



Swap Execution Facilities: *A Very Fragmented Market*

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Recent regulatory changes related to Dodd-Frank will soon require reporting, clearing and settlement functions for many forms of over-the-counter derivatives. The new rules will require these instruments to trade on tightly regulated Swap Execution Facilities (SEFs). This new regulatory structure, which is rapidly evolving, is causing some substantial shifts in the overall swaps market structure.

The requirement that swaps trade on SEFs becomes effective on Oct. 2. As of September 27, 2013, the CFTC has granted temporary registration approval to more than 13 firms. Several more proposed venues have applied or are considering applying for SEF status.

Below is the list of the facilities we found in our research with their status and brief descriptions borrowed or summarized from their websites or press releases. This information was compiled via online research. We do not represent the information as complete or even accurate. But we hope it will prove helpful to have a single list of the various venues. Trademarks belong to the respective owners.

The List (as of September 27, 2013)

360 Trading Networks

Status: Temporary Registration Approved

Products: Non-Deliverable Forwards, Non-Deliverable Swaps, and FX Options

Description: 360T is a multi-asset trading platform for foreign exchange non-deliverable forwards, swaps and options. This SEF differs from others in that 360T is a platform provider rather than a broker or a trading venue. The firm is headquartered in Germany and offers a multi-platform, cross asset, FX solution to banks and financial institutions.

Bloomberg

Status: Temporary Registration Approved

Products: Interest Rate Swaps, Credit Default Swaps, And Foreign Exchange And Commodity Derivatives

Description: Bloomberg's SEF will offer deep, cross-asset liquidity to Bloomberg Professional service subscribers. It will support request-for-quote and order book functionality for interest rate swaps, credit default swaps, and foreign exchange and commodity derivatives trading.

The SEF will be built on Bloomberg's existing trading infrastructure, including ALLQ, BBTI and FXGO, with the addition of an order book. Dealers who reportedly intend to participate on Bloomberg's SEF platform include Barclays, BNP Paribas, BofA Merrill Lynch, Citigroup, Crédit Agricole CIB, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, Morgan Stanley, Nomura, RBS, Société Générale, UBS and Wells Fargo Securities.

BCG Partners

Status: Temporary Registration Approved

Products: BGC intends to offer trading in swaps products subject to mandatory clearing, as well as swaps classified as permitted transactions, as laid out in the [SEF Rulebook](#).

Description: Capitalizing on its billion dollar-plus investment in its technology platform, BGC intends to provide swap market participants with flexible, tailored approaches to electronic execution and clearing of derivatives trades. BGC's technology infrastructure includes fully-compliant execution methodologies such as anonymous Central Limit Order Book (CLOB), name disclosed Request for Quote (RFQ) system, Intra-day Electronic Auctions, Indications of Interest, and Voice Managed Orders for Blocks and Non-Blocks. Market participants will be able to utilize BGC's platform to segregate US person/non-US person transactions on both a graphical user interface (GUI) and application programming interface (API) via instrument choice and contra-counterparty filtering.

CME Group

Status: Applied September 18, 2013

Products: Commodities - Executing Swaps Side-By-Side With Listed Futures

Description: CME's SEF will be available via its CME Direct platform, which provides access to the exchange operator's futures and over-the-counter markets in energy and metals. CME plans to initially launch the SEF with commodities and is weighing customer demand for other asset classes.

The SEF will allow CME customers to execute swaps alongside listed futures, according to the exchange operator. With the move to SEFs, swaps will be traded on exchange-like platforms. Deals will take place through the same type of order books that exchanges use, or by requesting quotes from at least two market parties. The number will go up to three parties after a phase-in period.

LCH.Clearnet

Status: Launched July 2, 2013

Products: Derivatives Clearing Organization

Description: SwapClear is able to receive matched trades via Swap Execution Facilities (SEF) such as Bloomberg or Tradeweb. Trades may also arrive via MarkitWire, which acts as a hub, providing trades from a variety of trade affirmation, matching and e-trading venues.

SwapClear is a LCH.Clearnet Ltd and LCH.Clearnet LLC clearing platform for interest rate swaps. It allows market participants, to fully comply with mandated clearing requirements in multiple jurisdictions around the world. It claims to be the market leader in interest rate swaps, offering clients 14 years' experience and a risk management platform they claim is second to none. They provide a range of OTC interest rate swap products covering 95% of the plain vanilla market.

eDeriv

Status: Undetermined

Products: Equity Swaps, EFPs, And Bespoke Products

Description: eDeriv Technologies website says they "envision a shift to a fully electronic marketplace for OTC equity derivatives. eDeriv provides Delta One traders the ability to electronically source dealer-to-dealer liquidity with more efficient price-discovery and a streamlined trade processing workflow."

