The Economics of Client Clearing: Dealer Competition, Relationship Formation, and Market Access*

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Abstract

This paper studies how central clearing affects market access and the interactions between dealers and their nondealer clients. Using confidential transaction-level data, we show that clients receive better pricing on their cleared trades, consistent with our findings that clearing adoption leads clients to expand their sets of dealer trading partners and improves collateral efficiency for dealers. In order to utilize central counterparties, clients must obtain clearing agent services from dealers. We establish that the provision of such services produces spillover benefits for dealers' market making activity by improving pricing power and client retention. Clients preferentially choose clearing agents with stronger credit quality and with whom they have established trading relationships. The strategic selections reflect a novel form of counterparty risk, as clients' dependence on a small number of clearing agents can limit their ability to trade during periods of turmoil. We demonstrate that clients most reliant on Credit Suisse for clearing services were forced to reduce their centrally cleared positions when the dealer faced distress following the unexpected collapse of Archegos Capital Management. Together, our results show that central clearing reshapes the structure and competitive dynamics of financial markets and, in doing so, introduces new points of operational fragility.

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1 Introduction

The expansion of central clearing since the 2007–09 financial crisis represents a foundational shift in the architecture of global financial markets. Central counterparties (CCPs) eliminate complex networks of bilateral exposures by interposing themselves between the buyer and seller of traded contracts. In doing so, they aim to reduce counterparty risk and enhance market transparency. These benefits come with tradeoffs, however, as CCPs impose stringent collateral requirements on traders and themselves become concentrated sources of risk. Central clearing also creates two-tiered markets consisting of CCP members, typically large dealer banks, that directly interface with clearinghouses and nonmember clients that must obtain clearing agent services from a member to access CCPs. While a growing body of research studies the actions of dealer members (e.g., Biais et al., 2016; Boissel et al., 2017), appreciably less is known about how clearing affects clients (Menkveld and Vuillemey, 2021).

In this paper, we help fill the gap by examining the economic drivers of client clearing and its implications for market structure and functioning. The comparative lack of work on clients is notable given that their incentives and constraints differ meaningfully from those of dealers. The use of CCPs enables the latter group to obtain relief from capital requirements and minimize margin demands through the multilateral netting of offsetting positions (e.g., Benos et al., 2024; Kubitza et al., 2024). Clients may not reap such benefits as they often hold directional portfolios and are not necessarily subject to capital rules, but they still bear the fixed and variable costs of clearing. Their decisions to clear may instead be shaped by competition, regulation, and counterparty risk considerations. Understanding the behavior of clients is important, as they have historically been catalysts of CCP failures (e.g., Bignon and Vuillemey, 2020). The risks posed by clients have become especially pronounced in recent years because they account for an increasing share of cleared activity. According to data from the Commodity Futures Trading Commission (CFTC), clients were responsible for 67% of margin posted at the largest U.S. and European CCPs for swaps in 2025, compared to only 31% in 2013.

Our analysis uses confidential transaction- and position-level data on credit default swaps (CDS) from The Depository Trust & Clearing Corporation (DTCC). Unlike prior studies, we are able to match both legs of cleared trades and to identify the clearing agents used by clients. The depth and granularity of the data allow us to fully assess how the expansion of central clearing affects

market access, relationship formation, and competition. We show that clients receive better pricing on their cleared trades, consistent with our findings that clearing adoption leads them to utilize more dealer trading partners and improves margin efficiency for dealers. Clients procure clearing agent services from dealers with stronger credit quality and with whom they have established trading relationships. Their selections reflect a novel form of counterparty risk, as we demonstrate that clearing agents may ration their provision of clearing services during periods of turmoil. While sophisticated clients with multiple agent relationships are able to obtain clearing services from other dealers, their smaller peers may be forced to reduce their centrally cleared positions.

Though the analysis centers on CDS, our findings have implications for a broad array of markets. Other classes of derivatives, including interest rate swaps, have been subject to the same set of regulatory reforms and now share similar market structures. Our results are especially timely given the ongoing dialogues regarding the mandatory clearing of Treasury cash and repurchase agreement transactions in the United States and the potential consolidation of CCPs in the European Union. Much of the debate has focused on how various regulatory proposals will affect the industrial organization and resilience of these markets. Our work helps inform such discussion by shedding light on the intermediation frictions and systemic implications that come from the growth of central clearing.

The first portion of the paper examines the incentives to clear. Dealers in uncleared bilateral markets cannot net offsetting contracts facing different counterparties, forcing them to maintain large gross exposures. Central clearing should enable the consolidation of such opposing positions by making the CCP a counterparty in all cleared trades. Consistent with this hypothesis, we show dealers that clear a greater share of their single-name transactions have lower gross exposures relative to trading volumes. Our findings are consistent with those of prior studies that are primarily theoretical in nature or based on static position snapshots (e.g., Duffie and Zhu, 2011; Duffie et al., 2015), though our use of transaction-level data allows us to directly establish an association between clearing and netting. Given that consolidating gross exposures reduces regulatory and margin costs incurred by dealers, they may use prices to incentivize clients to clear (Cenedese et al., 2020). Our regression analysis, which controls for client and contract characteristics, confirms that clients receive more favorable pricing terms on cleared trades than comparable uncleared transactions.

Despite the pricing advantages, not all clients choose to adopt clearing. Following the

implementation of collateral reforms that make uncleared transactions costlier, many opt to stop trading single-name CDS entirely rather than incur the fixed costs required to use CCPs. We show that clients with the most trading activity and those holding index contracts subject to clearing mandates are the most likely to stay in the market and embrace voluntary clearing. It appears that for smaller, less sophisticated clients, CCPs are prohibitively costly to use. Even among the set of clearing adopters, however, an appreciable share of single-name transactions remains uncleared. The limited uptake allows us to further explore the incentives to clear. We find that on a trade-level basis, counterparty credit risk and margin considerations are the primary drivers of clearing. Clients are more likely to clear a given transaction when the credit quality of their dealer trading partner is weaker and when doing so would reduce their outstanding exposure with the CCP. While prior work demonstrates that clients strategically select dealers to manage counterparty risk in uncleared markets (Eisfeldt et al., 2023; Du et al., 2024), we establish that the practice remains a critical risk management tool even after the introduction of clearing.

The second part of the paper investigates how the growth of clearing affects market structure. The theoretical literature suggests that the use of CCPs may enhance dealer competition by, for example, reducing barriers to entry for new market makers (e.g., Carapella and Monnet, 2020). Extant empirical studies provide only indirect support for this hypothesis using bid-ask spreads and often rely on periods in which the adoption of clearing closely coincides with mandates requiring the use of swap execution facilities (SEFs), electronic platforms through which clients simultaneously request quotes from multiple dealers (e.g., Loon and Zhong, 2016). In contrast, our data allow us to directly observe the actions of individual market participants, and we consider a setting without SEFs. We find no evidence that clearing leads to dealer entry in the aggregate, but we show that clients forge additional trading relationships with incumbent dealers and reduce counterparty concentration once they begin to clear. Our results offer nuanced support for the notion that clearing fosters competition in OTC derivatives markets.

To our knowledge, we are also the first to study the broader impacts of clients' reliance on member dealers for clearing agent services. Acting as an agent is costly for members, as regulatory compliance is onerous and they must guarantee clients' positions (Contiguglia, 2015). We therefore investigate whether clearing service provision generates spillover benefits for dealers' market making activities. In accordance with this hypothesis, we find that clients are more likely to transact with

a dealer after establishing a clearing agent relationship with them. The ability to augment market share thus offers dealers a strategic incentive to absorb the costs associated with acting as an agent. Moreover, we find that dealers are able to exploit the enhanced market power to provide less favorable pricing terms for the subset of cleared transactions in which they serve as both a client's trading partner and clearing agent. This result is consistent with the model of Riggs et al. (2020), in which relationship effects make it is less costly for clients to solicit quotes from a dealer they use as an agent.

Finally, the paper examines several important frictions in client clearing that arise from constraints related to agent selection. Due to the high costs associated with clearing service provision, only a limited set of dealers act as agents and the resulting concentration of client exposure can become a point of fragility.[1] During the 2022 London Metal Exchange (LME) nickel market turmoil, for example, the distress of several clearing members due to concentrated client losses nearly triggered defaults (Heilbron, 2024). Despite the importance of agent selection, little is known about the relationship formation process. We first document that while the largest clients enlist the services of many CCP members, the modal client has only a single clearing agent. These agent relationships are persistent, and clients typically select dealers with whom they frequently trade to provide clearing services. Larger clients that engage multiple agents appear cognizant of counterparty risk, as they are more likely to choose members with better credit quality.

