

Cleared OTC Volume Increased in 2014

By Joanne Morrison

The volume of cleared swaps at most major global clearinghouses increased throughout 2014, with the biggest increases seen in dealer-to-client transactions. While much of the increase in cleared swaps volume was driven by regulatory requirements mandating central clearing that have either been implemented or are expected to be in place over the next couple of years, clearing in non-deliverable currency forwards, which is voluntary, also increased during the year.

LCH.Clearnet's SwapClear continued to be the largest clearer of interest rate swaps. Total volume in cleared interest rate swaps increased 39.8% in 2014 to \$388.5 trillion notional amount from \$279.0 trillion in 2013. Dealer-to-dealer clearing, which accounts for the bulk of interest rates swaps cleared at LCH.Clearnet, rose by 18.2% to \$266.1 trillion from \$225.2 trillion. However, dealer-to-client clearing in interest rate swaps surged by 113.4% to \$122.5 trillion from \$57.4 trillion. Euro-denominated contracts accounted for nearly 40.0% of volume, followed by dollar-denominated swaps, which accounted for 29.2% of volume. Open interest at the end of 2014 stood at \$181.0 trillion, down 15.0% from \$213.0 trillion at the end of 2013.

In the U.S., cleared interest rate swap volume at CME Group jumped by 140.7% to

\$36.3 trillion from \$15.1 trillion. More than three quarters of that volume was U.S. dollar denominated swaps. While CME does not provide a specific breakdown between dealer-to-dealer versus dealer-to-client cleared volume, CME officials have indicated that the vast majority of CME interest rate swap volume consists of dealer-to-client trades. Open interest at the end of 2014 stood at \$23.0 trillion, more than double the \$9.1 trillion in open interest at the end of 2013.

CDS Clearing Surges in the U.S.

During 2014, cleared volume in credit default swaps at CME surged by 72.7% to \$392.0 billion from \$227.0 billion. The majority of this increase took place in the third and fourth quarters of 2014. At the end of the year, open interest stood at \$48.9 billion, slightly down from \$49.8 billion at the end of 2013.

Intercontinental Exchange continued to be the largest clearer of credit default swaps. At ICE Clear Credit, the group's U.S.-based clearinghouse, credit default swaps volume increased by 32.5% in 2014 to \$10.2 trillion from \$7.7 trillion in 2013. The clearing of dealer-to-client trades increased by 90%, with much of that coming from European customers. "Forty percent of the \$7 trillion of buy-side growth notional cleared in 2014 came from European buy-side customers clearing through our U.S. CDS clearinghouse," Scott Hill, ICE's chief financial officer, said during a quarterly discussion of the exchange's financial results. Jeff Sprecher, ICE's chief executive officer, added that he expects this trend to continue as European clients seek to avoid regulatory "uncertainty" in Europe. Open interest at ICE Clear Credit stood at \$970.2 billion, up slightly from \$903.1 billion in open interest at the end of 2013.



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SCOTT HILL, INTERCONTINENTAL EXCHANGE

At Japan Securities Clearing Corp., volume in interest rate swaps increased 14.1% during 2014 to \$6.9 trillion from \$6.0 trillion in 2013. It was the second full year since interest rate swap clearing commenced at the Japanese clearinghouse, which is the third largest clearinghouse in the world for interest rate swaps. Open interest surged to \$9.1 trillion at the end of 2014 from \$5.7 trillion in 2013, a 37.4% increase. The majority of the open interest is in short-term interest rate swaps. For example, 32.8% of the open interest was in interest rate swaps with up to a two-year maturity and 27.1% of volume was in contracts with maturities between two and five years.

CDS Clearing Slows in Japan

Cleared CDS volume at JSCC declined by 15.9% to \$4.4 billion from \$5.1 billion. At the same time, open interest at the end of 2014 stood at \$9.8 billion, a 36.1% increase from \$7.2 billion in open interest at the end of 2013.

At Nasdaq OMX Stockholm, interest rate swaps volume edged up 6.7% in 2014 to \$39.1 billion from \$36.6 billion in 2014. Open interest at the end of 2014 stood at \$5.5 billion, a 44.7% increase over open interest of \$3.8 billion in 2013. This clearing-

house currently limits its clearing service to swaps denominated in Swedish kronor.

Turning to foreign exchange, the volume of non-deliverable forwards cleared at LCH.Clearnet's ForexClear increased by 1.2% to \$451.2 billion in notional from \$446.0 billion in 2013. More than 90% of that volume was based on Asian currencies. Indian rupee-based contracts accounted for 34.4% of cleared volume, Chinese yuan-based contracts accounted for 32.5%, Korean won-based contracts accounted for 12.7% of volume, Taiwan dollar-based contracts accounted for 5.1% and Malaysian ringgit contracts accounted for 4.5% of volume.

In contrast to interest rate and credit default swaps, there is no mandatory clearing requirement in effect in the FX market. In fact, the European Securities and Markets Authority on Feb. 4 announced that it would not move forward with a proposal to mandate clearing for non-deliverable currency forwards. Despite this, the amount of NDFs cleared at LCH.Clearnet increased each quarter of 2014, which may signal that clearing in this sector is likely to continue to expand.

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