Trends in market structure and industry concerns

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Will Acworth
*Senior Vice President,
Publications, Data &
Research, FIA*

Kevin McPartland
*Head of Market Structure
& Technology Research,
Greenwich Associates*

Ken Monahan
*Senior Analyst, Market
Structure and Technology,
Greenwich Associates*

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Research Partnership

- Greenwich Associates conducted industry research on behalf of FIA during the fourth quarter of 2019

- Two goals:
  - To assess sentiment in the derivatives industry towards key trends in market structure and regulation
  - To determine the factors influencing business relationships and growth trends in derivatives clearing

- Individuals from nearly 200 firms responded to the questionnaire
  - 21% institutional investors, proprietary trading firms and other customers
  - 39% brokers, clearing firms and other intermediaries
  - 40% exchanges, clearinghouses, technology vendors and other market participants.

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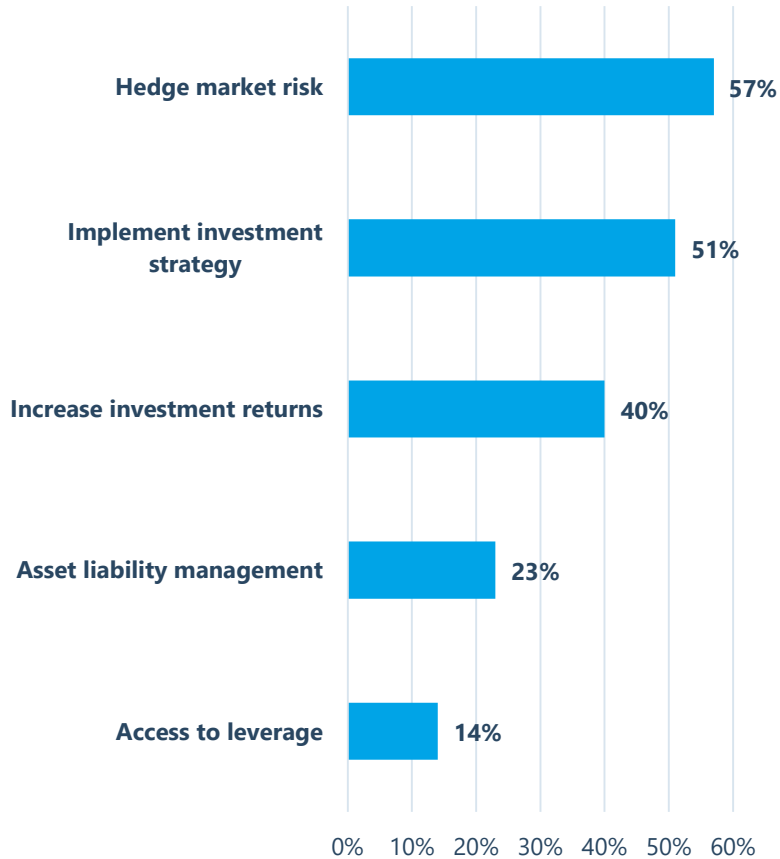**Trends in market structure and industry concerns**

Presentation Outline

- Market Structure Issues
  - Customer and Intermediary View
  - Case Study: Libor Transition
  - Expectations for Change over Next Four Years

- Product Usage Trends
  - Rates, Equities, FX and Commodities

- Customer Perspective
  - Incentives to Clear
  - Use of Intermediaries
  - Quality Measures for Clearing Firm Relationships

- Intermediary Perspective
  - Number of CCP Memberships
  - Cost of Clearing
  - Areas of Investment

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Customer Demographics

Purpose of Derivatives Trading

Category	Percentage
Hedge market risk	57%
Implement investment strategy	51%
Increase investment returns	40%
Asset liability management	23%
Access to leverage	14%

Primary Focus of Derivatives Trading

Category	Percentage
Rates	67%
Equities	64%
Commodities	56%
FX	53%
Credit	31%

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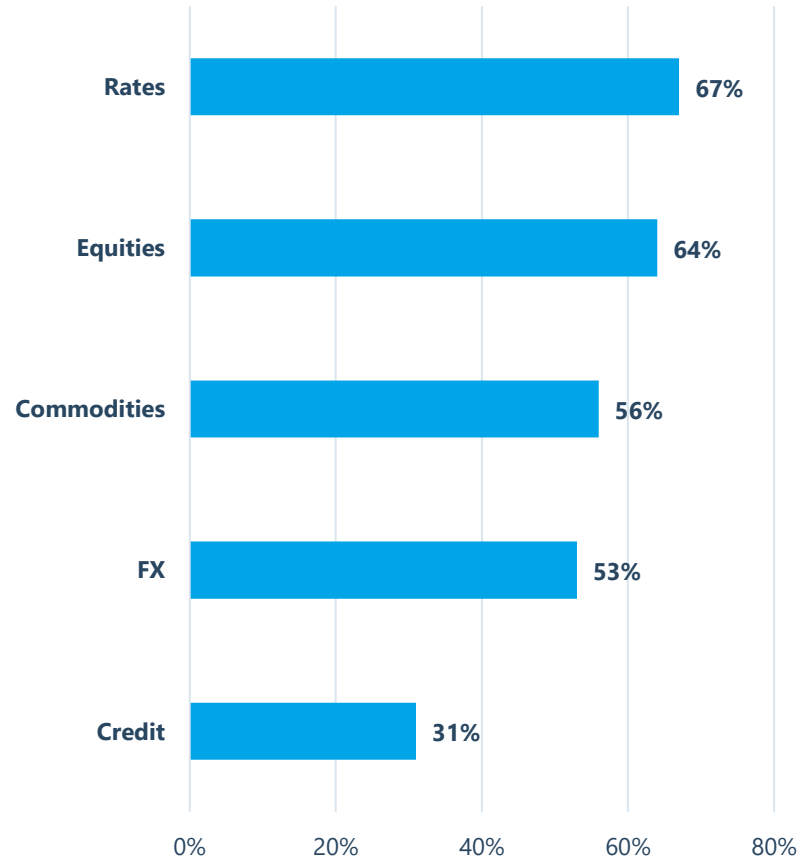
Top Issues: All Participants

Q: What are the top three most important issues facing the global derivatives markets today? (Select three)

