ISDA End-User Survey: Interest Rate Swaps

October 2010
Background & Methodology

• During July and August 2010, ISDA conducted a survey of over-the-counter (OTC) derivatives end-users, including non-financial corporations, asset managers and other financial institutions

• 295 respondents from North America and Europe who use OTC derivatives participated in the survey. Of these:
  – 80% or 234 used interest rate swaps (IRS)
  – 59% or 174 used currency/FX swaps,
  – 27% or 80 used credit default swaps (CDS),
  – 25% or 74 used equity swaps and
  – 32% or 94 used commodity/energy swaps.

• Respondents were asked their opinions only on those OTC derivatives that they said they have used

• This report covers IRS. Additional End-User Survey reports – one on CDS and another on equity and commodity/energy swaps – will be published shortly
Executive Summary: Interest Rate Swaps

• **Pre-trade Price Transparency:** The majority of surveyed interest rate swap (IRS) end-users give high remarks to the current level of pre-trade price transparency in the IRS market
  – On a scale of 1 to 5, 59% of IRS end-users rate pre-trade price transparency at a 4 or 5
  – Only 17% of IRS end-users rate it at a 1 or 2, the two lowest levels

• **Pre-trade Price Transparency vs. Other Markets:** A strong majority rate pre-trade price transparency in the IRS market as equal to or better than foreign exchange (FX), equities, corporate bonds and asset-based securities (ABS)
  – 69% of IRS end-users rate it equal to or better than FX and equities
  – 77% rank it the same as or better than corporate bonds
  – 85% see it as equal to or better than ABS

• **Sources of Pricing:** 84% of the surveyed IRS end-users typically get multi-dealer quotes before executing an IRS, while 67% consult vendor screens
Executive Summary: Interest Rate Swaps

• **Price Competitiveness:** Most surveyed end-users believe the prices they receive from dealers for IRS are competitive; very few believe they are not competitive
  - On a 1 to 5 scale, 62% rate IRS price competitiveness at a 4 or 5
  - Only 10% of IRS end-users rate it at a 1 or 2

• **Liquidity:** A strong majority of the surveyed IRS end-users rate the liquidity of the IRS market as equal to or better than the liquidity of the FX, equity, corporate bond and ABS markets
  - 71% of IRS end-users rank it same as or better than FX
  - 69% rank it same as or better than equities
  - 83% rank it equal to or better than corporate bonds
  - 87% rank it same as or better than ABS
Executive Summary: Interest Rate Swaps

• **Electronic Trading:** A majority of those surveyed (77%) believe electronic trading of IRS is beneficial
  – End-users are positively disposed to electronic trading if it results in better pricing or better efficiency.
  – Two-thirds (67%) of those surveyed do not believe mandatory e-trading would favorably impact their ability to manage risk
  – On a 1 to 5 scale, 45% of IRS end-users rate the benefits of mandatory trading at a 1 or 2, the lowest ratings. In contrast, only 33% of IRS end-users rate the benefits of mandatory trading at a 4 or 5

• **Post-trade Price Transparency:** A majority of those surveyed (63%) believe that post-trade price transparency would be beneficial for negotiating their IRS transactions
Pre-Trade Price Transparency

The majority of surveyed IRS end-users give high remarks to the current level of pre-trade price transparency.

- On a scale of 1 to 5, 59% of IRS end-users rate pre-trade price transparency at a 4 or 5.
- Only 17% of IRS end-users rate it at a 1 or 2, the two lowest levels.
A strong majority rate pre-trade price transparency in the IRS market equal to or better than foreign exchange (FX), equities, corporate bonds and asset-based securities (ABS)

69% of IRS end-users rate it equal to or better than FX and equities, while 77% rank it the same as or better than corporate bonds and 85% see it as equal to or better than ABS
Sources of Pricing
Interest Rate Swaps

Before executing an OTC derivatives transaction, what sources do you typically consult? (N = 235)

- 84% of the surveyed IRS end-users typically get multi-dealer quotes before executing an IRS, while 67% consult vendor screens
Most surveyed end-users believe the prices they receive from dealers for IRS are competitive; very few believe they are not competitive.

On a 1 to 5 scale, 62% rate IRS price competitiveness at a 4 or 5.

Only 10% of IRS end-users rate it at a 1 or 2.
### Liquidity Comparisons

#### Interest Rate Swaps

A strong majority of IRS end-users rate the liquidity of the IRS market as equal to or better than the liquidity of the FX, equity, corporate bond and ABS markets.

- 71% of IRS end-users rank it same as or better than FX.
- 69% rank it same as or better than equities.
- 83% rank it equal to or better than corporate bonds.
- 87% rank it same as or better than ABS.

#### How does the liquidity of the interest rate swaps market compare to...?

(N = 234)

<table>
<thead>
<tr>
<th>Market</th>
<th>Same As</th>
<th>Better Than</th>
<th>Worse Than</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Exchange</td>
<td>10%</td>
<td>61%</td>
<td>29%</td>
</tr>
<tr>
<td>Equities</td>
<td>24%</td>
<td>45%</td>
<td>32%</td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td>42%</td>
<td>41%</td>
<td>17%</td>
</tr>
<tr>
<td>Asset-Backed Securities</td>
<td>50%</td>
<td>37%</td>
<td>12%</td>
</tr>
</tbody>
</table>
Benefit of Trading Electronically

A majority of IRS end-users (77%) believe trading IRS on electronic platforms is beneficial.
End-users are positively disposed to electronic trading if it results in better pricing or better efficiency.

80% say that e-trading of IRS would be beneficial if they could receive better pricing.

66% say that it would be beneficial if it reduced operational risk.
Mandatory Electronic Trading

• Two-thirds (67%) of those surveyed do not believe mandatory e-trading would favorably impact their ability to manage risk

• 45% of IRS end-users rate the benefits of mandatory trading at a 1 or 2, the lowest ratings

• In contrast, only 33% of IRS end-users rate the benefits of mandatory trading at a 4 or 5
A majority of IRS end-users believe that post-trade price transparency would be beneficial for negotiating their OTC derivatives transactions.

63% of IRS end-users rate the benefit of post-trade price transparency a 4 or 5.