



# Breaking New Ground with an Electronic RFQ Process for Swaptions on Credit Default Swaps (CDS)

How Union Investment re-imagined process-intensive order handling via Virtu’s RFQ-hub

“It’s been a real process improvement—trading swaptions electronically has allowed us to more easily document best execution, streamline our workflow with our counterparties and realize efficiency gains.”

Christoph Hock  
Head of Multi Asset Trading, Union Investment

## BACKGROUND

As a prominent and leading European asset manager for over 60 years, Union Investment (Union) manages €425B in assets across multiple asset classes. Over the last few years, Union has changed its approach to trading, moving from a siloed asset class style approach to interdisciplinary multi-asset trading and upgrading manual trading workflows in favor of electronic platforms.

For Union traders, the RFQ-hub platform is an essential communication tool for the index options workflow in a request for quote (RFQ) driven process. **“Our working relationship with the RFQ-hub team has always been very collaborative”** says Stefan Schmidt, derivatives specialist at Union Investment. **“RFQ-hub was the first platform to target a request for quote process for options in particular, and if you want to move an established and entrenched trading process onto a new platform, you will need that level of collaboration”**.

“Electronic trading has been well established in the most liquid asset classes such as cash equities—look at the degree of auto- and no-touch routing clients rely on today. Virtu is applying these trading efficiency gains to asset classes which still depend on a more traditional, voice and manual dominated communication workflow.”

Rob Boardman  
CEO Virtu Financial, EMEA

## UNION’S CHALLENGE: IMPROVE WORKFLOW FOR SWAPTIONS<sup>1</sup> ON CDS<sup>2</sup>

Increased costs and administrative complexity stemming from regulation, technology and clearing compelled Union to identify which asset classes could benefit most from the efficiency of workflow technology. Due to their manual-intensive nature, swaptions (primarily on CDS) were selected and the following implementation plan was commenced:

Phases	Outcomes
Finding an electronic service provider for CDS swaptions	<b>Stefan Schmidt:</b> “There are a number of electronic platforms out there focused on the RFQ process. The challenge was—none of them offered a swaptions on CDS workflow. So, given our existing relationship, we reached out to Virtu RFQ-Hub about whether this asset class could be onboarded onto their platform”.

Engaging sell-side support	<p>Jointly, Union and Virtu's RFQ-hub team reached out to sell-side firms—primarily trading desks at investment banks—to gain support. Resource constraints made Union's leadership a key factor in spurring sell side participants to prioritize their development queues and onboard CDS swaptions.</p> <p><b>Stefan Schmidt:</b> "It is quite natural to encounter some resistance at first—it's a move that affects entrenched workflows and the economics of the trading process and requires some limited investment from our sell-side partners. We explained the rationale for our planned move and asked our counterparties to facilitate our move to RFQ-hub."</p>
Technology and systems integration	<p>The technical setup of the workflow included FIX integration with Union's OMS provider. Simultaneously, Virtu upgraded the RFQ-hub platform to support and resolve the symbology for swaptions on CDS.</p> <p><b>Stefan Schmidt:</b> "We did not want island solutions with manual interfaces between our platforms."</p>
Outcome	<p>Union successfully negotiated its first swaption on CDS through RFQ-hub in early 2021, followed by competitive RFQs to a range of sell side participants.</p> <p><b>Stefan Schmidt:</b> "And...it works! There are still more sell side firms to be onboarded in the pipeline, but we have proven that the integrated process via RFQ-hub works—it is a milestone in our approach to the electrification of our derivatives workflows".</p>

## NEXT STEPS

Adding swaptions on CDS to the RFQ-hub platform benefits all participants by delivering transparency, operational efficiency, audit trail and embedded analytics. Since Union's swaption on CDS go-live, other clients are onboarding this asset class via RFQ-hub. The innovation has also sparked an expansion into swaptions on interest rate swaps (IRS)—a project that is currently underway.

<sup>1</sup> A swaption, also known as a swap option, refers to an option to enter an interest rate swap or some other type of swap. In exchange for an options premium, the buyer gains the right but not the obligation to enter into a specified swap agreement with the issuer on a specified future date.

<sup>2</sup> A credit default swap (CDS) is a financial derivative or contract that allows an investor to "swap" or offset his or her credit risk with that of another investor. For example, if a lender is worried that a borrower is going to default on a loan, the lender could use a CDS to offset or swap that risk.

## CONTACT

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