

## Citadel joins LCH.Clearnet's swaps clearing house

**Joe Rennison** in New York

**C**itadel has become a direct clearing member for interest rate swaps, continuing the Chicago-based hedge fund's charge to disrupt the dealer-dominated business.

Citadel Securities, the market-making arm of the firm, will become the first non-bank clearing member of LCH.Clearnet's SwapClear, the largest clearing house for interest rate swaps.

Despite a wave of regulation mandating many interest rate swaps to be traded on electronic venues and centrally cleared, much of the traditional structure of the swaps market remains. Banks still tend to transact directly with clients before offsetting or hedging trades with each other on separate venues.

Citadel is one of the few nonbanks to have broken into the dealer-dominated venues and to begin trading with other non-bank firms as well, effectively fulfilling the role of a traditional bank.

Citadel launched its interest rate swap market-making business in the US nearly a year ago and recently announced an expansion into Europe. It claims to be the top market maker by volume on Bloomberg's swaps trading venue.

"Joining LCH.Clearnet as the



first non-bank member on SwapClear marks an important milestone in the evolution of our fixed income market-making business, and the swaps market overall," said Paul Hamill, head of fixed income, commodities and currencies for Citadel Securities.

Data from the Commodity Futures Trading Commission suggests a few other non-banks have cleared swaps trades for US clients, and likely for their own trades, but not in any significant way.

In futures markets, a number of non-bank market makers self clear trades directly at the clearing house but in swaps, big banks have dominated ever since clearing became mandatory in the US in March 2013.

That is partly because Citadel is the only new market maker

to have risen up to challenge the banks so far. Also, the barriers to entry for clearing swaps is higher, dissuading new entrants, and some banks have even pulled out of providing clearing services to clients.

Before becoming a clearing member, Citadel cleared its trades through a bank. The clearing house still sits between the two counterparties to the trade, with the bank taking on a lot of the operational burden, collecting collateral from its client to post to the clearing house, for example.

Most asset managers and hedge funds are reliant on banks clearing trades for them if they are to continue trading swaps. "Becoming a self-clearer further strengthens the foundation of the business and our commitment to the swaps market," said Mr Hamill.