

[Brexit impact on trading location; Global OTC IRS markets; OSSTRA Q1 2022 review by Kirston Winters](#)

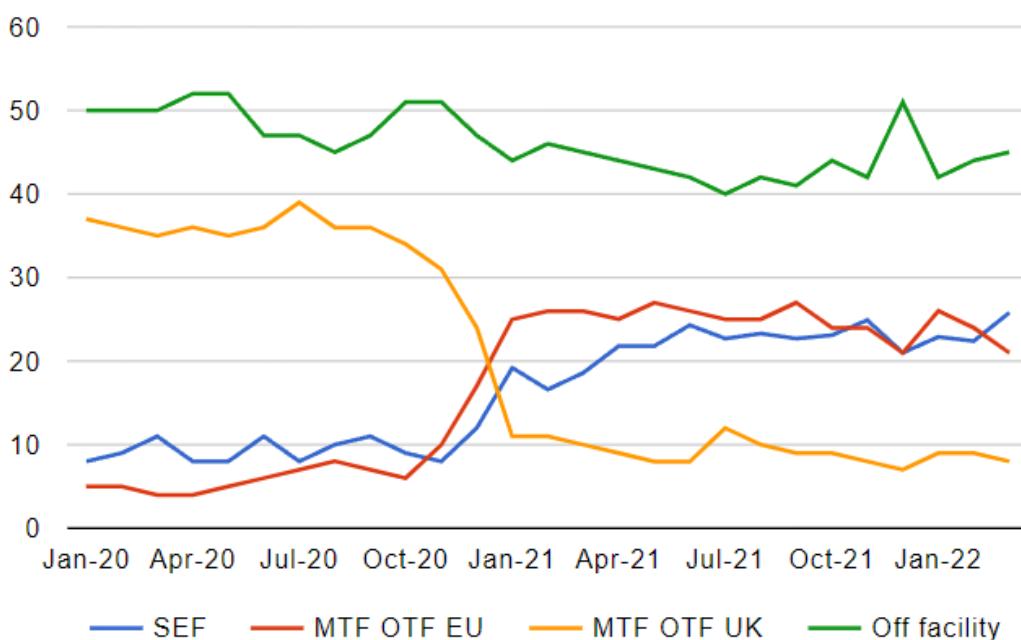
OSTTRA has assessed the data processed by our MarkitWire platform to evaluate the post-Brexit landscape on single currency interest rate swaps (IRS)^[ii] trading for the three currencies subject to the derivatives trading obligation (DTO) in the EU and the UK and the CFTC's Made Available to Trade (MAT) requirements in the US (available). We analysed the trading venue geographical market share for EUR, GBP, and USD swaps. Our last review was of [Q2 2021](#), we didn't publish the Q3 and Q4 2021 reviews as there hadn't been any significant change, until now...

How did Q1 2022 compare?

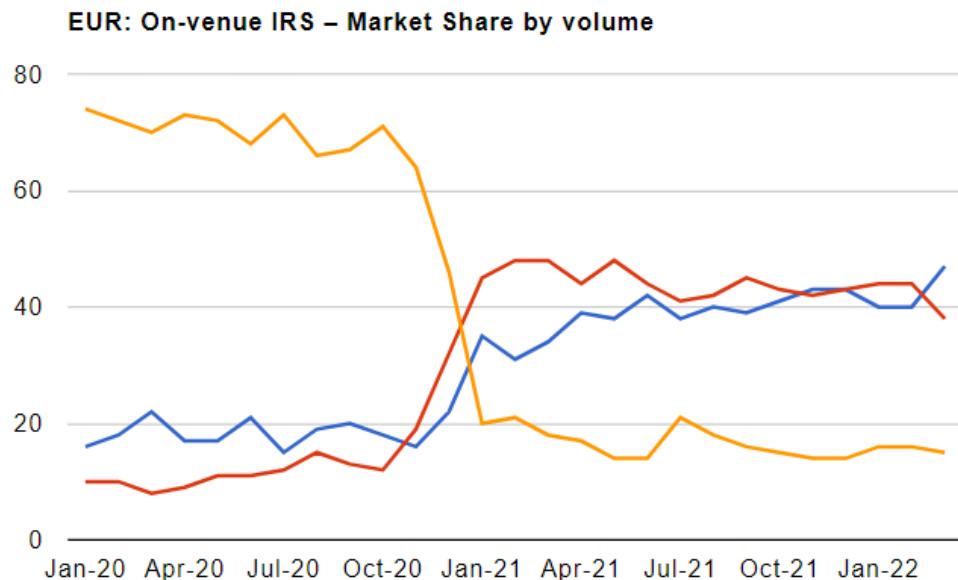
EUR Swaps

After the dramatic moves in late 2020 and early 2021 which saw movement from the UK venues to the US SEFs^[iii] the market shares had stabilised. However, with the spike in volumes in March 2022 the SEFs' market share is now higher than that of EU venues for EUR swaps. SEFs had a market share of 26% in March 2022, their highest recorded share and the EU venues had 21%, their lowest share since December 2020. UK venues have remained largely flat at their post Brexit norm of just under 10%.

