPRESSED OR IMPLIED, WITH RESPECT TO THIS DOCUMENT, INCLUDING AS TO THE VALIDITY, ACCURACY, REASONABLENESS OR COMPLETENESS OF THE INFORMATION, STATEMENTS, ASSESSMENTS, ESTIMATES AND PROJECTIONS, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT. CRISIL COALITION GREENWICH ACCEPTS NO LIABILITY WHATSOEVER FOR ANY DIRECT, INDIRECT OR CONSEQUENTIAL LOSS OR DAMAGE OF ANY KIND ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT.

Crisil Coalition Greenwich is a part of Crisil Ltd., an S&P Global company. ©2025 Crisil Ltd. All rights reserved.