Issue	Value
Impact of capital requirements	61%
Libor transition	50%
Uncleared margin rules	41%
Political Uncertainty	38%
Technological Change	37%
Market disruption related to Brexit	31%
Cost of market data	25%
Climate change	3%
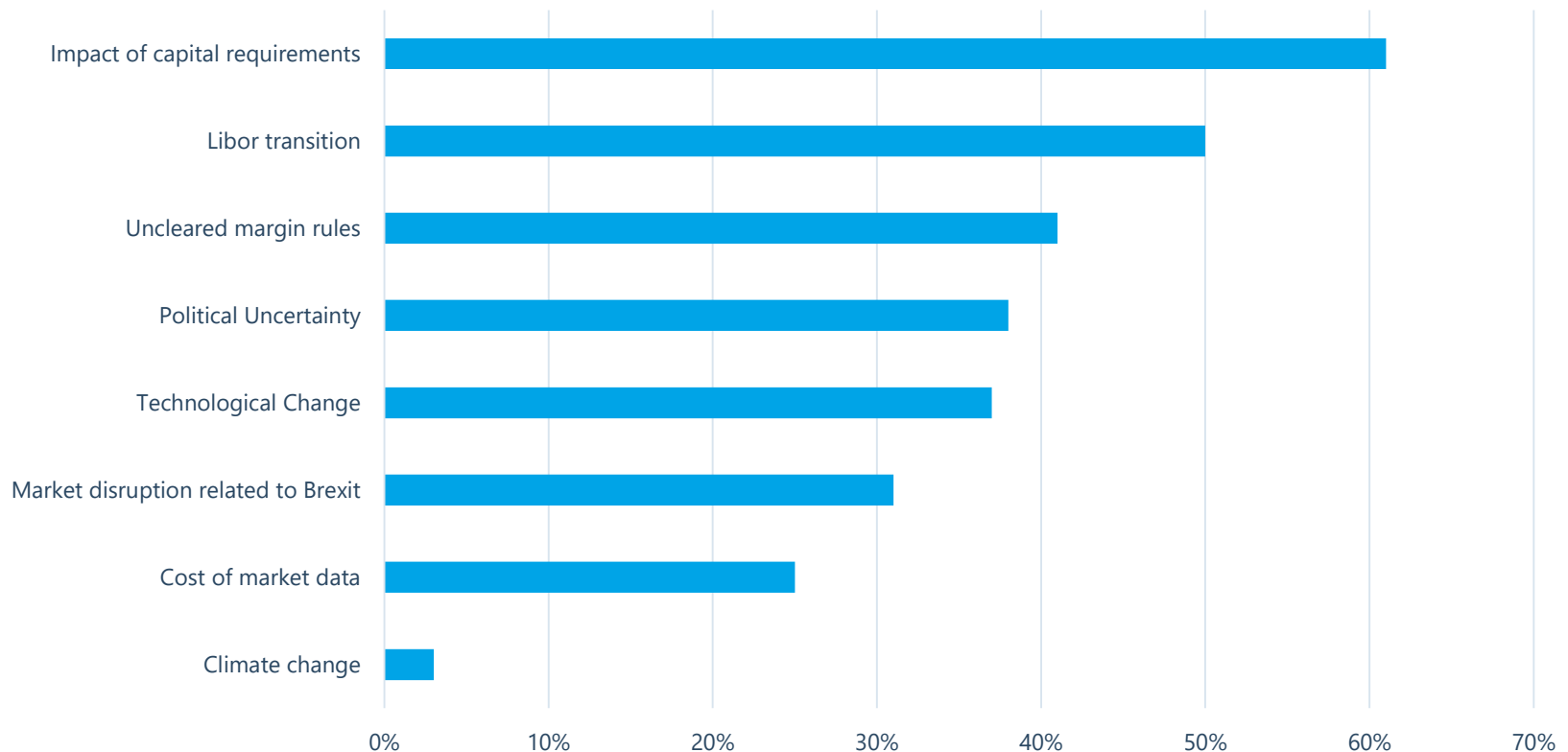
Top Issues: End Users and Intermediaries

Customer/End User

Issue	Percentage
Libor transition	63%
Uncleared margin rules	53%
Impact of capital requirements	47%
Market disruption related to Brexit	42%
Technological Change	34%
Cost of market data	26%
Political Uncertainty	24%
Climate change	3%

0% 10% 20% 30% 40% 50% 60% 70%

Broker/Clearer

Issue	Percentage
Impact of capital requirements	66%
Libor transition	46%
Political Uncertainty	45%
Technological Change	42%
Uncleared margin rules	39%
Cost of market data	28%
Market disruption related to Brexit	27%
Climate change	1%

0% 10% 20% 30% 40% 50% 60% 70%

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Moving away from Libor

How Prepared Is Your Firm for the Libor Transition?

	Have a migration plan	Aware of key issues	Working to determine key issues	Have not begun - limited resources	Too soon	We will not be impacted	Other
Other Market Participants (59)	47%	10%	7%			31%	5%
Broker/Clearer (58)	47%	24%	10%		2%	16%	2%
Customer/End User (33)	21%	33%	12%	9%		24%	
Total (150)	41%	21%	9%	2%	1%	23%	3%

- Have a migration plan and are appropriately prepared
- Aware of the key issues but still working on how to mitigate
- Working to determine the key issues and create a plan
- Have not yet begun working on plan due to limited resources
- Have not yet begun working on plan as it is too soon
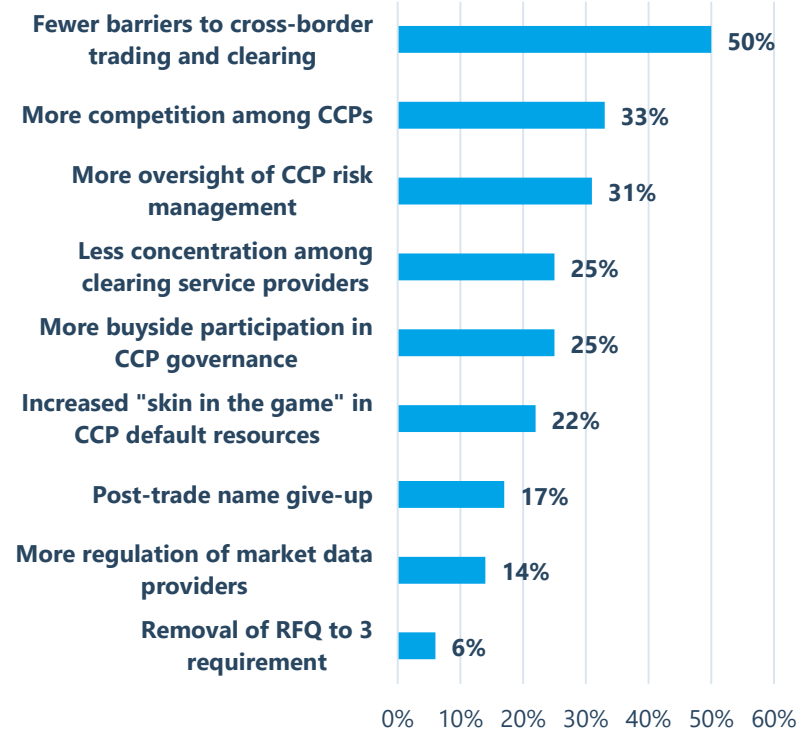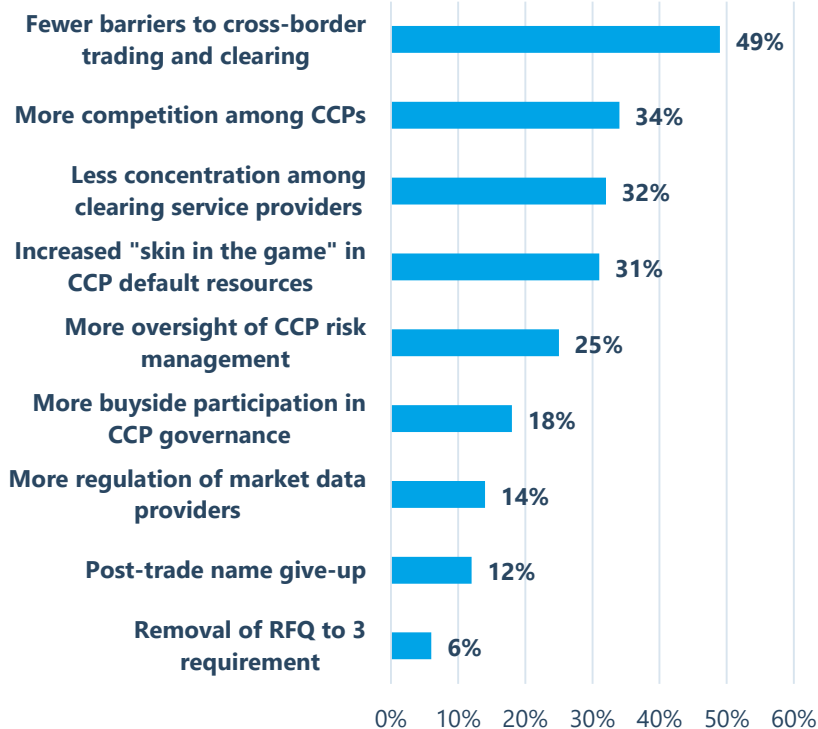- We will not be impacted
- Other

