The Science of Finance

markit®

A view from the trenches

Federal Reserve Bank of Chicago
19th Annual Capital Markets Conference, December 10th 2013

About Markit

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We are a global, diversified financial information services company

We help our customers reduce risk, improve operational efficiency and benefit from enhanced transparency

Our customers include investment banks, hedge funds, asset managers, central banks, regulators, auditors, fund administrators and insurance companies

2003
Founded

3,000+
Employees

3,000+
Customers

20+
Offices

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We have over 40
products and services
organised
into three divisions

Information

Indices, pricing and
reference data
across asset classes,
enabling our
customers to price
instruments, value
portfolios and
manage risk

Processing

Processing services
for fx, loans and otc
derivatives,
streamlining workflow
and improving
connectivity

Solutions

Versatile and
scalable software
platforms and
services allowing
institutions to
manage information,
reduce risk and
improve operational
efficiency
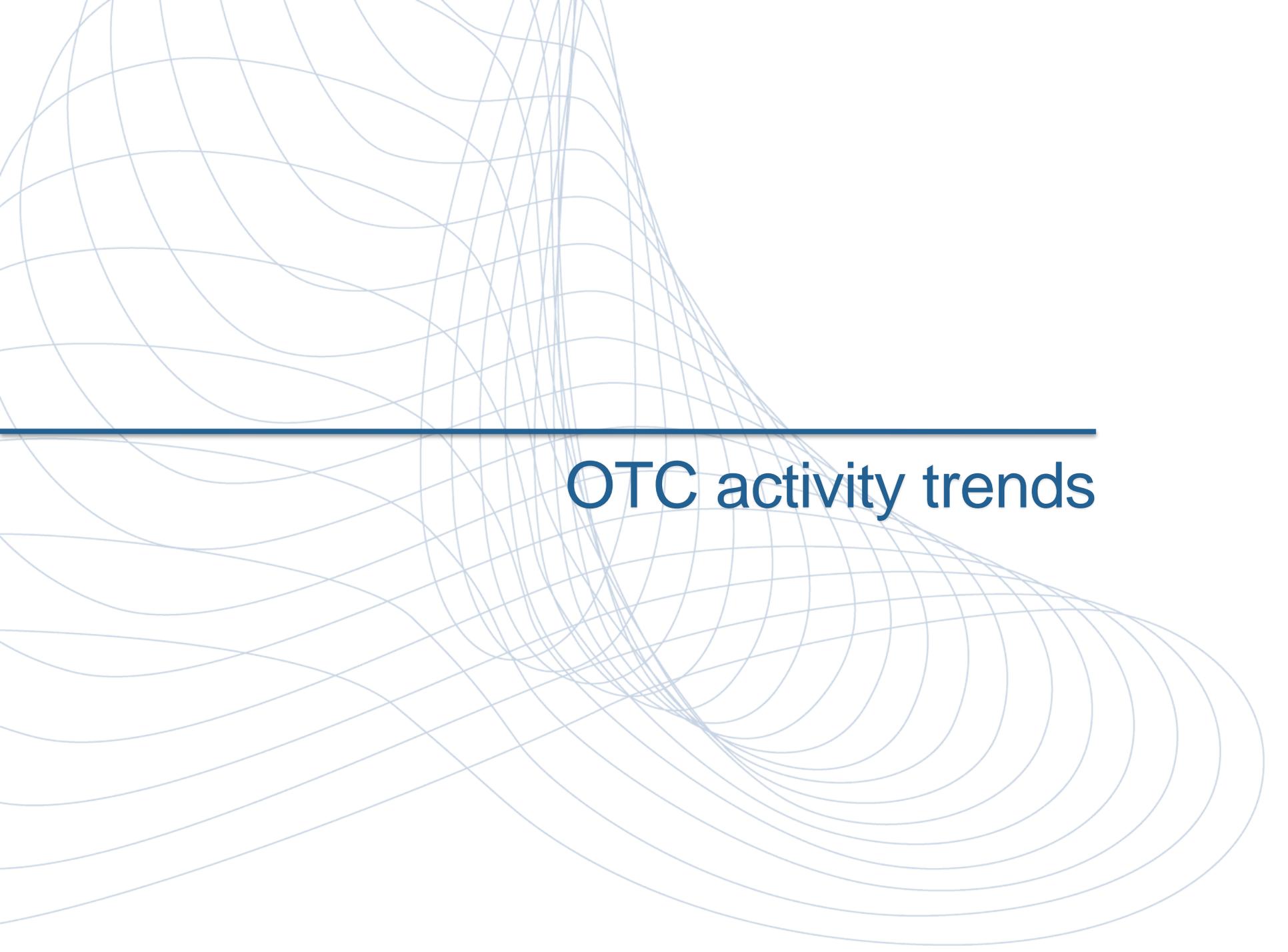
OTC activity trends

Challenges of analyzing OTC activity data

— Sides versus trades

— Blocks vs splits

— Prime brokerage/back to back

— Novations

— Cleared alpha/beta/gamma

— Termination vs compression

— Notional vs tickets

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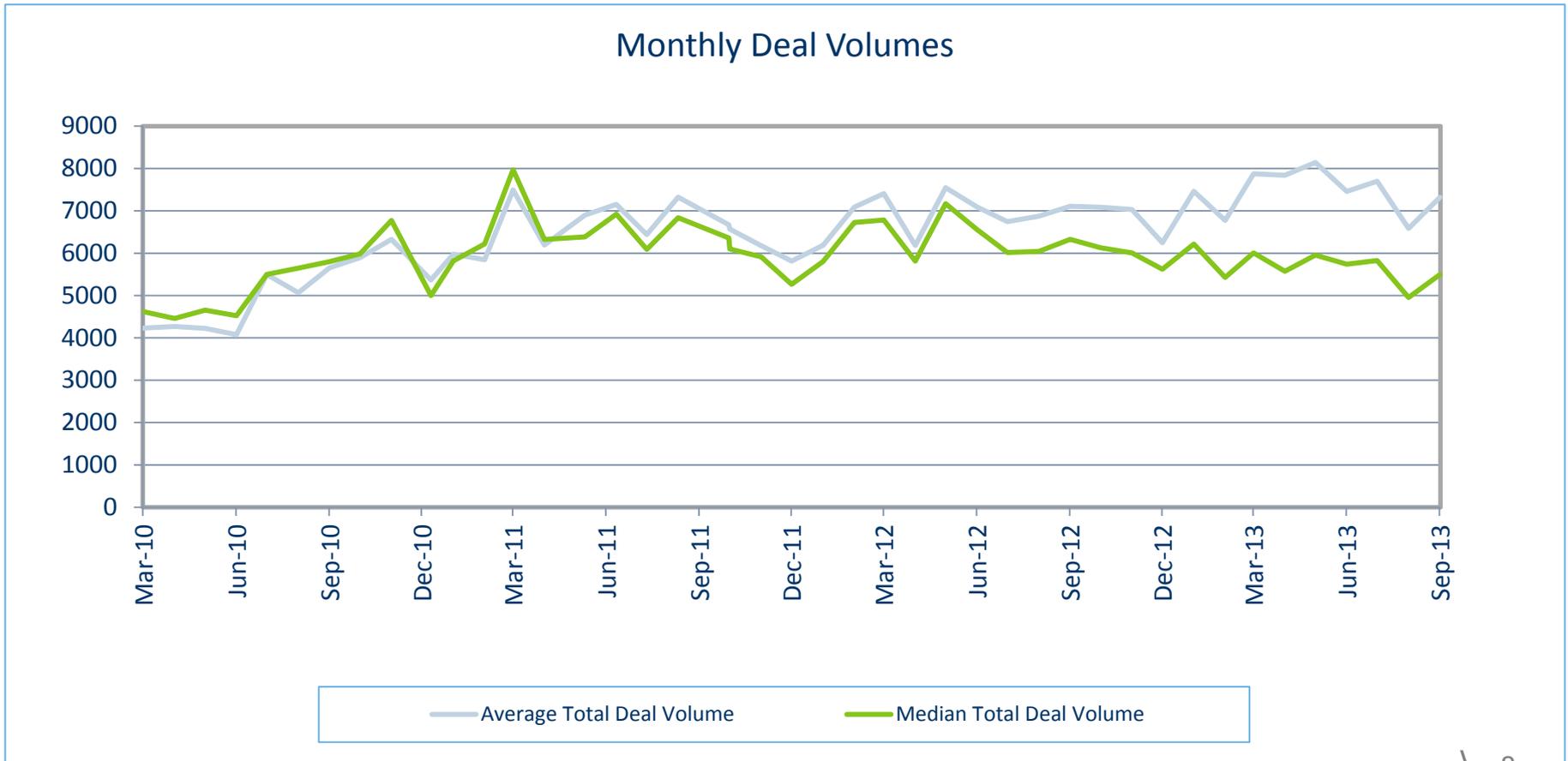## Credit derivatives deal volumes (monthly, per reporting dealer)

