

Some SEF Trading Certainty – Finally!

December 9, 2013

Who would have guessed that Black Friday would have turned out to be a big day for SEF trading. Both [Javelin](#) and [Tradeweb](#) resubmit their MAT filings, both scaling back the number of products made available for trading. This is a big deal for a few reasons.

First of all, comment letters apparently work. As I'm writing this there are [12 comment letters](#) on the [CFTC's website](#) that discuss the Javelin MAT filings. Nothing compared to the hundreds submit for Volker, but its about quality not quantity. The key theme amongst the dozen letters is that [a phase in approach is best](#) – roughly translated as we do not want the full rate curve mandated on day 1. There is also a good amount of talk about removing the requirement for bundled transactions (to prevent multi-legged trades from having one leg on a SEF and one leg over the phone). And there was, not surprisingly, one particularly bold letter requesting the CFTC rather than the SEFs make mandatory trading determinations (similar to how mandatory clearing is determined).

The above comment letters were followed by a number of [key buy side visits to the Commission](#). Given the original intent of Dodd-Frank was to protect the end investor, its not surprising that the MAT resubmissions largely address the needs expressed by the asset management community. The banks are often viewed as having all of the control, but if that's the case, we've just seen the tail wag the dog.

But the main reason these resubmissions are a big deal – we finally have some clarity as to how SEF trading mandates will come online. Yes there are still differences in the current submissions (currencies, floating rate indices, etc.), but everyone now agrees via their applications that only the most liquid points on the rate curve should be mandated for SEF trading on Day 1. So even though the CFTC has not officially spoken on the topic, market participants can be reasonable certain about what is coming and start to prepare – prepare operationally but also prepare by starting to voluntary trade on SEF.

I know there are still a lot of ifs, ands and buts. Some will still trade offshore despite the “elevator rule”. Some will begin trading 9 year swaps. But rest assured, this change is coming. Its not going away. Time to get on board.

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