EUR: All IRS - Market Share by volume



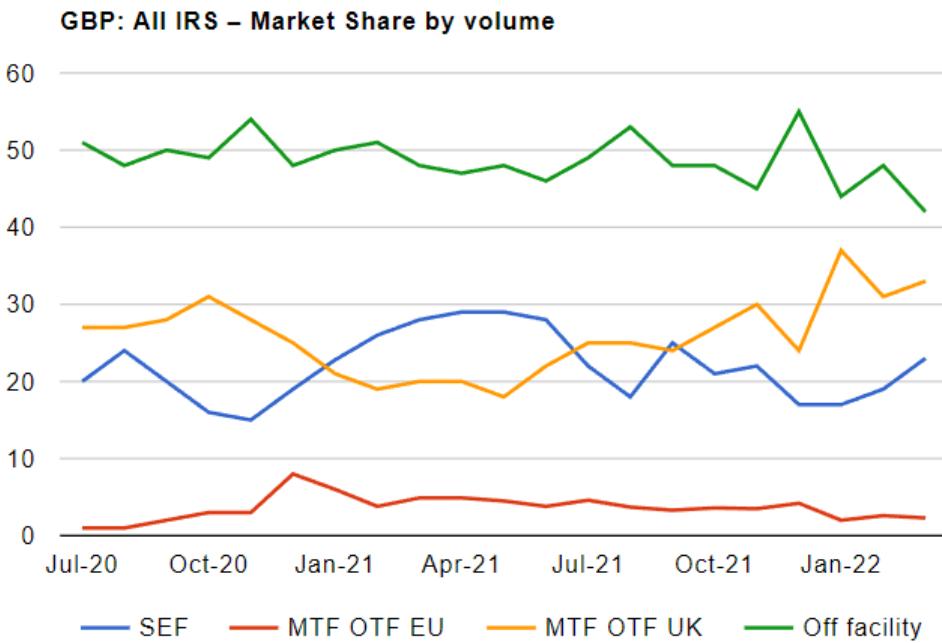
When you look at on venue volume only SEFs had 47%, in March 2022, again a record high, while EU venues had 38%, again a post Brexit low, and UK venues remained largely flat at their post Brexit norm of approximately 15% of on venue volume



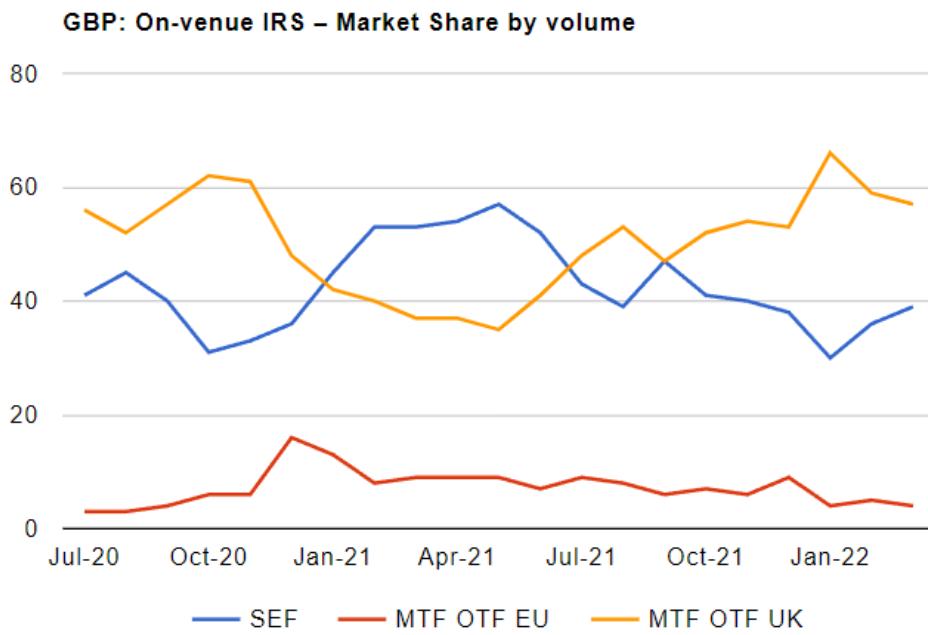
GBP Swaps

After the significant moves in late 2020 and early 2021 with SEFs overtaking UK MTFs/OTFs to become the biggest on-venue market for GBP swaps. The last few months have seen UK venues return to top spot, and actually slightly above their pre-Brexit norms. US SEFs have fallen back a little and are now at or slightly higher than their pre-Brexit norms.