Potential for Change

Q: What elements of derivatives regulation/market structure would you like to see changed? (Select three)
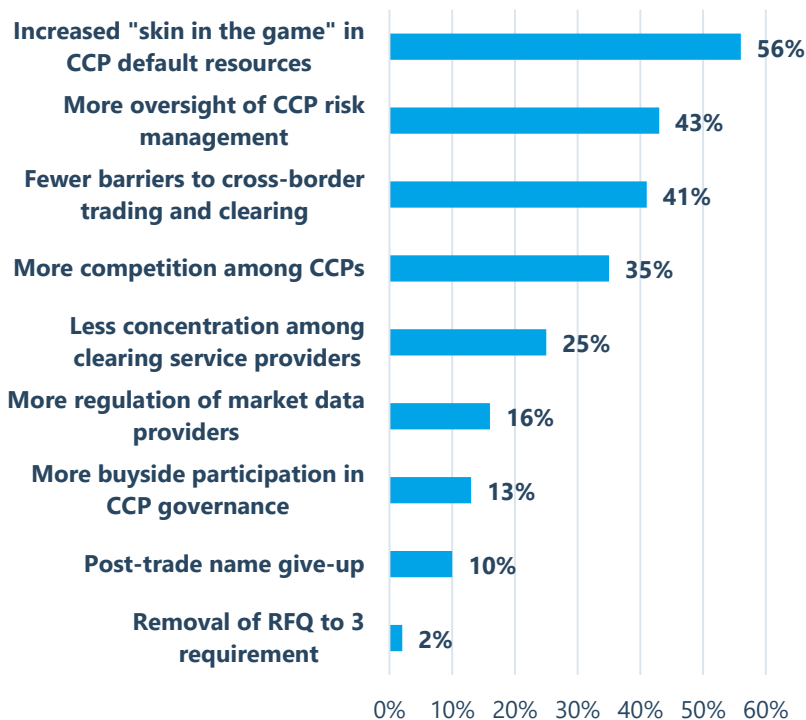

All Respondents (170)

Element	%
Fewer barriers to cross-border trading and clearing	49%
More competition among CCPs	34%
Less concentration among clearing service providers	32%
Increased "skin in the game" in CCP default resources	31%
More oversight of CCP risk management	25%
More buyside participation in CCP governance	18%
More regulation of market data providers	14%
Post-trade name give-up	12%
Removal of RFQ to 3 requirement	6%

Customer/End User (36)

Element	%
Fewer barriers to cross-border trading and clearing	50%
More competition among CCPs	33%
More oversight of CCP risk management	31%
Less concentration among clearing service providers	25%
More buyside participation in CCP governance	25%
Increased "skin in the game" in CCP default resources	22%
Post-trade name give-up	17%
More regulation of market data providers	14%
Removal of RFQ to 3 requirement	6%

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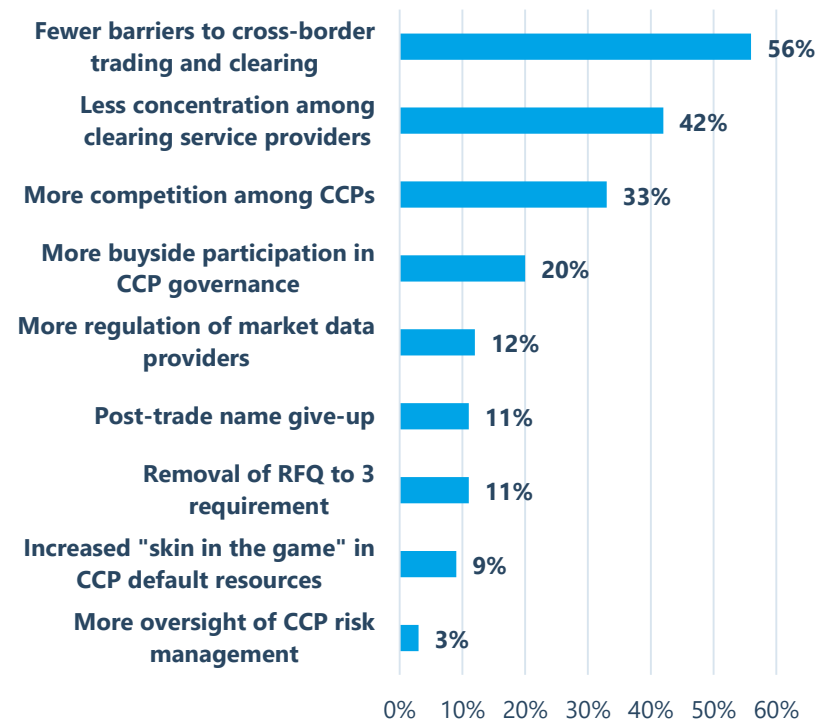Trends in market structure and industry concerns

Potential for Change

Q: What elements of derivatives regulation/market structure would you like to see changed? (Select three)
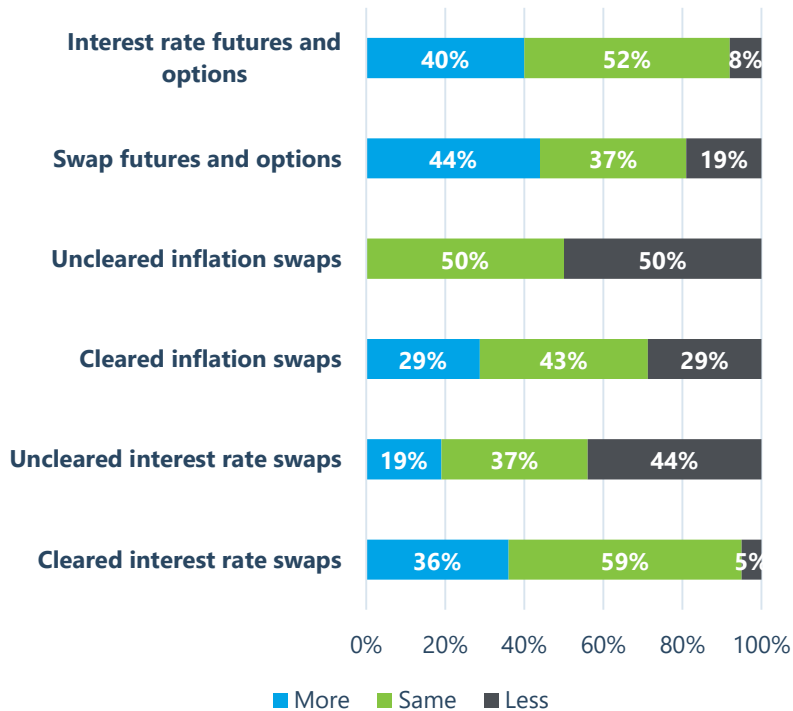
Broker/Clearer (68)

