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Risk Awards 2014

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OTC Trading Platform of the Year

Tradeweb

Risk Awards 2014

A brave new world

Derivatives users had a lot on their plate last year with the rollout of new Dodd-Frank rules on clearing, reporting and trading. Firms have had to adapt to the new reality – and some have been more successful than others. This year's *Risk* awards recognise those that have made the most progress. By Lukas Becker, Matt Cameron, Laurie Carver, Clive Davidson, Kris Devasabai, Peter Madigan, Fiona Maxwell, Tom Osborn, Joe Rennison, Cécile Sourbes and Duncan Wood

Many US derivatives users were very much looking forward to the September 2 Labor Day holiday. The previous few months had been a blur of activity as the first US clearing mandates came into force, starting with the largest swap dealers in March and followed by the deadline many were concerned about – clearing for large end-users on June 10. Aside from a few technical glitches, those first mandates went relatively smoothly. Another deadline was looming on September 9 for smaller, less-frequent derivatives users, but many participants were relatively confident and relaxed, and looking forward to the long weekend.

Then came the release of long-awaited rules on uncleared derivatives margining requirements on the Monday holiday, drawn up by a group led by the Basel Committee on Banking Supervision and International Organization of Securities Commissions. For some participants, it meant immediately booting up the laptop or heading into the office to analyse what the rules would mean.

That pretty much summed up the year. With so many lengthy, complex rules being finalised by global and domestic regulatory bodies, and so many new requirements coming into force, participants risked falling hopelessly behind if they spent more than a few days out of the office.

For many banks, last year was all about getting ready for new regulations – and helping their clients through the process too. That doesn't just mean helping them understand the rules and providing clearing and execution services, though. Many end-users were growing increasingly worried about contingent liquidity risks posed by sudden, large margin calls, leading some banks to focus on developing new, innovative structures that would help alleviate the impact of a cash drain. Others worked to restructure outstanding trades that would be too capital-intensive in the new world, with the aim of optimising their own portfolios and, in theory, reducing costs for their customers. Many of the most successful firms are featured in the following pages.

As always, the winners were incredibly difficult to pick. *Risk* asked candidates to submit detailed information on their businesses, and the shortlisted firms underwent several in-depth, face-to-face interviews with the editorial team. Demonstrations of key risk and trading systems were given, and calls were made to end-users and other market participants to obtain feedback. The entire process took about three months. *Risk* would like to thank all those who participated for their time.

In making the final decisions, a number of factors were considered, including (but not limited to) risk management, customer satisfaction, responsiveness to new regulations, engagement with regulators, liquidity provision and creativity. **R**

The roll of honour

Derivatives house of the year
HSBC

Lifetime achievement
Wilson Ervin, Credit Suisse

Deal of the year
Arqiva/HSBC

Bank risk manager of the year
Deutsche Bank

Interest rate derivatives house of the year
Goldman Sachs

Currency derivatives house of the year
Bank of America Merrill Lynch

Equity derivatives house of the year
Morgan Stanley

Credit derivatives house of the year
Credit Suisse

OTC client clearing service of the year
Barclays

Structured products house of the year
Société Générale Corporate & Investment Banking

Inflation derivatives house of the year
Barclays

Hedge fund derivatives house of the year
Deutsche Asset and Wealth Management

Credit portfolio manager of the year
HSBC

EM dealer of the year
Standard Bank

OTC trading platform of the year
Tradeweb

OTC infrastructure service of the year
eClerx

Derivatives exchange of the year
Ice

Clearing house of the year
LCH.Clearnet

Law firm of the year
Davis Polk & Wardwell

Corporate risk manager of the year
Microsoft

Sovereign of the year
Riksgälden

Insurance risk manager of the year
Axa

Hedge fund of the year
Chenavari Investment Managers

Pension fund risk manager of the year
PKA

Quant of the year
Michael Pykhtin

Risk management system of the year (bank)
Barclays

Risk management system of the year (vendor)
Markit IRM

Trading system of the year
Nasdaq OMX

Back-office technology product of the year
SmartStream

In-house system of the year
Royal Bank of Scotland

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OTC trading platform of the year

Tradeweb

There was just one focus for over-the-counter trading platforms last year – the start of the new swap execution facility (Sef) regime in the US. It's still early days – electronic trading platforms had to register by October 2, but the first mandatory trading obligations aren't expected to come into force until February. With many clients deciding to temporarily revert to voice broking and single-dealer platforms to give themselves more time to get to grips with the various Sef rule books and lengthy user agreements, trading volumes in the last few months of 2013 were patchy. Nonetheless, two platforms – Bloomberg and Tradeweb – appear to have taken an early lead. Of those two, Tradeweb is widely praised by clients for its responsiveness to changing regulations, its technology and its customer service.

