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Risk Awards 2015

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Sef of the year

MarketAxess®

Risk Awards 2015

A final flurry

Big portfolio disposals, baffling market moves, hedge funds making hay while others lost a fortune, balletic risk management, the recovery of eurozone fallen angels – for a year that was relatively quiet during its first nine months, 2014 eventually managed to generate a fair amount of drama.

Arguably the biggest story for risk managers, traders and investors was the huge intraday swing in US Treasuries on October 15, and the forces that provoked it. Press reports initially blamed it on electronic trading and thin dealer inventories, but *Risk* later pieced together a more complex tale of hedge fund crowding (*Risk* December 2014, *www.risk.net/2384515*).

At the time, confusion reined, but it was a defining moment for a number of this year's *Risk* award winners.

At Deutsche Bank, October 15 kicked off with an all-hands-on-deck meeting of senior traders and risk managers after a bank-wide value-at-risk limit was hit. A decision to slash exposure was taken quickly. The plan was communicated to Deutsche's board and the next day-and-a-half saw the bank shed roughly a third of its risk, as measured by VAR.

"In my 18 years at the bank, I have never seen such a single-minded approach to take risk down so dramatically when called to do so," says Stuart Lewis, the bank's chief risk officer.

Elsewhere, the burst of volatility and risk aversion became an opportunity. Napier Park Global Capital had been cautious for a while, viewing credit default swap (CDS) spreads as too narrow. The credit fund ventured into equity markets to execute a well-timed macro hedge in late August, and was positioned perfectly for the panic that would later hit CDS markets as spreads widened – October 14 was "one of our biggest buying days," says James O'Brien, the fund's chief executive.

In the old days, Napier Park would have had a lot more company, but O'Brien notes the field is now a lot thinner: "The banks can no longer arbitrage the mis-pricings during these sell-offs, and that's where we can take advantage." That highlights one of the themes of this year's awards – the retreat of dealers, and the corresponding advance of the buy side – with a number of the write-ups documenting the blurring, shifting boundary between the two.

But while banks certainly are retreating, that story can be overdone. In reality, dealers are part-way through deciding what they want to do, and focusing on it – take Citi's purchase of a $250 billion hedged portfolio of single-name CDSs from a European bank. Citi declined to reveal the seller, but enquiries by *Risk* journalists revealed it was Deutsche Bank.

While Deutsche wanted out of the non-cleared CDS market, Citi wanted in – sort of. The US bank acquired $450 billion of credit assets from various peers last year, but only because it believes it can use expertise gained while winding up its bad bank to recycle, compress or sell the assets at a gain. In the case of the Deutsche Bank portfolio, it has given itself six months to do so, and claims to be on track.

Societe Generale (SG) was also on the front foot, picking up four CDS portfolios worth €140 billion in notional from two European peers, taking on an inflation portfolio – not one of its traditional strengths – executing a big, creative longevity trade, and beginning the process of integrating Newedge into the bank. "SG has been consistent in doing what we are best at doing," says Didier Valet, head of SG Corporate & Investment Banking. The bank wins this year's derivatives house of the year award, and also gets the nod for equity derivatives and risk solutions.

It was not easy to pick winners. Where decisions were tight, client feedback often helped settle the issue. The *Risk* editorial team thanks all this year's participants for their time and help.

Banks were asked to submit information on their business in each of the asset class and product categories during 2014, and shortlisted companies underwent face-to-face and telephone interviews. *Risk* then gathered feedback from clients and other market participants.

The final decisions were made by *Risk*'s editors and journalists, weighing a number of factors, including risk management, creativity and innovation, liquidity provision, quality of service and engagement with regulatory issues. **R**

