

# What's next for swaps, bonds and European regulatory reform?

May 5, 2014

Last week I did an interview with the guys at [DerivAlert](#) about where we've come and where we're going. The result was a pretty concise overview of our thoughts on SEFs, US Treasury's, corporate bonds and European regulatory reform, so we thought it worth reposting here. Enjoy!

**DerivAlert: Given all of the events of the last five years -- derivatives reform, increased electrification of swap trading, Basel capital requirements, QE -- How do you see the trading in derivatives evolving over the next five years?**

**Kevin McPartland:** It's great that we've got a lot of the major rules in place. It's good that we're finally here, but it's still very much early days. For clients that do not want to trade on SEFs, there are still plenty of ways to do that. Market participants need to feel incentivized to increase trading volume on SEFs, and the product sets that are required to trade electronically need to become larger in order to make the shift to SEFs real.

In terms of looking at who the winners and losers are in SEFs, the separation is starting to take shape, but it is still very early. It's also important to look at the client make-up of different SEFs, which are very different. That has a big influence on volumes.

**DA: What's do you see coming down the pike for fixed income?**

**KM:** The Treasury market is looking more and more like it is ripe for continued electrification. It is standardized and highly liquid. Nearly every financial firm is involved in Treasuries in some way shape or form. This is in contrast to the corporate bond market.

Our North American Fixed Income Study last year showed that 78% of clients we talked to were using electronic platforms to trade bonds. That means a big chunk of the market are already using electronic platforms in some way. But only 50% of notional volume is traded electronically, which outlines a huge opportunity for growth.

In credit, the story hasn't really changed much. The structure of the market is such that there are so many issues that it's hard for deep liquidity to grow in any one particular spot. For example, you have one IBM stock, but you could have upwards of 50 IBM bonds to choose from. That makes it tough to build deep liquidity in corporate bonds.

The real opportunity for electronic trading in credit is in bond selection. The major platforms are all innovating in this space and we expect that to be a growth area over the next several months. There's still a long way to go, but a shift is starting to occur whereby investors are moving away from bond-specific thinking and toward a risk-based approach. Instead of saying 'I want this IBM bond,' they are saying 'I'm looking for this type of credit exposure, what are my options?'

**DA: What are your expectations for European derivatives reform?**

**KM:** U.S. reforms have been complicated because the CFTC and SEC are jointly writing rules on Dodd-Frank. Europe has a dozen jurisdictions that need to write rules and get them accepted for all of their markets. The first thing we've seen is trade reporting, and by all accounts it's been really messy.

As it stands now, the reporting requirement for both sides of a transaction largely defeats the purpose of the rule. In terms of the first clearing mandates, we're expecting to see something maybe by the end of 2014/2015.

European reform is not a cut and paste of the U.S. The legal framework about how clearing works is very different in Europe, and the clearing rules are very different.

**DA: What impact do you see the May 1<sup>st</sup> guidance on packaged trades having on SEFs?**

**KM:** We're still waiting for lots of liquidity providers to come into the market. It's going to be a slow, organic process as some of the new products come online.

The CFTC's guidance laid out a phased in approach for packaged transactions, starting with packages containing two or more MAT instruments and quickly expanding to include MAT swaps over US Treasuries. While the marketplace is certainly ready to handle the electronic execution of these packages, the operational infrastructure needed to risk-check and process these trades will struggle to be prepared by the deadline.

---

[www.greenwich.com](http://www.greenwich.com) | [ContactUs@greenwich.com](mailto: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](http://www.crisil.com)

## Disclaimer and Copyright

This Document is prepared by Coalition Greenwich, which is a part of CRISIL Ltd, an S&P Global company. 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 Coalition Greenwich as on the date of the Document and 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 in this Document may reflect the views reported to 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. 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 COALITION GREENWICH BELIEVES TO BE RELIABLE. 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. 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.

Coalition Greenwich is a part of CRISIL Ltd, an S&P Global company. ©2024 CRISIL Ltd. All rights reserved.