Increased "skin in the game" in CCP default resources	56%
More oversight of CCP risk management	43%
Fewer barriers to cross-border trading and clearing	41%
More competition among CCPs	35%
Less concentration among clearing service providers	25%
More regulation of market data providers	16%
More buyside participation in CCP governance	13%
Post-trade name give-up	10%
Removal of RFQ to 3 requirement	2%

0% 10% 20% 30% 40% 50% 60%

Other Market Participants (66)

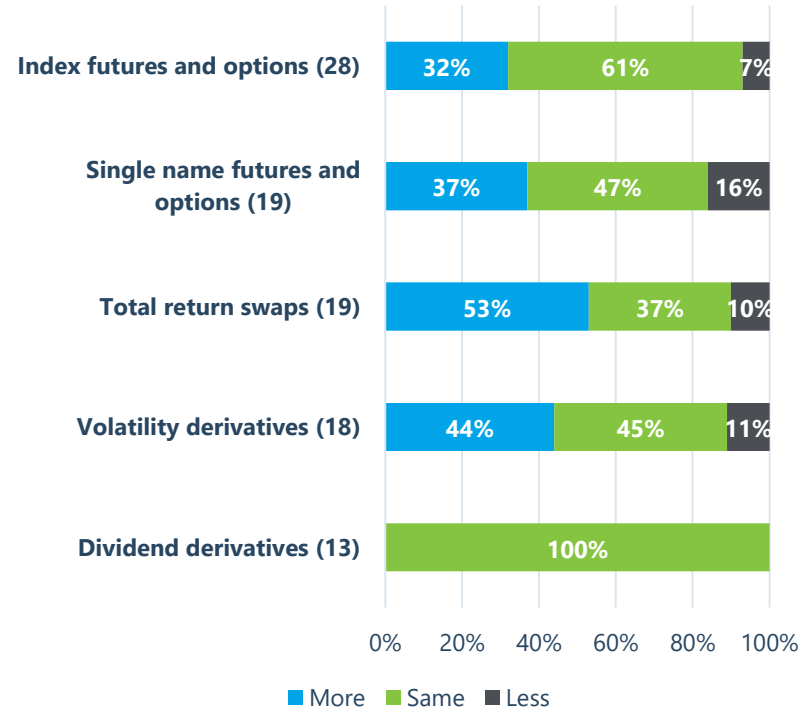|	
Fewer barriers to cross-border trading and clearing	56%
Less concentration among clearing service providers	42%
More competition among CCPs	33%
More buyside participation in CCP governance	20%
More regulation of market data providers	12%
Post-trade name give-up	11%
Removal of RFQ to 3 requirement	11%
Increased "skin in the game" in CCP default resources	9%
More oversight of CCP risk management	3%

0% 10% 20% 30% 40% 50% 60%

Product Usage: Rates and Equities

Q: How has your use of the following products changed in the past 12 months?

Interest Rates

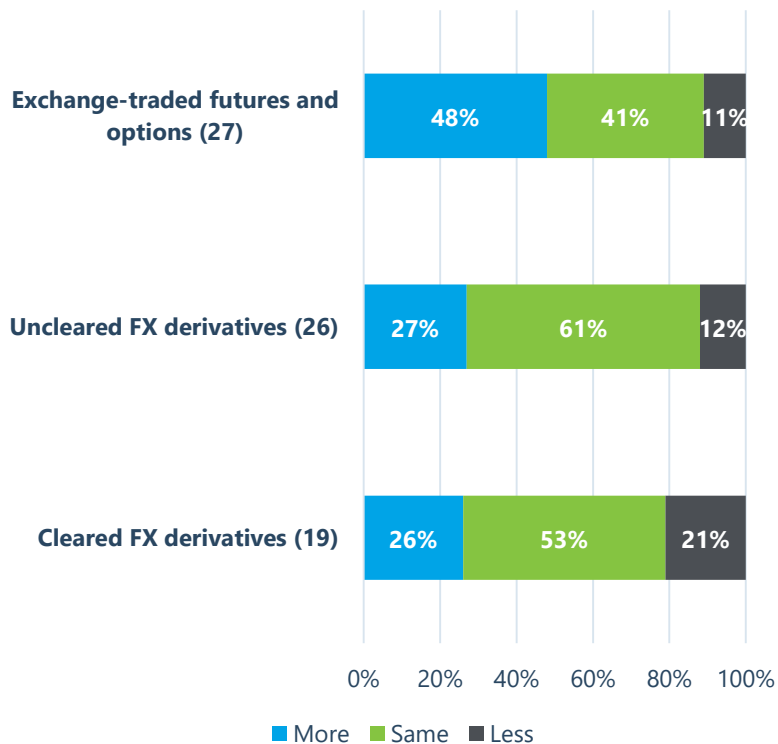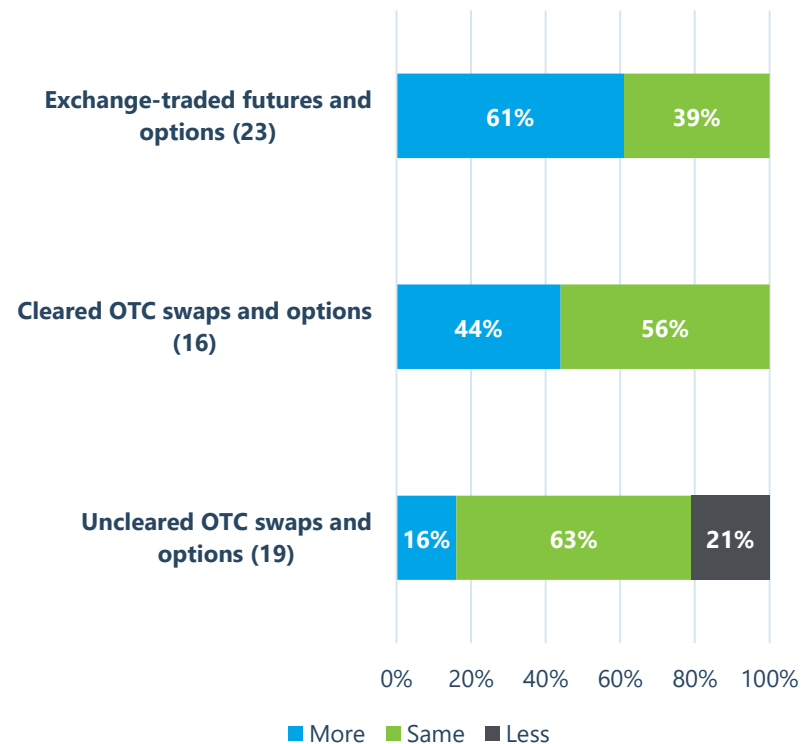|	More	Same	Less
Interest rate futures and options	40%	52%	8%
Swap futures and options	44%	37%	19%
Uncleared inflation swaps		50%	50%
Cleared inflation swaps	29%	43%	29%
Uncleared interest rate swaps	19%	37%	44%
Cleared interest rate swaps	36%	59%	5%

