SIFMA Asset Management Group, ISDA and MFA Joint Survey of Buy-Side Members on Request for Quotes (RFQs)

In an effort to provide further information to the Commodity Futures Trading Commission as it moves toward adoption of a final Swap Execution Facility (SEF) rule, the Asset Management Group of the Securities Industry and Financial Market Association (SIFMA AMG) and the International Swaps and Derivatives Association (ISDA) developed a buy-side member survey regarding the impact of a requirement to go out to five or more liquidity providers for a request-for-quote (RFQ) platform to qualify as a SEF. Members of the Managed Funds Association (MFA) were also invited to participate in the survey. The survey was sent only to buy-side members of these associations; no dealers participated. The vast majority of the 38 responses were received from asset managers that manage mutual funds, hedge funds and other institutional accounts (e.g., pensions, endowments, foundations), representing over $12.1 trillion of assets under management in the aggregate; other participants included insurance company managers, corporate and quasi-governmental entities representing an additional approximately $5.6 trillion in assets in the aggregate. A summary of the survey results is provided below.

1. We asked firms if they have accounts that direct swaps trading with certain counterparties that would lead to limitation of the number of counterparties transacted with.

    - 50% of responders have investment guideline restrictions that limit the number of counterparty accounts they can transact with.

    - Some respondents indicated that there were other reasons why their accounts can't transact with certain counterparties, including directed brokerage arrangements (16% of participants).

2. We asked firms to indicate the factors that currently cause their firm to limit the number of RFQ recipients, with the following being the most common reasons cited:

    - Size of the transaction (87% of participants);
    - Exposing their investment strategy to market participants, who could use this to the disadvantage of clients (84% of participants);
    - Liquidity (79% of participants);
    - Legal documentation with a limited number of counterparties (58% of participants).

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3. We asked firms how a requirement to submit RFQs to five liquidity providers would affect *their firm*.

    - Over 84% of respondents indicated that the RFQ rule would result in increased transactional costs.
    - Roughly 70% of respondents indicated that they would migrate to other markets.
    - 68% of participants would look to trade an instrument that is not required to be SEF-traded.

4. We asked firms how a requirement to submit RFQs to five liquidity providers would affect *swaps traded on SEFs*.

    - 87% of responding firms advised that their transactional costs would increase and 76% of participants anticipated other increased costs (e.g., new legal arrangements).
    - 82% identified that they anticipate spread widening.
    - 76% indicated it would have a negative affect on liquidity.
    - Over 50% of responding firms advised that this requirement would dampen the speed at which the swaps market will develop.