UK venues had a third of GBP swap volume in March 2022, their highest recorded share. The SEFs had 23%, their highest share since September 2021 but well below the levels seen in the first half of 2021, in the aftermath of Brexit. EU venues had just 2% share in March 2022, half of their 2021 average, they are now back at September 2020 levels,



When you look at on venue volume only, UK venues had 57%, in March 2022, while SEFs had 39%, and EU venues had 4% of on venue volume, a post Brexit low.

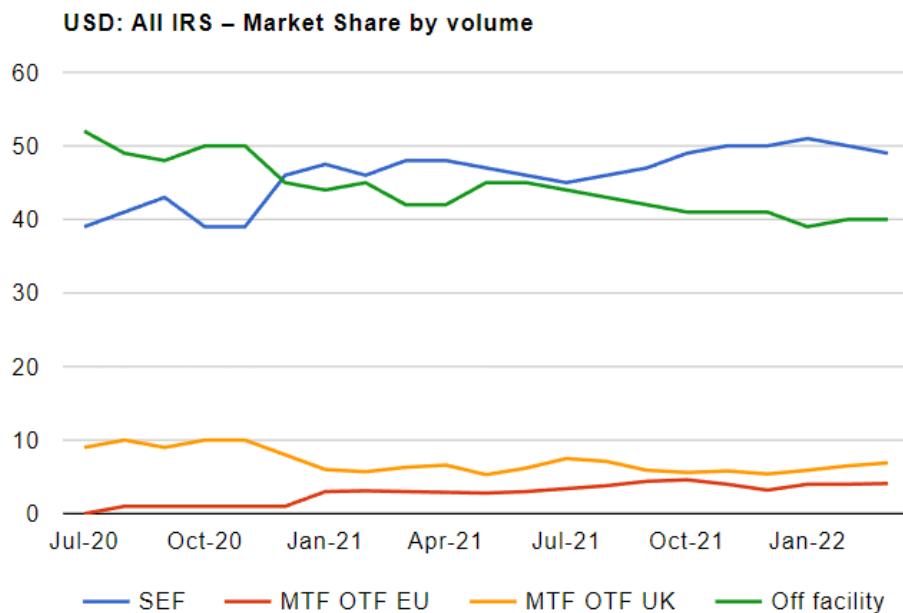


USD Swaps

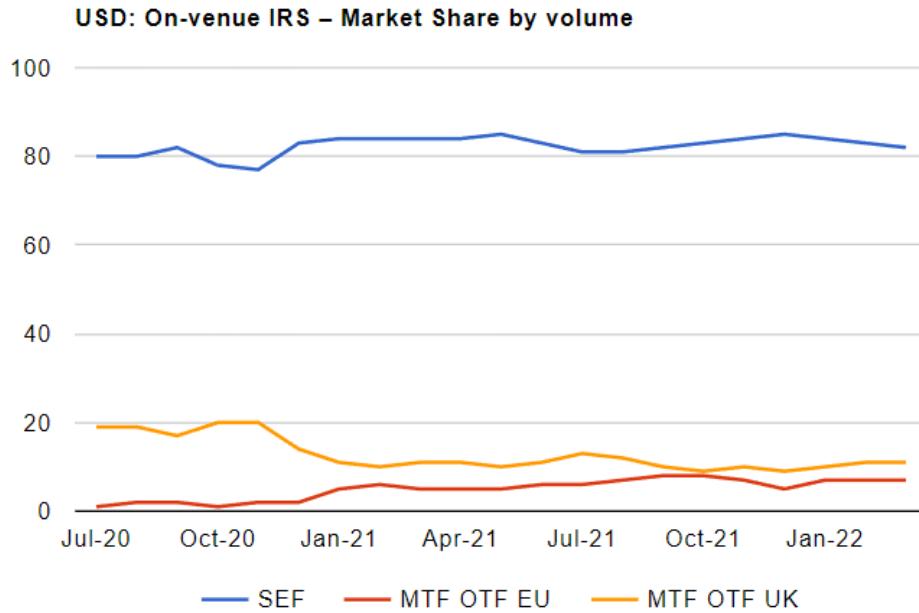
After the small but significant moves in late 2020 and early 2021 with UK MTFs/OTFs market share falling from 10% to 5%, EU MTFs/OTFs share trebling from 1% to 3% in Jan 2021 and

SEFs moving from 40% to 47% the USD swaps market has been remarkably consistent ever since.

