Charting New Territory:

Buy-Side Readiness for Swaps Reforms – Key Takeaways

STATE STREET

Global derivatives regulations have reshaped the financial industry and the environment in which over-the-counter derivatives are originated and traded. The ramifications for market buy-side investors are profound. State Street recently commissioned the TABB Group to conduct a study of the marketplace and assess how buy-side investors are adapting to the new regulatory standards.

WHAT DO YOU ANTICIPATE THE UNINTENDED CONSEQUENCES OF REGULATORY REFORM COULD BE?

- 52% Liquidity Dip
- 38% Collateral Shortage
- 31% Trade/Pricing Errors
- 21% CCP Risk Concern
- 14% Fewer Instruments
- 14% Regulatory Arbitrage
- 10% Lower Fund Performance

WHAT WOULD DRIVE YOU TO BEGIN CLEARING PRIOR TO REGULATORY MANDATES?

- 52% Set Target Date
- 45% Increasing Credit Concerns
- 23% Prohibitive Bilateral Costs
- 19% Nothing
- 19% When Costs Come Down
- 13% When Other People Do


REGISTRATION


CAPITAL/BUSINESS STANDARDS


TRADING TECHNOLOGY

CLEARING BROKER / ELECTRONIC PLATFORMS

SELECTION OF FCM/SEF


REPORTING

Across the five aspects of readiness for OTC reform that we asked survey participants about, not one buy-side firm stated that they were fully ready in any of these categories.

For firms who anticipate being regulated as swap dealers / major swap participants, reporting requirements are the area in which they feel least prepared.

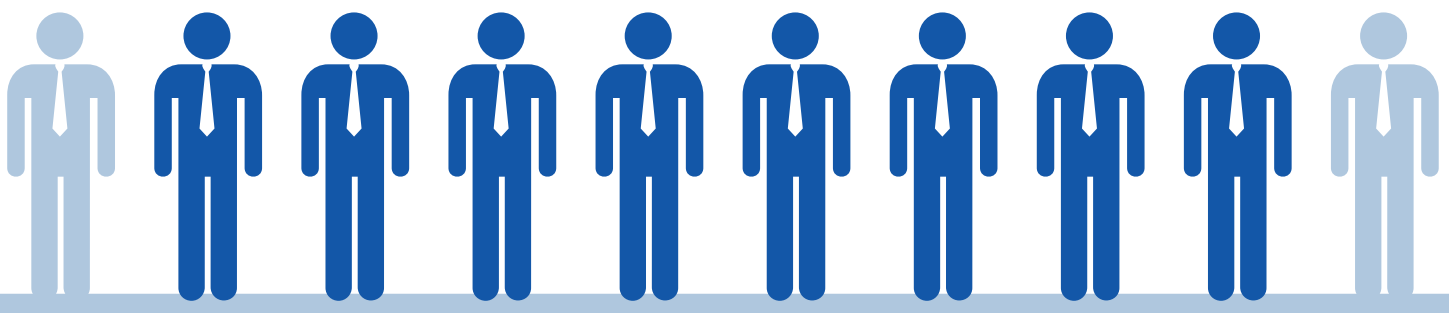
IMPORTANT DECISION DRIVERS

FOR FIRMS LOOKING TO CHOOSE A CLEARING BROKER

- Capability to onboard clients
- Backload existing trades
- Collateral / margin services

WHEN CHOOSING AN ELECTRONIC PLATFORM

- Market share
- Advice of dealers



81 percent of the firms we spoke with will continue to trade uncleared products.

FOCUS SHOULD BE ON THE ENTIRE DERIVATIVES LIFECYCLE, NOT JUST CLEARING.

STUDY DEMOGRAPHICS

Study was conducted in May 2012 among more than **30 global buy-side firms** dealing in interest rate swaps and/or credit default swaps

The firms represent a collective **$10.2 trillion** in AUM

56 percent of respondents were asset managers, **24 percent** were hedge funds, and the remainder were asset owners, insurance companies and banks

82 percent of respondents were based in the US, with the remainder split between the UK, Canada, Ireland and Italy

TABB GROUP

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CORP-0550