Reliance on a small number of clearing agents presents tradeoffs for clients. Margin is calculated using a client's entire portfolio cleared through a particular agent, so concentrating positions with fewer members improves margin efficiency for clients that trade bidirectionally. Given the impediments to relationship formation, concentration also introduces vulnerabilities as disruption at a single clearing member may impair a client's ability to access the CCP. To test this hypothesis, we use the financial distress experienced by Credit Suisse following the unexpected collapse of a large prime brokerage customer, Archegos Capital Management, as a natural experiment. We find the amount of client margin handled by Credit Suisse in its capacity as a clearing agent decreased sharply after this event and that the decline did not simply stem from clients choosing to port positions to different agents. Rather, we show clients that relied heavily on Credit Suisse for clearing

[1] As noted by the Market Risk Advisory Committee of the CFTC on April 9, 2024, "Providing [agent] services has become an increasingly high fixed-cost business. The costs of infrastructure and regulatory compliance have increased following the adoption of the Dodd-Frank Act... As a result, smaller [agents] may not be able to generate enough revenue to justify the costs of operations. Some clients seek only the largest [agents]."

services prior to Archegos' failure reduced their cleared positions relative to peers that did not. This effect is not explained by heterogeneity in demand and is less pronounced for clients with many member relationships, indicating that more sophisticated clients are better able to preserve access to clearing by engaging alternate agents. Our findings highlight a key friction in client clearing: Agents facilitate CCP utilization, but they also create concentrated operational dependencies that can undermine market resilience during periods of stress. More generally, our results underscore the need to consider not only the benefits of central clearing but also the fragility introduced by the structure of client-agent relationships (e.g., Paddrik et al., 2020; Paddrik and Young, 2021; Ghamami et al., 2023).

The remainder of the paper is organized as follows. Section 2 provides background on the structure of central and client clearing, with a particular focus on the evolution of client clearing in the CDS market. Section 3 describes the transaction and position data used in the analysis and presents key summary statistics. Sections 4 and 5 together address the two main aspects of client clearing that we highlight in this paper: namely, the incentives to clear and the strategic role of clearing agents.

2 Background

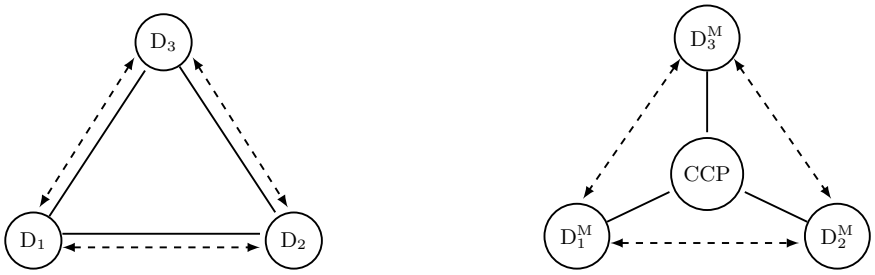
Central clearing has become a cornerstone of post-crisis reform, particularly in over-the-counter derivatives markets. This section outlines the structure and key benefits of central clearing, with a focus on its risk-reducing and efficiency-enhancing features. It then discusses client clearing, where nonmembers access CCPs through intermediating members, introducing distinct frictions and constraints. The section concludes with a review of the evolution of CDS clearing, emphasizing regulatory milestones, such as clearing mandates and margin rules that have shaped dealer and client participation. These topics provide essential context for the analysis that follows.

2.1 Central Clearing

In a centrally cleared transaction, a CCP legally intermediates between the buyer and seller, assuming the counterparty exposure of both sides. This structure replaces a web of bilateral exposures with a hub-and-spoke model, enabling multilateral netting of positions and more efficient

collateral use (see Figure 1). By centralizing risk management within a single, regulated entity, clearing has the ability to reduce counterparty credit risk, enhance transparency, and facilitate standardized margining and default management protocols. For markets to fully realize these benefits, CCPs must remain solvent. Yet, even with sophisticated collateral frameworks to guard against CCP default, vulnerabilities, particularly those arising from correlated exposures among market participants, may persist (e.g., Lopez et al., 2017; Menkveld, 2017; Huang et al., 2021).

Figure 1: Diagram of Clearing Models



(a) Bilateral Market **(b)** Centrally Cleared Market

Note: Figure (a) shows uncleared bilateral trades (dashed lines) and the resulting positions (solid black lines) between dealers D_1-D_3. Figure (b) shows the resulting positions from the same set of underlying trades under central clearing. The superscript M's indicate that the dealers are clearing members, enabling them to access the CCP directly.
Source: Authors' creation.

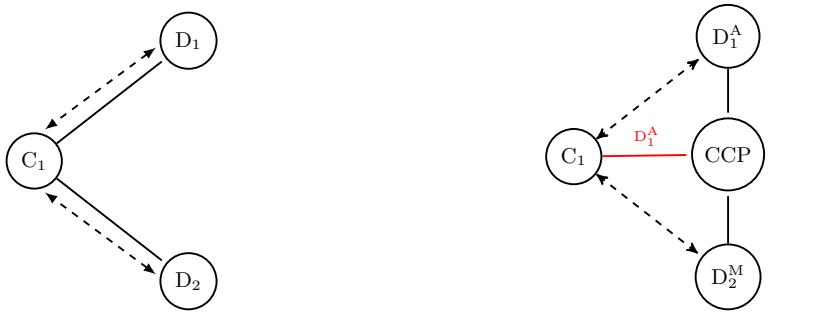
Access to central clearing is generally limited to a subset of financial institutions, referred to as *clearing members*, that meet the stringent capital, operational, and risk management requirements set by the CCP. These members are typically large dealer banks that play a key role in market intermediation, in part because the advantages of central clearing are most pronounced for firms engaged in substantial trading activity. Clearing allows such institutions to multilaterally net their offsetting trades across counterparties, which reduces gross exposures and lowers both margin requirements and regulatory capital charges. Moreover, it can enhance their credibility and intermediation capacity in the market by reducing counterparty risk and enabling access to a broader set of trading partners within a standardized risk management framework.

2.2 Client Clearing

Nonmember clearing market participants, such as asset managers, hedge funds, and smaller dealers, are known as *clients*. They typically do not meet the regulatory and operational requirements for direct CCP membership and must instead access central clearing indirectly through client clearing arrangements. In such arrangements, a clearing member acts on the client's behalf, sub-

mitting trades to the CCP and managing associated obligations. This setup allows clients to benefit from the protections and efficiencies of central clearing, such as reduced counterparty risk and standardized risk management, without assuming the full operational and financial responsibilities of CCP membership. However, it also introduces important frictions: Clients must negotiate terms of access, margining, and collateral management with their clearing agents, and often rely heavily on a small number of intermediaries for continued market participation.

Figure 2: Diagram of Client Clearing Models



(a) Bilateral Market **(b)** Centrally Cleared Market

Note: Figure (a) shows a client C_1's uncleared bilateral trades (dashed lines) and the resulting positions (solid lines). Figure (b) shows the resulting positions from the same set of underlying trades under central clearing. The superscript M indicates that dealer D_2^M is a clearing member, while the superscript A indicates that dealer D_1^A is a member and, further, a clearing agent. The dealer members are both able to access the CCP directly, but C_1 relies on its agent D_1^A to provide clearing services for both sets of trades.
Source: Authors' creation.

The most common and traditional access model is the *agency* model, in which the clearing member submits trades to the CCP on behalf of the client and bears legal responsibility for the client's obligations, including margin payments and default procedures. This model is used by the primary CCP for CDS and market participants have advocated for analogous frameworks to be adopted by treasury clearinghouses.[2] A key feature of the agency model is that a client's transacting dealer for a given trade can differ from its *clearing agent*. This dynamic is depicted in Figure 2, where dealer D_1^A serves as client C_1's clearing agent for all positions, even those based on trades made with dealer D_2^M. The flexibility of agent selection facilitates competition among dealer, as it allows clients to engage new trade partners under a single risk management framework.

Client clearing presents tradeoffs for both dealers and clients. Dealers earn fee income for acting as clearing agents, but it may not cover the significant operational and capital costs

[2]Other common variations include the *principal model*, where the clearing member enters into back-to-back trades with both the client and the CCP, and the *sponsored access model*, where clients to face the CCP directly while a sponsoring clearing member provides credit guarantees and operational support.

that are required (Contiguglia, 2015). The provision of such services does complement other dealer functions including trade execution and collateral transformation, so it may instead reflect a broader intermediation strategy aimed at maintaining client relationships. For clients, the large fixed costs and stringent collateral regimes associated with CCPs may discourage clearing. Despite these barriers, the reductions in counterparty risk and increased flexibility in dealer selection for trade execution may justify clearing adoption.