However, in the last 6 months the SEF's share has averaged 50% up from a 47% average in the prior 6months which has been driven by trades moving on venue as the UK and EU venue shares have remained stable at 6% and 4% respectively.



When you look at on venue volume only, SEFs had 82%, in March 2022, while UK venues had 11%, and EU venues had 7% of on venue volume.

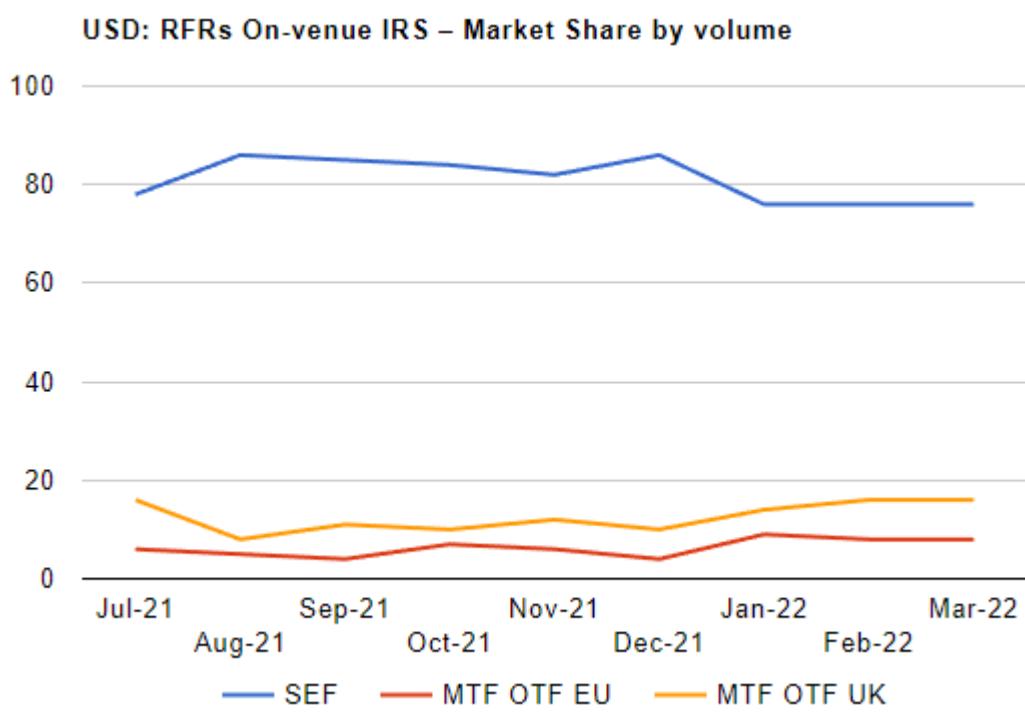
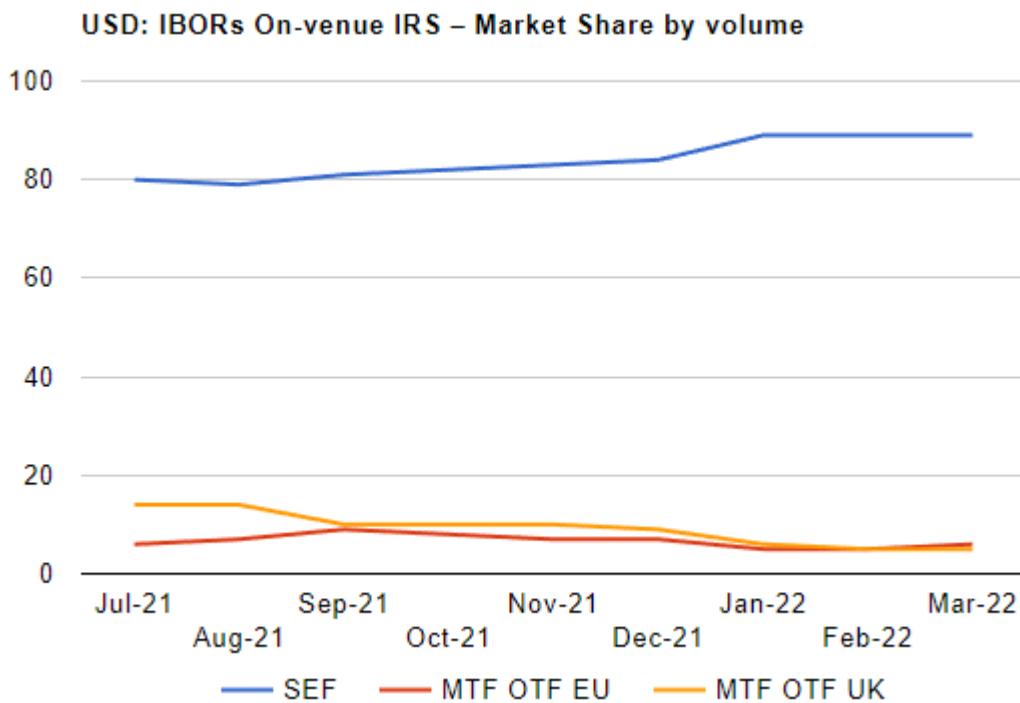


