

MTS Swaps: Diplomatic protocol

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Partners:



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A panel discussion with Roger Barton, founder and director of Financial Reform Consultancy, Oliver Clark, head of money markets and derivatives product at MTS and Nick Green, head of interest rate derivatives eCommerce at Credit Agricole CIB.

The US experience of migrating swap trading onto electronic platforms has been instructive: the buy-side has been hesitant and venues are adhering to traditional models. MTS Swaps, launching in Q4 2014, is a buy-side marketplace for interest rate swaps (IRS) designed to overcome hesitancy and inhibition by offering choice in the model of access and execution.

It will allow buy-side firms to trade on the platform via sponsored access, using the existing relationship with a broker to provide anonymous, electronic IRS trading. The platform is non-exclusive and is open for brokers seeking membership. Three key experts got together to discuss its evolution.

How is MTS Swaps and its partner banks meeting the current challenges facing buy- and sell-side participants in the rapidly evolving swaps market?

Nick Green: The world of swaps is changing with central clearing. Products are becoming even cheaper to execute, but also more commoditised. Trades are not booked with the dealer, they are booked with the CCP, so everything becomes disaggregated. Clients who are not currently trading electronically may prefer to maintain a relationship with a number of dealers to get



“The world of swaps is changing with central clearing.”

Nick Green, Credit Agricole CIB

best execution, but with the added benefit of maintaining those dealer-to-client relationships. We were looking for a protocol that would combine both the advantages of multi-dealer pricing and



“When it comes to MiFID... the direction of travel is clear.”

Roger Barton, Financial Reform Consultancy



“Electronic execution brings full integration, automation and STP.”

Oliver Clark, MTS

best execution, while preserving the dealer/client relationship when trading. That defined the MTS Swaps protocol.

How does the central clearing market structure affect clients?

Nick Green: As you get into the cleared world with more electronic execution, the client may be getting less feedback, less colour and there is less guidance and help when you are connecting purely via an electronic platform and CCP. This may be a concern for many clients and for smaller or less sophisticated clients in particular.

Oliver Clark: We anticipated from the start that the platform could evolve from a protocol point of view. We are launching with the specific benefits of sponsored access but potentially we could introduce direct market access in the future, although that access might depend on the type of counterparty and how professionally they see themselves as an institution executing swaps.

Sponsored access allows those clients to access multi-dealer liquidity whilst maintaining anonymity. Anonymity gives buy-side firms the freedom to ask more dealers for prices without advertising their intentions to the whole street.

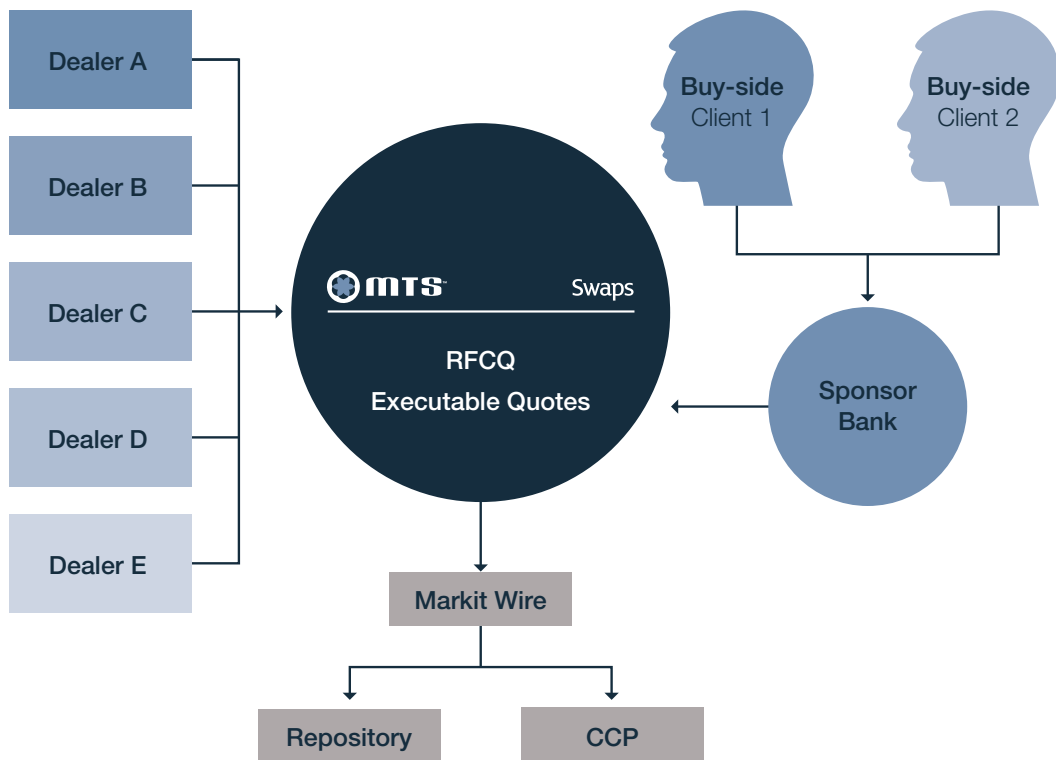
Nick Green: Another advantage of sponsored access is that we impose no limit on the number of dealers who can be included in the request for competitive quote (RFCQ) – true multi-dealer pricing.

