FINANCIAL TIMES
THURSDAY 10 SEPTEMBER 2015
FT.COM

Citadel pushes into European swaps market

Hedge fund group poaches JPMorgan executive to lead challenge to big banks

BY: **DAN MCCRUM** AND **JOE RENNISON**

Citadel Securities has launched a European fixed-income market-making business, as the Chicago hedge fund steps up its challenge to bank dominance of trading in government debt and derivatives.

The move seeks to capitalise on a regulatory push to encourage greater competition and transparency in derivatives since the 2008 financial crisis. If Citadel proves to be a formidable competitor, it could also lead to lower costs for a type of derivative widely used by insurers, banks and asset managers.

Citadel has already seized a significant share of US trading in interest rate swaps, and intends to use this as a first step to build a broader European trading business. It will initially offer to trade swaps denominated in US dollars to European customers during local trading hours, and has poached Brian Oliver, a top banker from JPMorgan, to recruit clients.

Regulators have sought to open up the market for swaps trading, but they have had little effect so far on a market dominated by the large dealer banks. Since March 2013, swaps trades in the US have been required to go through clearing houses and since February 2014, they have been traded on electronic trading systems that have provided a way for Citadel to compete.

Interest rate swaps are derivative contracts that allow two parties to switch a floating rate of interest for a fixed rate, or vice versa. The Bank for International Settlements estimates the notional value of outstanding contracts approaches $400tn.

Citadel claims it has the largest market share by number of swap trades conducted over the Bloomberg trading platform.

Mr Oliver had overseen sales of futures, options and clearing of over-the-counter derivatives for JPMorgan in Europe, the Middle East and Africa. He will join Chris Watts, a former senior trader for BNP Paribas at the new business.

Paul Hamill, head of fixed income, commodities and currencies for Citadel Securities, said: “We are a global fixed-income market making franchise and we see clear demand for liquidity in more than just dollar swaps. We see unique opportunities in euro swaps and other currencies such as yen.”

Mr Hamill added that the firm was also looking at entering the European government bonds and credit derivatives markets.

Citadel’s European effort is likely to start slowly. Mandatory clearing and electronic trading of swaps are key to Citadel’s plans but are not due to begin until April next year — and few clients are keen to start early.

“I don’t think we or anyone else would be happy trading with [Citadel] on a bilateral basis,” says a derivatives head at a European asset manager, which has yet to begin clearing trades.

Uncleared trades require legal documents to be signed between parties to a trade and require each side to be comfortable with the credit risk of doing business with the other.

In the meantime, Citadel will trade with clients on US platforms, known as swap execution facilities, during European trading hours and directly with clients through Bloomberg’s European platform, before trades are cleared.