CME's NEX Acquisition a Game Changer - But How?

April 27, 2018

After months—arguably years—of little change in the competitive landscape for trading U.S. Treasurys (UST) electronically, the CME's acquisition of NEX effectively dropped the yellow flag on the market. Now, like it or not, everyone will need to slow down and take stock of what, where and how they trade.

That's not to say this wasn't a genius move for CME and NEX—it was. And ultimately, this could prove hugely beneficial to market participants who will be able to cross-margin future and bond positions, execute multi-leg trades with ease, access better market data than they've ever seen before, and likely see access to clearing expanded.

Complexity in the Coupling

However, just as NASDAQ's acquisition of eSpeed disrupted the status quo, the combination of CME and NEX gives the CME even greater ownership of the U.S. rates market, which might give some market participants pause. There is some validity in that concern, but if you unpack things a little bit more, the pros outweigh the cons.

First, while BrokerTec is the market share leader for wholesale on-the-run UST trading, ahead of Nasdaq Fixed Income and LiquidityEdge, trading between clients and dealers is split between Bloomberg, Tradeweb and the phone. Trading of off-the-run UST is fragmented even more. To take that idea further, a considerable amount of UST trading is also internalized within the major dealers, never finding its way to multi-dealer platforms. So while BrokerTec is an amazing asset for CME, competition for e-trading of UST remains fierce.



Market share estimates as of Q4 2017

Second, we can't ignore the size and importance of the interest rate swaps market, most of which is traded and cleared away from CME. That said, CME's cross-margining story between futures and swaps that was and remains compelling for many institutional investors is only more interesting if the UST position can be brought into the picture. This combination of futures and Treasurys was the dream of NYPC about five years ago, an initiative that, for a number of reasons, never gained much traction.

Opportunity in Treasury Clearing

Which brings us to the third and potentially most notable opportunity for the newly combined CME and NEX Group—Treasury clearing. Today FICC exists as the primary option for centrally clearing U.S. Treasurys. They do a great job and certainly reduce systemic risk.

But many smaller broker-dealers and market makers have argued that they are priced out of that service, which severely limits their ability to grow and compete in the marketplace. If CME now comes to market with a solution appealing to that group of market participants, it could have a ripple effect across the entire ecosystem: new entrants, new platforms and more.

And I've only discussed the impact on U.S. Treasury trading as it relates to the acquisition. The addition of EBS to the CME arsenal could have similar, albeit less dramatic, impacts and the impressive post-trade product line that includes Traiana and TriOptima could give a further boost to CME's trade processing and clearing businesses.

The behavior of capital markets and their participants are notoriously hard to predict, and the best or most logical outcome is not always the result. But in this case one thing is undisputed: CME's purchase of NEX Group is game-changing—we just don't know exactly how the game will change.

---

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.