REPRINTED FROM

Risk.net

Risk.net April 2016

SDR battle between CME and DTCC heralds huge cost savings

Firms reporting more than 50,000 open swap positions could save $1 million a year at CME

A new initiative from CME Group to challenge the Depository Trust Clearing Corporation's (DTCC's) virtual monopoly in global swap reporting could deliver massive cost savings for high-volume users.

A bank maintaining at least 50,000 reported open positions in interest rate swaps each month would save more than $1 million a year under CME's fee schedule for trade reporting, which includes an annual cap of $250,000 per asset class, analysis conducted by Risk.net reveals.

"We charge fees per transaction as they are reported. Clients are charged a fee at the point of initial submission and there are no other fees for the life of that reported transaction, whether it remains an open position for just a week or for 10 years," says Jonathan Thursby, head of global repository services at CME Group in Chicago. "That is a real contrast, along with annual fee caps, versus several of the other repositories' fee structures."

The DTCC charges a tiered maintenance fee for each open over-the-counter derivatives position reported to its US data repository, starting at $3.50 per month for the first 100 trades and scaling down to $0.10 a month once the number of open positions exceeds 500,000.

Under this model, a bank reporting 50,000 interest rate swap trades to the DTCC would be on the hook for $1.25 million if the positions remain open for 12 months – well in excess of CME's annual fee cap of $250,000.

CME levies a monthly fee of $200 for the first 25 OTC derivatives reported to its US swap data repository (SDR) and a one-off $5 transaction charge on all trades above this threshold up to the $250,000 cap. A firm would hit this cap once it reports 49,545 trades to CME's SDR.

Firms reporting fewer trades could also realise significant savings. For instance, it would cost $36,600 to report 1,001 interest rate swap trades to the DTCC, assuming they remained open for 12 months, compared to $5,080 at CME."

The DTCC has been able to dictate the pricing of reporting services partly because it has a near monopoly in global trade reporting. Its platform allows users of its subsidiary data repositories in Asia, Europe, North America and Australia to access its international reporting platform through a single, local portal. By contrast, registering trades at CME's repositories was a fragmented process, requiring trade counterparties to connect to its local SDRs in Europe and the US.

CME recently entered into a partnership with New York-based post-trade service provider truePTS to create a single conduit through which market participants can access its global network of trade repositories. This will allow them to report trades to CME repositories across North America, Europe, Asia and Australia through one connection to the truePTS application process interface (API), enabling CME to rival the DTCC's global reporting service.

"When we looked at the global reporting landscape, we found a sector not only characterised by ever-increasing cost pressures, but also one where market participants were faced with a stark lack of choices and competition in both processing and regulatory reporting," says Sunil Hirani, chief executive of truePTS in New York.

"This link-up with CME means that multinational clients will now be able to meet their global regulatory reporting obligations through CME's international network of trade repositories using the truePTS API," he adds.

The DTCC declined to comment for this story.

Trade reporting has proved a lucrative business for the DTCC in recent years, with revenues from repository services leaping from $123.5 million in 2013 to $208.8 million in 2014.

Full-year results for 2015 have yet to be published, but it appears to have been even more profitable for the not-for-profit utility, with revenues of $191 million through September 30, compared with $147 million for the corresponding period of 2014.

Chequered history

CME has a somewhat chequered history in swap data reporting. In late 2012, the group introduced Rule 1001, requiring trades cleared at CME's clearing house to be reported to its own SDR, rather than the data repository of the trade counterparty's choice.

This rule change required approval from the Commodity Futures Trading Commission (CFTC), but the DTCC threatened to sue the regulator if it gave its blessing, claiming the shift constituted an anti-competitive bundling of services that was contrary to the aims of the Dodd-Frank Act.

A month earlier, the CME itself sued the CFTC over delays in approving its application to establish an SDR.

The CFTC ultimately approved CME Rule 1001 in March 2013. However, CME has been unable to dethrone the DTCC as the dominant SDR for interest rate swaps, with banks continuing to report the vast majority of trades cleared at LCH.Clearnet to it.

CME does not publish revenue data for its SDR business.

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