"Bloomberg is still our primary trading platform due to various legacy positions, but if we're looking for quick execution and simplicity of clicks to get a trade done, we feel Tradeweb has emerged as the better of the two dealer-to-client platforms," says one New York-based loan portfolio manager.

The Commodity Futures Trading Commission (CFTC) agreed its final Sef rules on May 16, sparking a rush by electronic trading platforms to draw up their rule books and submit registration applications. Tradeweb's TW Sef and DW Sef platforms were the second and third to receive approval for temporary registration on September 6, behind Bloomberg's offering on July 30. Based on the existing Tradeweb service, TW Sef is a disclosed, request-based market with an order book, while DW Sef is an anonymous central limit order book service, based on the Dealerweb platform.

"We have been trading interest rate swaps through Tradeweb for six years, but this year we were impressed by the fact they wanted to get our feedback on what we were looking for in the redesigned trading platform" Insurance company client

Those approvals were not the end of the matter, though – the CFTC subsequently published a series of clarifications, guidance notices and no-action letters that required Sefs to adapt and – in some cases – totally rewrite sections of their rule books. A September 26 guidance on swaps straight-through processing is a case in point. The notice made clear that any trade rejected by a central counterparty would cease to exist, negating the need for users to agree bilateral breakage agreements in advance (*Risk* November 2013, pages 28–31, *www.risk.net/2300221*). Some platforms, including TW Sef, had included this requirement in their rule books, prompting users to complain it essentially restricted them to trading with a handful of established dealers (*Risk* October 2013, pages 48–52, *www.risk.net/2296921*).

The CFTC cranked up the pressure on November 14, publishing guidance that made clear Sefs should not include so-called enablement mechanisms within their rules – essentially, any clause that restricts impartial access to the platform, such as a requirement to sign breakage agreements, or rules that require market participants to be swap dealers or clearing members to respond to requests for quotes.

Speaking to *Risk* on the sidelines of a conference on November 18, Gary Gensler, outgoing chairman of the CFTC, suggested Bloomberg, MarketAxess and Tradeweb were among those that had enablement mechanisms in place and "have to come into compliance" (*www.risk.net/2307755)*.

Tradeweb had already removed the requirement for breakage agreements from its rule book prior to the November 14 guidance, but a no-action letter on November 15, which confirmed that swaps that are intended to be cleared – such as those traded on a Sef – would be exempt from various external business conduct standards and swap trading relationship documentation requirements, gave the firm additional comfort that enablement mechanisms weren't needed.

"We are absolutely going to be in compliance with the new CFTC guidance, and we will tweak our rule book to reflect that. The reason Tradeweb had enablement mechanisms was because there was a requirement for dealers to know their customers in the business conduct rules laid out by the CFTC. Up until that release on November 15, dealers were required to know who they were doing business with, but that guidance had the effect of essentially stripping away the business conduct rules. As such, the reason we needed enablement mechanisms became moot after that date. We are taking away the enablement concept," says Lee Olesky, chief executive of Tradeweb.

Throughout all these changes, Tradeweb kept in contact with its clients, apprising them of modifications to the regulations and the implications for Sef trading. The company also endeavoured to get customer feedback on proposed changes to trading functionality throughout the year – an effort that is appreciated by its clients.

"We have been trading interest rate swaps through Tradeweb for six years, but this year we were impressed by the fact they wanted to get our feedback on what we were looking for in the redesigned trading platform. They listened to our opinions about how a trade executed at Tradeweb should flow down to clear at the clearing house, including our preference to cut out middleware providers such as MarkitServ and have the Sef route our trade direct to the clearing house. Tradeweb was very willing to think about that concept and develop the functionality to make that happen. We are just a small Midwestern insurance company, and our volumes are tiny compared to its sell-side clients, so I can't show

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Lee Olesky, Tradeweb

my appreciation highly enough for Tradeweb for listening to us in that respect," says one end-user client.