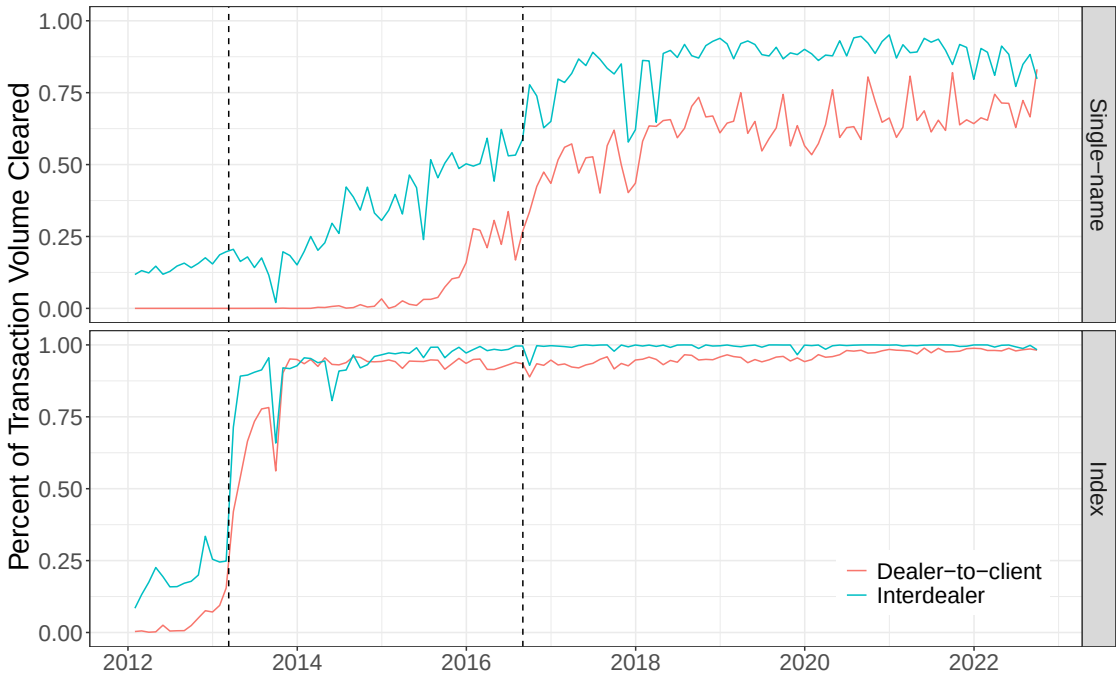
2.3 Credit Default Swap Clearing

Prior to the 2007–09 financial crisis, CDS were traded bilaterally in dealer-intermediated over-the-counter markets. To mitigate counterparty risk inherent in such arrangements, market participants historically exchanged a combination of initial margin that is posted at trade inception and held throughout the contract term and variation margin, which adjusts in response to market valuations. Collateral terms on uncleared swaps exhibited considerable heterogeneity across counterparties. Dealers seldom exchanged initial margin with one another while clients frequently posted initial margin unilaterally to dealers.

The launch of the first North American CCP for CDS, ICE Clear Credit, in 2009 enabled voluntary clearing of both single name and index contracts. Demand for central clearing accelerated following two key regulatory interventions. The first was the 2010 Dodd–Frank Act, which mandated central clearing of major index CDS and interest rate swaps. Clearing requirements took effect for large participants on March 11, 2013, and for smaller firms beginning June 10, 2013. As shown in the bottom panel of Figure 3, which plots the share of centrally cleared volume over time, the mandate resulted in widespread clearing of index swaps.

The implementation of the Uncleared Margin Rules (UMR), developed jointly by the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO), marked a second major turning point in the adoption of central clearing. Initiated in September 2016, the early phases of UMR required the largest trading entities to exchange initial and variation margin on their uncleared swap exposures, with subsequent phases extending coverage to a broader set of market participants. Prior to UMR, bilaterally negotiated margin arrangements were generally more favorable to clients than the standardized collateral requirements imposed by CCPs (Rennison, 2015). As shown in the top panel of Figure 3, this disparity con-

Figure 3: Rate of CDS Central Clearing



Note: This figure shows the proportion of trades cleared for both single-name CDS (top panel) and index CDS (bottom panel). The vertical dashed lines indicate the start of mandated central clearing for major index CDS on March 11, 2013, and the implementation of the Uncleared Margin Rules (UMR) on September 1, 2016. In each panel, the blue and red lines represent dealer-to-dealer trades and dealer-to-client trades, respectively.
Source: The Depository Trust & Clearing Corporation, Authors' analysis.

strained voluntary clearing of single-name CDS by clients before 2016. The introduction of UMR increased the costs of uncleared trading, thereby spurring broader adoption of clearing.

Figure 3 also shows that interdealer trades consistently exhibit higher clearing rates than dealer-to–client transactions before and after regulatory intervention. This pattern likely reflects dealers' efforts to reduce capital charges and collateral requirements via multilateral netting. The persistence of uncleared single-name trading following the implementation of UMR suggests that CCPs remain prohibitively costly for some clients and that others voluntarily clear only a subset of their trades. We exploit the heterogeneity in clearing behavior to analyze the incentives shaping both member and client actions in Section 4. Beyond the clearing decision itself, in Section 5 we examine dealers' strategic motivations for offering clearing services and the implications of client choices regarding which trades to clear and which agents to engage.

3 Data and Summary Statistics

The confidential CDS data come from DTCC. We observe all transactions for which (1) the underlying is a U.S.-domiciled corporation or North American index or (2) at least one counterparty is a U.S.-based entity. To ensure data completeness, we restrict our analysis to new, price forming trades referencing individual U.S. corporates or the two benchmark North American corporate indices: CDX.NA.IG and CDX.NA.HY.[3] The dataset includes detailed information on confirmed contract terms, as well as buyer and seller identities for every trade. Critically for the analysis, we also develop algorithms to match the buy and sell legs of centrally cleared transactions and to identify the clearing agents used by both trading parties.[4] These procedures underpin our study of the incentives governing clearing choice and the provision of clearing services.

The full sample spans from January 2010 through September 2022 and, as shown in Table 1, includes 1,340 reference entities. Approximately one-third of single-name and two-thirds of index reference entities are eligible for central clearing.[5] The sample includes 33 dealers, 16 of which are registered clearing members. Of these members, 12 serve as clearing agents and provide clearing services to clients. Though many of the 1,885 clients in the data are active in both the single-name and index markets, they are more likely to centrally clear index contracts than single-name CDS.

The transaction records are supplemented with weekly position data, also provided by DTCC. We observe all open contracts that meet conditions (1) or (2) described above, as well as all positions facing ICE Clear Credit, the primary CCP for North American CDS. Reference entity information and daily indicative price quotes for both single-name and index contracts are sourced from S&P Global, which acquired IHS Markit in 2022. We use contract characteristics, namely maturity, seniority, and currency, to match end of day quotes to corresponding transactions. To mitigate the impact of potential reporting errors, we apply a filtering procedure similar to that of Du et al. (2024), excluding trades from the pricing analysis if the absolute difference between the S&P end of day upfront points and the observed DTCC transaction upfront points exceeds the 97th percentile.

[3] Restricting to new, price forming trades entails dropping novations, compression activity, inter-affiliate trades, and transactions where no upfront payment is exchanged.

[4] We extract clearing agent information from trade reference identifiers generated by the CCP. We match the two legs of cleared trades using these same trade reference identifiers as well as transaction dates and contract information (e.g., reference entities, upfront points).

[5] A reference entity is deemed eligible for clearing if it is associated with at least one cleared transaction; we assign the earliest such date as the clearing eligibility date.

Table 1: Reference Entity and Market Participant Counts

	Single-name	Index
Reference Entities		
All Entities	1,002	338
↳ Eligible Entities	341	298
Market Participants		
Dealers	33	32
↳ Clearing Members	16	16
↳ Clearing Agents	12	15
Clients	1,289	1,479
↳ Clearing Clients	291	944

Note: This table presents counts of the number of reference entities and market participants that appear in our sample. Of the 1,885 total clients, the table shows the number that trade single-name and/or index CDS (row labeled 'Clients') and the number that clear at least one such trade (row labeled 'Clearing Clients'). Clearing agents are clearing members who provide access to a CCP for their clients, enabling them to clear and settle trades.
Source: The Depository Trust & Clearing Corporation, Authors' analysis.

Summary statistics are reported in Table 2. To preserve confidentiality, we first compute equal weighted averages of key variables, such as spreads, trading volume, and outstanding notional amounts, across reference entities within each month and then, calculate summary statistics across months. The top row of the table indicates that, on average, nearly 360 single-name reference entities trade each month compared to just 25 indices. Index contracts exhibit greater liquidity as reflected in higher trade counts, transaction volumes, and notional amounts outstanding. While interdealer trades are more prevalent in the single-name segment, dealer-to-client transactions are more common in the index market. For both segments, notional outstanding is significantly larger for underlyings that are eligible or mandated for central clearing.

Table 3 summarizes the number of trading relationships across different types of market participants. The interdealer network is relatively small and concentrated, but dealers maintain significantly more connections with clients. In both the single-name and index segments, the average dealer transacts with only 17 other dealers but several hundred clients. The largest dealers are more likely to serve as clearing members, as evidenced by their higher counts of both dealer and client relationships. Nonetheless, clearing members act as agents for only a subset of their clearing clients: approximately 28% (= 41.40/146.92) in the single-name segment and 23% (= 97.86/418.60) in the index segment.

