

## Mandatory Platform Trading of Derivatives: U.S. Update

Market participants in the U.S. have spent the better part of the year adjusting to new rules as mandatory trading of a range of OTC derivatives on multilateral trading platforms known as Swap Execution Facilities (SEFs) finally became a reality. This paper briefly summarizes the introduction of the SEF mandatory trading obligation and the made-available-to-trade (MAT) determinations that spell out the derivatives that must now be traded on SEFs. More importantly, we take a closer look at how mandatory SEF trading has impacted volumes of interest rate swaps (IRS) traded on these platforms. This data shows that the SEF trading model is being adopted by US buy-side market participants and that market share for client-facing SEFs is increasing.

Canadian regulators are expected to release a consultation paper on platform trading of derivatives before the end of this year, and we anticipate they will be closely monitoring what has been occurring in the U.S. to determine whether mandatory trading should be adopted in Canada for similar derivatives classes.

### SEFs and the Made-Available-to-Trade (MAT) Rules

The Commodity Futures Trading Commission (CFTC) finalized the registration rules for SEFs in May 2013, and the first registered SEFs went live in October 2013. In June 2013 the CFTC prescribed a process where SEFs could submit a list of instruments that would be made available to trade (MAT) on their platform and thus be subject to mandatory trading. From January to March 2014, the CFTC certified MAT determinations from five different SEFs covering a range of IRS and CDS derivatives. The table to the right summarizes the current list and terms of MAT derivatives that are subject to mandatory trading on SEFs.

### Electronic Swaps Volumes

Since the first MAT determinations came into effect in mid-February, SEF volumes have been steadily on the rise. According to TABB Group, by September notional volumes of IRS traded on-SEF hit \$2.8 trillion for the month, an all-time record, and client-facing SEFs captured 35% of total SEF trades – up from 8% in early 2014. In October, on-SEF USD IRS volume hit a record-breaking \$1.5 trillion for the first time. SEFs offering electronic Request-For-Quote (RFQ) and Central Limit Order Books (CLOBs) have gained market share since MAT determinations went into effect. The driving force behind SEF growth has been the increasing scope of contracts covered by MAT determinations, which effectively require a growing number of swap contracts to be traded electronically.

Based on the data, on-SEF trading can only grow in importance as uptake by the buy-side and the number of contracts covered by MAT determinations increases. The US experience to date under the new mandatory trading regime should significantly influence the approach that Canadian regulators take to the platform trading of derivatives similar to those traded by US participants on SEFs.

### Swaps Made-Available-to-Trade (MAT)

Specifications	Fixed-to-Floating Interest Rate Swaps (USD)		
Currency	U.S. Dollar (USD)	U.S. Dollar (USD)	U.S. Dollar (USD)
Floating Rate Indexes	USD LIBOR (3M, 6M)	USD LIBOR (3M, 6M)	USD LIBOR (3M)
Trade Start Type	Spot Starting (T+2)	IMM Start Date (next 2 IMM dates)	IMM Start Date (next 2 IMM dates)
Optionality	No	No	No
<b>Fixed Leg</b>			
Payment Frequency	Semi-Annual, Annual	Semi-Annual, Annual	Semi-Annual
Day Count Convention	30/360, Actual/360	30/360, Actual/360	30/360
<b>Floating Leg</b>			
Payment/Reset Frequency	Quarterly (3M USD LIBOR) Semi-Annual (3M USD LIBOR or 6M USD LIBOR)	Quarterly (3M USD LIBOR) Semi-Annual (3M USD LIBOR or 6M USD LIBOR)	Quarterly (3M USD LIBOR)
Day Count Convention	Actual/360	Actual/360	Actual/360
Dual Currencies	No	No	No
Notional	Fixed Notional	Fixed Notional	Fixed Notional
Fixed Rate	Par	Par	Standard Coupon
Tenors	2, 3, 4, 5, 6, 7, 10, 12, 15, 20, 30 years	2, 3, 4, 5, 6, 7, 10, 12, 15, 20, 30 years (standard and IMM end/roll date conventions)	1, 2, 3, 4, 5, 7, 10, 15, 20, 30 years (standard end/roll date conventions)
Holiday Calendar	NY/London	NY/London	NY/London
Business Day Convention	Following, Modified Following	Following, Modified Following	Modified Following

Note: This reflects a summary of swaps made available to trade (MAT) and terms as of February 18, 2014. Please refer to the MAT submissions located on the Commission's website, that provide a full lists of swaps made available to trade, including swap terms.