Source: Markit Metrics

Monthly Deal Volumes

Legend: Average Total Deal Volume — Median Total Deal Volume
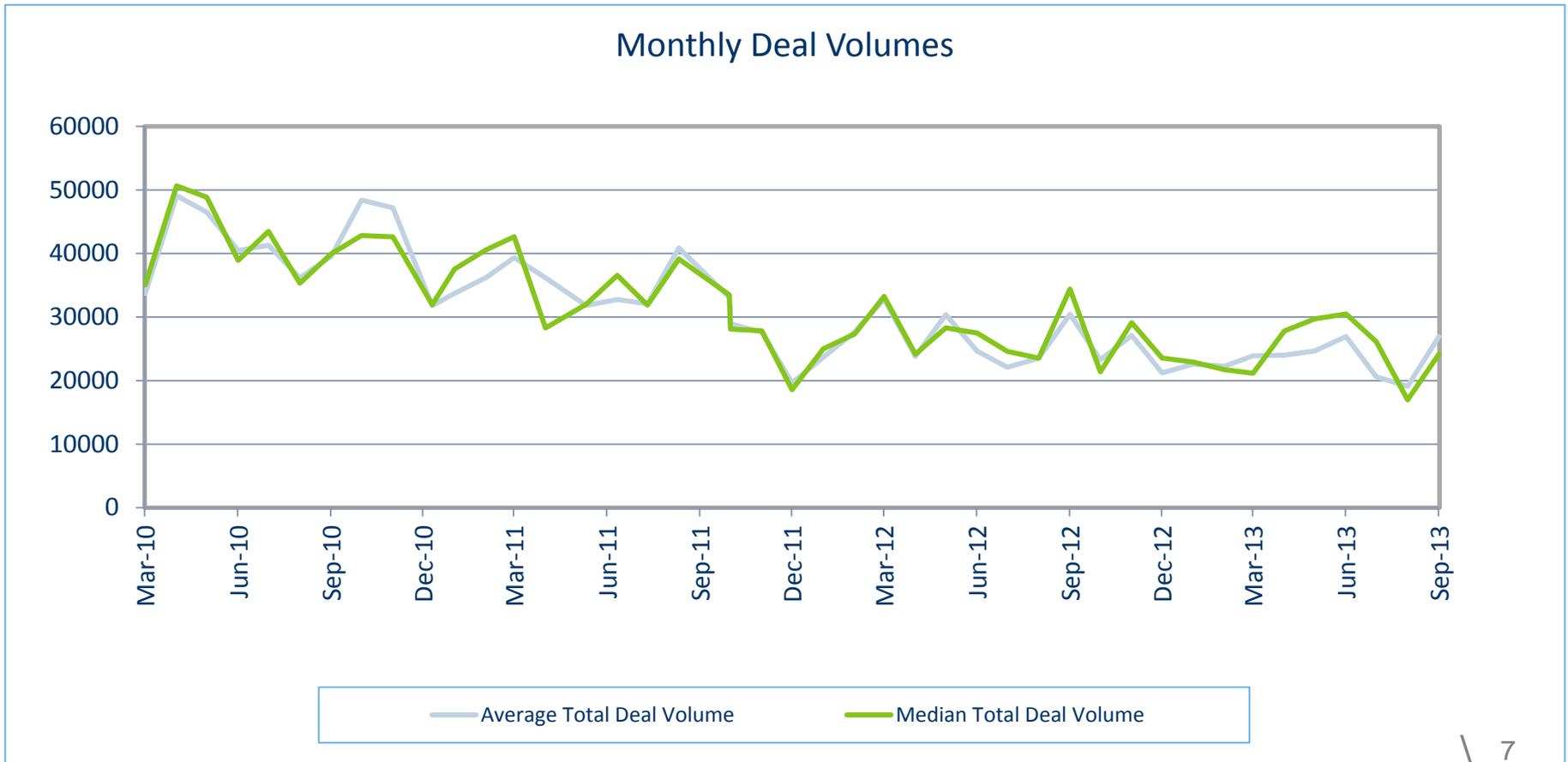
Volume trends

Equity derivatives deal volumes (monthly, per reporting dealer)

Source: Markit Metrics

Monthly Deal Volumes

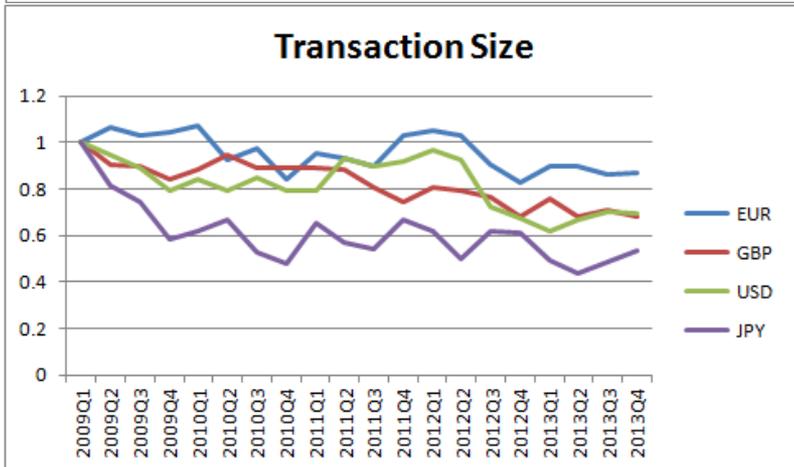Legend: Average Total Deal Volume, Median Total Deal Volume

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Interest rate derivatives deal volumes (monthly, per reporting dealer)

Source: Markit Metrics

Monthly Deal Volumes

Legend: Average Total Deal Volume — Median Total Deal Volume
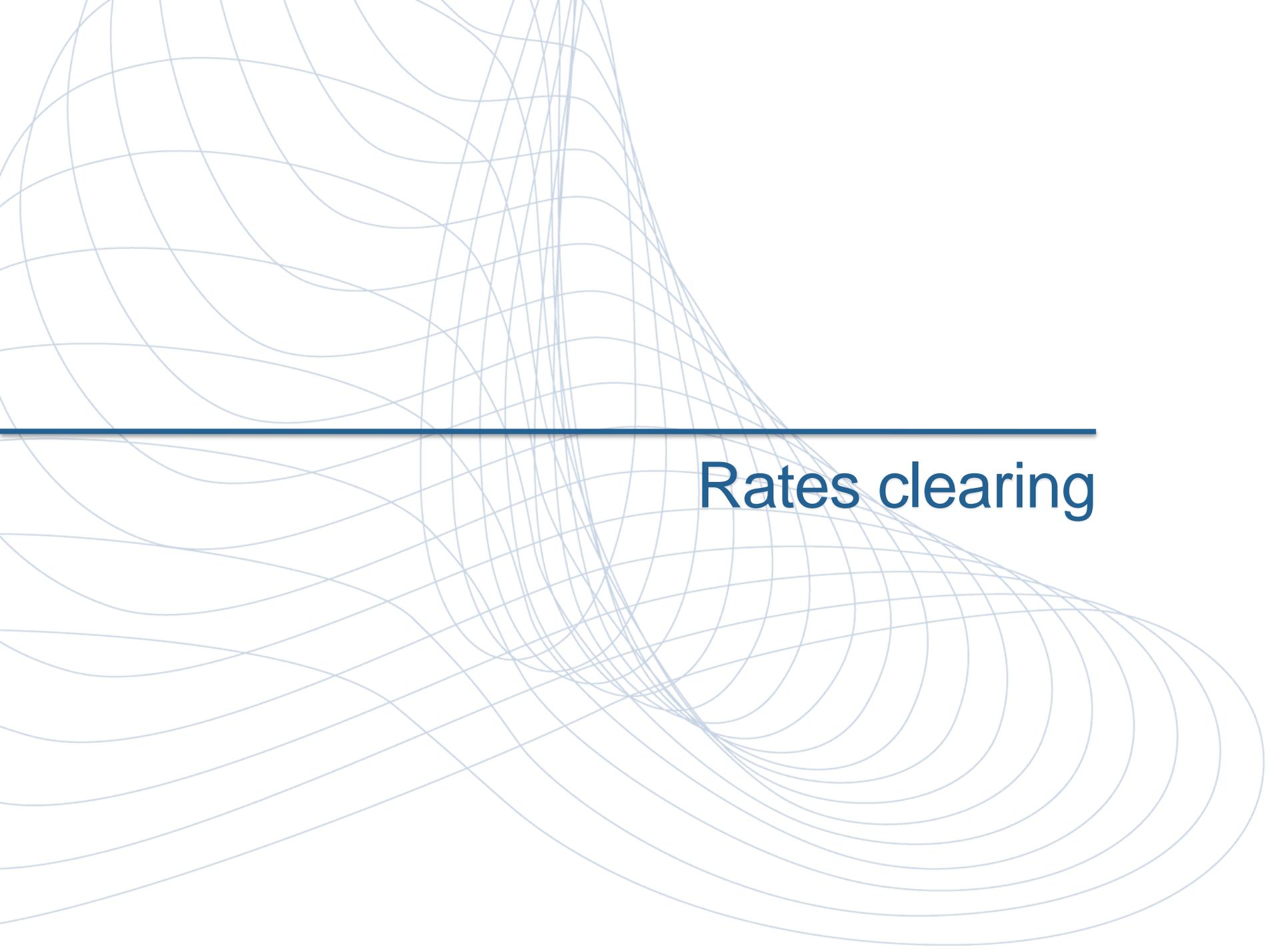
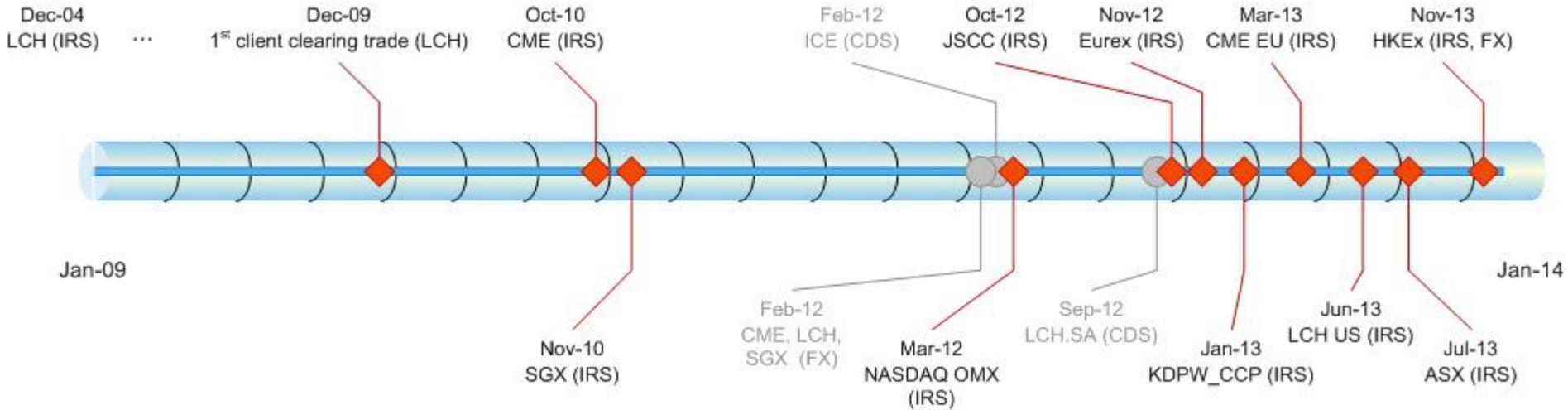# Notional vs Tickets – Interest Rates Swaps
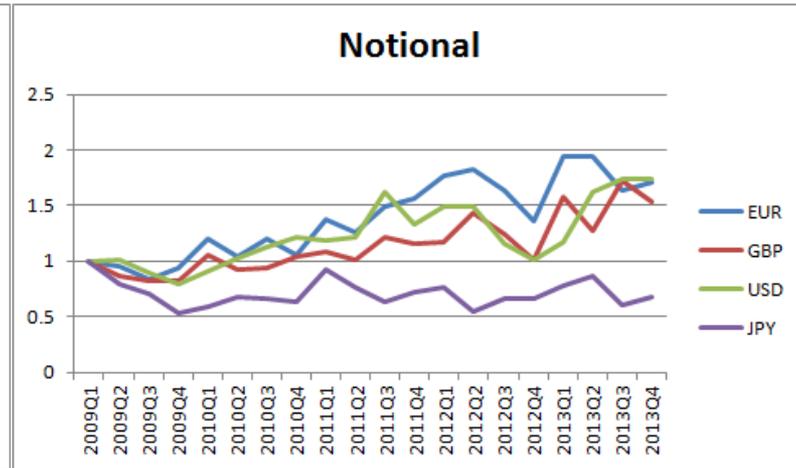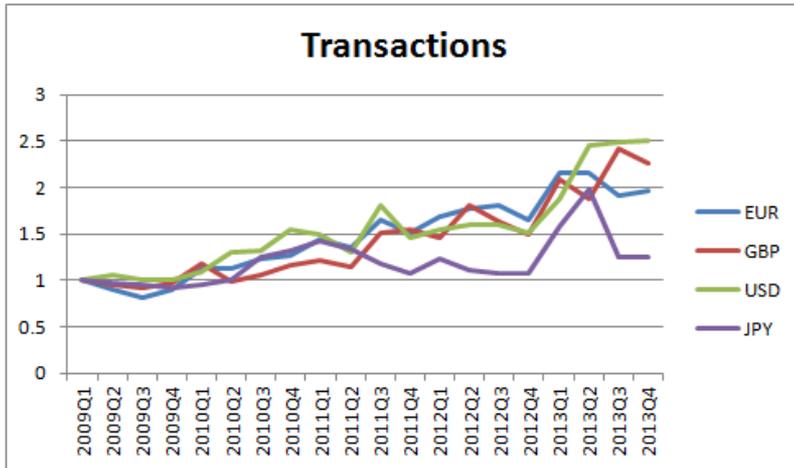
Relative to Q1 2009 = 1

