



May | 2025

Market Structure

## Enhancing swaps liquidity through targeted reforms

*More abundant and deeper liquidity in cleared swaps markets is achievable with incremental changes and targeted adjustments to rules governing swaps trading. This paper explores practical policy recommendations to achieve this goal.*

A well-functioning swaps market is essential for financial stability and economic efficiency. While post-crisis reforms have strengthened the regulatory framework and enhanced transparency, they have also given birth to some troubling liquidity trends. At Optiver, we believe it's possible via incremental reforms to the rules governing swaps markets to unlock deeper liquidity, without compromising the essential safeguards put in place following the Global Financial Crisis.

### The evolution of swaps market structure

During the 2008 financial crisis, liquidity in swaps market—particularly in credit default swaps (CDS) and interest rate swaps (IRS)—suffered due to heightened counterparty credit risk, market dislocations and a loss of trust among financial institutions. The collapse of major financial institutions like Lehman Brothers raised fears about the creditworthiness of swap counterparties. Rapid declines in asset prices created large unrealized losses on swaps, forcing firms to post additional collateral. Banks and financial institutions began reducing exposure to derivatives markets to preserve capital, further reducing swap market activity. The over-the-counter and un-cleared nature of swaps made it difficult for participants and regulators to assess the scale of exposures and risk, contributing to uncertainty and liquidity withdrawal.

In response to this crisis, G20 leaders gathered to craft regulatory principles aimed at reviving swaps markets.<sup>1</sup> One principle mandated registration for swaps participants with market regulators. In the U.S., the SEC and CFTC translated this principle into rules requiring Swap Dealer and Major Swap Participant registration. These reforms, which were rooted in reducing default risk, ensuring business conduct standards and requiring transparency, risk management and conflict-of-interest safeguards, have proven effective. Optiver supports these principles as critical improvements that helped save and transform the swaps market.

<sup>1</sup> G20 Leaders Statement: The Pittsburgh Summit, G20 Information Centre (Sept. 24-25, 2009), <https://www.g20.utoronto.ca/2009/2009communique0925.html>.

## Stagnation in liquidity provision

Fifteen years on, it is clear that this regulation has been successful in bringing IRS and CDS swaps into clearing houses, also known as designated clearing organizations (DCOs). But at the same time a troubling trend has emerged that could lead to another reduction in liquidity if not addressed.

Registration data reveals that the number of Swap Dealers has stagnated, with only two new registrations in the past three years.<sup>2</sup> Compounding this issue, many registered swap dealers are acting in an agency or riskless-principal capacity, recycling existing liquidity rather than adding to market depth. This shift raises concerns about the long-term health of the swaps liquidity pool. If active participation continues to stagnate or even decline, the market structure could deteriorate, leaving the swaps ecosystem once again at risk.

## From vision to reality

Reviving a stagnating liquidity pool is possible through targeted regulatory adjustments. One promising idea, explored during the CFTC's de minimis threshold rulemaking, involves carving out cleared swaps from the dealer threshold calculation. While then-Commissioner, and current nominee for CFTC Chairman, Brian Quintenz championed this concept, it was ultimately left out of the final rule.<sup>3</sup> However, a study by the CFTC's Market Participant Division suggested the percentage of swaps under CFTC regulation would remain unchanged whether cleared swaps were included or excluded in this calculation.<sup>4</sup>

At Optiver, we believe the minimum capital standards for Swap Dealers and the bilateral posting of variation and initial margin by both parties to a swap have contributed significantly to the stability of the un-cleared swaps market since 2012. The Swap Dealer business conduct standards, especially the requirement to provide a daily mark to customers along with reporting obligations, are transformative improvements. Any efforts to increase participation should maintain these essential safeguards for un-cleared swaps while acknowledging that the systemic risks the Swap Dealer regulation was meant to address are far less significant for swaps that are exchange-traded and centrally cleared. This is true for the following reasons:

- Counterparties to the swap post margin at the DCO and firms clearing swaps on behalf of customers are registered with the Commission as Futures Commission Merchants and subject to minimum capital requirements
- Through execution of swaps on exchanges such as Swap Execution Facilities and Designated Contract Markets (SEFs, DCMs), counterparties already benefit from viewing the prices of available bids and offers and from having access to transparent and competitive trading platforms
- A number of the external business conduct standards are fulfilled by the exchange and in some cases do not apply when a swap is executed anonymously on an exchange
- The market efficiency, orderliness and transparency goals addressed by Swap Dealer regulation are already fulfilled by the exchange and DCO

<sup>2</sup> Optiver analysis of CFTC-maintained database of registered swap dealers dating back to first publication of list in 2021, available at [Swap Dealer \(SD\) | CFTC](#)

<sup>3</sup> De Minimis Exception to the Swap Dealer Definition, 83 Fed. Reg. 56,666 (Nov. 13, 2018), <https://www.federalregister.gov/documents/2018/11/13/2018-24579/de-minimis-exception-to-the-swap-dealer-definition>.

<sup>4</sup> Commodity Futures Trading Comm'n, Div. of Swap Dealer & Intermediary Oversight, Swap Dealer De Minimis Exception: On-Venue and Cleared Swaps (July 2019), [https://www.cftc.gov/media/2341/DSIO\(MPD\)ReportonDeMinimisJuly2019/](https://www.cftc.gov/media/2341/DSIO(MPD)ReportonDeMinimisJuly2019/), see also Brian D. Quintenz, Comm'r, Commodity Futures Trading Comm'n, Statement Regarding DSIO Staff Report on the Swap Dealer De Minimis Exception (July 8, 2019), see also <https://www.cftc.gov/PressRoom/SpeechesTestimony/quintenzstatement070819>.

- Voluntary clearing would further be encouraged and liquidity likely improved if the Commission added an exception for clearing swaps for the purposes of the de minimis threshold calculation

## Policy recommendations

To enhance swaps liquidity pools, we urge policymakers to explore ways to incentivize participation. Updating the Swap Dealer framework on cleared swaps could alleviate unnecessary barriers for firms interested in providing liquidity in cleared swaps markets. In addition to potentially drawing more uncleared OTC products into voluntary clearing, removing the minimum capital requirements for cleared swaps liquidity providers would likely improve liquidity and reduce spreads for market participants. We see several avenues available to policymakers to make these changes:

- Congress could amend the CEA's definition of Swap Dealer to exempt cleared swaps from the dealer definition
- The CFTC could engage in notice and comment rulemaking to modify the de minimis threshold to exclude cleared swap transactions
- The CFTC could extend the Floor Trader Exclusion that already exists for exchange-traded and cleared swaps entered into by floor traders to all liquidity providers

The journey to a truly deep and liquid pool of participants in cleared swaps is within reach, provided thoughtful policy adjustments are made. By focusing on incentivizing participation while preserving essential protections, policymakers can transform the swaps market into a more robust and efficient ecosystem that benefits all stakeholders.

## About Optiver

Optiver is a global market maker founded in Amsterdam, with offices in London, Chicago, Austin, New York, Sydney, Shanghai, Hong Kong, Singapore, Taipei and Mumbai. Established in 1986, today we are a leading liquidity provider, with over 2,000 employees in offices around the world, united in our commitment to improve the market through competitive pricing, execution and risk management. By providing liquidity on multiple exchanges across the world in various financial instruments we participate in the safeguarding of healthy and efficient markets. We provide liquidity to financial markets using our own capital, at our own risk, trading a wide range of products: listed derivatives, cash equities, ETFs, bonds and foreign currencies.