The eDEX Crossing platform allows for inter-dealer electronic quoting, RFQ, streaming two-sided liquidity feeds, and automated confirmation and post-trade processing. This unique, end-to-end solution is tailored to the special needs of Delta One trading desks, delivering reduced trading costs, improved risk management and greater operational efficiencies.

We found press releases and stories published in Q1 2013 indicating that eDeriv intended to register as an SEF. However, we did not find reports of an application filed.

Eris Exchange

Status: Live since 2011

Products: CFTC Regulated Designated Contract Market

Description: Eris Exchange is an independent Designated Contract Market (DCM) offering US Dollar-denominated interest rate swap futures which clear at CME Clearing. According to Eris Exchange's website, the contracts can be held until final Maturity as futures contracts (no physical delivery or mandatory early termination). They can replicate cash flows of collateralized OTC IRS, including financing of collateral.

According to Eris, its Interest Rate Swap Futures contracts embed the cash flows of an OTC interest rate swap, and provides significant capital savings to clients through portfolio margining with CME Eurodollars and Treasury futures positions.

Eurex

Status: Live since November 2012

Products: Interest Rate Swaps Clearing

Description: Deutsche Börse-owned Eurex Clearing is one of a number of clearing houses aiming to capitalise on the new rules by clearing swaps in addition to the listed products it already clears. The service allows portfolio margining between OTC derivatives and listed derivatives in the interest rate swap arena.

Eurex has been clearing interest-rate swaps since November 2012 and intends to be an integrated, one-stop shop for derivatives clearing.

Eurex's portfolio margining offering will allow members to post reduced collateral against two trades in correlated instruments. The service follows on from the implementation of Eurex's Prisma risk management system. Prisma allows for a portfolio-based approach to risk management, as opposed to the product-specific collateral offsets that were previously available.

First Derivatives

Status: Undetermined

Products: Multi-Asset Class Swap Execution Facility

Description: First Derivatives plc is a provider of software and consulting services to the capital markets industry. They announced the launch of a Swap Execution Facility (SEF) initiative and the appointment of James Sanders as Chief Compliance Officer to oversee the Company's registration as a SEF. First Derivatives announced its intent to register as a SEF in order to provide its customers with an enterprise-wide solution, particularly in respect of its Delta Flow platform. However, we could not find any announcement that the application has been filed.

GFI Swaps Exchange, LLC (GFI Group)

Status: Temporary Registration Approved

Products: CFTC Regulated Swaps In Fixed Income, Interest Rates, Foreign Exchange, Energy, Commodity and Equity Markets

Description: GFI Swaps Exchange will list CFTC regulated swaps in fixed income, interest rates, foreign exchange, energy, commodity and equity markets. It will offer its members a range of electronic and other methods of trade execution, including a central limit order book, electronic request for quote ("RFQ"), voice-based request-for-quote, Request for MatchSM, session-based matching and join-the-trade. GFI's SEF will also facilitate execution of brokered trades, cross trades and block trades.

GFI Swaps Exchange will include the following trading systems: CreditMatch®, GFI ForexMatch®, GFI RatesMatch® and EnergyMatch®.

ICAP

Status: Applied September 3, 2013

Products: Interest Rate Swaps (IRS), Credit Swaps (CDS), Commodities, Equity Derivatives and NDFs

Description: ICAP's SEF will offer trading in cleared and uncleared swaps and intends to operate central limit order books (CLOB) and request for quote (RFQ) systems, as well as offering block trade capabilities, electronic crossing and execution via brokers. Participants will be able to access the ICAP SEF through ICAP trading applications and the platforms provided by independent software vendors or through the ICAP published application programming interface (API). Additionally, approved Intermediaries will be able to provide their customers with access to the SEF, subject to its rules.

ICAP's SEF will meet all requirements under Dodd-Frank for SEF executions including pre-trade certainty of clearing. Participants to the ICAP SEF are required to either be a clearing member of a CCP or have an agreement with an FCM that is a clearing member of a CCP to clear the participant's swaps transactions. In addition, all ICAP platforms provide users with tools to apply credit limits, fat finger controls, and other tools designed to assist participants and clearing firms to manage credit issues.