■ More ■ Same ■ Less

Equities

	More	Same	Less
Index futures and options (28)	32%	61%	7%
Single name futures and options (19)	37%	47%	16%
Total return swaps (19)	53%	37%	10%
Volatility derivatives (18)	44%	45%	11%
Dividend derivatives (13)		100%	

■ More ■ Same ■ Less

Product Usage: FX and Commodities

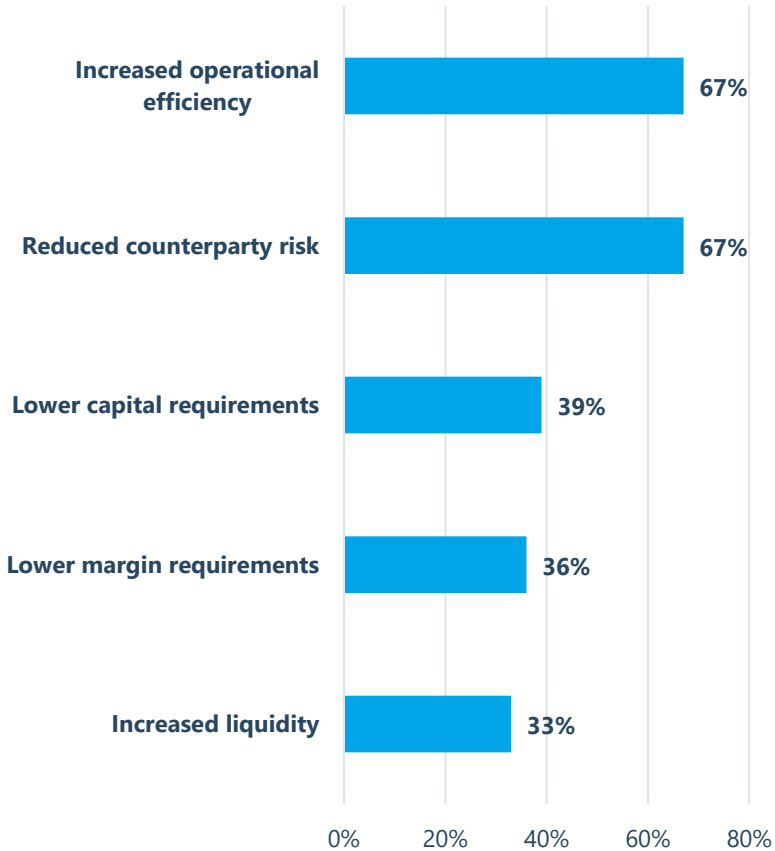Q: How has your use of the following products changed in the past 12 months?
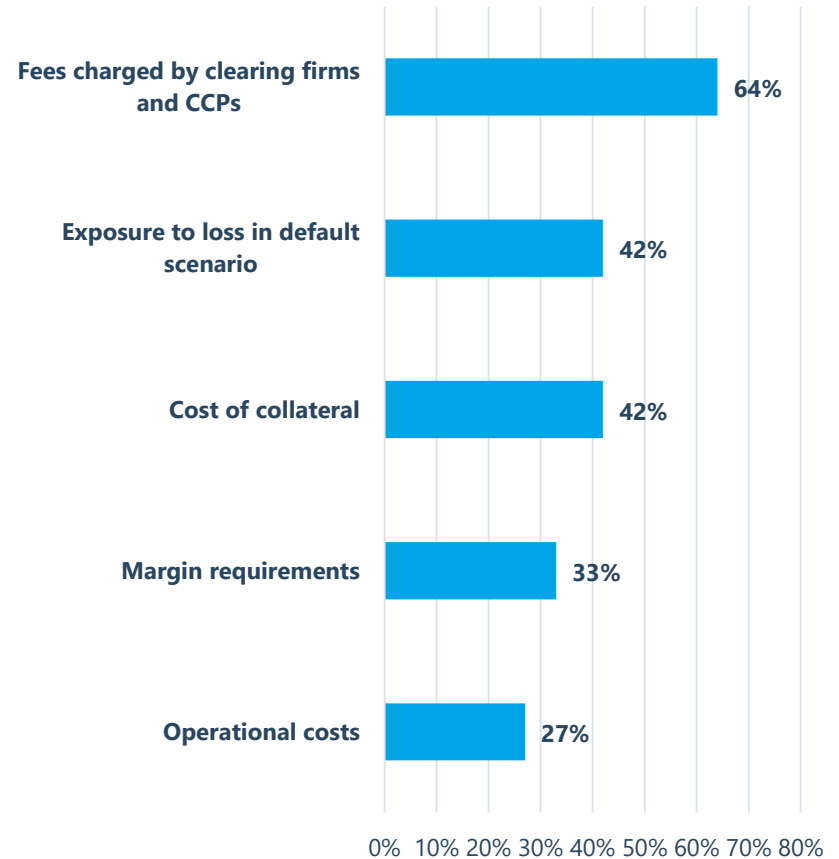
Foreign Exchange

	More	Same	Less
Exchange-traded futures and options (27)	48%	41%	11%
Uncleared FX derivatives (26)	27%	61%	12%
Cleared FX derivatives (19)	26%	53%	21%

0% 20% 40% 60% 80% 100%

■ More ■ Same ■ Less

Commodities

	More	Same	Less
Exchange-traded futures and options (23)	61%	39%	
Cleared OTC swaps and options (16)	44%	56%	
Uncleared OTC swaps and options (19)	16%	63%	21%

0% 20% 40% 60% 80% 100%

■ More ■ Same ■ Less

Clearing Incentives:

Incentives to Use Clearing

Category	Value
Increased operational efficiency	67%
Reduced counterparty risk	67%
Lower capital requirements	39%
Lower margin requirements	36%
Increased liquidity	33%

0%   20%   40%   60%   80%

Disincentives to Use Clearing

Category	Value
Fees charged by clearing firms and CCPs	64%
Exposure to loss in default scenario	42%
Cost of collateral	42%
Margin requirements	33%
Operational costs	27%

0% 10% 20% 30% 40% 50% 60% 70% 80%

Clearing Horizon

Q: In which products would you like to see increased availability of clearing over the next four years?

