

The CFTC Killed SEF Trading (for now)

November 8, 2013

Last week was a busy week in SEF land. November 1 brought in to play a host of new rules, the MAT wars heat up and the Commission made the void rule even more confusing than it was car-flying-off-cliff before. So where has that left us? With a huge drop in SEF volumes and a bunch of new questions.

Volumes? What Volumes?

First the volumes.

Much of the no-action put in place before October 2 is now expired. The biggest rules that brings into force are SEF documentation requirements and pre-trade credit checks. The no-action in early October was because no one was ready, and from what we're hearing the situation is only slightly improved. The added confusion surrounding the void rule no-action didn't help the situation either. There is some pretty compelling quantitative evidence this time around (volumes before the October 2 deadline weren't reported) that what little SEF trading existed to date was wiped out by the rules coming into effect. On October 31, SEFs reported roughly \$11.6 billion CDS traded. On November 1, with the no-action lifted and the rules in place, that volume dropped to roughly \$2.2 billion. I'm as skeptical as anyone about currently reported SEF volumes, **but an 80% drop in volume within 24 hours** is pretty hard to ignore (even if it was in part because half the swap traders on the street were out late partying for Halloween the night before). This is not correlation. This is causation. Our predictions unfortunately came true.

But to be fair (as I always try to be), this is only temporary. The Street simply does not have all of the needed documentation in place with SEFs and clients, and the pre-trade credit checking infrastructure just isn't ready. The documentation concern will be solved with a combination of (lawyer's) time and sponsored access. The lawyer part requires no explanation. Sponsored access, although not a totally new concept for swaps trading, got some attention last from an article in the Financial Times. The idea is that rather than signing documents with every single SEF on which a buy side investors intends to trade, the buy side client can work with an agency broker to gain SEF access via that broker's legal documents and technical connectivity hence bypassing the painful rulebook signing process. Said somewhat more succinctly in the FT article:

"Some investors would rather not have to sign up with numerous Sefs, and prefer to go through a broker-dealer," says Kevin McPartland at Greenwich Associates.

As for pre-trade credit checking, despite the technical readiness of Traiana and Markit, the rest of the ecosystem isn't connected nor prepared to begin sending and receiving limits. I don't have enough space on this page or time this morning to explain just how complex the pre-trading credit checking mechanism will be to get in place, but it is no small feat. Friday (November 1) brought more proof that things weren't ready, with

one SEF confirming numerous errors and rejects due to credit checking concerns. The issue isn't so much one of technology – the technology certainly exists – but one of coordination (which the industry is only sort of good at). Time will fix these issues, but the CFTC will need to use both carrots and sticks to get the needed infrastructure in place ahead of the expected Q1 2014 trading mandates.

MAT Wars

The MAT wars also continued last week, with three different press releases furthering the discussion along. [Tradeweb](#) (quickly followed by [MarketAxess](#)) got the ball rolling for mandatory CDS trading. These MAT applications make complete sense (on-the-run and one previous CDX and iTraxx) and I doubt they'll see much resistance from the market or the CFTC.

On the rates side, Javelin refiled its application with a slightly – and I emphasize **slightly** – more narrow list of contracts. IRS over 30 years are no longer part of the application, for example. While this is somewhat of a retreat, likely due to buy side backlash, I'm not sure it changes much. When was the last time you traded a 40 year IRS? As a result of the refile the Javelin comment period has restarted. That means the [trueEX MAT application](#) is now first in line to receive CFTC approval and effectively kick-off mandatory SEF trading. As discussed in an earlier post, trueEX's application sticks to the most liquid points on the curve. Greenwich conversations with market participants tell us the industry groups and big buy and sell side guys are on board with this approach. And given Tradeweb's IRS application is quite similar to trueEX's, and Tradeweb is largely supported and used by the aforementioned big guys, it's pretty clear where their support lies...and you already know my opinion.

Another interesting point to note: industry perception is that the CFTC will approve any MAT applications that cross their desk **unless** enough angry comment letters come in from the buy side to convince them otherwise. What does this all tell us? That the CFTC should have just made the SEF mandatory trading determination themselves just as they did for clearing. But that ship has sailed.

(I was also going to comment in this post about the FX no-action from late last week – but I'll come back to that point in a few days.)

I'll be attending and speaking at the FIA Expo in Chicago this week. Industry folks like to make announcements during this event, so watch for both the CFTC and SEFs to say something interesting (and hopefully [youtube videos of CFTC Commissioners getting their dance on](#)).

As always, cheers and jeers welcome.

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.