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Corporate Derivative Use Continues to Grow—Dealers Say Not So Fast

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Executive Summary:

Despite the fact corporate end users are taking the changing regulatory landscape in stride, the dealers that service them are anything but complacent.

Dealers trading bilaterally with corporations exempt from Dodd-Frank trading and clearing mandates face a higher cost of capital than those putting on trades for clearing clients. Swaps clients with directional positions and limited trades have proven quite unprofitable for the clearing banks.

In the current environment, it costs derivatives dealers more to service corporate treasuries, causing some banks to pass these new costs down to the client or cut back their focus on corporate customers.

Eventually, as interest rates begin to rise and Basel III makes its mark on dealer-provided pricing and service, a move away from bilateral transactions seems all but inevitable.

Methodology:

Between September and November of 2014, Greenwich Associates conducted in-person interviews with 369 top-tier users of interest-rate derivatives at large corporations and financial institutions in North America, Latin America, Europe, Asia, Australia, and Japan. To be considered top-tier, a firm must meet one of the following criteria: be a fund manager, hedge fund, central bank, retail aggregator, Fortune Global 500 firm, or treasury center; or have reported trading volume of more than $10 billion; or have sales of more than $5 billion.

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www.greenwich.com | ContactUs@greenwich.com

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greenwich.com ContactUs@greenwich.com Ph +1203.625.5038