A random thought?

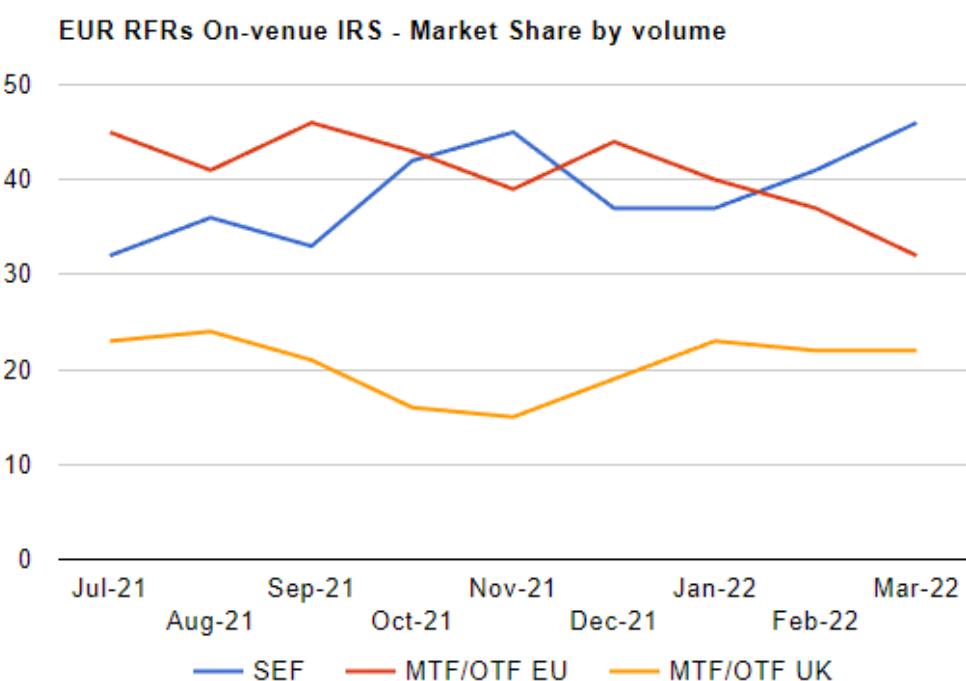
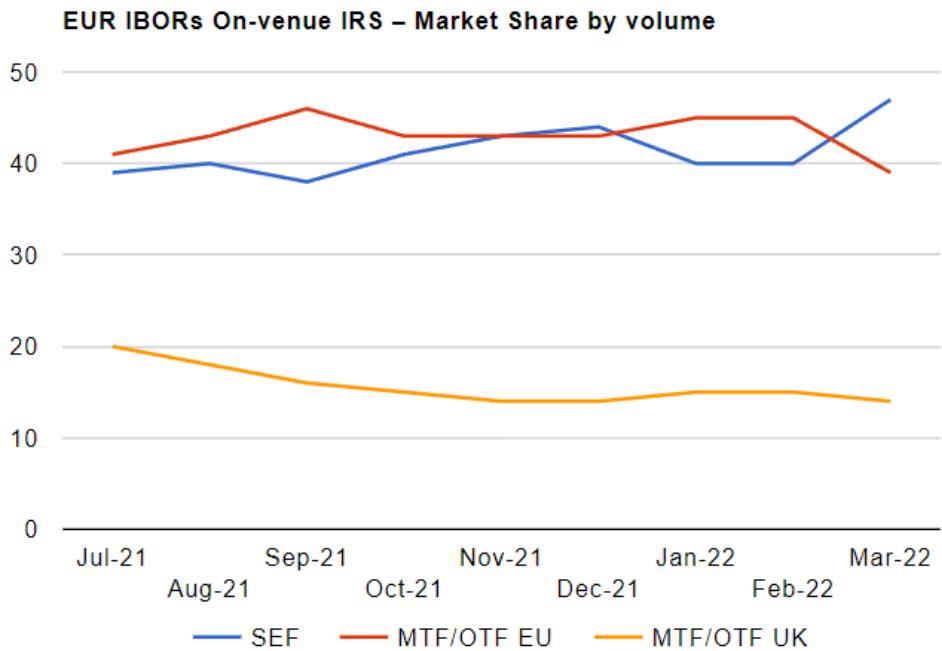
We have previously drilled down to look at; dealer-to-dealer swaps versus dealer to client swaps, DTO/MAT swaps versus non-DTO MAT swaps, and cleared swaps versus uncleared swaps to see if there are specific market segments driving the moves in the broader market in a more pronounced way. Well, recently I was approached by a European regulator focused on the benchmark transition asking when we would be publishing our next update on IBOR versus RFR volumes, (it will be published tomorrow!), and asked whether there is any difference in the trading location dataⁱⁱⁱ between existing IBORs and the new RFRs. Well...

