

The Void Rule No-Action makes No-Sense

October 30, 2013

OK, so not all of it. On Friday at 5:55pm (which I guess is better than 11:59pm on October 31) the CFTC issues somewhat expected [no-action relief for parts of the SEF rules](#) set to take effect on Friday November 1. It focuses on the so-called Void Rule (discussed in an earlier post), and states that trades can in fact be resubmit for trading if they were previously rejected – but only if the reject was not due to a credit issue. That but however is not the only but. In fact the bulk of the no-action document outlines all of the rules the voidmarket must follow if they would like to resubmit trades.

In the interest of time (both mine for writing this, and yours for reading this) I'm only going to focus on the one point that I think makes the least sense.

1. Both clearing members must agree to submit the new trade.
2. Each clearing member must obtain the consent of its customer, if any, to submit the new trade.
3. Neither a clearing member nor a SEF may require a customer to agree in advance to consent to the submission of the new trade. The consent must be sought on a case-by-case basis, after the trade has been rejected.

Let's think about this one. A trade gets rejected because some of the mapping data at the FCM was wrong for the fund in question. Let's say it takes about 45 seconds for the reject message to get back to the SEF (remember, the SEF is not responsible for rejecting trades and doesn't have to do so after 10 seconds, that's the FCM/CCP's job). Within the 45 seconds Bernanke decides its time to start tapering and rates go through the roof.

To point 1 above, both clearing members agree to resubmit the trade because clearing members have every incentive to ensure the trades of their customers ultimately get cleared. Per point 2, both of those clearing members then need to go back to their customers and get consent to resubmit the trade. Maybe not a big deal in normal times, but remember the Fed just started tapering. So now you have one trader way in the money and another way out of the money. Which one of the two do you think will decline the request to resubmit the trade? Exactly.

Then per point 3 – SEFs can't automate this process but putting a line in the rule book that stipulates all rejected trades are automatically resubmit for errors other than credit limit breaches. So there's no way to eliminate the above situation by taking human decision out of the equation. This also means SEFs all need to built functionality to allow clearing members and clients to review and resubmit any rejected trades (the rules say they have 30 minutes to complete the resubmission).

I've heard the argument that once we have pre-trade credit checks in place trades should almost never get rejected. This is true – but only for trades getting rejected for credit reasons. Human error in the client

onboarding process will always exist, for example, and so we will always have trades occasionally rejected for non-credit reasons. One other interesting point – the counterparties to the trade only get one shot to resubmit, after that the trade is “void ab initio”.

So while I applaud the CFTC for providing much needed clarity on the Void Rule (the other 9 points look good) – looks like there is still more guidance needed.

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.