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By email: mdd@hkma.gov.hk / otcconsult@sfc.hk

Dear Sirs,

Re: Consultation paper on the proposed regulatory regime for the over-the-counter derivatives market in Hong Kong (the “Consultation Paper”)

Tradeweb Europe Limited (“Tradeweb Europe”)¹ welcomes the opportunity to comment on the Consultation Paper. Since 1998, Tradeweb has been at the forefront of creating solutions which have automated and enhanced the execution process in the dealer-to-customer fixed income and derivatives market.

Introduction

Tradeweb is a leading global provider of electronic trading platforms and related data services for the fixed income and derivatives marketplaces. Tradeweb Europe operates a global electronic multi-dealer to institutional customer platform through which institutional investors access market information, request bids and offers from, and execute transactions with dealers that are active market makers in fixed income securities and derivatives.²

Originally founded in the U.S. as a multi-dealer online marketplace for U.S. Treasury securities in 1998 and operating in Hong Kong since 2004, Tradeweb has been a pioneer in providing market data, electronic trading and trade processing in the fixed income marketplace for over 10 years, and has offered electronic trading in derivatives on its institutional dealer-to-customer platform since 2005. Active in 20 global fixed income, money market and derivatives markets, with an average notional daily trading volume of around €250 billion, Tradeweb’s leading institutional dealer-to-customer platform enables more than 2,000 institutional buy-side clients to access liquidity from more than 40 sell-side liquidity providers by putting the dealers in real-time competition for client business in a fully-disclosed auction process. These buy-side clients comprise the majority of the world’s leading asset managers, pension funds, and insurance companies, as well as most of the major central banks.

¹ References in this response to “Tradeweb” shall refer to the business of the relevant affiliated companies globally.

² Tradeweb Europe has a branch office and is regulated in Hong Kong by the Securities and Futures Commission as the provider of an automated trading service. Tradeweb Europe is authorised and regulated in the UK by the Financial Services Authority as an investment firm with permission to operate an MTF. In the US Tradeweb Europe’s affiliated companies also operate: (i) an alternative trading system (“ATS”) under Regulation ATS promulgated by the SEC under the Securities Exchange Act of 1934; (ii) an inter-dealer platform, called Dealerweb, for U.S. Government bonds and mortgage securities; and (iii) a platform for retail-sized, fixed income securities. In addition, Tradeweb Europe has registered branch offices which are regulated in Singapore and Japan and Tradeweb Europe holds an exemption from registration in Australia.

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Since the launch of interest rate swap (“IRS”) trading in 2005, the notional amount of interest rate derivatives traded on Tradeweb has exceeded \$8 trillion from more than 100,000 trades. Tradeweb has spent the last 5 years building on its derivatives functionality to enhance real-time execution, provide greater price transparency and reduce operational risk. Business executed in fixed income and derivative markets through multilateral electronic dealer-to-customer platforms has grown substantially over the past 5 years, and continues to grow. For example, the proportion of business in the dealer-to-customer Government Bond market in Europe executed through multi-dealer electronic platforms is estimated³ to have increased from 25% in 2004 to 55% in 2009. However, across the fixed income and derivatives markets as a whole, the majority of execution is still conducted by voice. For interest rate swaps in Europe, for example, we estimate that around 85% of the market is still traded by voice. There is therefore substantial scope for more trading of these instruments over electronic platforms.

Question 11: Do you have any comments on the proposal not to impose a mandatory trading obligation at the outset?

The consultation paper notes that the HKMA/SFC plans further investigation into the derivatives markets in Hong Kong before implementing a mandatory trading obligation. We believe it is important for the HKMA/SFC to set out an expedited timeline for this investigation and for the subsequent implementation of a trading mandate, particularly in light of the G-20 commitment to require the trading of standardised derivatives on exchanges or electronic trading platforms, where appropriate, by the end of 2012.

Trading of Derivatives

Electronic trading of derivatives on multilateral platforms provides benefits both to market participants and regulators. These platforms, for example, can furnish end-users and regulators with enhanced pre- and post-trade transparency which can be calibrated to suit the instrument concerned. They also provide end-users with the pricing benefits of real-time competitive auctions, and perhaps as important, more efficient execution through fully integrated trade processing and an electronic audit trail that assists with compliance and best execution obligations.