In the single-name CDS market, clients trade with an average of five dealers, compared with six in the index market. Clients that centrally clear tend to maintain more dealer relationships,

Table 2: Trading Activity Statistics

	Single-name					Index				
	Mean	SD	Min	Median	Max	Mean	SD	Min	Median	Max
Number	359.12	111.45	219.00	331.00	642.00	24.70	5.33	16.00	23.00	48.00
Spread	217.05	101.29	114.99	197.05	986.97	175.80	77.65	102.54	148.36	589.89
# Trades										
Interdealer	22.63	10.35	7.05	20.12	48.10	116.99	51.91	13.06	103.89	392.05
Dealer-Client	12.47	3.85	5.34	11.69	26.60	356.09	216.62	44.32	315.31	1,159.43
Volume (Millions USD)										
Interdealer	115.59	68.90	29.22	91.60	287.83	7,714.38	5,987.30	816.37	5,226.12	33,002.27
Dealer-Client	93.04	38.04	39.64	82.41	237.08	20,401.72	12,958.05	3,872.41	17,253.09	78,015.79
Gross Outstanding (Billions USD)										
Eligible/Mandated	7.85	5.57	2.76	5.35	20.12	106.68	57.95	46.94	84.37	365.13
Ineligible	4.19	3.64	0.34	3.53	11.68	41.62	18.52	5.82	39.15	101.04
Net Outstanding (Billions USD)										
Eligible/Mandated	1.53	0.54	1.02	1.26	2.94	33.66	12.51	19.19	29.13	98.07
Ineligible	0.73	0.45	0.17	0.63	1.99	19.93	9.90	2.20	19.32	41.68

Notes: The reported metrics are computed by first taking the equal-weighted average of the listed variable within each month, then calculating summary statistics across months. Only reference entities that trade in a given month are considered.
Source: The Depository Trust & Clearing Corporation, S&P Global, Authors' analysis.

Table 3: Trading Relationship Statistics

	Single-name			Index		
	Mean	Median	SD	Mean	Median	SD
Dealer Relationships						
# Dealers	17.15	16.00	9.03	17.19	17.00	8.74
# Clients	273.62	100.50	307.60	355.64	231.00	362.47
Clearing Member Relationships						
# Dealers	25.33	27.00	4.01	24.80	26.00	3.86
# Clients	436.00	507.00	283.02	566.47	656.00	319.23
# Clearing Clients	146.92	178.00	88.54	418.60	519.00	244.67
# Agented Clearing Clients	41.40	43.00	32.17	97.86	77.50	93.15
Client Relationships						
# Dealers	5.10	4.00	3.80	6.08	5.00	4.45
Clearing Client Relationships						
# Dealers	6.74	7.00	3.20	7.38	7.00	4.39
# Clearing Agents	1.52	1.00	1.00	1.73	1.00	1.17

Note: This table reports summary statistics on participants' trading relationships by their role in the clearing network. The statistics are based on all trades, whether cleared or uncleared. "Agented Clearing Clients" refers to the number of clearing clients for whom the member is a clearing agent.
Source: The Depository Trust & Clearing Corporation, Authors' analysis.

with just over half using at least seven dealers. Despite the breadth of trading partners, most clients rely on a single clearing agent. This tendency likely reflects the fixed costs of establishing clearing relationships and the margin benefits of concentrating clearing activity arising from greater netting efficiency. As a result, we find that 87% of cleared client trades are cleared through an agent that is different than the client's transacting dealer. Only the largest clients use multiple clearing agents, suggesting that they encounter position limitations at individual members and may seek to mitigate operational dependencies through diversification.

4 What are the Incentives to Clear?

In this section, we exploit the voluntary nature of single-name clearing to explore the incentives of both dealers and clients to centrally clear transactions. A potential advantage of clearing is that it promotes margin efficiency by enabling the netting of offsetting contracts (Duffie et al., 2015; Onur et al., 2024). This benefit is likely to be more pronounced for dealers than for clients, because the former typically maintain large gross trading volumes relative to their net positions and face regulatory capital charges based on gross exposures (Kubitza et al., 2024). The partial uptake of single-name CDS clearing depicted in Figure 3 may curb the margin reductions available

to dealers as well, however, by limiting their opportunities for multilateral netting (Duffie and Zhu, 2011). Evidence from Treasury repo markets similarly suggests collateral demands may be relatively unaffected by clearing, as dealers are adept at offsetting trades even without the full adoption of CCPs (Bowman et al., 2024).

A second purported benefit of clearing is that it mitigates counterparty credit risk. By entering contracts facing a well-capitalized CCP instead of a dealer, clients might lessen the likelihood that their counterparty will fail to meet its obligations. It follows that, like dealers (Bellia et al., 2024), clients may be more inclined to clear when their trading partner is riskier. Alternatively, the option to clear may render clients less sensitive to the credit quality of their trading partners (Du et al., 2024), as contracts may be cleared at a later date should a counterparty's credit deteriorate.

The expansion of clearing might also alter the network structure of intermediation. By mitigating counterparty risk, the use of CCPs could, for example, reduce barriers to entry for new market makers (Carapella and Monnet, 2020; Vuillemey, 2020). Incumbent dealers may be hesitant to embrace clearing if increased competition reduces their profits. Clients, in contrast, stand to benefit from the entry of new dealers as it could lead to lower transaction costs. Yet because the netting benefits of clearing accrue disproportionately to large dealers (Duffie et al., 2015), the broader use of CCPs may actually reinforce concentration. By reducing margin requirements for the most active market makers, clearing could enhance their capacity to intermediate and allow the displacement of more peripheral dealers.

4.1 Does Client Clearing Provide Margin Benefits for Dealers?

We begin by formally testing whether central clearing enhances dealers' ability to net transactions. To this end, we restrict the sample to single-name underlyings eligible for clearing and estimate panel regressions of the form:

$$\begin{aligned}\Delta\text{Gross Outstanding}_{d,r,t} =& \beta_1 \text{Transaction Volume}_{d,r,t} + \beta_2 \text{Cleared Share}_{d,r,t} + \\ & \beta_3 \text{Transaction Volume}_{d,r,t} \times \text{Cleared Share}_{d,r,t} + \alpha_{d,t} + \alpha_r + \epsilon_{d,r,t} \quad (1)\end{aligned}$$

where $\Delta\text{Gross Outstanding}_{d,r,t}$ denotes the change in gross notional outstanding for dealer d on reference entity r between weeks t and $t-1$, $\text{Transaction Volume}_{d,r,t}$ is the total notional volume

traded by the dealer on a given reference entity in that week, Cleared Share$_{d,r,t}$ is the fraction of the transaction volume centrally cleared in that week, $\alpha_{d,t}$ is a dealer-week fixed effect, and α_r is a reference entity fixed effect. The gross outstanding and transaction volume measures are expressed in millions of US dollars and winsorized at the 1% and 99% levels to limit the influence of data errors and outliers. Standard errors are clustered at the dealer-week level.

In the absence of netting, higher transaction volume should mechanically translate into higher gross notional outstanding, implying a positive β_1. If clearing indeed facilitates netting, then β_3 will be negative as higher rates of clearing should weaken the association between trading volume and gross outstanding. The inclusion of dealer-week fixed effects ensure that our coefficient estimates are not driven by heterogeneity in dealers' netting capabilities and clearing propensity. The reference entity fixed effects further control for characteristics of the underlying, such as liquidity, that may affect netting potential.

Results are presented in Table 4. Columns (1) and (3) confirm a positive association between transaction volume and changes in gross notional outstanding, as expected. The estimate in Column (3) implies that each dollar of traded notional volume results in more than four cents of additional gross exposure at the end of the week. Consistent with the netting hypothesis, the coefficient on the interaction between *Transaction Volume* and *Cleared Share* is negative and statistically significant. To our knowledge, these results provide the first direct evidence, based on transaction-level data, that central clearing enhances netting efficiency. Moreover, they allow us to quantify the magnitude of the effect. As shown in Column (4), an additional dollar of transaction volume translates to approximately six cents of gross notional when a dealer does not clear any trades on a given reference entity, compared to just three cents when it centrally clears all trades.

4.2 Do Dealers Incentivize Client Use of CCPs?

Given that central clearing promotes multilateral netting and, by extension, improves margin efficiency, dealers may have incentives to encourage clearing by offering more favorable pricing on centrally cleared transactions. To examine this possibility, we estimate the following model using the same sample of single-name reference entities eligible for voluntary clearing:

$$\text{Upfront Points}_{n,t} = \beta_1 \text{Cleared Trade}_{n,t} + \beta_2 \text{Log Notional}_{n,t} + \alpha_{\iota(n),t} + \epsilon_{n,t} \tag{2}$$

Table 4: Netting Incentives for Clearing

	(1)	(2)	(3)	(4)
Transaction Volume	0.039***	0.057***	0.043***	0.062***
	(0.004)	(0.007)	(0.003)	(0.007)
Cleared Share		0.030		−0.124
		(0.175)		(0.175)
Transaction Volume x Cleared Share		−0.031***		−0.033***
		(0.009)		(0.009)
Dealer x Week FE	Y	Y	Y	Y
Ref. Entity FE			Y	Y
Num. obs.	454,595	454,595	454,595	454,595
Adj. R^2	0.301	0.301	0.302	0.303

Note: Results from regressions of changes in gross notional outstanding on weekly transaction volume, share of transaction volume cleared, and the interaction of these two terms. All variables are computed at the dealer-week-reference entity level. The gross outstanding and transaction volume measures are expressed in millions and winsorized at the 1% and 99% levels to limit the influence of data errors and outliers. Standard errors are clustered at the dealer-week level. $^{*}p < .1,^{**}p < .05,^{***}p < .01$
Source: The Depository Trust & Clearing Corporation, Authors' analysis.

where Upfront Points$_{n,t}$ is the price of trade n on date t in clean upfront points, Cleared Trade$_{n,t}$ is an indicator equal to one if the trade is cleared and zero otherwise, Log Notional$_{n,t}$ is the log of the transaction notional, and $\alpha_{\iota(n),t}$ is a contract-date fixed effect where the contract is defined by the reference entity, tenor, currency, and seniority combination. In some specifications, we additionally control for buyer and seller fixed effects to account for heterogeneity in pricing across market participants. We employ the pricing filter described in Section 3 and winsorize the notional variable at the 1st and 99th percentiles. Heteroskedasticity robust standard errors are used across specifications. The inclusion of contract-date fixed effects ensures that β_1 captures pricing differences between cleared and uncleared trades. For client buys, a negative β_1 coefficient implies better pricing for clients on cleared trades, as it indicates they pay less for protection. Analogously, for client sells a positive coefficient corresponds to better pricing for clients since it mean they are paid more for providing protection when transactions are cleared.