Product	Percentage
Non-deliverable FX forwards	49%
Single name CDS	33%
Total return swaps	30%
FX options	27%
Cross currency swaps	12%

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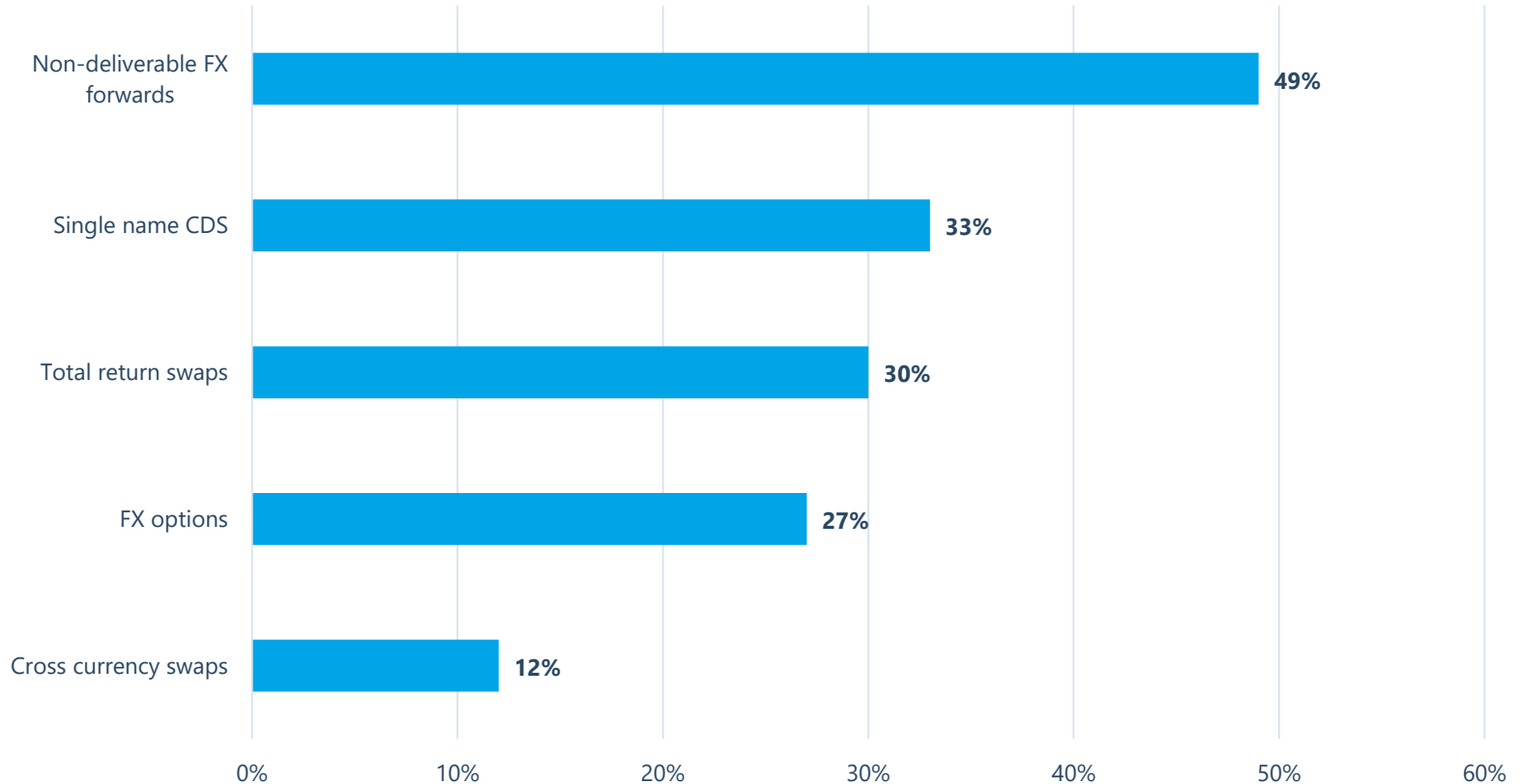
Use of Intermediaries

Number of Executing Brokers Used

7%
7%
4%
15%
67%
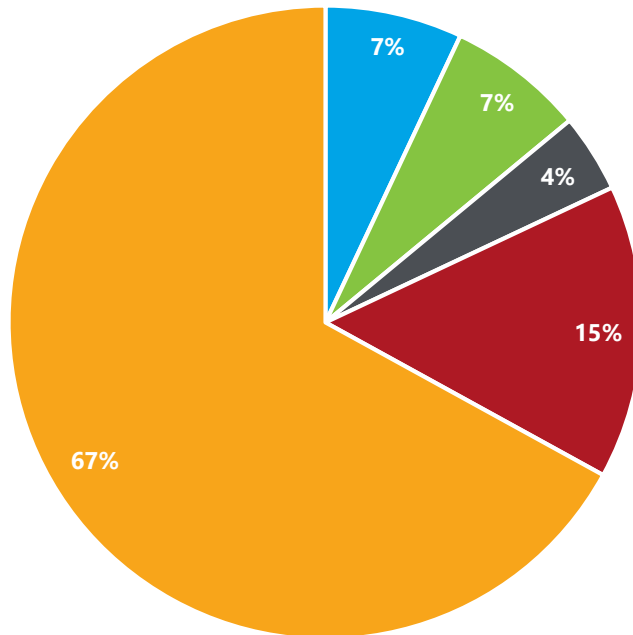
■ 1 ■ 2 ■ 3-4 ■ 5-6 ■ 7 or more

Number of Clearing Firms Used

12%
16%
28%
44%

■ 1 ■ 2 ■ 3-4 ■ 5 or more

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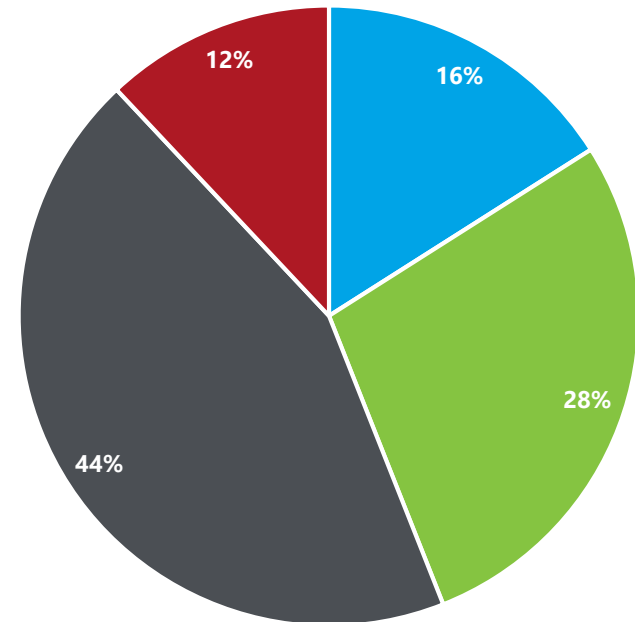
Relationships with Clearing Firms

Q: What are the key factors you use in measuring the quality of your relationships with your clearing firms? (Select up to 3)


Factor	Percentage
Quality of operational processes and related costs	64%
Fees	61%
Access to products and markets	46%
Quality of execution	30%
Counterparty creditworthiness	27%
Collateral management	21%
Access to knowledgeable experts	15%
Services offered by other parts of the clearing firm's parent organization	6%