The roll of honour

Derivatives house of the year
Societe Generale

Lifetime achievement award
Andrew Feldstein

Interest rate derivatives house of the year
Deutsche Bank

Currency derivatives house of the year
BNP Paribas

Equity derivatives house of the year
Societe Generale

Credit derivatives house of the year
Citi

Inflation derivatives house of the year
HSBC

Structured products house of the year
Bank of America Merrill Lynch

Risk solutions house of the year
Societe Generale

OTC client clearer of the year
Citi

Deal of the year
Blackstone/Morgan Stanley

Quant of the year
Mats Kjaer/Christoph Burgard

Bank risk manager of the year
Deutsche Bank

Credit portfolio manager of the year
Credit Agricole

Clearing house of the year
LCH.Clearnet

Exchange of the year
Eurex

OTC infrastructure service of the year
TriOptima

Sovereign risk manager of the year
IGCP

Asset manager of the year
DoubleLine Capital

Hedge fund of the year
Napier Park Global Capital

Pension fund risk manager of the year
PKA

Corporate risk manager of the year
Electricity Supply Board of Ireland

Sef of the year
MarketAxess

OTC trading platform of the year
UBS Neo

Single-dealer platform of the year
Deutsche Bank

Law firm of the year
Linklaters

In-house system of the year
Danske Bank

Trading technology product of the year (bank)
Morgan Stanley

Trading technology product of the year (vendor)
Algomi

Risk management technology product of the year
IBM Risk Analytics

Back-office technology product of the year
KPMG

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Sef of the year

MarketAxess

On September 29, a US-based buy-side firm was looking for bids on a $100 million notional index credit default swap (CDS) – series 22 of Markit's CDX investment-grade index, to be precise. It requested quotes for the trade on a swap execution facility (Sef), and the nine responses were separated by a third of a basis point. The buy-sider selected the best price and executed.

That might sound like an everyday tale from the revamped US swap markets – index CDSs have been required to trade on Sef since the end of February last year, and request-for-quote (RFQ) remains far more popular among derivatives end-users than the exchange-style central limit order books (Clobs) each of the platforms is also required to offer.

In fact, this trade was special. The Sef in question was MarketAxess, and the RFQ was sent anonymously to all 155 users of the Sef platform – two of those responding were themselves buy-side firms, and the prices they offered beat all seven of the responding dealers. The bank quotes ranged from 66.2073 basis points for the worst price, up to 66.45bp for the best; the winning bid was 66.515bp.

This is roughly what the future was supposed to look like, with participants of all stripes able to make or take prices indiscriminately, and in tense competition that was settled on price alone. In practice, the first year of Sef trading has seen fairly superficial change – clients are mostly using incumbent platforms to request a small number of quotes from the same dealers they have always used, and the dealers are continuing to lay off risk among themselves.

If you believe the dealers, this is because clients like things the way they are. Some clients tell a different story, though – of obstacles that are preventing competition and protecting the status quo. An example is post-trade name give-up, a practice used on Sefs run by interdealer brokers, which reveals the identity of counterparties to each other after they have agreed a trade on a Clob (*Risk* November 2014, *www.risk.net/2377762* and *Risk* December 2014, *www.risk.net/2382497*).

However the hold-up is explained, direct client-to-client trading finally got off the ground at a handful of Sefs in the second half of 2014. Of those, MarketAxess has been the most committed to the vision and the most inventive.

"There are multiple Sefs out there, but while we have used others we really like MarketAxess," says one Connecticut-based asset manager. "It was the first to come up with a limit order system for CDS trading – meaning we could post a standing bid or offer command to fill an order automatically if the price reached a certain point – and they built it more than a year ago, before anyone else in credit. They are also, as far as I know, the only Sef with an anonymous RFQ function. It means we can now trade with other end-users without a dealer between us. That is something we are certainly taking advantage of."

"We have positioned ourselves to develop a full menu of trading protocols and we want to create more counterparty choices for buy-side and sell-side firms"
Grigorios Reppas, MarketAxess

Anonymity is one of the defining features of the MarketAxess Sef, as the platform offers both a fully anonymous Clob – pre- and post-trade – and an RFQ function in which a firm's identity can be disclosed, anonymous or a mixture of the two. A third mode of trading – disclosed click-to-trade – shows a market-maker's identity alongside its price, and also reveals the identity of an end-user if it decides to trade. The anonymous RFQ mode has proven particularly popular with clients that want to see what liquidity is on tap at non-bank counterparties.

In an RFQ trade on the platform, the client selects whether it is requesting a bid or offer, the clearing house that will handle the trade, the CDS index and series, the trade size and tenor. At this stage, the client then chooses whether to disclose its identity while selecting a minimum of three prospective bank counterparties, or alternatively, to broadcast the request to all participants on the Sef, dealer and buy-side entity alike. Everyone on the platform sees the message, although the identity of the party sending it is withheld.