Columns (1) and (2) of Table 5 report results for dealer-to-client transactions where the client buys protection. The coefficient on the cleared trade indicator is negative and statistically significant, indicating that clients pay less for protection (i.e., receive better pricing) when transactions are centrally cleared. This effect persists, though with a reduced magnitude, when buyer fixed effects are included in Column (2). The estimated discount, 0.88 upfront points, is economically modest relative to the average single-name effective half-spread of approximately 14 upfront points

documented in Biswas et al. (2015). Our findings are broadly consistent with Du et al. (2024), who report similar pricing benefits for clients on cleared trades, albeit using a less saturated fixed effects specification. In contrast, our results differ from those of Loon and Zhong (2014), who argue that CDS spreads increase (i.e., purchasing protection is more expensive) after the introduction of clearing due to reduced counterparty risk.

Table 5: Clearing Pricing: Dealer-to-Client

	Client Buys		**Client Sells**	
	(1)	(2)	(3)	(4)
Cleared Trade	-2.77^{***}	-0.88^{**}	0.50^{*}	0.71^{**}
	(0.32)	(0.36)	(0.28)	(0.34)
Log Notional	0.07^{**}	0.11^{***}	-0.02	-0.03
	(0.03)	(0.03)	(0.03)	(0.03)
Contract x Date FE	Y	Y	Y	Y
Buyer FE		Y		
Seller FE				Y
Num. obs.	323,171	323,171	288,674	288,674
R^2	0.85	0.86	0.87	0.87
Adj. R^2	0.74	0.75	0.78	0.79

Note: Results from regressions of traded upfront points on an indicator equal to one if the trade is cleared and zero otherwise, the log of the transaction notional, and contract-date fixed effects, where the contract is defined by the reference entity, tenor, currency, and seniority combination. The transaction notional is winsorized at the 1- and 99-percent levels to limit the influence of data errors and outliers. Standard errors are clustered at the dealer-week level. $^{*}p < .1$,$^{**}p < .05$,$^{***}p < .01$
Source: The Depository Trust & Clearing Corporation, Authors' analysis.

Columns (3) and (4) examine dealer-to-client trades where the client is the seller of protection. Clearing is again associated with more favorable pricing, as clients earn more for selling protection when the trade is cleared. This symmetric effect contrasts with results from Cenedese et al. (2020), who find that clients receive pricing benefits for clearing interest rate swaps only when paying fixed. One possible explanation is that the authors' sample predates the introduction of UMR so the regulatory costs associated with uncleared trades are more pronounced in our setting.

4.3 Did the UMR Affect Client Participation in Clearing?

As discussed in Section 2.3, clearing rates for both dealer-to-client and interdealer single-name CDS transactions rose sharply following the implementation of uncleared margin rules (UMR) in 2016. The first phase of UMR applied directly only to the largest market participants, suggesting that the broader uptake of central clearing reflects dealers more actively encouraging clients to use CCPs. Given the substantial fixed costs associated with clearing, such as onboarding, technology

investment, and collateral management, this shift may have prompted some clients to exit the single-name CDS market altogether. We test this hypothesis by estimating the following logistic regression model at the client level:

$$\begin{aligned}\text{Exited}_c =& \beta_1 \text{CDX User}_c + \beta_3 \text{Log Pre-UMR Notional}_c + \\ & \beta_2 \text{Log Pre-UMR Num Trans}_c + \beta_4 \text{Trade Directionality}_c + \epsilon_c \end{aligned} \tag{3}$$

where Exited_c is an indicator equal to one if client c made no single-name trades in the immediate post-UMR period and zero otherwise, CDX User_c is an indicator equal to one if the client had any open CDX contracts at the beginning of the pre-UMR period and zero otherwise, $\text{Log Pre-UMR Notional}_c$ is the log of the client's traded notional on single-name contracts during the pre-UMR period, Log Pre-UMR Num Trans is the log of the number of single-name trades made by the client in the pre-UMR period, and Trade Directionality is defined as the absolute value of one-half minus the share of the client's single-name trades during the Pre-UMR period in which it bought protection. We define the pre-UMR period as January 2015 through August 2016 and the post-UMR period as September 2016 through December 2017 in our primary specifications, but our results are robust to modifying the lengths of these windows. To avoid spurious exits, we consider only clients with at least five trades in the pre-UMR period, but our findings are again robust to varying this threshold.

Regression results are presented in Columns (1) and (2) of Table 6. Of the 393 clients active prior to UMR, nearly a quarter ceased trading single-name CDS in the period following the reform. The strongest predictor of exit is trading intensity: Clients with more transactions in the pre-UMR period were significantly more likely to remain active post-UMR. This finding is consistent with infrequent traders finding the increased collateral burdens imposed by UMR and the operational requirements of clearing too costly to justify continued market participation.

Among the clients who remained active in the single-name segment, not all embraced central clearing. To examine the determinants of clearing adoption, we re-estimate equation (3) on the subset of clients with post-UMR activity, replacing the dependent variable with an indicator equal to one if the client cleared at least one trade in the post-UMR period. Results shown in Columns (3) and (4) of Table 6 reveal that prior engagement with cleared products is a strong predictor of

Table 6: Client Clearing Participation

	Exited		**Cleared**	
	(1)	(2)	(3)	(4)
Constant	-1.143^{***}	4.020^{*}	-0.759^{***}	-4.280
	(0.118)	(2.352)	(0.125)	(2.914)
CDX User		0.113		1.822^{***}
		(0.296)		(0.531)
		[0.017]		[0.264]
Log Pre-UMR Notional		−0.141		0.025
		(0.151)		(0.182)
		[-0.022]		[0.004]
Log Pre-UMR Num. Trans		-0.651^{***}		0.388^{**}
		(0.168)		(0.197)
		[-0.100]		[0.068]
Trade Directionality		−0.662		−1.238
		(0.860)		(0.923)
		[-0.102]		[-0.218]
Num. obs.	393	393	298	298
Log Likelihood	−217.355	−184.138	−186.535	−155.335
Pseudo R^2	0.000	0.134	0.000	0.145

Note: This table presents results from logistic regressions for the decision to exit the single-name CDS market (columns (1) and (2)) and the decision to begin clearing single-name CDS conditional on continuing to trade in this segment (columns (3) and (4)) after the implementation of UMR. CDX User is an indicator equal to one if the client had any open CDX contracts at the beginning of the pre-UMR period and Trade Directionality is the absolute value of one-half minus the share of the client's single-name trades during the Pre-UMR period in which it bought protection. Heteroskedasticity robust standard errors appear in parentheses directly below each coefficient estimate, followed by average marginal effects in brackets. $^{*}p < .1,^{**}p < .05,^{***}p < .01$
Source: The Depository Trust & Clearing Corporation, Authors' analysis.

clearing adoption. Clients with open CDX positions before UMR were 26 percentage points more likely to clear single-name CDS than those without. As in the exit analysis, clients with greater pre-UMR trading activity were more likely to clear. These results suggest that clearing adoption is concentrated among clients for whom the fixed costs of CCP participation are less prohibitive, either because they already clear other products or because they trade frequently enough to realize meaningful netting and pricing benefits.

4.4 Which Client Trades Tend to Be Cleared?

Although a number of market participants began voluntarily clearing single-name CDS transactions around the implementation of UMR, a substantial share of trades remain uncleared. We therefore examine the factors influencing clients' decisions to clear specific transactions by restricting the sample to clients who have previously cleared and estimating the following logistic regression

model on protection-buy trades:

$$\begin{aligned}\text{Cleared}_{n,c,d,t} =& \beta_1 \text{Log Dealer CDS}_{d,t} + \beta_2 \text{Buyer Net Seller wrt CCP}_{n,c,t} + \\ & \beta_3 \text{Seller Net Buyer wrt CCP}_{n,d,t} + \beta_4 \text{Log Ref Entity Spread}_{n,t} + \\ & \beta_5 \text{Log Notional}_n + \alpha_{m(t)} + \epsilon_{n,c,d,t}\end{aligned} \tag{4}$$

where $\text{Cleared}_{n,c,d,t}$ is an indicator equal to one if trade n between client c and dealer d on date t was centrally cleared. Log Dealer $\text{CDS}_{d,t}$ is the log of the dealer's CDS spread at time t and serves as a proxy for dealer credit risk. Buyer Net Seller wrt $\text{CCP}_{n,c,t}$ equals one if the client is a net seller of protection on the same reference entity (relative to ICE Clear Credit) on the Friday prior to the trade; analogously, Seller Net Buyer wrt CCPn, d, t equals one if the dealer is a net buyer. Log Ref Entity $\text{Spread}_{n,t}$ captures the log of the reference entity's CDS spread, and Log Notional_n is the log of transaction size. All regressions include month fixed effects ($\alpha_{m(t)}$), and selected specifications also include client-by-month and reference entity-by-month fixed effects. As before, notional amounts are winsorized at the 1st and 99th percentiles to reduce the influence of outliers.