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Clearing Firm Perspective

Largest Share of Clearing Business by Region

- US: 68%
- Europe: 18%
- UK: 6%
- Asia-Pacific: 5%
- Other: 3%
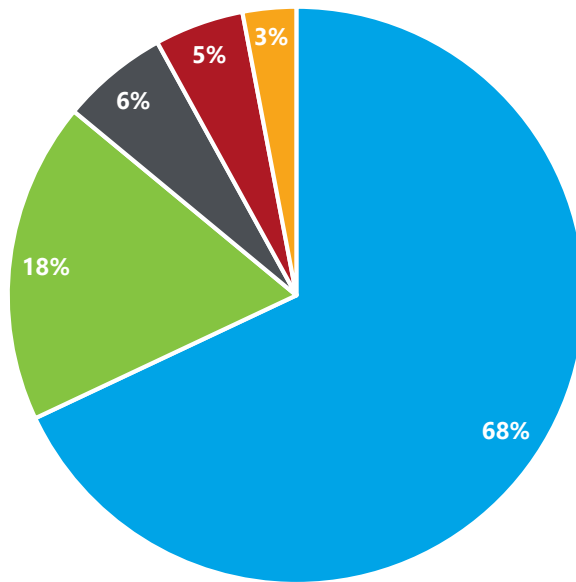
Legend: ■ US ■ Europe ■ UK ■ Asia-Pacific ■ Other

Highest Growth Potential for Clearing in Next 12 months

- US: 29%
- Europe: 33%
- UK: 5%
- Asia-Pacific: 31%
- Other: 2%
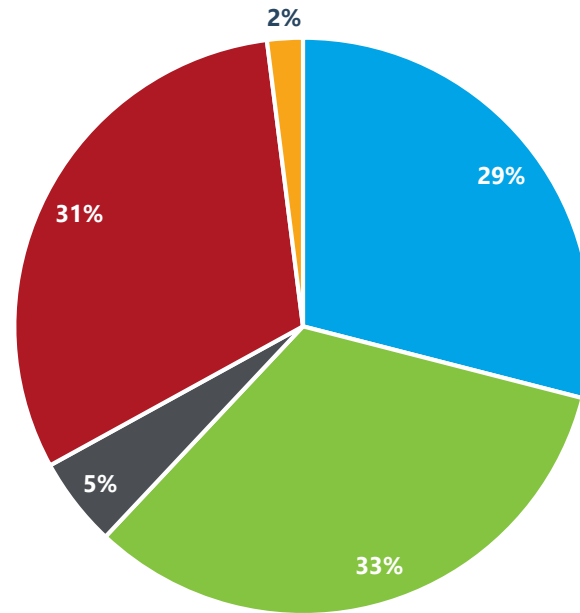
Legend: ■ US ■ Europe ■ UK ■ Asia-Pacific ■ Other

Number of CCP Memberships

Number of CCP Memberships

Pie chart:
- 1-4: 20%
- 5-8: 18%
- 9-12: 12%
- 13 or more: 50%

Legend: ■ 1-4 ■ 5-8 ■ 9-12 ■ 13 or more
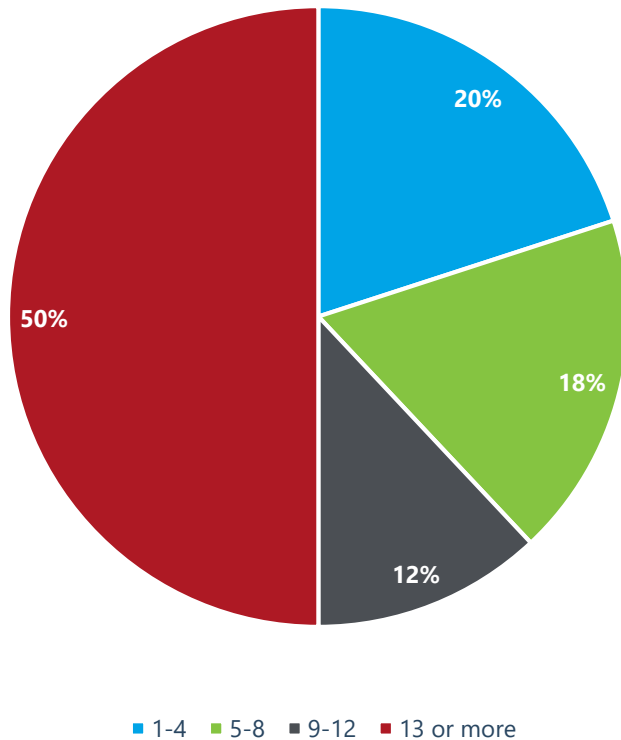
Location of CCP Memberships

Region	Percentage
North America	82%
United Kingdom	73%
Continental Europe	73%
APAC ex Japan	49%
Japan	42%
Latin America	29%

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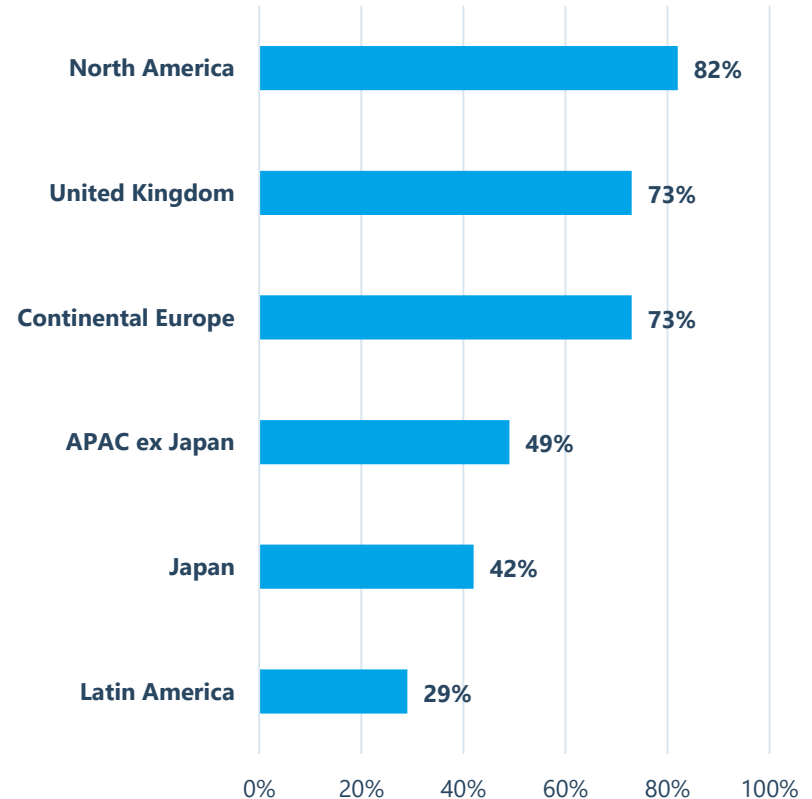
Cost of Clearing

Biggest Contributors to Cost of Clearing

Capital requirements	79%
Technology costs	75%
Compliance/regulatory requirements	49%
Operational inefficiencies	35%
Default fund contributions	32%