ICAP is working with industry vendors to provide pre-trade limit management services.

ICE – Intercontinental Exchange

Status: Temporary Registration Approved

Products: Credit Default Swap

Description: IntercontinentalExchange, an operator of global markets and clearing houses, announced that several leading market participants will support the development of markets on ICE Swap Trade, ICE's credit default swap (CDS) execution facility that is expected to be introduced in the third quarter of 2013.

Citi, Morgan Stanley, Societe Generale and UBS plan to provide firm pricing on a platform that continues to foster a transparent marketplace and satisfies U.S. and European regulatory requirements. ICE Swap Trade will offer index and single name CDS across North American and European corporates and sovereigns with a choice of trading cleared and bilateral contracts. Functionality will include request for quote (RFQ) and central limit order book. Combined with a post-trade service via ICE Link and transparent execution protocols, ICE Swap Trade is designed to offer operating efficiencies and workflow enhancements.

ICE Swap Trade is expected to begin operations by the end of September.

ICE Swap Trade expects to register as a SEF in the US and as a multilateral trading facility (MTF) in Europe. As part of that process, ICE submitted its SEF application for credit markets with the CFTC on August 2.

IDC (International Derivatives Clearinghouse)

Status: Acquired by LCH.Clearnet Group

INFX SEF (Integral Development Corporation)

Status: Temporary Registration Approved

Products: FX NDF

Description: INFX SEF will allow customers to trade FX NDFs on a multiple-to-multiple platform, allowing customers to source liquidity from bank providers as well as resting orders from other market participants. Trading will be available through request-for-quote (RFQ) and an order book. The SEF will also offer all necessary connections with clearing houses (DCOs), SDRs, liquidity providers, etc.

Integral sought to create a SEF that preserves what is best about OTC markets – relationships, choice, resiliency, and bespoke business models, thereby minimizing any potential disruption to customers' foreign exchange trading businesses. Pending approval, Integral will be offering a regulatory-compliant FX trading platform. This will include all necessary connections to liquidity providers, clearing houses, SDRs, etc.

Javelin Capital Markets

Status: Applied August 5, 2013

Products: Interest Rate Swaps, Credit Default Swaps

Description: Javelin will offer institutional customers live, actionable prices through both Central Limit Order Book (CLOB) and Request For Quote (RFQ) execution methodologies.

Javelin plans to offer dedicated, streaming prices across the swap curve in conjunction with its dealer partners.

Javelin offers real time trade execution for Interest Rate and Credit Default Swaps with anonymous Limit Order Book or Request for Quote execution. Javelin combines liquidity with transparency and real-time trade settlement.

MarketAxess Holdings

Status: Temporary Registration Approved

Products: Credit Default Swaps

Description: The MarketAxess SEF will offer a range of functionality for electronic trading of credit default swaps. This includes an Order Book, which enables market participants to trade anonymously with all other market participants, and a Request-for-Quote (RFQ) system that will operate in conjunction with the Order Book.

MarketAxess launched the first client-to-multi-dealer electronic trading platform for CDS indices in 2005. In addition to its SEF, MarketAxess has developed extensive e-trading protocols and functionality for CDS products including: click-to-trade (CTT) with streaming prices from leading global dealers; RFQ and RFM (request-for-market); support for switches and rolls; limit, resting and quick orders; and a central limit order book for CDS single names.

Nodal Exchange

Status: Applied for registration as a DCM (designated contract market) October 15, 2012

Products: Locational Energy Contracts (Futures)

Description: Nodal Exchange is the first commodities exchange dedicated to offering locational (nodal) contracts and related services to participants in the organized North American power markets. Nodal Exchange builds on the success of the existing Regional Transmission Organization (RTO/ISO) Day Ahead and Real Time markets by allowing its Participants to trade cash-settled, fully standardized contracts in a cleared market, enabling market Participants to effectively manage basis and credit risk. Nodal Exchange's auction and block trade platforms, cleared through LCH.Clearnet, provide enhanced basis and credit risk management and produce the forward price transparency and transaction liquidity needed in the North American power markets.