Source: trades processed by Markit derivatives

processing

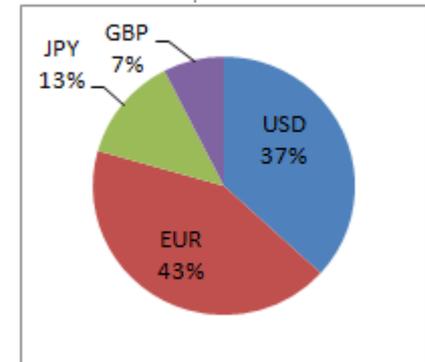# Rates clearing
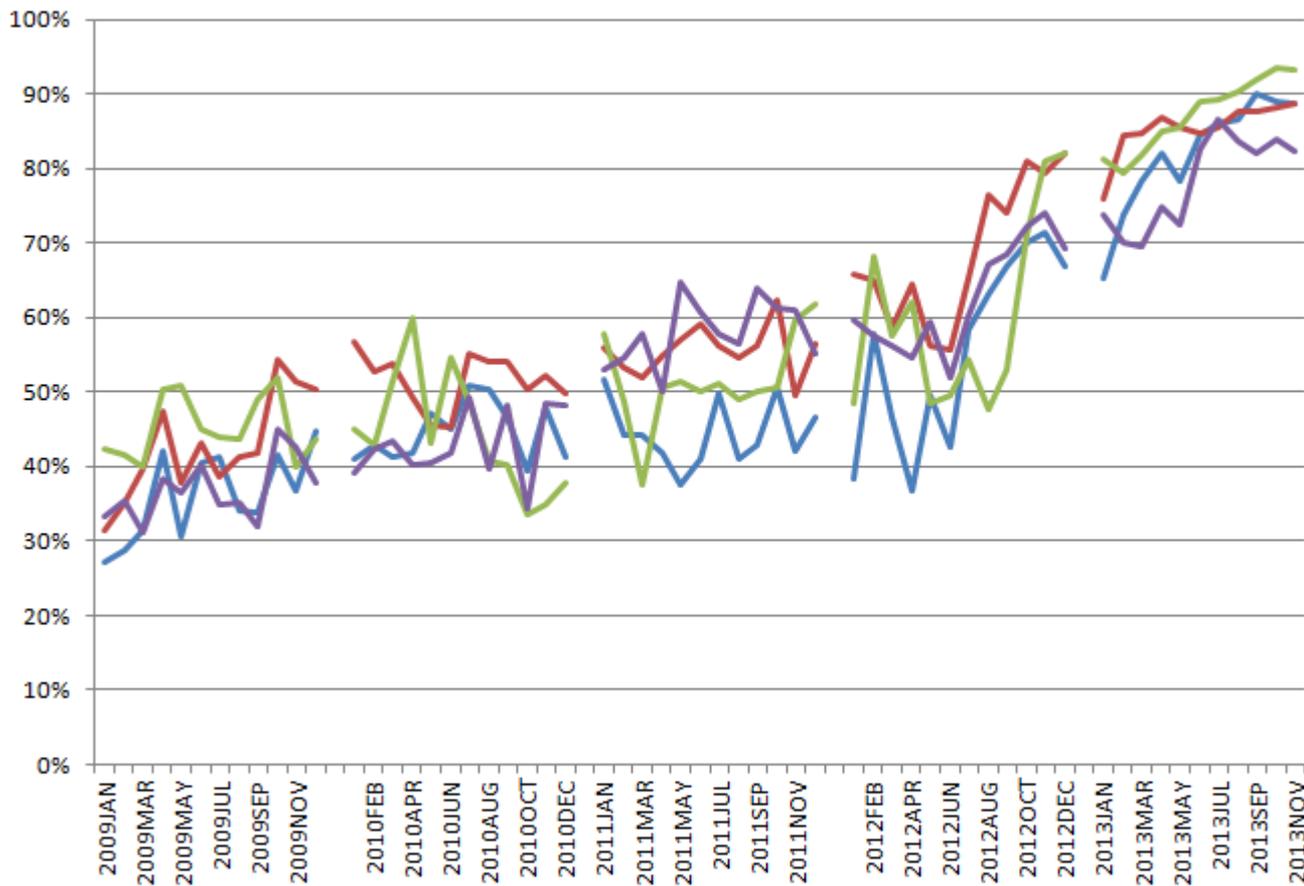
Central clearing – OTC timeline

Dec-04
LCH (IRS) ...

Dec-09
1ˢᵗ client clearing trade (LCH)

Oct-10
CME (IRS)

Feb-12
ICE (CDS)

Oct-12
JSCC (IRS)

Nov-12
Eurex (IRS)

Mar-13
CME EU (IRS)

Nov-13
HKEx (IRS, FX)

Jan-09

Jan-14

Nov-10
SGX (IRS)

Feb-12
CME, LCH,
SGX (FX)

Mar-12
NASDAQ OMX
(IRS)

Sep-12
LCH.SA (CDS)

Jan-13
KDPW_CCP (IRS)

Jun-13
LCH US (IRS)

Jul-13
ASX (IRS)

Central clearing

Percentage of new activity cleared <=T+10 - IRS

Central clearing

Dealer/client split
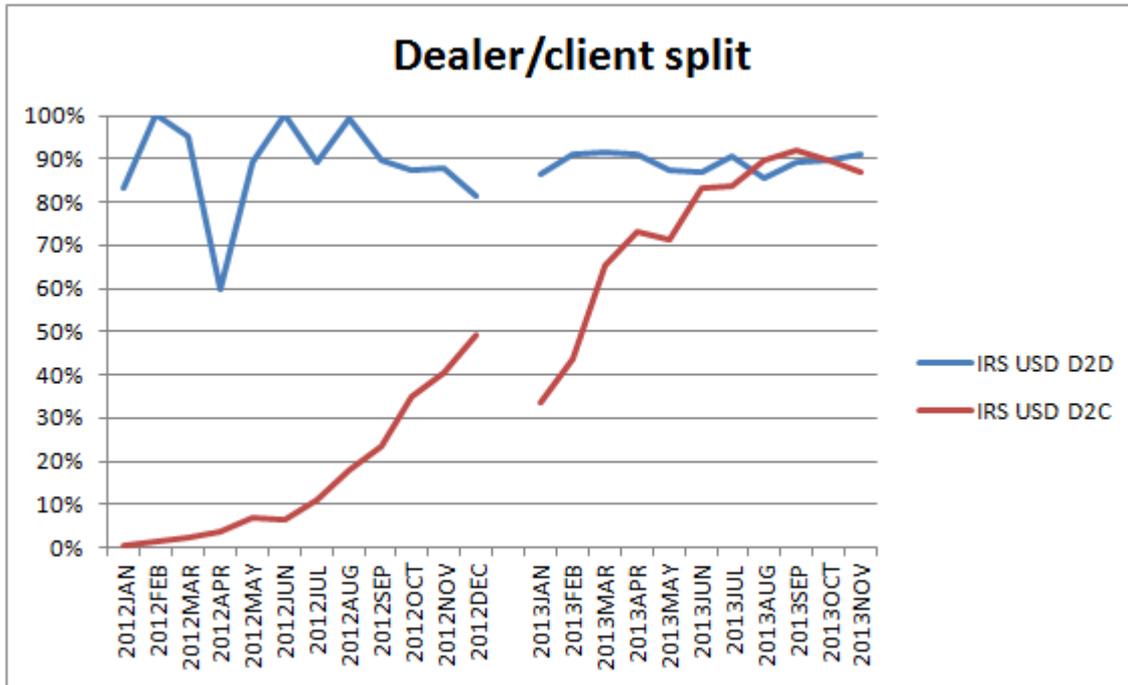
Percentage of Dealer to Dealer (D2D) volume cleared, compared to % of Dealer to Client (D2C) volume cleared during last two years, for USD Interest Rate Swaps (notional amount)
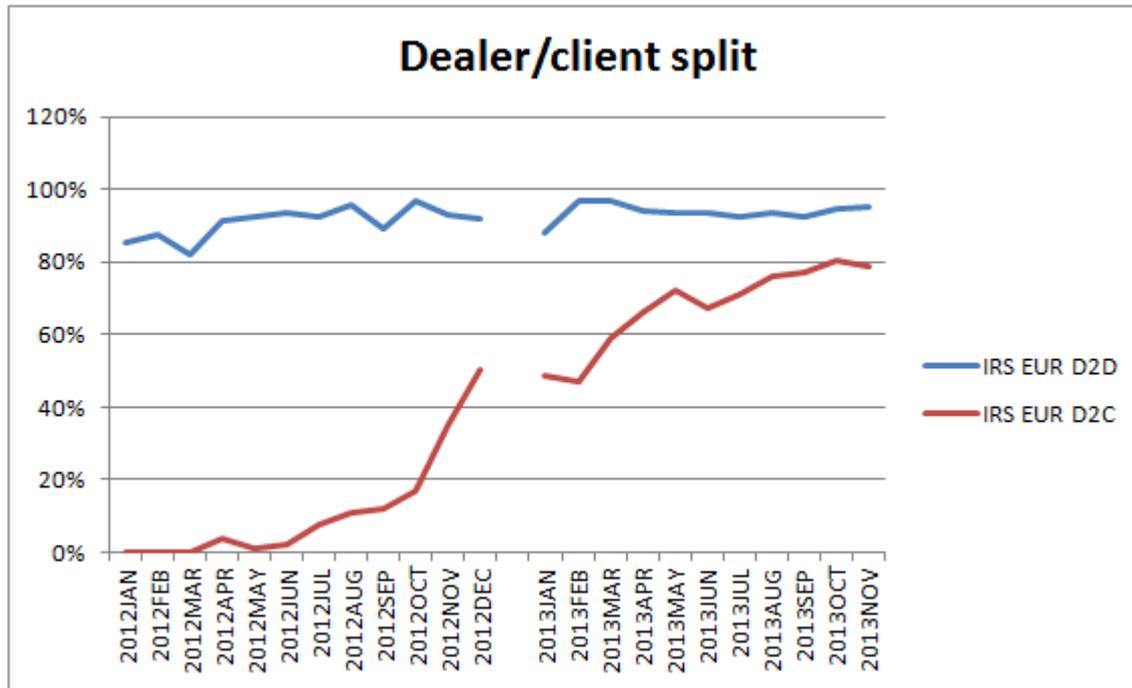
Central clearing