Despite the arrival of the Sef regime, existing clients say they were able to continue trading on the Tradeweb platforms without interruption, notwithstanding the need to sign end-user agreements and the uncertainty created by the succession of guidance notes and no-action letters.

In fact, the firm managed to pull off a bit of a coup at the start of last year, demonstrating the Sef roll-out wasn't its only area of attention. Following the launch of an index credit default swap (CDS) trading facility on its Dealerweb platform, the company managed to grab as much as 80% of dealer-to-dealer volumes by the end of the first quarter of 2013 – a market that had previously been the preserve of the big interdealer brokers.

Launching first with dealer-to-dealer trading for Markit CDX high-yield and investment-grade indexes in October 2012, Dealerweb added the Markit iTraxx Europe, senior financials and crossover indexes on February 7. Key to its success was a requirement for dealer members to commit to the provision of liquidity – from as little as €10 million for the iTraxx crossover index to a minimum of $100 million for the CDX investment-grade index – making it easier for banks to lay off risk assumed through client trades.

"All dealers may be quoting iTraxx Europe to clients in sizes up to €250 million, so there is lots of liquidity there. When dealers need to de-risk in the broker market, the same level of liquidity is not there – you might be able to get €25 million off," said Michael Armer, head of credit electronic trading at Credit Suisse in London, explaining to *Risk* in April 2013 the reasons for the shift in liquidity from the broker market to Dealerweb (*www.risk.net/2260635*).

The brokers quickly hit back by making another small but significant alteration to their trading proposition – the ability to offer interdealer index CDS trading at mid-market prices. Volumes shifted back to the interdealer brokers as a result – although regulatory uncertainty has led to a decline in CDS volumes generally this year.

"In 2013, real buy-side activity in index CDS decreased enormously, so liquidity became constrained while the amount of volatility in the market was increasing. That meant traders came to be less interested in capturing the bid-offer spread than they were in avoiding ending up with exposures they didn't want and could not unwind," says Billy Hult, New York-based president of Tradeweb. "As such, the capability to trade at the mid-market price was a service that was attractive to participants, so they went back to the interdealer brokers to get it because Dealerweb was not able to offer it at that time."

The firm has been working to develop this capability over the past few months, and hopes to go live with similar functionality shortly. "Dealers will be able to take a complete exercise in risk transference rather than an exercise in capturing and keeping as much of the bid-offer spread embedded in the price shown to customers. We will be in a position to recapture that business," says Hult.

For many participants, though, 2013 was all about the new Sef regime. And in this regard, volumes have been disappointing since October 2. As of November 26, only $45 billion in interest rate swap notional volume had been transacted on TW Sef, while just $15 billion in notional had traded on DW Sef. In index CDSs, TW Sef had traded $2.5 billion in notional, and DW Sef had executed just $1 billion.

In comparison, a combined notional volume of $450 billion had traded on Bloomberg's Sef by November 26, across both interest rate and credit derivatives products. Olesky acknowledges Tradeweb's Sef volumes have been lacklustre so far, but believes these figures will jump sharply once the trading mandates come into force.

"Our volumes are down relative to the pre-Sef era before October, and we think that is down to two factors. The first is that volumes in the CDS market have shrunk considerably from their transacted volumes a few years ago. Secondly, a lot of customers have backed away from Sefs since they are not obliged to trade on them as yet and they are waiting until they will be required to trade in the first quarter of 2014," says Olesky.

"Dealers will be able to take a complete exercise in risk transference rather than an exercise in capturing and keeping as much of the bid-offer spread embedded in the price shown to customers"

Billy Hult, Tradeweb

"Our statistics suggest that in interest rate markets, just 4% to 6% of clients are transacting through Sefs so far, so it is very hard to determine whether there truly is one platform out in front. I don't think any Sef is running away with the traded volume, because the vast majority of derivatives activity among customers is not happening on Sefs today. We are only going to find out who the winners and losers are from a trading perspective once 100% of participants are required to trade interest rate swaps and credit default swap indexes on Sefs, but we think we will be in a very strong position to pick up very significant volume when that happens," he adds. **R**