Nodal Exchange's cleared block trade platform allows Participants and brokers to submit negotiated transactions to Nodal Exchange for clearing. On the Nodal Exchange auction platform, Participants submit orders for matching by the auction engine and clearing through LCH.Clearnet. To facilitate market liquidity, the auction engine is capable of matching across a wide range of order types - including outright energy at a single location, spreads between locations or over time, and aggregates of time periods. In order to avoid counterparty risk, all transactions executed on or through Nodal Exchange are cleared by LCH.Clearnet.

ODEX

Status: Undetermined

Products: Interest Rate Swaps, Credit Default Swaps

Description: On its website, ODEX, or the Open Derivatives Exchange, claims to be a Swap Execution Facility (SEF) with a flexible matching engine for trading both liquid and illiquid swaps that are available to be cleared by an approved clearing house or traded bilaterally.

However, we found no announcement that they have actually filed an application with the CFTC. They appear to have launched their business in 2009 as an SEF, before the rules were finalized.

Parity Energy

Status: Undetermined

Products: Energy And Precious Metals Options, Cleared Energy Derivatives

Description: Parity Energy matches institutional buyers and sellers of energy and precious metals options. Parity delivers the combined benefits of electronic trading and high-quality voice service through the Parity Energy Platform (PEP). PEP is Parity's electronic trader-to-trader marketplace for off-exchange cleared options. PEP combines an electronic order book, request for quote (RFQ) capability, system connectivity and full support from Parity and third-party voice brokers. Parity operates as an exempt commercial market and offers the services of a National Futures Association (NFA) registered introducing broker.

Parity's website claims that Parity expects to transition to a swap execution facility (SEF). However, we found no announcement that they have actually filed an application with the CFTC.

Phoenix Parnters Group

Status: Team and assets acquired by GFI

SwapEx (State Street)

Status: Temporary Registration Approved

Products: Swaps, Treasuries And Futures

Description: SwapEx offers a toolkit of execution products providing traders with flexibility in how they effectively access liquidity, make their own liquidity available to others, and trade. These products include a central limit order book and anonymous, all-to-all, continuous trading for the most popular, liquid derivative instruments.

SwapEx also supports Request for Quote (RFQ) for trading needs in specific derivative instruments where streaming liquidity is not readily available. SwapEx provides a trader with the ability to raise a custom request and deliver it to intended liquidity providers. These liquidity providers can then provide a static quote or stream of prices back to the requestor for execution. Requestors can identify their counterparties to pursue a fully-disclosed, attributed trading experience, or send their requests to a broader pool of liquidity providers.

The platform also supports Indication of Interest (IoI). Traders can raise an anonymous indication of interest to all subscribers of SwapEx, which will trigger the creation of a spontaneous central limit order book for that instrument for the duration of the trading day. All participants can then add liquidity or take liquidity for the specified instrument.

TeraExchange

Status: Temporary Registration Approved

Products: Interest Rate Swaps, CDS Index, Non Deliverable Forwards, and Cash Settled Forwards. Future offerings will include Single-Name Credit Default Swaps, Energy Swaps, Agriculture Swaps, and Equity Swaps.

Description: TeraExchange is an independent Exempt Board of Trade (EBOT) and future Swap Exchange Facility (SEF) for swaps and other OTC cleared derivatives. TeraExchange's central limit order book (CLOB) provides market participants with full transparency, complete anonymity and fast execution to maximize their trading, hedging and relative value strategies.

Users connect to TeraExchange via TeraDirect, a complimentary cross-asset EMS for trading participants that provides access to TeraExchange-listed instruments along with simultaneous access to equities, futures, options & fixed income markets. All bids and offers displayed on TeraExchange pass through the TeraCheck pre-trade credit engine ensuring that participants always see and interact with firm, instantly executable prices. All OTC instruments available for clearing at major clearinghouses will be listed and executable on TeraExchange.

TeraExchange offers a Central Limit Order Book (CLOB) for OTC cleared derivatives, TeraDirect Cross-Asset Execution Management System (EMS), Voice broker / block trade assistance, TeraCheck Pre-Trade Credit Check Engine for FCMs, Algorithmic Trading, Unique OTC data and analytics

FXall (Thomson Reuters)

Status: Live. FX exempted from SEF rules

Products: FX Non-deliverable Forwards (NDFs) and FX options

Description: The Thomson Reuters Swap Execution Facility (SEF) allows customers to trade FX non-deliverable forwards (NDFs) and FX options electronically through multibank request-for-stream (RFS) liquidity and an anonymous Order Book. It provides a best execution solution with a complete end-to-end workflow including straight-through processing (STP) and settlement.