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Percentage of Dealer to Dealer (D2D) volume cleared, compared to % of Dealer to Client

(D2C) volume cleared during last two years, for EUR Interest Rate Swaps (notional amount)
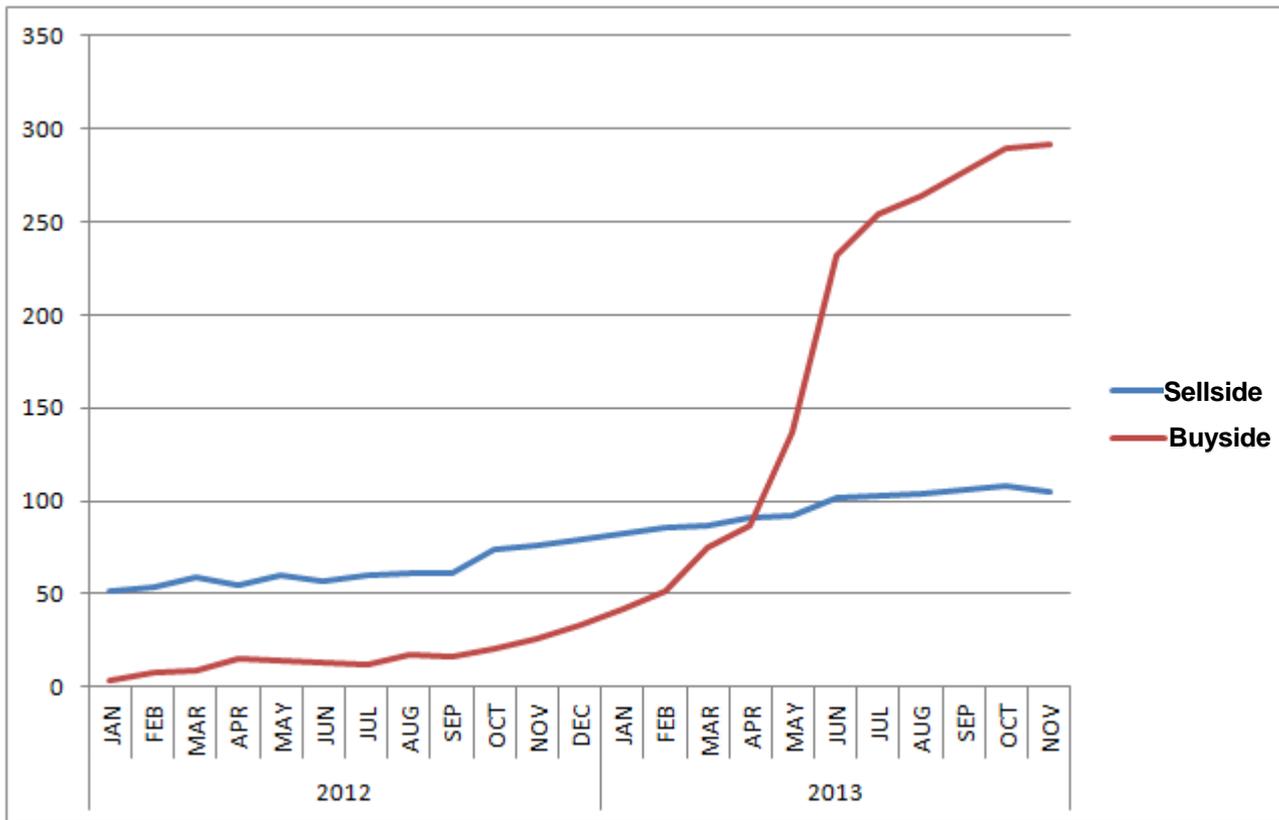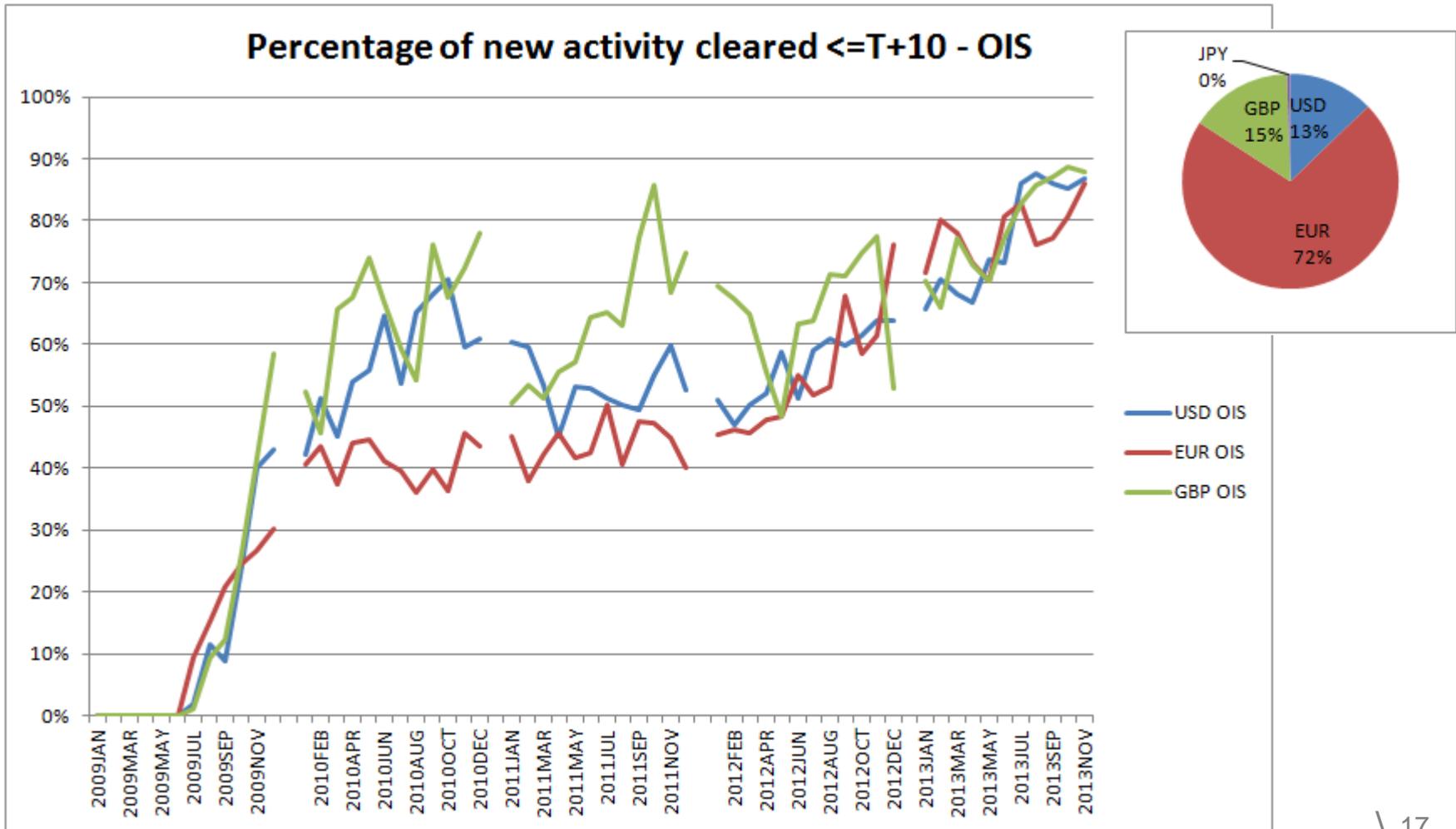
Central clearing

