Crisil
Coalition
Greenwich

The SEF RFQ Minimum is Moving to 3. Does it matter? Nope.

July 17, 2014

On October 2 market participants requesting price quotes for an order via a SEF will have to ask a minimum of three dealers to respond rather than the current minimum of two (although in neither case are those dealers required to respond to the request). For those of you that followed the SEF rule writing process from the beginning, you'll remember that the inclusion of RFQ as an acceptable trading protocol and the minimum number of liquidity providers that must see each quote were hotly debated topics right until the bitter end. Former Chairman Gensler wanted a minimum of five, the SEC proposed one for security-based SEFs and Javelin SEF among others asked for three. In fact it was this debate between Commissioner Wetjen and Chairman Gensler that delayed the finalization of the SEF rules until their final passage in May 2013.

Those asking for a low minimum expressed concern over the information leakage that would be caused by sending the order to too many market participants, and those asking for a higher number hoped it would increase competition in the swaps execution space beyond the bulge bracket dealers. Ultimately a compromise was reached (you mean they do that in Washington??), with the final rule requiring a minimum of two at first, moving to three a year later. This is where we find ourselves today.

So does this change matter? Will the market come to a halt as the buy side's orders are overexposed? Will alternative liquidity providers get their shot? Both of those things may happen eventually, but not now and not because of the RFQ minimum bump. The reason - the minimum of two was set for political reasons and did not reflect current market best practices that already had institutional investors requesting three quotes. In short, the change won't actually cause a change at all.

Our latest North American fixed income data, based on just shy of 1100 buy side conversations, tells us that the market is ahead of the regulations this time around. The average number of dealers included in an RFQ for an interest rate swap is 2.9, and given that you can't RFQ only 90% of a dealer, it is fair to round up and say the current average 3. Asset managers average slightly less at 2.6 then hedge funds who average exactly 3. This demonstrates some reluctance amongst asset managers to broadcast larger orders to more than two counterparties. But given the largest orders can still be traded off SEF under the block trade exemption, the ultimately impact of the move to three will still be minimal.

The implementation of Title VII has been a long line of non-events. That is, of course, in large part due to the countless hours and millions of dollars spent by market participants to prepare, but "the world is going to come to an end if we make this change" concern continues not to be true.

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., a company of S&P Global. ©2026 Crisil Ltd. All rights reserved.