It bears mentioning too that derivatives instruments do not need to be particularly liquid in order to be traded electronically. In fact, if a derivative instrument is liquid enough to be subject to the clearing mandate, it should be presumed to be liquid enough to be subject to a trading mandate. The trading of OTC derivatives on electronic trading platforms in the dealer-to-customer market typically occurs under a “request-for quote” (RFQ) protocol where a buy-side institution requests prices on a fully disclosed basis from dealers with whom it has existing relationships.

This method contrasts with the exchange model in which market participants trade on an anonymous basis under a central limit order book (CLOB) where a high level of liquidity and standardization is necessary to support the effective functioning of the CLOB.

Electronic trading platforms such as Tradeweb are able to offer a highly customisable trading environment under the RFQ model to facilitate transactions in derivative instruments – both liquid, plain vanilla swaps and more illiquid, bespoke swaps that may trade more infrequently. Moreover, market participants in the dealer-to-customer market are increasingly comfortable with execution of derivatives on electronic platforms during periods of market volatility. As an example of this trend,

³ Celent: “Electronic Trading of Bonds in Europe - Weathering the storm; October 2009”

the volume of interest swaps executed on Tradeweb during Q3 2011 was nearly double the volume in Q3 2010, notwithstanding the severe volatility during the third quarter of this year.

Interconnection Between Clearing and Trading Mandates

It is also important to recognise that electronic trading platforms may form a critical component of the workflow necessary for the central clearing of derivatives. As a result, the trading mandate not only produces the benefits of electronic trading as described above, but also should be viewed as facilitating the clearing mandate. For example, by establishing direct and indirect links to CCPs, electronic platforms such as Tradeweb will be able to transmit transaction details necessary to allow CCPs to clear the trade. In preparation for regulatory change, buy-side clients are already engaged on Tradeweb in fully electronic trade execution and clearing for interest rate swaps and credit default swaps.

In addition, one difficult issue confronting participants in the derivatives markets relates to “certainty of clearing” following the implementation of the clearing mandate. When an executing dealer enters into a derivatives transaction with a client, the dealer typically also executes an offsetting transaction to hedge this client position. Under impending regulatory initiatives, if the transaction is subject to the clearing mandate it must be submitted for clearing. Accordingly, market participants want to make sure that trades submitted for clearing actually clear. One reason the trade may not clear is that the client’s clearing member rejects the proposed transaction on the grounds that the trade exceeds the client’s credit limit with the clearing member. Under these circumstances, the status of the trade between the executing dealer and the client may be uncertain because one of the essential elements of the trade (i.e. that it would be cleared) has been frustrated by the clearing member rejecting the trade.

To mitigate this risk of the trade not clearing and the dealer potentially being left exposed to one side of the trade (i.e. with its hedging counterparty), executing dealers will likely require prior to trade confirmation that the client has sufficient credit with its clearing member to clear derivatives transactions subject to the clearing mandate. This confirmation, together with an indication from the client regarding the CCP where it intends to clear the trade, also allows the executing dealer to price the transaction appropriately.

Tradeweb is working with buy-side clients, executing dealers and clearing members to create functionality on our trading platform that will help to resolve this “certainty of clearing” issue. When a client sends an RFQ to its executing dealer, the dealer will be informed whether the client has sufficient credit with its clearing member to have the transaction cleared at its selected CCP. It is difficult to see how the “certainty of clearing” issue could be adequately addressed without the intervention of an electronic solution prior to trade execution.

In other words, the workflow required for central clearing of derivatives starts pre-trade; an electronic trading mandate can facilitate the successful implementation of the clearing mandate.

Summary

For the reasons set forth above, we would urge the HKMA & SFC to expedite investigation into the electronic trading of derivatives in Hong Kong (and other jurisdictions for comparison purposes) as well as the implementation of the electronic trading mandate in Hong Kong. We look forward to continuing to work with you on these issues.

Please contact the undersigned if you have any questions or require any additional information.

Yours faithfully,