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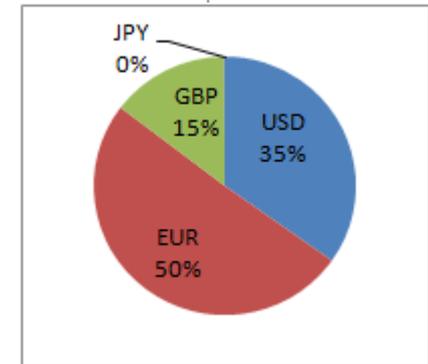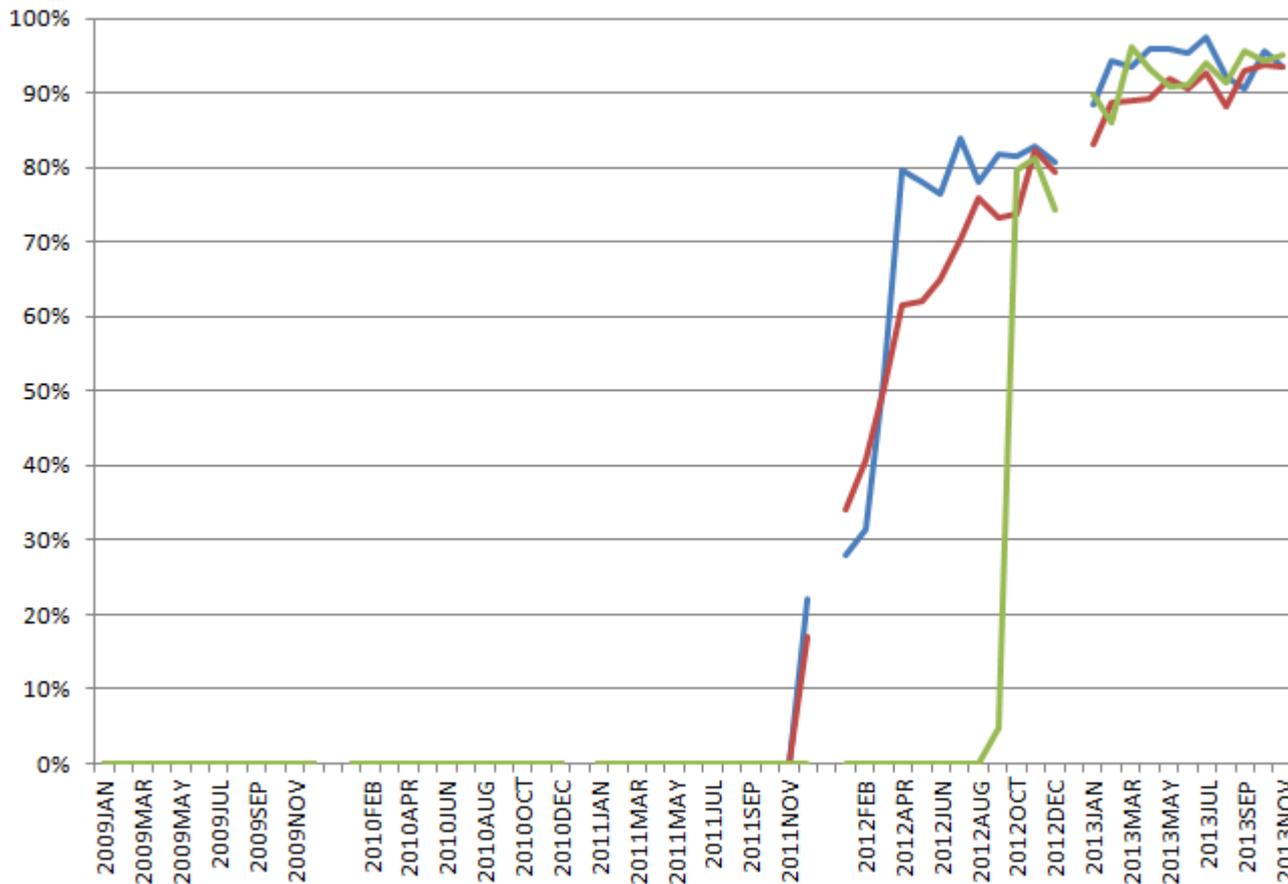Number of participants (group level) which cleared OTC rates trades per month
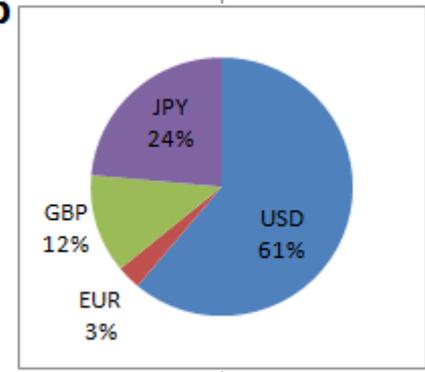
Central clearing

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Percentage of new activity cleared <=T+10 FRA

Central clearing

Percentage of new activity cleared <=T+10 - Basis Swap
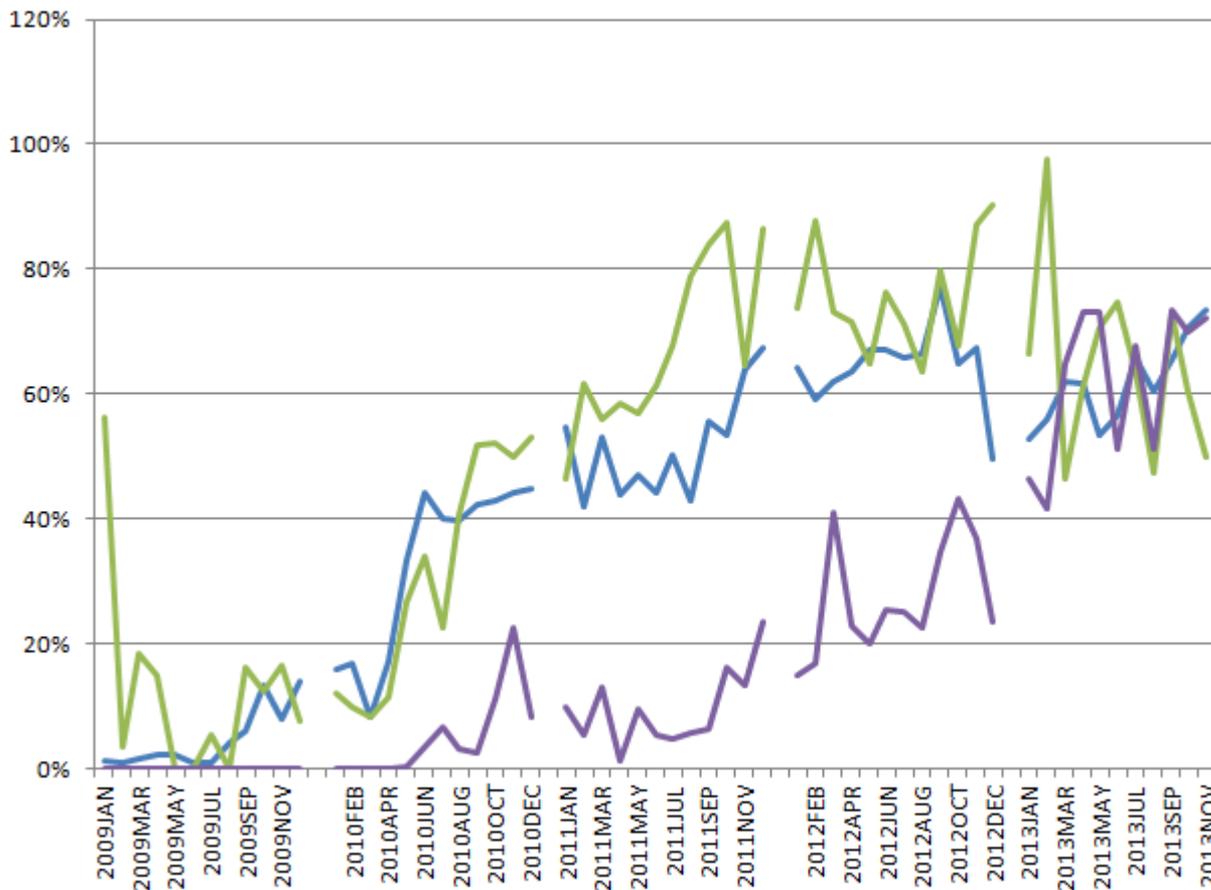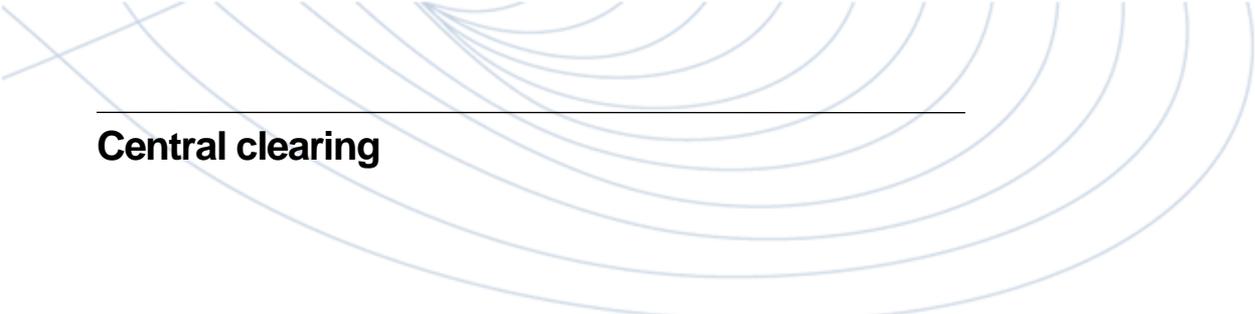
Central clearing

— Clearing charts show percentage of notional amount (local currency) where trades are cleared within 10 days of recorded trade date, based on trades processed by Markit derivatives processing (MarkitWire)

— Generally will exclude backloading, novations, compression activity
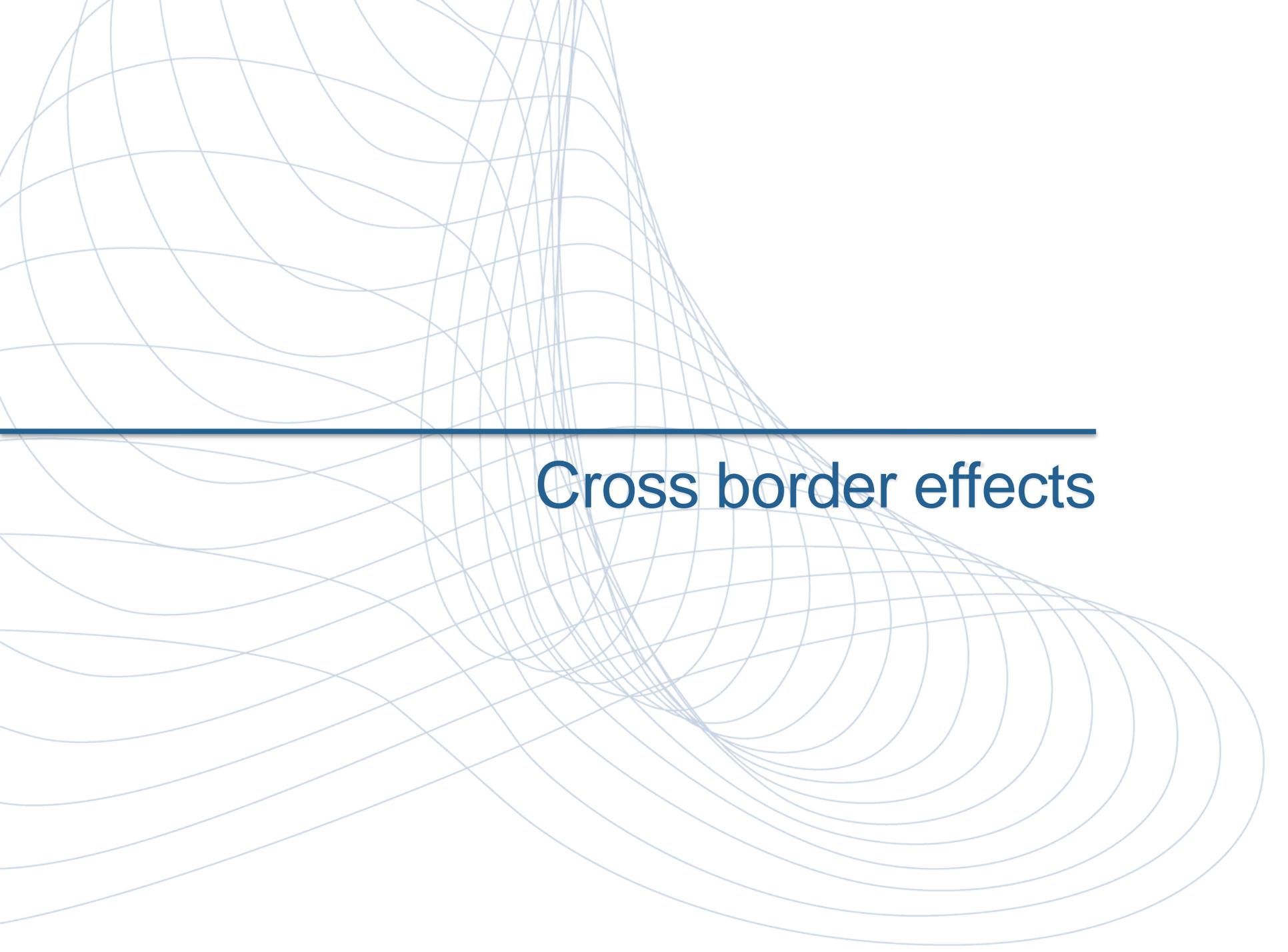
Cross border effects