Firstly, GBP has already transitioned with all new risk being traded in SONIA rather than LIBOR, so the “all swaps” data published above is all SONIA, so I focused in on the USD and EUR markets.

For USD on venue swaps we saw a slightly lower market share for SEFs in RFRs at 76% in March 2022 versus IBORs at 89%. With UK venues at 16% for RFRs versus 5% for IBORs. With EU venues at 8% for RFRs versus 6% for IBORs. So, it seems that for SOFR there is slightly more volume on UK and EU venues, which would make sense as there isn’t the same DTO equivalence problem driving UK-EU cross border transactions to a SEF.



For EUR on venue swaps we saw SEFs had an almost identical market share in RFRs and IBORs in March 2022. Whereas EU venues had a slightly lower share in RFRs, 32% in RFRs versus 39% in IBORs, while UK venues had the reverse 22% versus 14%. However, in December 2021, EU venues were higher in RFRs, 44% in RFRs versus 43% in IBORs.



So, while it was an interesting thought there is not a huge difference in the trading location of the new RFRs versus the old IBORs. So that doesn't appear to be driving the broader trends.

Summary

- EUR Swaps: SEFs overtake EU venues to become the primary trading location for EUR swaps with 26% of all EUR swaps and 47% of on-venue EUR swaps now executed on a SEF.
- GBP Swaps: UK venues re-take SEFs to become the primary trading location for GBP swaps, with a larger share than pre-Brexit, with a third of all GBP swaps and 57% of on-venue GBP swaps now executed on a UK venue.
- USD Swaps: SEFs now account for 50% of all USD swaps with UK and EU venues accounting for 6% and 4% respectively. SEFs consistently account for over 80% of on-venue USD swaps.

Final thoughts

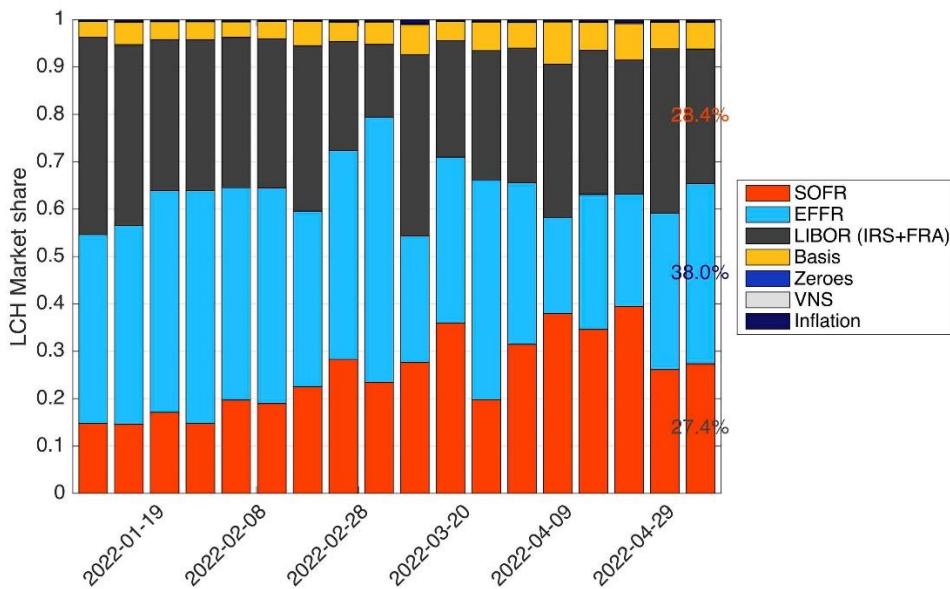
As I have previously said, market share is one aspect of this post-Brexit OTC derivatives trading location story, market access is the other. Some EU and UK banks and EU and UK clients have reduced market access for transactions that are subject to an EU/UK DTO. Clients in the UK are unable to trade on EU venues and clients in the EU are unable to trade on UK venues for DTO products, meaning that clients must either stay in their home market or utilise a SEF to gain broader liquidity. The swap markets used to be truly global.