Columns (1) through (3) of Table 7 present coefficient estimates along with heteroskedasticity-robust standard errors in parentheses and average marginal effects in brackets. The coefficient on *Log Dealer CDS* is positive and significant in all specifications, indicating that clients are more likely to clear trades when the dealer is riskier. This effect grows stronger when client fixed effects are included in Columns (2) and (3), suggesting that the relationship is not driven by cross-sectional differences in client behavior. These results are made possible by our ability to match the two CCP-facing legs of cleared contracts and contribute to the literature on counterparty risk management by non-dealers. Du et al. (2024) find that clients choose safer dealers when contracts are ineligible for clearing but not when clearing is an option. Our findings suggest that the null result in their setting may be driven by selection, as we demonstrate that clearing clients continue to respond to dealer credit risk.

We also find that margin considerations influence clearing decisions. The coefficient on *Buyer Net Seller wrt CCP* is positive and statistically significant across specifications. Marginal effect estimates in Columns (2) and (3) suggest that clients are roughly 10 percentage points more likely to clear a protection-buy transaction when they already hold a net sold position with the CCP.

This result, enabled by our ability to observe clients' full positions, indicates that clients actively manage their exposure and associated margin requirements when deciding whether to clear.

Table 7: Clearing Choice: Dealer-to-Client

	Client Buys			**Client Sells**		
	(1)	(2)	(3)	(4)	(5)	(6)
Log Dealer CDS	0.503***	0.246***	0.409***	0.965***	0.258***	0.620***
	(0.026)	(0.054)	(0.106)	(0.024)	(0.047)	(0.087)
	[0.077]	[0.023]	[0.023]	[0.155]	[0.026]	[0.038]
Buyer Net Seller wrt CCP	2.220***	1.095***	1.721***	0.065***	−0.048**	−0.066
	(0.017)	(0.034)	(0.092)	(0.011)	(0.021)	(0.042)
	[0.340]	[0.109]	[0.102]	[0.010]	[-0.005]	[-0.004]
Seller Net Buyer wrt CCP	−0.210***	−0.166***	−0.008	1.277***	1.933***	2.041***
	(0.012)	(0.024)	(0.049)	(0.012)	(0.027)	(0.071)
	[-0.032]	[-0.016]	[-0.000]	[0.203]	[0.211]	[0.132]
Log Ref Entity Spread	0.208***	0.136***	0.439***	0.040***	−0.075***	−0.869***
	(0.005)	(0.013)	(0.092)	(0.005)	(0.011)	(0.088)
	[0.032]	[0.013]	[0.024]	[0.006]	[-0.008]	[-0.053]
Log Notional	0.549***	0.589***	0.709***	0.089***	0.090***	0.058***
	(0.004)	(0.011)	(0.020)	(0.004)	(0.010)	(0.016)
	[0.084]	[0.055]	[0.040]	[0.014]	[0.009]	[0.004]
Month FE	Y			Y		
Client x Month FE		Y	Y		Y	Y
Ref. Entity x Month FE			Y			Y
Num. obs.	201,718	84,838	71,156	230,717	102,042	84,934
Log Likelihood	−93,951.844	−25,654.245	−12,739.692	−113,072.367	−32,810.072	−16,642.147
Pseudo R^2	0.324	0.540	0.559	0.233	0.500	0.568

Note: This table presents results from logistic regressions for the decision to clear a given single-name CDS transaction, using the sample of dealer-to-client trades. Columns (1)-(3) consider dealer-to-client trades where the client is the buyer; columns (4)-(6) analogously use trades where the client is the seller. Log Dealer CDS is the log of the transacting dealer's CDS spread and Buyer (Seller) Net Seller (Buyer) wrt CCP equals one if the client is a net seller (buyer) of protection on that reference entity relative to the CCP on the Friday prior to the transaction. Heteroskedasticity-robust standard errors are given in parentheses and average marginal effects in brackets. $^{*}p < .1$,$^{**}p < .05$,$^{***}p < .01$
Source: The Depository Trust & Clearing Corporation, S&P Global, Authors' analysis.

Columns (4) through (6) present analogous results for trades in which the client is the seller of protection. The findings are broadly symmetric. Clients are again more likely to clear when their counterparty is riskier, as reflected by the positive and significant coefficients on *Log Dealer CDS*. The significance of *Buyer Net Seller* varies, but the coefficient on *Seller Net Buyer wrt CCP* is consistently positive and significant. Overall, our results suggest that clients clear transactions when it is in their economic interest to do so based on counterparty risk and margin considerations.[6] While dealers may encourage the use of CCPs for their own benefit, the decision to clear appears to ultimately be driven by clients.

[6]The findings are similar for interdealer trades, which we analyze in Appendix A.

4.5 How Does Clients Clearing Impact Dealer Competition?

Our results in prior sections yield mixed implications regarding the effect of central clearing on dealer competition. On one hand, Table 5 shows that clients receive more favorable pricing on cleared trades, suggesting enhanced competition. On the other hand, we have shown that clearing improves dealers' netting efficiency, potentially increasing the intermediation capacity of individual CCP members and leading to market concentration. To reconcile these competing effects, we examine whether clients alter the number or concentration of their dealer relationships after they begin clearing single-name CDS transactions. Specifically, we estimate the following client-level regression:

$$\text{Dealer Usage}_{c,t} = \beta_1 \text{Post Clearing}_{c,t} + \alpha_c + \alpha_t^{\bar{c}} + \epsilon_{c,t} \tag{5}$$

where, depending on the specification, Dealer $\text{Usage}_{c,t}$ is either the number of distinct dealers with whom client c trades in month t or a Herfindahl index measuring dealer concentration. The right-hand side includes an indicator, Post $\text{Clearing}_{c,t}$, equal to one if client c has begun clearing by month t, a client fixed effect α_c, and the notional-weighted average of the dependent variable, $\alpha_t^{\bar{c}}$, taken across all clients excluding the focal client. The inclusion of this final term yields a generalized difference-in-differences specification by controlling for secular trends in dealer usage. We define an event window of 24 months centered on the client's first cleared trade, with 12-month pre- and post-periods. Standard errors are clustered at the client level.

Results are reported in Table 8. Column (1) shows that clients trade with more dealers after adopting clearing. The coefficient on *Post Clearing* is 0.509, which is economically meaningful relative to a sample median of four total dealers per client. This estimate accords with central clearing promoting flexibility in dealer selection by mitigating counterparty risk constraints and centralizing margin management. In Column (2), we replace the dependent variable with the Herfindahl index of client-level dealer usage. The coefficient estimate is negative and significant, confirming that dealer concentration declines after clients begin to clear. Unlike prior work that relies on bid-ask spreads and in which clearing adoption coincides with the introduction of SEF mandates (e.g., Loon and Zhong, 2016), our approach leverages direct observations of trading relationships in a setting where clearing is voluntary and trading mechanisms are unchanged. These

results provide concrete evidence that clearing promotes dealer competition.

Table 8: Effects of Clearing on Dealer Usage

	Number of Dealers	**Dealer Concentration**
	(1)	(2)
Post Clearing	0.509^{***}	-0.074^{***}
	(0.134)	(0.017)
Client FE	Y	Y
Num. obs.	3,441	3,441
Adj. R^2	0.693	0.525

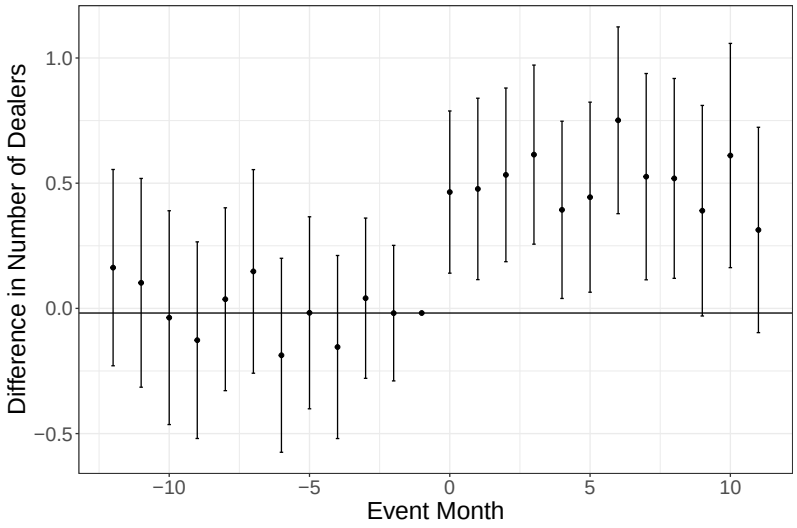
Note: This table presents results from estimation of Equation (5), where the dependent variable is either the number of dealers used by client c in calendar month t (column (1)) or a Herfindahl index measuring dealer concentration based on transaction notionals (column (2)). Post Clearing is an indicator equal to one if the client had begun clearing by month t. Regressions include client fixed effect and controls for the notional-weighted average of the dependent variable taken across all clients (excluding the focal client). $^{*}p < .1,^{**}p < .05,^{***}p < .01$
Source: The Depository Trust & Clearing Corporation, Authors' analysis.