"If I want to buy $100 million of protection, I don't mind disclosing my identity to a few dealers, but if I am sending that RFQ to the broader market, I don't want people to know I'm behind the trade. A client-to-client RFQ can only work if it is anonymous," says the asset manager. "There is some very limited client-to-client trading happening on the other two incumbent dealer-to-client Sefs, but not through RFQ. MarketAxess is by far the leader in coming up with these new features and developing this technology, because CDS trading is a huge part of what they do. MarketAxess is dedicated to this business, and you can feel that in the trading experience."

But while the platform is trying to provide a better service, and has a group of devoted buy-side fans – the arguments that make it this year's winner – it remains an also-ran in terms of volume.

In the week of December 18, Bloomberg Sef executed $210.9 billion in notional CDS volume, compared with a little over $22 billion at Tradeweb's Sef and just $4.99 billion at MarketAxess. The firm acknowledges the gulf, but insists its focus on credit products and its dedication to building a genuinely all-to-all market will ultimately pay dividends.

"We have positioned ourselves to develop a full menu of trading protocols and we want to create more counterparty choices for buy-side and sell-side firms. In early January, we are adding index options, which we think is a unique offering in the market, giving clients the ability to trade both contract types on the same platform. Then we are developing our single-name CDS business, which will be complementary to both our cash and index CDS business. Our long-term strategy is to have a complete credit trading platform, a one-stop-shop for credit trading, and with credit as our focus I think we have a much better offering than the competition," says Grigorios Reppas, CDS product manager at MarketAxess in New York.

The early months of the Sef regime have been promising for the anonymous RFQ business, which launched in July 2012. While 87.8% of all volume on the platform is executed via RFQ, 74.1% of it is disclosed, representing 45% of the overall trade count. Anonymous RFQ accounts for just 13.7% of trade volume, but significantly, it represents 33.3% of the trade count, indicating that a large number of smaller trades are executing through this format.

"Trying out alternative liquidity protocols is really how we have developed both our cash bond and CDS businesses on the platform. This is only the beginning. The vast majority in both cash and CDS is still being provided by dealers through RFQs, but we do see anonymous trading growing," says Reppas.

He says the example of the unnamed firm that received a winning buy-side bid for its $100 million CDX trade is not a one-off – non-bank prices provided via the anonymous RFQ function are often tighter than the best price provided by a bank. And banks that choose to participate are also typically providing their very best prices, Reppas says.

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New York-based hedge fund manager

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Connecticut-based asset manager

"Pressing the public inquiry button sends the RFQ out to all MarketAxess Sef participants on the platform anonymously. Any of our buy-side or sell-side clients can see the enquiry and are able to price and respond. Some dealers do not respond to an RFQ that comes in anonymously, but many will still price it, and those that do are pricing more aggressively than the live prices they stream into the disclosed, click-to-trade screen, because they know everyone on the platform is seeing this RFQ and is potentially in competition with them," he says.

The principle of end-to-end anonymity extends into the MarketAxess Clob. Contrary to practices at the broker-run Sefs – where counterparties meet anonymously and identities are disclosed in the trade confirmation – trades at MarketAxess remain anonymous, a trait it shares with fellow dealer-to-client incumbents, Bloomberg and Tradeweb.

There is not a lot of trading happening on the Clob, though – just 0.4% of the trade count at MarketAxess uses the book. With approximately 750 trades executed on the platform in October last year, that translates into just three trades on the Clob during the month. This may be due to reluctance on the part of many dealers to post resting prices in a market that is largely illiquid.

Despite anaemic trading levels, MarketAxess can again provide examples of anonymously matched clients bettering prices provided by dealers for the same contracts. In one case seen in March 2014, two buy-side firms traded $50 million of the CDX high-yield series 21 index in a five-year tenor at 107.685bp, when the best dealer offer at the time was wider at 107.727bp,

It helps that the best prices available on the platform at any point in time can be seen regardless of the trading protocol a user is within. To illustrate, a client that is thinking of placing an order in the Clob will be able to see the current best price on the click-to-trade screen; a user that is sent an RFQ will be shown the best resting bid or offer in the Clob.

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Photos: Alex Towle