⁽ⁱ⁾ The calculations are generally, except as otherwise stated based on (i) all new single currency interest rate swaps; Including IRS & OIS (fixed versus floating), fixed versus fixed swaps and basis swaps (floating vs floating) referencing all floating rate options (indices), supported by our MarkitWire platform.

⁽ⁱⁱ⁾ There is a very small quantity of US MTF/OTF trades, these are immaterial and have been ignored for this analysis. There is at least one UK based SEF, to protect client confidentiality the UK SEF trades have been classified as SEF rather than being classified separately. Therefore, SEF throughout the analysis means all SEFs including the US SEFs plus a(ny) UK SEF(s).

⁽ⁱⁱⁱ⁾ These calculations, due to the nature of separating RFRs and IBORs, were based on (i) all new single currency fixed versus floating interest rate swaps only, including IRS & OIS, supported by our MarkitWire platform. Fed-Funds OIS and EONIA OIS are treated as RFRs, alongside EuroSTR and SOFR, all other floating rate options are treated as IBORs except credit sensitive rates such as BSBY which were ignore for this analysis.

SOFR still third and other RFR's volume decreasing; For the second week in a row, SOFR is coming third in the benchmark race at LCH. Its share is down to 27.4%.



- **Figure 1: Weekly share by product types at LCH**
- On an absolute basis, the SOFR figures are not great either. The weekly traded notional was around 2.3 trn, which is a level similar to January. The volume has peaked at 3.2 trn at the beginning of April. The SOFR volume decrease is also visible in the ISDA/US regulatory figures.

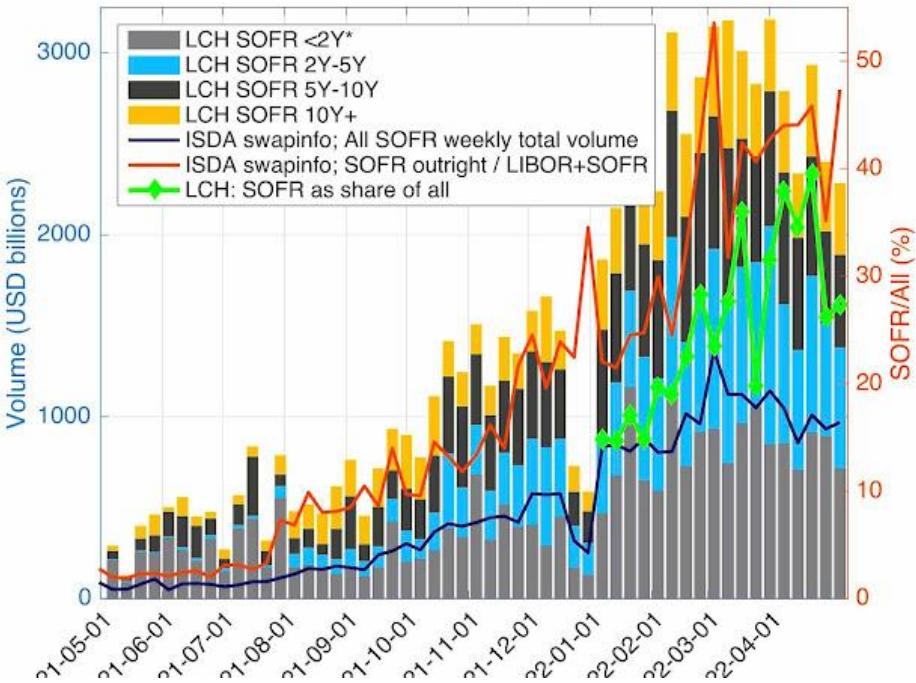


Figure 2: Weekly SOFR volume at LCH and as reported by ISDA (US regulatory figures based).

- If we look at the currencies for which LIBOR has been discontinued (GBP, JPY and CHF), we see a common behavior for the outstanding amounts at LCH: they are all decreasing since the start of the year (hyphenated lines). We don't have a direct explanation. It can be a combination of: better use of compression for overnight, market participants less comfortable with OIS than with IRS, transfer to other CCPs (JSCC for JPY, EUREX for CHF), or something else. But certainly it is worth keeping an eye on it as it seems common to the three currencies.