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Interest rates products – USD – Percentage of trades booked with either side entity type being one of four types

(source: trades processed by Markit derivatives processing)

Cross border effects

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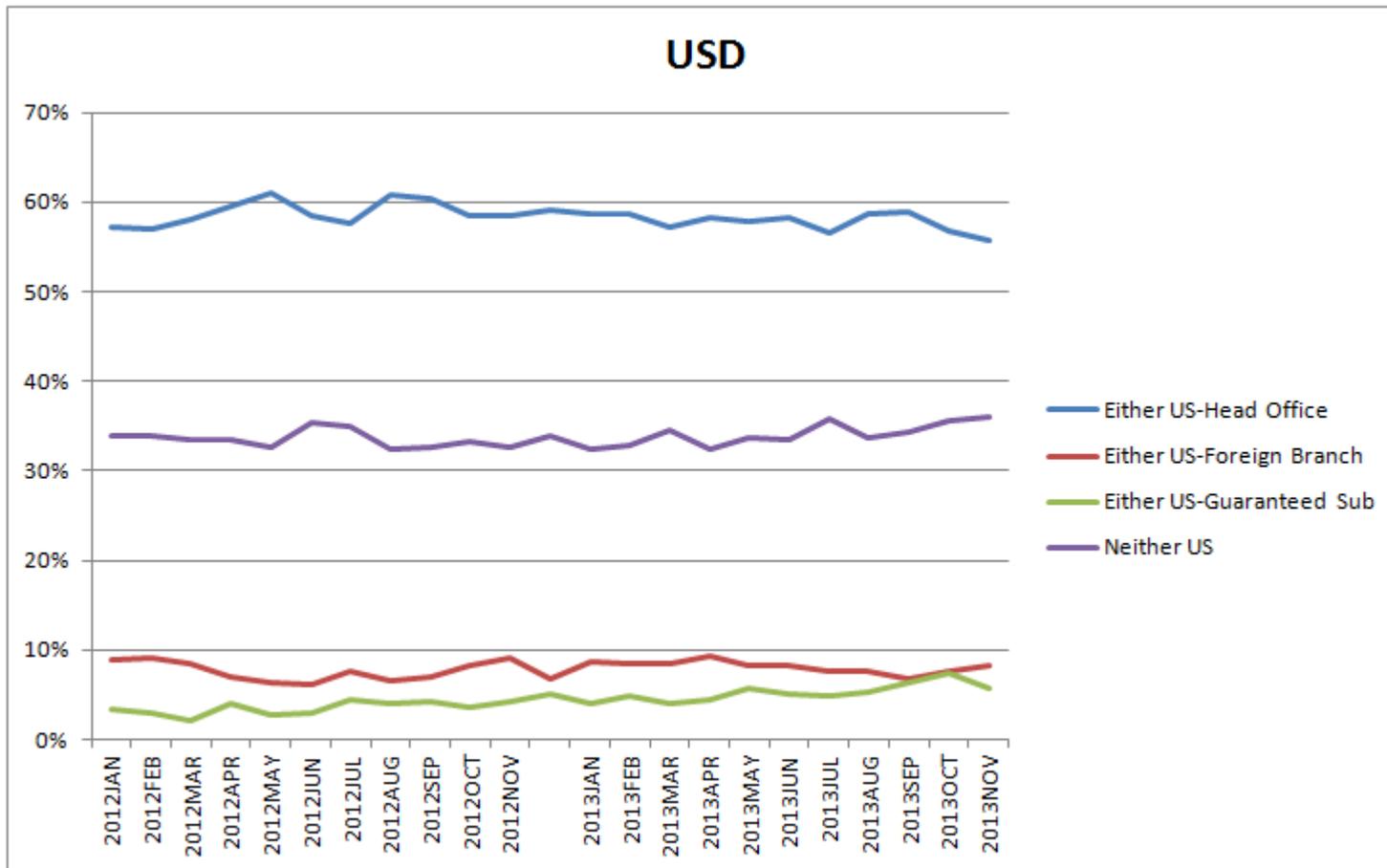
Interest rates products – EUR – Percentage of trades booked with either side entity type being…
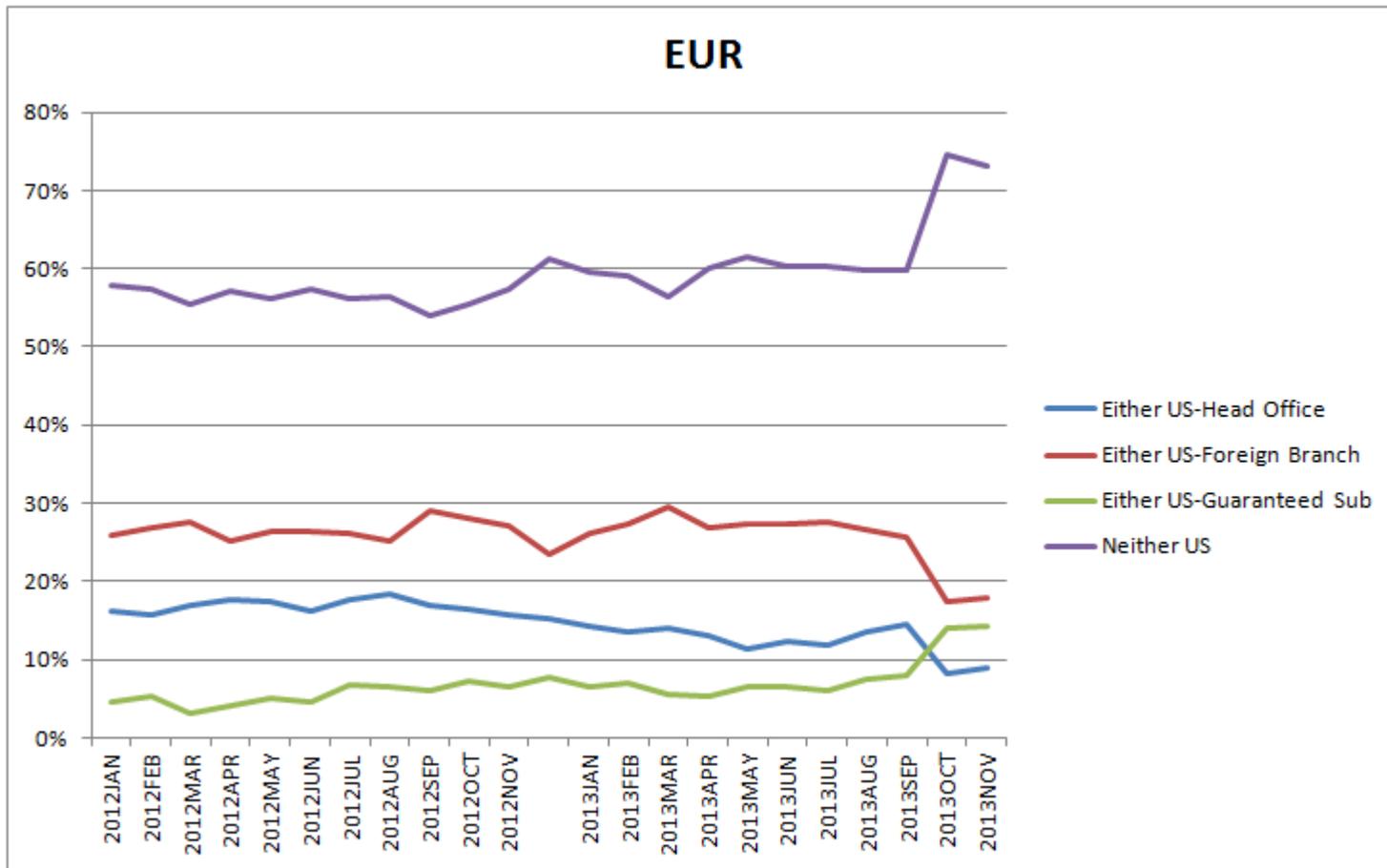
Interest rates products – JPY – Percentage of trades booked with either side entity type being…