0%   20%   40%   60%   80%   100%
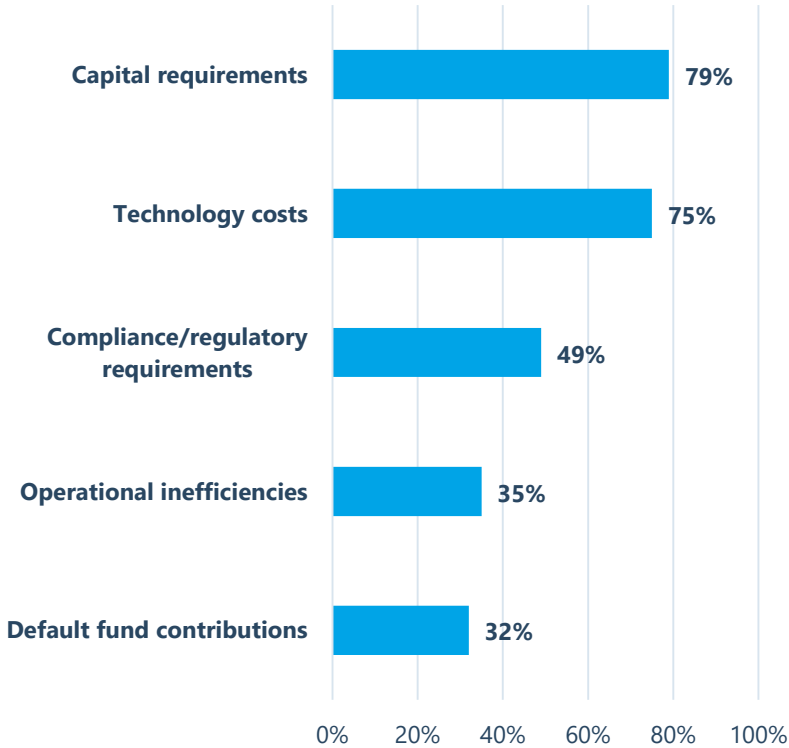
Biggest Obstacle to Onboarding New Clients

- 45% — Increased capital requirements
- 39% — Operational workflows
- 9% — Increased default fund requirements
- 7% — Other
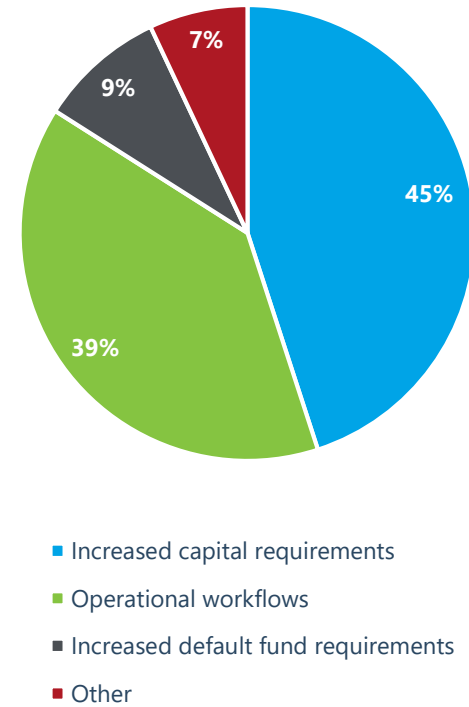
Investing in Clearing

Q: In which parts of your clearing business are you investing? (Select all that apply)

Improvements in internal workflow — 61%
Improvements to client service — 55%
Improved netting/capital efficiency — 47%
Improved monitoring of costs/profitability — 46%
Addition of new products/new CCPs — 42%

(x-axis: 0% 10% 20% 30% 40% 50% 60% 70%)

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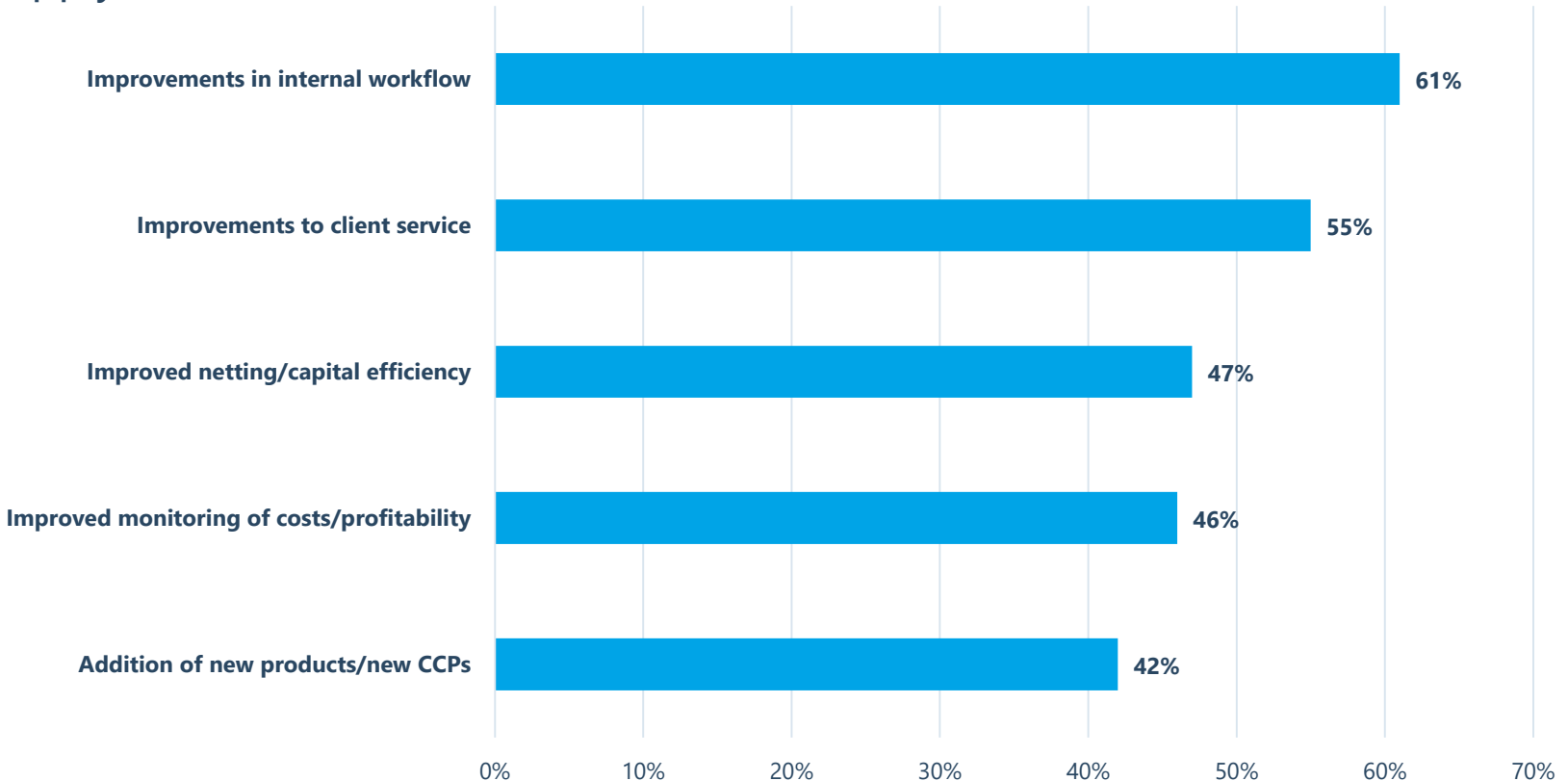
Connect with us!

Will Acworth
wacworth@fia.org
@will_acworth

Kevin McPartland
kevin.mcpartland@greenwich.com
@kmcpartland

Ken Monahan
ken.monahan@greenwich.com
@Foudroyant

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