

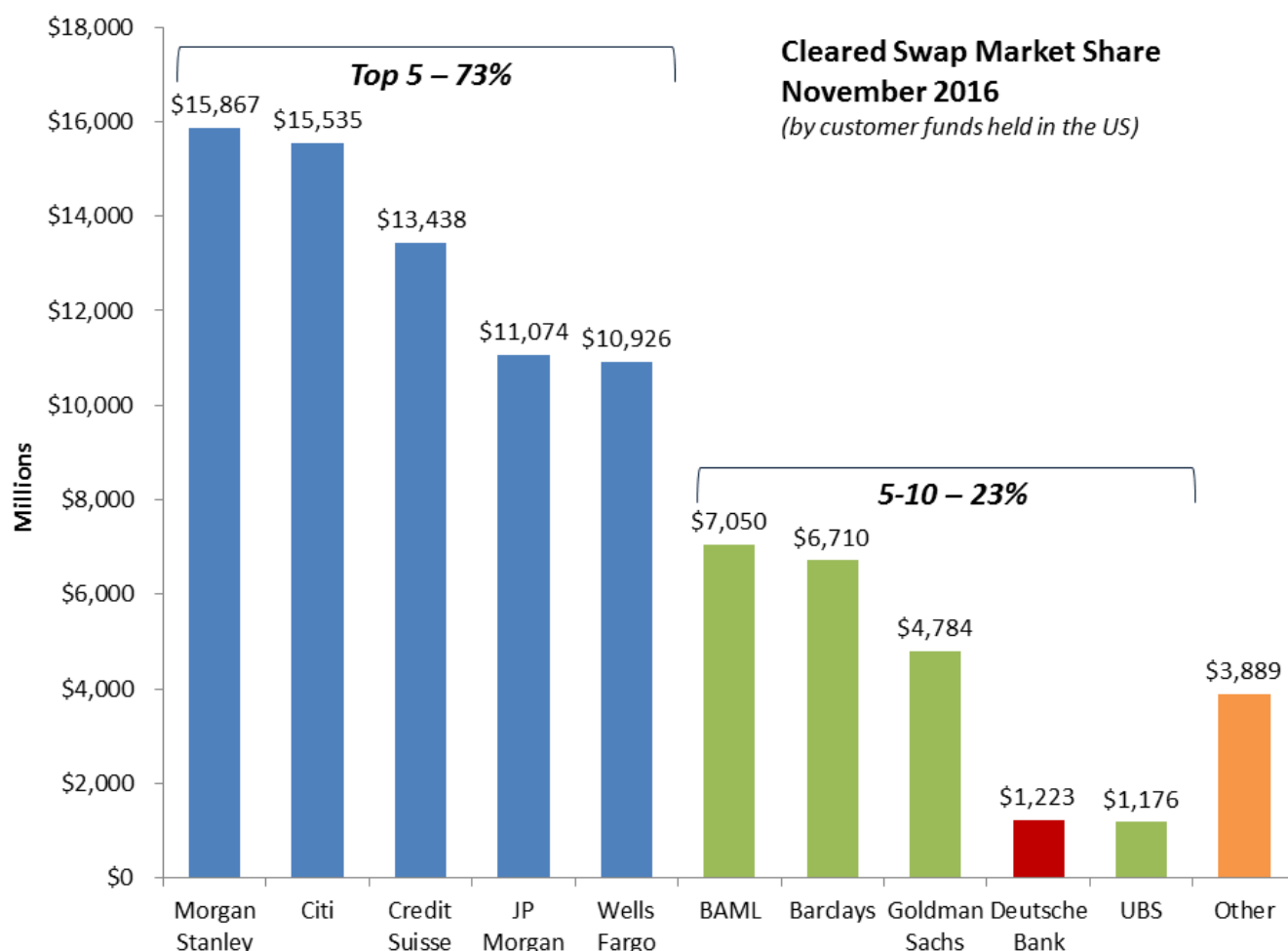
Swaps Clearing Is A Bad Business, Unless It Isn't

February 10, 2017

You can't really blame [Deutsche Bank](#) for getting out of the swaps clearing business . It has been 7 years since Dodd-Frank was passed, and four years since clearing mandates took effect in the US, and clearing swaps for customers still falls short of the great business opportunity most FCMs had hoped for when Dodd-Frank first became law.

But don't blame the FCMs. While Dodd-Frank encouraged and required market participants to clear swaps, capital rules such as Basel III seem to do the opposite. The cost of the capital needed to be in the business remains so high, that only those firms with the most scale, most efficient operations, and best technology can make clearing client swap trades worthwhile.

Further, those same FCMs must only focus on the most profitable clients. And a profitable client, in this case, doesn't mean a big client. A client with a multi-billion dollar, long duration position that only trades twice a year isn't a good client compared to a hedge fund that maintains a fifty million dollar position with a short duration that trades several times a day, for instance. Big FCMs working only with the latter is what leaves some swap investors either out in the cold or [paying 300% more](#) than other clients to clear the same trade .



Source: CFTC, Greenwich Associates

Nevertheless, a few big banks have in fact put all the pieces together in such a way that they can dominate the space. According to CFTC data, the top 5 swaps clearing FCMs hold collectively 73% of US client funds, a market share concentration even greater than that for swaps dealing, which per Greenwich Associates research sees [63% of buy-side trading going through the top 5](#). In both cases, these businesses - trading and clearing swaps with customers - are quite sticky, with customers making limited changes to their counterparty lists on a year over year basis.

The new leadership in Washington is working hard to tone-down Dodd-Frank. However, swaps clearing mandates are not in the crosshairs which means they, along with a small few swaps clearing FCMs, are here to stay.

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 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.