- Figure 3: End of week outstanding notionals at LCH for GBP (SONIA), JPY (TONA) and CHF (SARON).

[ISDA-Clarus RFR Adoption Indicator: April 2022](#); The ISDA-Clarus RFR Adoption Indicator increased to an all-time high of 43.8% in April 2022 compared to 40.5% the prior month.

- The indicator tracks how much global trading activity (as measured by DV01) is conducted in cleared over-the-counter and exchange-traded interest rate derivatives (IRD) that reference the identified risk-free rates (RFRs) in six major currencies.
- On a traded notional basis, the percentage of RFR-linked IRD comprised 35.9% of total IRD in April compared to 31.9% the prior month.
- Key highlights for April 2022 include:
 - RFR-linked IRD DV01 decreased to \$13.2 billion from \$18.2 billion the prior month.
 - Total IRD DV01 transacted declined to \$30.2 billion from \$45.0 billion the prior month.

- RFR-linked IRD traded notional decreased to \$57.9 trillion from \$78.2 trillion the prior month.
- Total IRD traded notional transacted decreased to \$161.0 trillion compared to \$245.0 trillion the prior month.
- The percentage of trading activity in SOFR reached 47.0% of total USD IRD DV01 transacted in April compared to 41.1% the prior month.
- GBP saw the largest percentage of RFR-linked IRD trading activity, totaling 99.8% of total GBP IRD DV01.
- JPY had the highest percentage of RFR-linked IRD DV01 executed as transactions with tenors longer than two years.

ISDA-Clarus RFR Adoption Indicator

April 2022

ISDA-Clarus RFR Adoption Indicator tracks how much global trading activity (as measured by DV01) is conducted in cleared over-the-counter (OTC) and exchange-traded interest rate derivatives (IRD) that reference the identified risk-free rates (RFRs) in six major currencies.

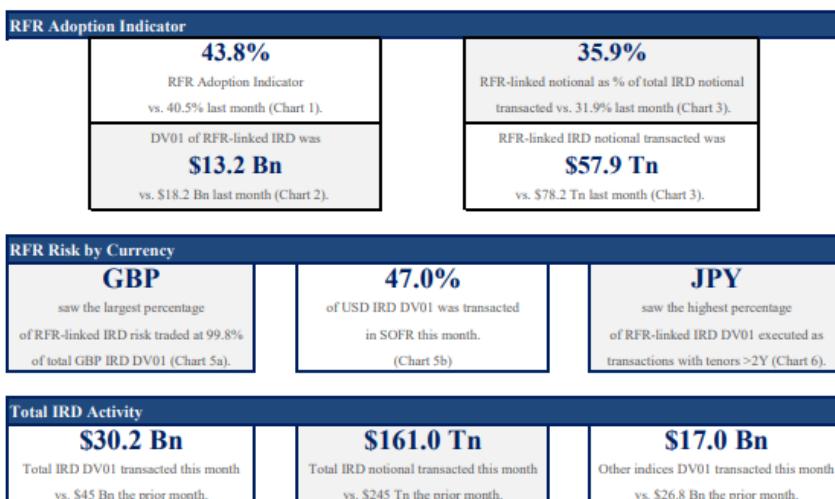
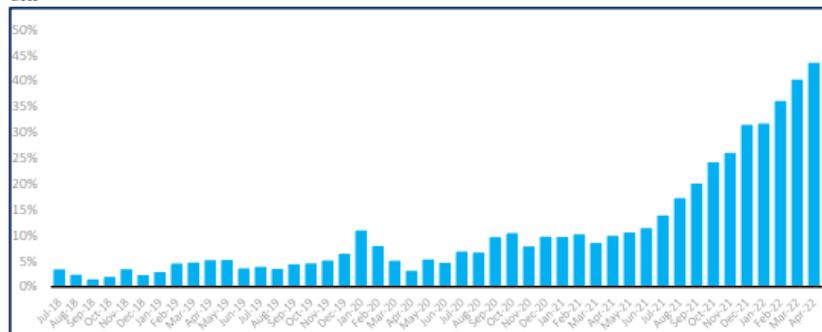


Chart 1: RFR Adoption Indicator: % of DV01 Transacted as RFR-linked IRD Products in USD, EUR, GBP, JPY, AUD, CHF



Calculation: The sum of all DV01s for RFR-linked IRD products, including OTC and exchange-traded derivatives (ETD) for all six currencies, divided by the sum of DV01s for all indices (both RFR and other indices) across all IRD products.



- The April monthly report is available [here](#). To access interactive charts and export the data, [click here](#).