Looking back at 2014 - the year of the SEF?

December 10, 2014

Another year down. We're a year further from the Lehman bankruptcy, a year further from the signing of Dodd-Frank and a year closer to the full implementation of Basel III. But before we start looking ahead, let's look back at the year in market structure.

At the start of the year we published our top 10 market structure trends to watch. I declared 2013 to be the year of mandatory clearing. I think 2014 can rightly be declared the year of the SEF. Sure uptake wasn't as fast and furious as many had hoped, but electronic trading of interest rate swaps jumped in a way that only regulations could cause and the SEF competitive landscape has quickly evolved into a small few dominant liquidity centers.

But 2014 was more than SEFs. There was a whole other world out there of market structure happenings. High frequency trading came back into the spotlight so we could yet again debate what we debated in 2010. Corporate bond liquidity took up more news cycles (and research pages) than in recent memory. And benchmark rigging scandals just wouldn't go away.

But in an effort to make this year in review short and sweet, I've listed below the market structure trends we said to watch over the past year and exactly how they did or did not transpire. So without further ado:

1. **SEFs come of age** - and in fact they did. We're certainly not in business as usual territory, but we're certainly passed the SEFs banding together to drive regulatory change and into the post-regulatory "my SEF is better than your SEF" period. Look no further than the healthy competitive sparring that went on at SEFCON V (yes, 5!).
2. **European Regulatory Reform -** sort of. Reporting came and went with some complaining but no major ill effects. Mandatory trading is still to come however. We'll get some of that in 2015, but sadly the European regulators are taking it slow.
3. **Marginal Changes in Corporate Bond Trading -** despite the hoop-la around corporate bonds we were right on this one. E-trading grew slightly despite the long list of new platforms coming to market. All to all trading did grow in 2014, but the real change in that regard has yet to begin.
4. **Clearing Efficiency -** depends on who you ask, but swaps clearing is no longer center stage for most. The crowning of the credit hub winner in Traiana was a big step towards BAU.
5. **Rising Clearing Costs -** they did in fact rise and will continue to do so. The backing away from swaps clearing of State Street and BoNY were high profile examples of how hard it is to make money in the business. In a recent research note Citi suggests clearing fees would need to hit $1000 a ticket (up from roughly $300 on average today) to keep clearing members profitable under new capital rules. More on that in 2015.
6. **Clearing Mandates: Take Two** - no dice here. Surprisingly too many were still working off of the first

set of clearing mandates from 2012.

7. **A new CFTC** - Yup on this one. Lack of progress on new clearing mandates was in large part due to the settling in of what is an almost entirely new CFTC. With the arrival of Massad, Giancarlo and others the Commission certainly had a different feel in 2014 than in it did in years past.
8. **FX Derivatives in the spotlight** - they were in the spotlight yes, but not much progress was made with no clearing mandates to be seen. We did however have continued growth in FX futures trading and a lot of talk about how to improve the FX fixing process. So some change, but not where we expected.
9. **Rates market volume and volatility** - another hopefully prediction that will yet again role into next year. Everytime signs of life and higher rates emerged the Fed put the kibosh on the shift in sentiment. The VIX is still in the teens and rates are still near zero. Oh well.
10. **Structured product volumes return** - this one is a toss up. Greenwich data shows that buy side volumes were generally down in 2014 compared to a year prior. The search for yield however has driven many investors to utilize investment vehicles that just a few years ago would have been taboo.

And there you have it. Time for the company holiday party. Curious about 2015? Us too. But we'll save that until January. Happy New Year.

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