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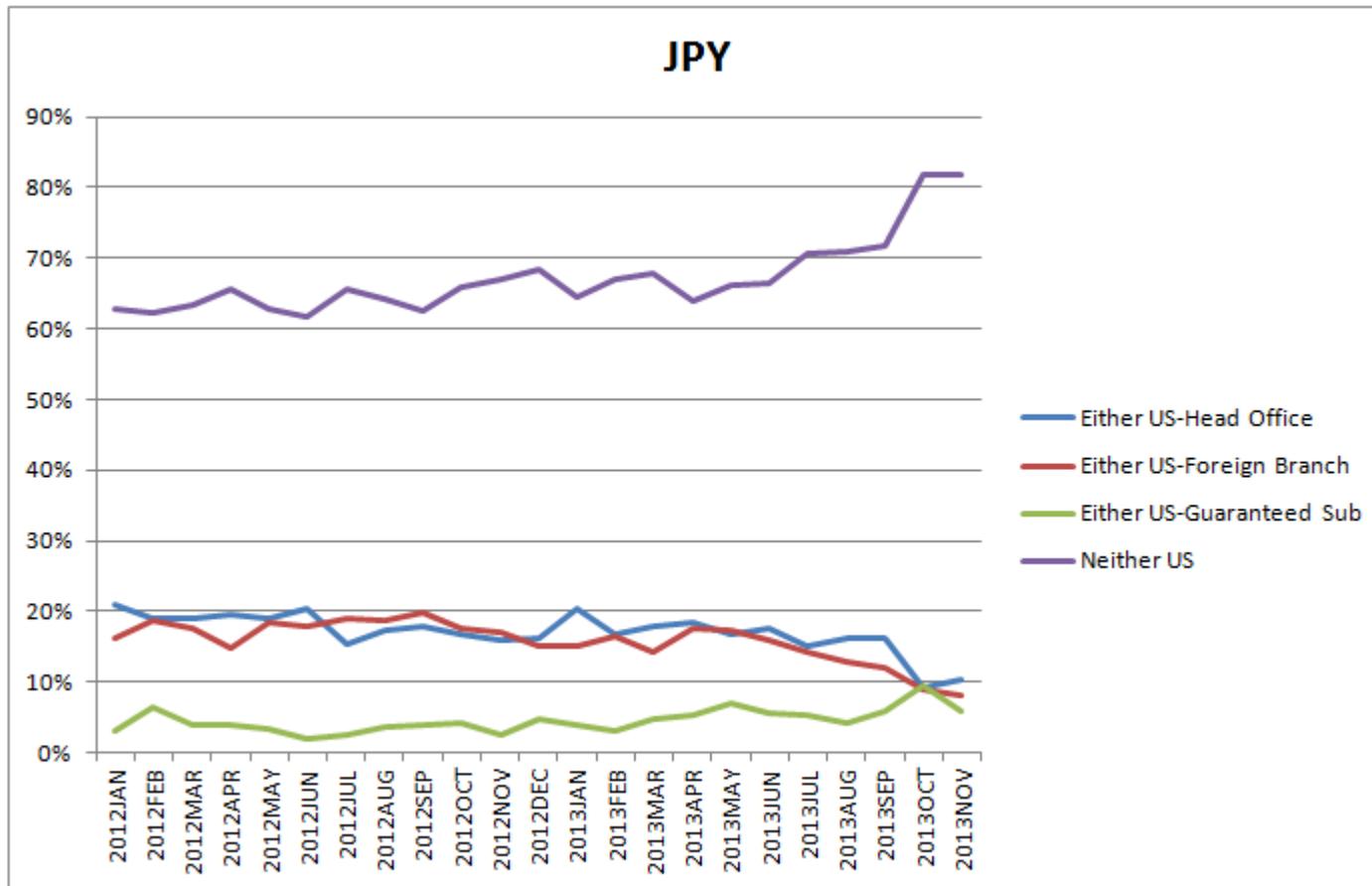
Interest rates products – Percentage of trades being booked with neither side US entity or US guaranteed sub – by currency
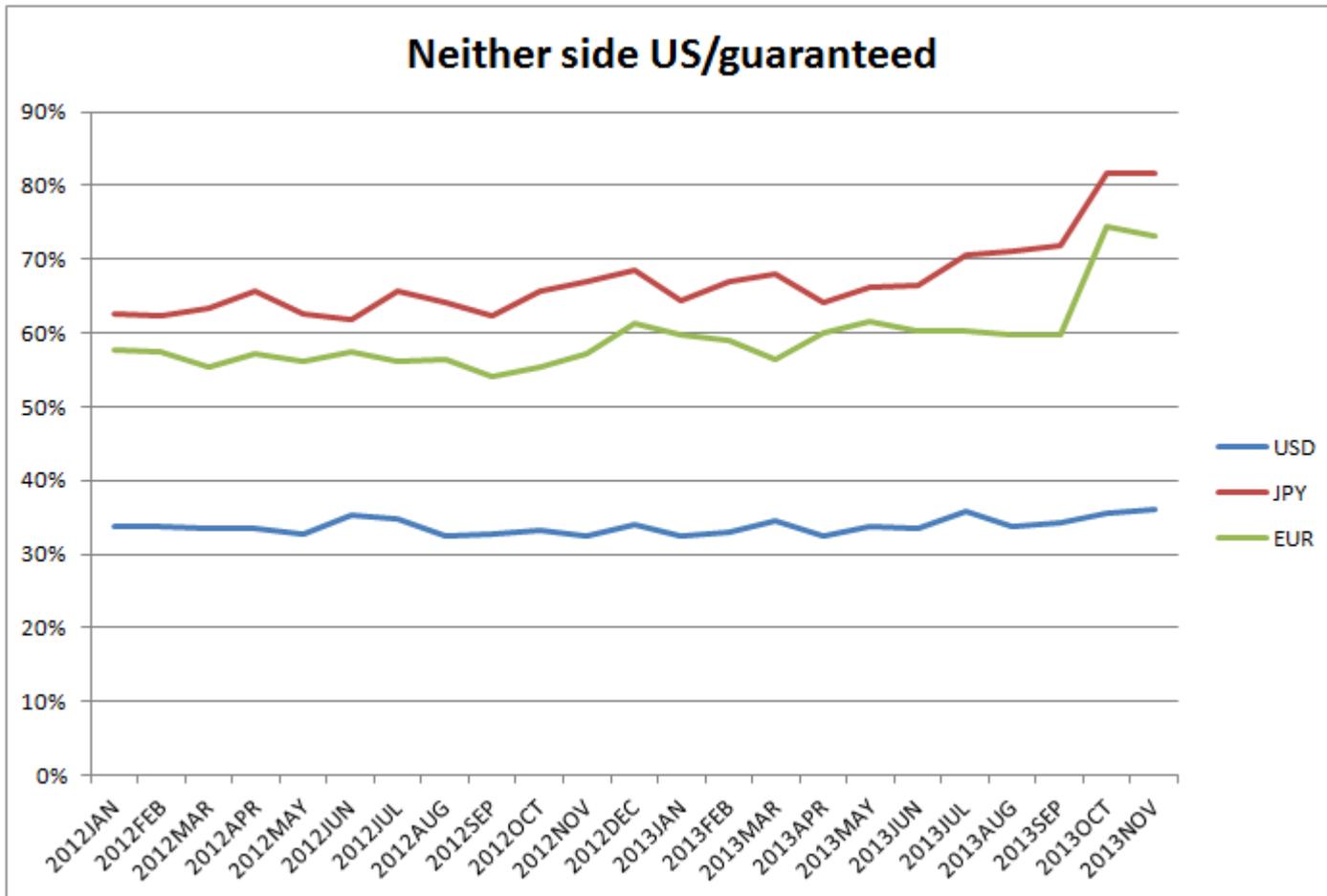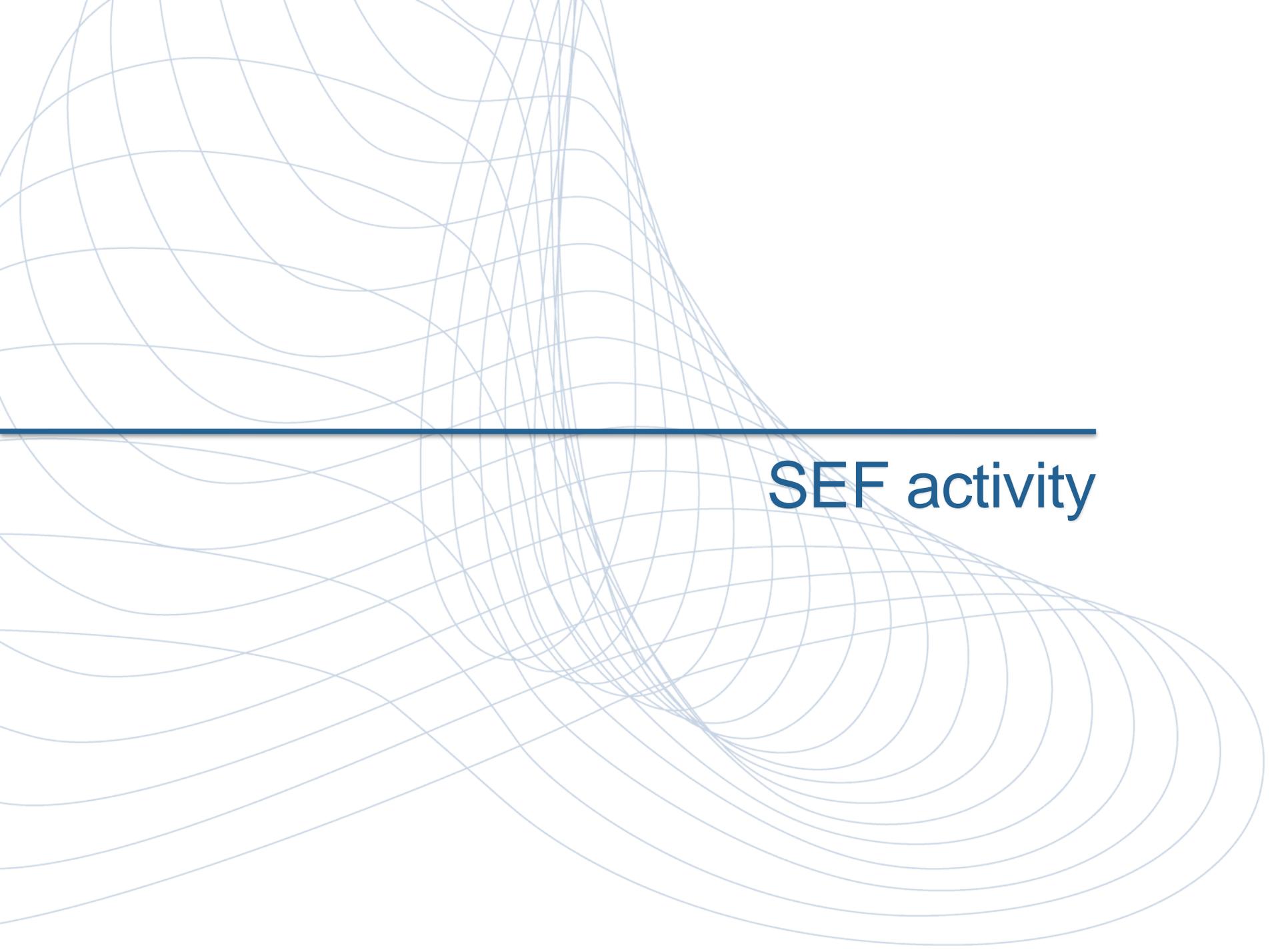
SEF activity