It provides one platform for trading FX spot, forwards, swaps, NDFs and options electronically with SEF and non-SEF execution and seeks to ensure a smooth transition to when NDFs are mandatory cleared and must trade on SEFs.

Tradeweb (Thomson Financial)

Status: Temporary Registration Approved

Products: Interest Rate Swaps and Credit Default Swap Indices,

Description: Tradeweb Markets, a provider of fixed income and derivatives marketplaces, announced two wholly-owned subsidiaries that have applied for temporary SEF registration. To provide market participants with the greatest flexibility to trade interest rate swaps and credit default swap indices, the newly regulated marketplaces will operate on different technology platforms, offering a disclosed request-based market with an order book on one SEF, and a separate anonymous central limit order book through the other.

The SEFs will operate separate technology platforms that offer different derivatives trading methodologies, allowing market participants to execute strategies in different ways to meet their unique liquidity needs.

Tradeweb has built a successful derivatives trading franchise over the past eight years, driving up overall performance throughout the trading workflow. It believes that providing two SEFs gives market participants greater flexibility to trade while supporting liquidity across efficient, electronic markets.

Tradition

Status: Temporary Registration Approved

Products: Equity Derivatives, Interest Rate Swaps, Credit Default Swaps, FX Options And Commodities

Description: Interdealer Compagnie Financière Tradition is operating a new New York based subsidiary called Tradition SEF. It will offer cleared and uncleared trading in multiple asset classes including equity derivatives, interest rate swaps, credit default swaps, FX options and commodities. The platform will be accessed via graphical user interfaces (GUI), application programming interfaces (API) direct, or via independent software vendors (ISVs), and will enable both electronic and voice driven executions.

Tradition SEF will enable clients to continue trading and executing swaps transactions, accessed via Tradition's hybrid, electronic and voice services, while also meeting regulatory requirements.

trueEX LLC

Status: Temporary Registration Approved. Live Designated Contract Market (DCM)

Products: Interest Rate Swaps

Description: New York based trueEX LLC operates the first swaps exchange approved by the CFTC as a Designated Contract Market (DCM). The trueEX DCM will initially trade interest rate swaps, and will ultimately add other liquid derivatives to its portfolio. It claims to be the first to provide back loading, termination, rebalancing and compaction services for the IRS (interest rate swaps) market.

As an exchange, trueEX can also list futures. It has created new S&P credit indices and trueEX futures contract.

trueEX created the first CFTC-designated IRS exchange to help market makers, clearing members (i.e. FCMs – Futures Commission Merchants), asset managers and global hedge funds comply with regulations. Transactions executed on trueEX's platform can be cleared at either CME or LCH. The venue provides direct connectivity to both clearinghouses.

Trumarx

Status: Undetermined

Products: Bilateral OTC Energy Transactions

Description: COMET is an electronic negotiation and execution platform for conducting bilateral OTC transactions. COMET is not an exchange or auction platform. It is an unregulated Electronic Communications Network (ECN) offering secure, permission-based access. COMET subscribers can publish, negotiate and finalize highly customized transactions more efficiently than the current outmoded protocols.

COMET is currently designed to facilitate the one-to-many Request-For-Price (“RFP”) process, which leads to a one-to-one or one-to-many confidential negotiating process. It uses bilateral methods and offers customized transactions, control over the exposure of a transaction, and confidentiality. Final execution of transactions occurs pursuant to underlying master agreements between parties.

It is unclear whether Trumarx intends to register as an SEF.

tpSEF (Tullet Prebon)

Status: Temporary Registration Approved

Products: Swaps In The Full Range Of Asset Classes

Description: Tullett Prebon operates voice, hybrid, electronic, volume matching, algorithmic matching and risk mitigation platforms, to accommodate the needs of its clients, and to satisfy the regulatory driven evolution of the marketplace. It is one of the world’s largest interdealer brokers and operates as an intermediary in wholesale financial markets facilitating the trading activities of its clients in seven major product groups: Rates, Volatility, Treasury, Non Banking, Energy & Commodities, Credit and Equities.

Tullett Prebon’s SEF, tpSEF Inc., provides an execution venue that will enable Tullett Prebon’s customers to execute swaps in the full range of asset classes on a CFTC-compliant platform that provides, among other things, pre and post-trade transparency, connectivity to the relevant designated clearing organisations, and reporting to the relevant swap data repositories.

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