

Eris Liquidity – Over \$1bn across the curve

OTC Swap Traders, The Time for Swap Futures is Now

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George Harrington, CFA



The OTC derivatives market has undergone major changes in the aftermath of the financial crisis.

In 2008, the market went through a contraction as both buy-side and sell-side firms exited positions, and in some cases exited the market altogether. The Dodd-Frank Act laid the groundwork for central reporting of OTC swap positions, mandatory clearing and competitive SEF-based execution, but it didn't happen quickly. The market has now recovered to a steady state where liquidity is consistently available and clearing is mandated in most products, albeit at a higher cost. OTC players are now ready to embrace innovation in the swaps market.

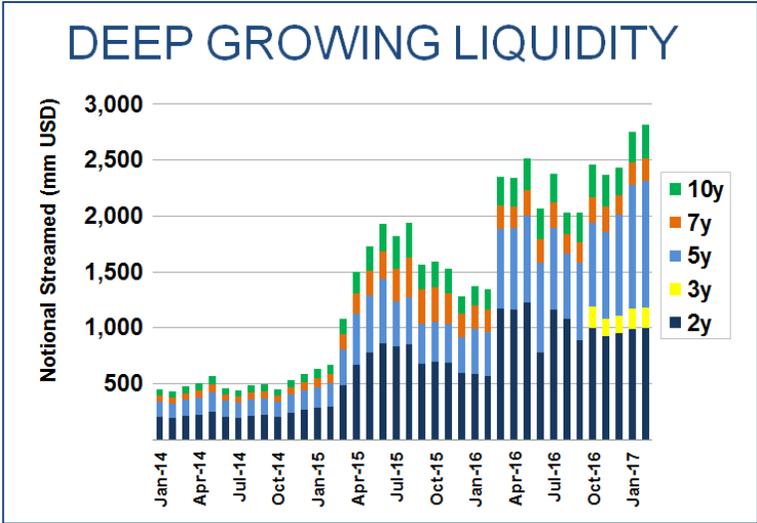
BREAKING THE INERTIA

Market accessibility for cleared OTC swaps is becoming more challenging as the FCM community shrinks. Some traditional dealers and market makers are shuttering or scaling back operations due to dramatic cost increases, minimum profit hurdles, new regulatory burdens and balance sheet constraints. At the same time, new participants like Citadel are opportunistically filling the voids created by banks, while all-to-all trading is evolving to allow traditional price takers to become price makers.

It's clear that the market is transforming and behaviors are changing. While OTC swap markets have been adapting to regulatory requirements in order to preserve the business model, Eris Exchange has quietly been forging an ironclad alternative. Open interest has grown steadily, innovative products have been added, and the product footprint has expanded globally. Eris is now well positioned with liquidity, efficiency, transparency and open access, and it is beginning to break the swap market inertia.

MARKET DEPTH AND RESILIENCE

As the buy-side contemplates plain vanilla swap market alternatives, traders must consider that 2-, 3-, 5-, 7- and 10-year Eris Standards have deep resting liquidity available throughout the trading day. The graph below shows that Eris has been steadily building order book liquidity over the last three years.



Eris contracts look and trade exactly like a Market Agreed Coupon (MAC) cleared OTC swap. Moreover, the liquidity is exceptionally resilient. In Q4 2016, client trades in excess of \$500mm notional were executed with no price degradation relative to streaming market prices and Eris markets saw immediate replacement of liquidity by the active dealers. In addition, clearing and margining terms for Eris represent TCA improvements compared to OTC. Clients can choose to transact electronically or by voice above the minimum block thresholds

(\$10mm notional) with their preferred bilateral counterparty relationships.

Eris Exchange was created based on the premise that users can achieve the same economic outcomes and characteristics offered by plain vanilla interest rate swaps through the use of a futures contract that accounts for all expected cash flows. Eris has gone from a concept to a product design, and now offers live tradable two-way streaming liquidity at popular points on the curve with over \$1 billion notional per side throughout the trading day.



TRADING EVOLUTION

When considering the market evolution, regulations have been a key factor pushing derivatives down the path of standardization and electronic. However, OTC swap trading still trails market development in equities, FX, and cash fixed income. As we move through 2017, the rate of change for all financial markets will continue to accelerate. US Treasury trading has migrated to a predominantly electronic marketplace. Client to dealer trading and interdealer trading in Treasuries remains largely separated, though the lines are beginning to blur.

New order book Treasury trading platforms are gaining traction. Credit trading is also evolving with all-to-all trading innovations like the MarketAxess Open Trading platform and Castle Oak's DirectPool powered by Bloomberg. Despite all of the work that went into mandated SEF order books, trading has been relatively light in credit and non-existent in rates. That is not that case with Eris markets, where there is over \$1bn of liquidity per side streamed across the curve throughout the day. Eris offers fully

anonymous trading with no last look, and features cost reduction benefits and increased operational efficiency. This all constitutes the trademark of a superior market structure.

SIGNIFICANT TOTAL SAVINGS - \$70 per million vs. OTC swaps

The base argument hasn't changed for swap futures: cost savings. For example, consider a \$500mm 5-year Eris Standard trade versus the same cleared OTC swap at LCH, rolled every 6 months. The Eris position offers savings of up to \$70,000 per year due to reduced collateral alone. When you include FCM ticket charges and commissions, potential beneficial tax treatment for futures and lower transaction costs, there are additional savings to be achieved. In the current environment of constrained bank balance sheets, the cost savings are material enough to be the deciding factor of the viability of OTC swap franchises.

THE TIME IS NOW

Considering the continuous rise in open interest and outside investments from firms like CBOE, State Street, Morgan Stanley, Societe Generale and Fidelity, Eris has proven to be well positioned for the long haul. New liquidity streamed by additional dealers to Eris will further enhance its already deep markets. Distribution through Bloomberg EMSX, TT, CQG and TradingScreen allow all significant market participants to get involved with just a few keys strokes and a call to their clearing firm. Eris has created the optimal product and attracted ample liquidity to handle most client needs – now is the time to start trading Eris Swap Futures.

Contact us to learn more:

 888-587-2699, select 2

 sales@erisfutures.com

ABOUT THE AUTHOR

George Harrington recently joined Eris to lead the completion of on-boarding critical support providers for clearing, order management and execution. In doing so, Mr. Harrington will be instrumental in rounding out Eris' client offering and making Eris Swap Futures easily available to the world's largest OTC swap users. Mr. Harrington was formerly head of Bloomberg Global Markets. In that position, he was responsible for the overall strategy and delivery of FIT, FXGO and EMSX. Mr. Harrington also oversaw Bloomberg's SEF, MTF, and Japanese ETP regulated trading platforms. Contact George at: George.Harrington@erisfutures.com