

# **Risk** Awards 2018

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**Rates flow market-  
maker of the year**

 **CITADEL** | Securities



# Rates flow market-maker of the year

## Citadel Securities

**C**itadel Securities has had a meteoric rise since becoming a top four market-maker on Bloomberg in US dollar interest rate swaps back in 2015, within months of going live.

But the non-bank market-maker has kept its foot on the gas in 2017. Not satisfied with top liquidity provision rankings in on-the-run Treasuries and standardised swaps, it took aim at those areas of the rates market that are harder to wrestle off the incumbent banks.

“As the next step in our strategic roll-out, this year we expanded into off-the-run Treasuries, pricing over 260 Cusips compared to just six in on-the-runs, and we expanded into custom swaps, which represent about 60% of the marketplace that we were not covering previously,” says Paul Hamill, global head of fixed income, currencies and commodities (Ficc) at Citadel Securities.

The slight change of tack is significant. Both products cannot be serviced by a purely electronic offering – the firm’s forte historically – and instead relies on forging strong relationships that have deep roots within some of the largest dealers on the Street. Those relationships have been

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**“The challenge investors face is finding consistency from competitors”** Paul Hamill, Citadel Securities

built over time, and this business is fundamentally harder to win.

“It’s one thing to ask a customer that the next time they trade a \$25 million, 10-year benchmarked swap to give us a shot, to asking them to trade with us when they’re putting a large risk-transfer custom trade on, where you’re only going to do it with one dealer because you need solutions and advice on how best to put the trade on. You don’t start a business there, so you need to earn your stripes. That consistent market liquidity really counted a lot when expanding to other areas,” says Hamill.

That consistency remains. The firm is now a top three market-maker for executed trades on Bloomberg in US dollar swaps, and fetches around 10% market share. In on-the-run Treasuries it remains a top three dealer on eSpeed and BrokerTec, and is a top eight market-maker in on-the-runs by risk executed on Bloomberg to clients.

That figure is down from last year in US Treasuries, where it was fifth by the same measurement. Hamill puts that down to far more competition in Treasuries compared to swaps, but points to its number one hit ratio on Bloomberg in US Treasuries, and number one in average response time to request-for-quotes on Bloomberg and Tradeweb as further marks of consistency, as well as its commitment to firm pricing.

“The challenge investors face is finding consistency from competitors,” says Hamill. “They will get good prices from time-to-time, but we



Paul Hamill

consistently give a fair price. When the markets are calm, everyone knows the price, but when the market is volatile, then the pricing dislocates and our model kicks into gear. We might not always be the best price, as competitors might be axed one way, so we can’t win every trade, but we’ve certainly become a benchmark for a consistent, fair price.”

That has stood Citadel Securities in good stead when expanding into off-the-runs and custom swaps. The launch of the former

began with the hire of Mike de Pass from Bank of America Merrill Lynch in August 2016. In February, the firm launched its first six off-the-run Cusips and a voice desk before completing the roll-out in June. It now boasts 10 voice traders in the Ficc business.

Through the end of October in Treasuries, Citadel Securities’ average daily volumes by risk traded and number of unique clients trading both increased by 300% over the course of the year. Like its on-the-run business, it is also now in the top eight market-makers for off-the-runs by risk executed on Bloomberg to clients.

“What’s very important for us is expanding and adding into those new capabilities without moving away from what a lot of customers see as being our edge, which is having the ability to precision-price risk, ability to trade and execute very quickly, and our transparent approach,” says Hamill.

The advancement into non-standardised custom swaps is a newer venture. It launched a pilot in US dollar custom swaps in August and has been building that out this quarter, achieving a 46% hit ratio for the firm’s most recent full month of October on Tradeweb. Hamill says the firm plans to launch custom euro swaps by the end of the year.

“The custom swap business has allowed us to be more relevant to many of our clients. There are insurance companies that will use benchmark vanilla swaps and custom swaps, for example, and use a broad mix of products like swap spreads, futures and basis. We saw something similar in Treasuries – our on-the-run offering alone was not relevant enough for a lot of the customers we’ve since added,” says Hamill.

The move into off-the-runs and custom swaps has seen Citadel Securities expand its client base. It now counts several European central banks, government-sponsored entities, insurance firms, state retirement systems and Asian firms among its client base now. The number of insurance firms it counts as customers has gone from four to 17 in the space of a year, and overall clients have doubled since 2016. In Treasuries, the client base has quadrupled, and it has trebled the amount of risk it handles. ■