Oliver Clark: Electronic execution brings full integration, automation and straight-through-processing. The added value of automated processing is not to be underestimated.

How does MTS Swaps differentiate its offering in a space that is crowded with new MTF and SEF platforms?

Oliver Clark: We took a slightly different route from the start. We didn't build the platform and

Figure 1: MTS Swaps trading protocol



then see if people were going to join in, we sat down with a group of dealers who had a very clear idea of what they wanted to do in this market and then we applied our expertise in technology and running a market to deliver the protocol that was requested.

It does appear that other platforms are now looking at this model too, as the benefits become clearer, so I think we have taken the right first steps into this space and we are now informing and advising clients in order to bring them onto the electronic platform.

Roger Barton: Design and development of the platform has been a process of partnership

between MTS and the dealers. This partnership approach will continue to be the basis for ongoing evolution of the platform.

Nick Green: I think the MTS/LSEG partnership is a combination that is somewhat unique. When we were looking for a partner to work with as a group of banks we talked to a number of candidates – all of whom were very strong, but none could match the unique combination MTS offered as a partner, a technology provider, as a regulated market and in terms of parent and reputation. That is an important part. The partnership, working together to find the best model for the dealers and our clients, is quite a tricky balance to strike.

What execution methods does MTS Swaps offer?

Oliver Clark: The platform supports request for competitive quote (RFCQ) and also click-to-trade. Dealers are streaming liquidity into the platform via three types of quote. They can stream indicative prices; firm prices with a last look; and firm prices with no last look. This gives clients the choice of using either the familiar RFCQ protocol or, in the event of sufficient liquidity in the book, they can simply click to trade as they could if it was a central limit order book (CLOB).

Nick Green: That is something that could evolve in a very interesting way. We can see from the “D2C” Swap Execution Facilities (SEFs) that they have not evolved CLOBs, mainly because it is not something the dealer community as a whole is very comfortable with, but we could end up with something like that which, with this sponsored access protocol, could represent a more workable way of establishing an order book.

Can you tell us more about the technology underpinning the platform?

Oliver Clark: The technology underpinning all MTS trading platforms is modular so we were able to draw on our experience and leverage off certain functionalities already implemented on our other markets such as the RFCQ mechanism and the sponsored access protocol that is also used in the credit space.

There was a lot of functionality where we could leverage on previous developments, however much is new and unique to this platform such as the support for the open FIX protocol from day one.

We provide a default front end for both clients and the banks, though on the sell-side most will utilise an ISV product or develop a custom solution in-house. The FIX protocol offers them greater freedom to develop in-house and at a reduced cost, and the end benefit of an open platform is that the banks may fully integrate the platform into both their own internal systems but also into client facing portals with all their value added functionality for the client.

How is MTS Swaps enabling participants to comply with new regulations such as Dodd-Frank and EMIR/MiFID II and meet the demand for greater transparency?

Roger Barton: MTS Swaps was developed with the new regulations in mind – particularly the requirement that IRS would in the future need to be cleared through a central counterparty (the so-called clearing obligation) and traded on a multilateral regulated platform (the so-called trading obligation).

The EU has been somewhat slower than the US in its clearing obligation and the trading obligation, but it is coming. ESMA has now set out the final regulatory technical standards for the clearing obligation for interest rate swaps and it is pretty much as we expected. They are implementing the clearing obligation for IRS in a phased manner starting next year and then moving across different categories of participants. That is very much as we expected and is consistent with the US. The direction of travel has been clear and consistent in requiring the central clearing of IRS.

When it comes to MiFID the regulations are still being worked out in terms of detail but again the direction of travel is clear. MTS has a number of regulated platforms, which are all multilateral, transparent electronic systems that are consistent with the existing framework of MiFID. When we know the final details, MTS will ensure that all platforms are fully MiFID compliant – that includes MTS Swaps. ■



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MTS Swaps

A community
of banks and
investors unite.
Be part of it.

MTS Swaps

- gives clients anonymous access to multi-dealer liquidity via a sponsor dealer
- is a fully regulated multilateral trading facility for clients in the evolving swap regulatory landscape
- supports the full trade lifecycle from pre-trade price discovery, execution, clearing and reporting.

For more information and to join the MTS Swaps community speak to our expert team.

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