SEF Activity

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Percentage of new IRS trades booked on SEF vs. off-facility
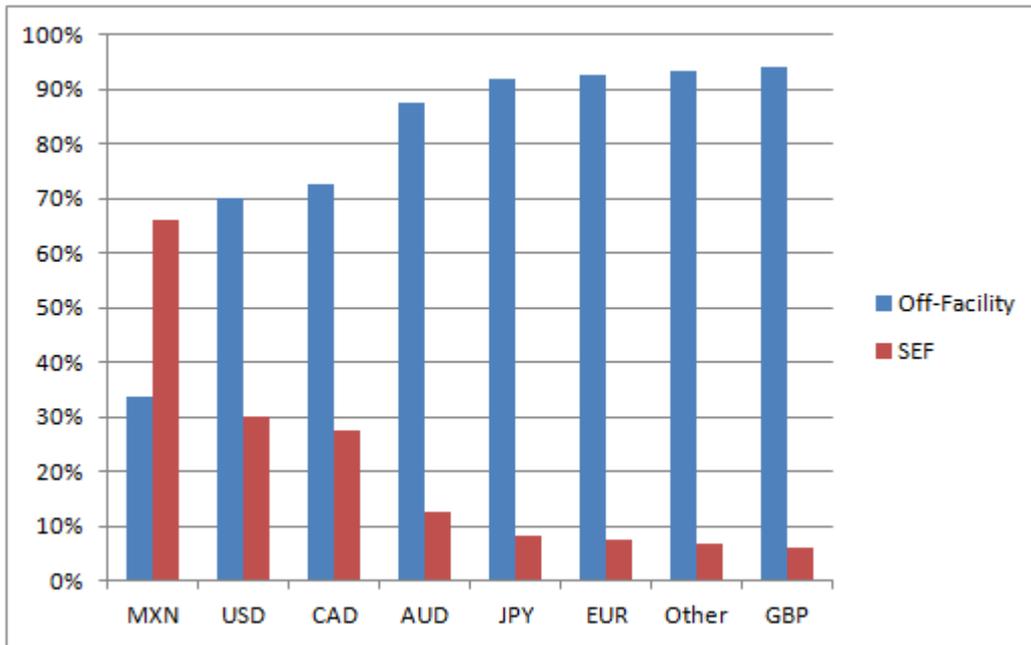
SEF trade count by currency
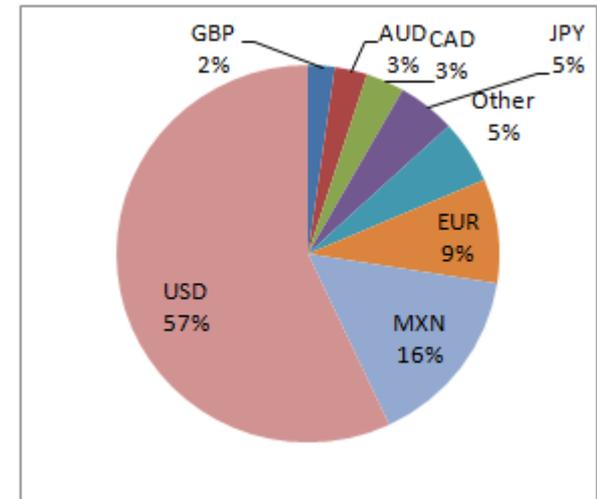
Source: Interest rates swaps transacted week of December 2nd 2013, processed via Markit

Percentage of SEF trades (processed by Markit) where one, both or neither party is a US entity
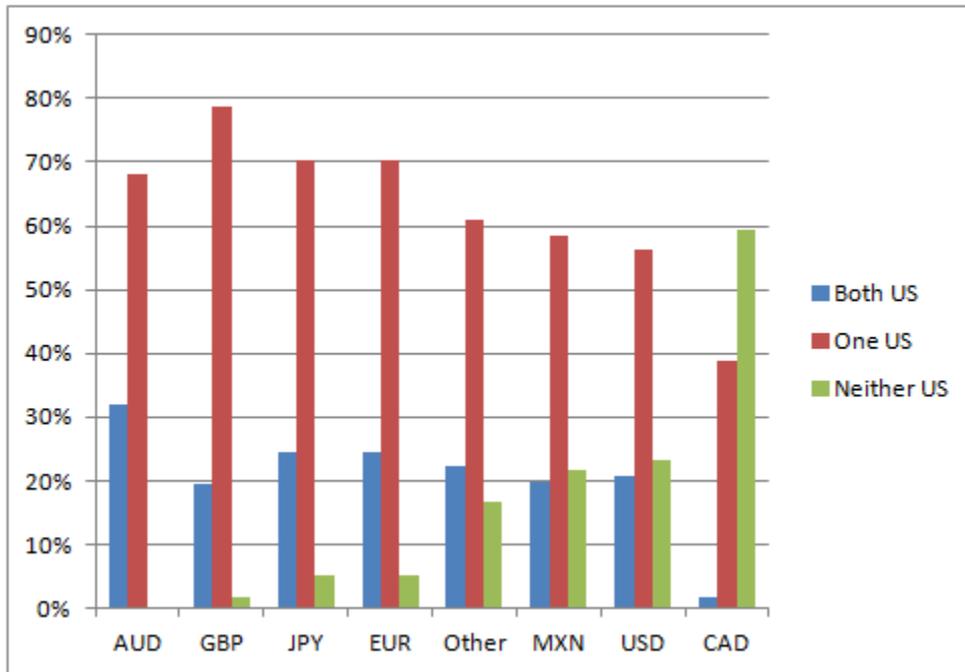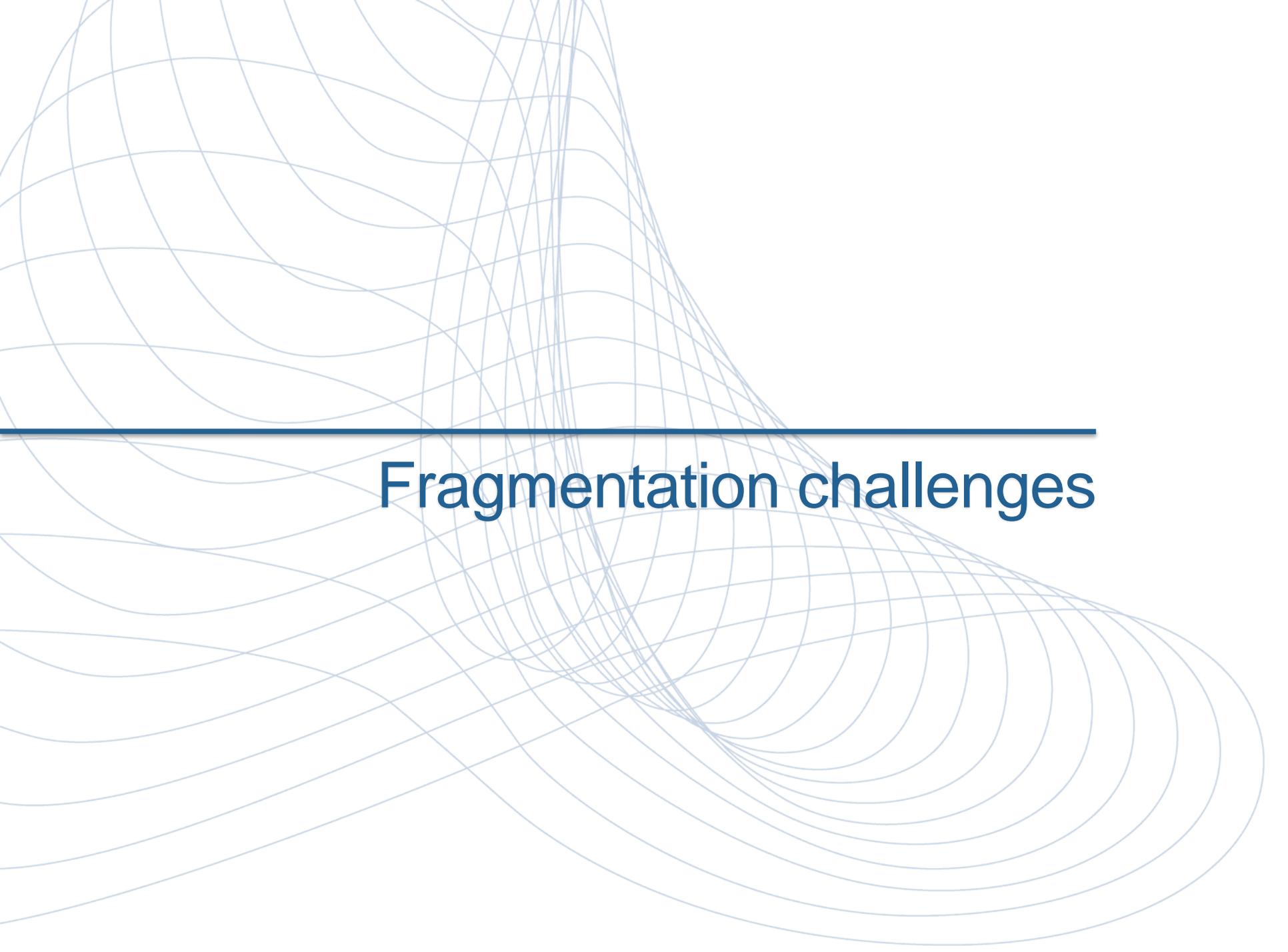
Fragmentation challenges

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The Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO) have published their final report on the OTC derivatives data that should be collected, stored and disseminated by trade repositories (TRs)

— By outlining a global framework for access and storage of data the intent is to allow efficient aggregation of global OTC derivatives data reported to TRs.

— However, difficulties remain…

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Each regime has adopted differing rules causing data fragmentation

— The same trades are reported multiple times due to overlapping regulations, these are reported to

— Multiple TRs

— With differing identifiers (Unique Trade Identifier)

— Containing differing data fields

— And are reported at different levels (entity versus branch)

Data Fragmentation – Multiple TRs

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Different regimes have different TRs but also some regimes have approved multiple TRs, each with their own rulebooks and formats

Regime	ASIC	CFTC	ESMA	HKMA	JFSA	MAS
TRs	DTCC	DTCC	DTCC**	HKTR	DTCC*	DTCC
		CME	CME			
		ICE	ICE			
			REGIS-TR			
			Univista			
			KDPW			

* Firms can also report direct to JFSA

** Separate infrastructure to the main GTR

Different trade identifiers are used across the various regimes

Regime	Dodd Frank USI	Bilaterally Agreed UTI	Internal Trade Reference
ASIC		✓	
CFTC	✓		
ESMA		✓	
HKMA	✓		✓
JFSA			✓
MAS		✓	✓
SEC	✓		

✓	If applicable
✓	required

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Each regime requires a different data set rather than following the CPSS-IOSCO guidelines

— CFTC requires "all the terms of the trade"

— ESMA follows CPSS-IOSCO guidelines more closely

Each regime requires a different level of reporting

— CFTC, ASIC, MAS, HKMA require entity level reporting

— ESMA and JFSA require branch level reporting, albeit using different branch identifiers BIC (JFSA) and Country Code (ESMA)

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mines data
pools intelligence
surfaces information
enables transparency
builds platforms
provides access
scales volume
extends networks
& transforms business.

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