To assess robustness and examine dynamic effects, we estimate Equation (5) with separate indicator variables for each event month, omitting the month immediately preceding clearing. The resulting coefficient paths are plotted in Figure 4, with 95% confidence intervals based on client-clustered standard errors. In both panels, the estimates are stable prior to adoption and shift sharply and persistently following the client's first cleared trade, supporting the parallel trends assumption. To address further concerns about the staggered timing of clearing adoption (e.g., Sun and Abraham, 2021), we estimate the model while excluding clients that had already begun clearing from the $\alpha_t^{\bar{c}}$ term that captures a dealer's aggregate client market share. Untabulated results from this alternative specification are nearly identical, reinforcing the conclusion that central clearing facilitates broader access to liquidity and intensifies dealer competition.

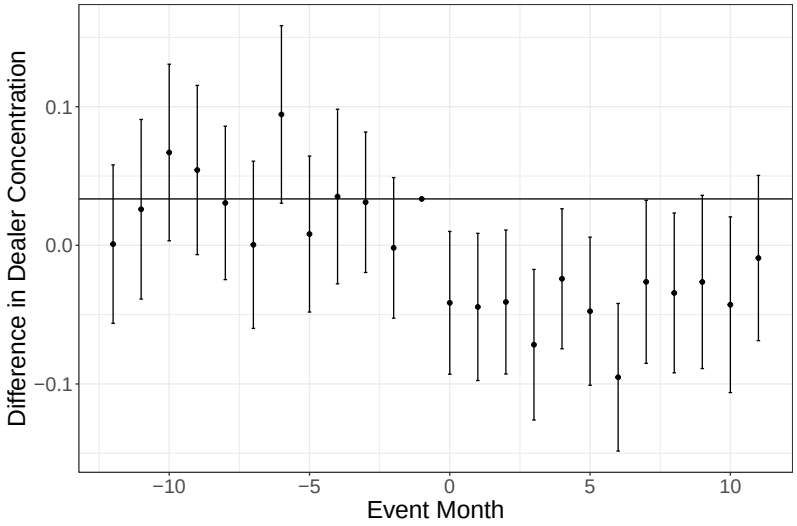
4.6 Summary of Clearing Incentive Results

This section has examined client clearing incentives from multiple perspectives. We find that clearing enables dealers to reduce margin demands and that they, in turn, pass efficiency gains to clients via improved pricing. Our analysis also highlights the influence of regulatory reform by showing that the introduction of UMR prompted the exit of smaller clients from the single-name CDS market. For clients willing to bear the fixed costs required to access CCPs, clearing promotes dealer competition by easing counterparty risk constraints and centralizing collateral management. Together, the effects of clearing have influenced interactions between dealers and

Figure 4: Dealer Competition after Client Clearing



(a) Number of Dealers



(b) Client's Dealer Concentration (HHI)

Note: Coefficient estimates from a dynamic specification of Equation (5) that omits the month prior to clearing adoption and includes separate indicator variables for each of the remaining event months. The vertical lines extending from each point represent 95% confidence intervals based on standard errors clustered by client. Panel (a) shows estimates from the specification where the number of dealers is the dependent variable; panel (b) uses the Herfindahl index as a measure of dealer concentration.
Source: The Depository Trust & Clearing Corporation, Authors' analysis.

clients and reshaped intermediation networks. The next section investigates the strategic incentives underpinning dealers' provision of clearing services. In particular, we examine how clearing agent relationships influence client behavior, trading flows, and market structure.

5 What Are the Incentives of Client Clearing Service?

As discussed in Section 2.2, clients require a CCP member to act as a clearing agent to access central clearing. While agents earn fee income for providing this service, industry participants have noted that the associated regulatory capital charges often outweigh such revenue (Contiguglia, 2015). Moreover, clearing agents generally bear the liability for client margin shortfalls, raising the question of what incentives exist for firms to act in this role. One potential benefit is that the provision of clearing services might strengthen the broader relationship between the client and dealer. A stronger relationship may allow a dealer to capture a greater share of the client's transaction volume and extract greater pricing concessions. Such effects would align with findings on spillover benefits from the banking literature. Yasuda (2005) shows, for example, that firms are more likely to procure underwriting services from prior loan arrangers while Hellmann et al. (2008) find that companies prefer to borrow from banks that previously provided venture capital.

We also examine the determinants of relationship formation between clients and clearing agents. Clients may prefer to obtain clearing services from dealers that they have historically used as trading partners. Alternatively, the clearing transition may offer an opportunity to initiate relationships with new CCP members. Counterparty risk may also play a role. Although CCPs have established protocols for porting client positions in the event of an agent default (BCBS-IOSCO, 2022), some market participants have expressed skepticism about the operational viability of these procedures (FSB, 2018). Clients rely on agents to serve as guarantors, so they may prefer to select safer clearing members. This concern is particularly salient because most clients maintain only a single agent relationship (see Table 3), implying that the failure of a chosen member could disrupt their access to the CCP entirely.

Beyond the question of whom clients choose as clearing agents, we investigate why some clients opt to maintain multiple clearing relationships. Because CCPs apply portfolio margin models, clients with bidirectional exposures generally achieve greater collateral efficiency by concentrating positions with a single agent. Splitting positions across multiple agents reduces netting opportunities and increases margin requirements. As a result, we posit that clients expand their agent networks primarily in response to clearing capacity constraints. These constraints may emerge when clients increase trading activity or during periods of market stress that prompt CCPs to call for additional margin. Given the impediments to relationship formation (FSB, 2018), maintaining

multiple agents may also serve as a precautionary measure, allowing clients to preserve market access if one of their agents becomes impaired and reduces clearing services.

5.1 What are the Member Benefits for Providing Agent Services?

We begin by examining whether providing clearing agent services enables dealers to better retain trading relationships following a client's adoption of central clearing. As shown in Figure 5, which plots the number of client-agent relationships formed by quarter, most clients initiated a clearing relationship around the introduction of index clearing mandates in 2013. Accordingly, we pool both single-name and index CDS transactions and estimate the following regression using event windows centered on the month in which each client first clears:

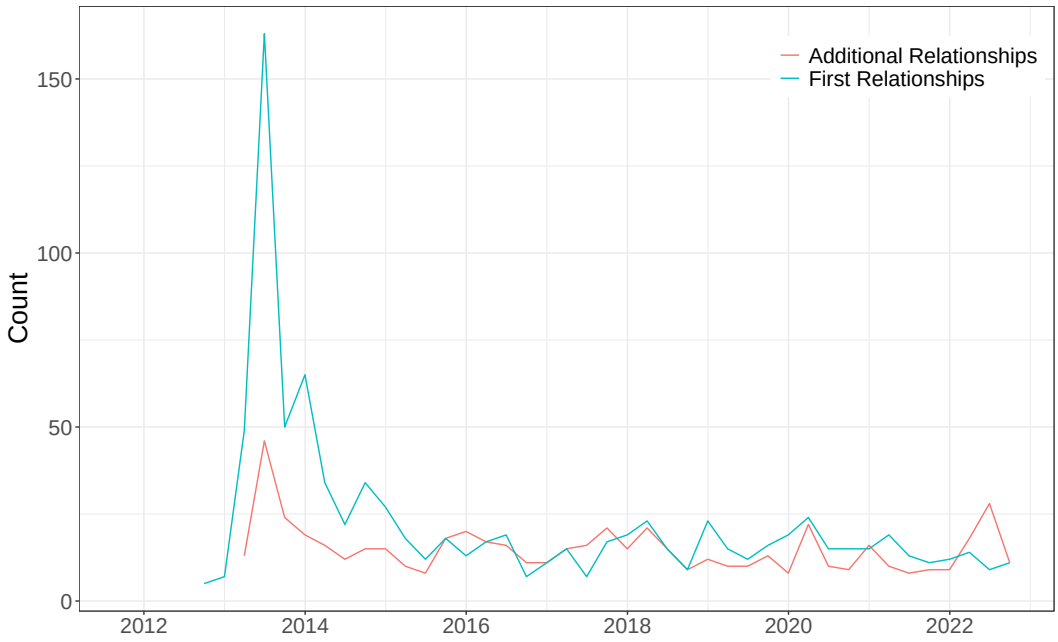
$$\begin{aligned}\text{Notional Share}_{c,d,t} =& \beta_1 \text{Post Clearing}_{c,t} + \beta_2 \text{Post Clearing}_{c,t} \times \text{Clearing Agent}_{c,d} + \\ & \alpha_{c,d} + \alpha^{\overline{c}}_{d,t} + \epsilon_{c,d,t} \end{aligned} \tag{6}$$

where $\text{Notional Share}_{c,d,t}$ is the share of client c's trading volume in month t done with dealer d, $\text{Post Clearing}_{c,t}$ is an indicator that equals one if the client initiated clearing in or before month t, $\text{Clearing Agent}_{c,d}$ is an indicator that equals one if dealer d was selected as the client's clearing agent in the month it first cleared, $\alpha_{c,d}$ is a client-dealer fixed effect, and $\alpha^{\overline{c}}_{d,t}$ is the share of aggregate client volume excluding the focal client that is intermediated by the dealer. We use 24-month event windows that consist of the 12 months before and after each client's initial cleared trade. Standard errors are clustered at the client level.

This specification is equivalent to a generalized difference-in-differences design, where the $\alpha^{\overline{c}}_{d,t}$ term accounts for secular shifts in the dealer's overall trading activity over time. A positive estimate of β_2 indicates that once a client begins clearing, they are more inclined to trade with the dealer they have chosen to provide clearing services. As established in Section 4.5, clients tend to expand the number of dealers they engage with after adopting clearing. Here, we consider only dealers with whom the client traded prior to clearing to assess changes in preexisting relationships. Regression (6) is therefore an unbalanced panel with the number of rows per client-month equal to the number of preexisting relationships.

Results are presented in Table 9. The positive and statistically significant coefficient on the

Figure 5: Relationship Formations by Quarter



Note: This figure shows the number of new client-agent relationships formed per quarter.
Source: The Depository Trust & Clearing Corporation, Authors' analysis.

interaction term in Column (1) indicates that a client conducts a greater share of trading with the dealer serving as its agent following the initiation of clearing. To rule out bias from overlapping relationship formations, Column (2) limits the sample to clients who form no further agent relationships in the 12-month post-clearing period. The estimated effect is larger in this restricted sample: Relative to other pre-clearing dealers, the client's chosen clearing member captures an additional 5.6 percentage points of trading volume. These findings highlight an important benefit of providing agent services and offer new evidence of synergies across business lines within dealer banks.

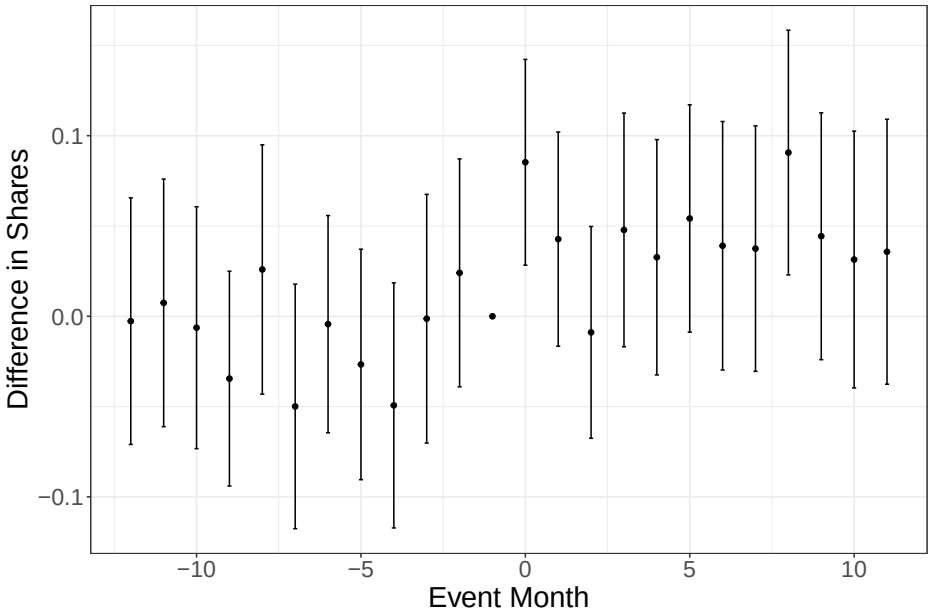
To test for pre-trends and assess dynamics, we estimate a fully flexible version of Equation (6) that excludes the month prior to clearing and includes separate event-time indicators for the remaining months. Figure 6 plots the resulting coefficients and 95% confidence intervals. The estimates exhibit no systematic trend prior to clearing adoption, supporting the parallel trends assumption. After clearing begins, the coefficients rise and remain elevated, reinforcing the conclusion that agent affiliation helps dealers preserve and deepen client trading relationships.

Table 9: Effects of Providing Agent Services

	All Events	**Non-Confounded Events**
	(1)	(2)
Post Clearing	-0.004^{**}	-0.007^{***}
	(0.002)	(0.003)
Post Clearing x Clearing Agent	0.038^{***}	0.056^{***}
	(0.012)	(0.016)
Client x Dealer FE	Y	Y
Num. obs.	53,221	26,493
Adj. R^2	0.430	0.449

Note: This table presents results from estimation of Equation (6), where the dependent variable is the share of client c's trading volume in month t done with dealer d. Clearing Agent is an indicator that equals one if the dealer was selected as the client's clearing agent in the month it first cleared. For each client, the set of dealers consists of those with whom the client conducted at least one trade before the client began clearing. Regressions include client-dealer fixed effects and controls for the share of aggregate client volume (excluding the focal client) that is intermediated by the dealer. Column (2) reports results when we limit the sample to clients who form no further dealer relationships in the 12-month post-clearing period. $^{*}p < .1,^{**}p < .05,^{***}p < .01$
Source: The Depository Trust & Clearing Corporation, Authors' analysis.

Figure 6: Provision of Agent Services and Preservation of Market Share



Note: Coefficient estimates from a dynamic specification of Equation (6) that omits the month prior to clearing adoption and includes separate indicator variables for each of the remaining event months. The vertical lines extending from each point represent 95% confidence intervals based on standard errors clustered by client.
Source: The Depository Trust & Clearing Corporation, Authors' analysis.

5.2 Does Clearing Enable Dealers to Extract Pricing Concessions from Clients?

Given that clients typically rely on a small number of clearing agents and tend to transact more with these dealers, CCP members that provide clearing services may gain additional bargain-

ing power in their client relationships. Dealers might therefore be able to extract pricing concessions when they serve as both the client's trading partner and clearing agent. To test this hypothesis, we estimate the following model using centrally cleared dealer-to-client transactions:

$$\text{Upfront Points}_{n,t} = \beta_1 \text{Dealer is Agent}_{n,t} + \beta_2 \text{Log Notional}_{n,t} + \alpha_{\iota(n),t} + \epsilon_{n,t} \tag{7}$$

where $\text{Upfront Points}_{n,t}$ captures the clean upfront points of trade n on date t. The indicator $\text{Dealer is Agent}_{n,t}$ equals one if the client's clearing agent is also the transacting dealer, and zero otherwise. $\text{Log Notional}_{n,t}$ is the log of the transaction notional, and $\alpha_{\iota(n),t}$ denotes a contract-date fixed effect, where contracts are defined by reference entity, tenor, currency, and seniority. In some specifications, we also include client fixed effects to ensure β_1 is not simply capturing heterogeneity in their sophistication. As before, we apply the pricing filter described in Section 3, winsorize notional values at the 1st and 99th percentiles, and use heteroskedasticity-robust standard errors.

Results are presented in Table 10. Columns (1) and (2) report estimates for pooled single-name and index trades in which the client is the buyer of protection. The positive and significant coefficients indicate that clients pay more when trading with their clearing agent. Similarly, the negative coefficients in Columns (3) and (4) show that clients receive worse terms when selling protection to the dealer affiliated with their clearing agent. Our findings are consistent with the model of Riggs et al. (2020), in which relationship effects make it less costly for clients to obtain quotes from member firms they use as agents. Dealers in turn exploit this differential to offer their clearing clients worse pricing terms.

To account for differences in transaction costs across market segments, we next examine single-name and index trades separately. In Columns (5) through (8), which isolate single-name transactions, we find economically meaningful point estimates of approximately 3 upfront points, though statistical significance emerges only for trades in which the client is the protection seller. A similar pattern appears in Columns (9) through (12) for index trades. The estimates remain economically significant despite being appreciably smaller, as average bid-ask spreads are an order of magnitude lower for index trades than single-name transactions (Loon and Zhong, 2016). In both cases, the results suggest that pricing asymmetries are most pronounced when clients are selling protection, potentially due to their reduced bargaining power in such contexts.

Table 10: Pricing Effects of Providing Clearing Services

	Pooled				**Single-name**				**Index**			
	Client Buys		Client Sells		Client Buys		Client Sells		Client Buys		Client Sells	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Dealer is Agent	0.43^{***}	0.20^{*}	-0.69^{***}	-0.56^{***}	3.11	2.71	-2.91^{**}	-3.34^{**}	0.36^{***}	0.12	-0.59^{***}	-0.46^{***}
	(0.11)	(0.12)	(0.11)	(0.12)	(3.37)	(3.51)	(1.37)	(1.45)	(0.10)	(0.10)	(0.11)	(0.11)
Log Notional	-0.18^{***}	0.06	-0.09^{***}	-0.28^{***}	0.16	-0.27	-0.05	-0.20^{**}	-0.18^{***}	0.06	-0.09^{***}	-0.29^{***}
	(0.04)	(0.04)	(0.03)	(0.03)	(0.40)	(0.50)	(0.10)	(0.10)	(0.04)	(0.04)	(0.03)	(0.03)
Contract x Date FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Buyer FE		Y				Y				Y		
Seller FE			Y				Y					Y
Num. obs.	802,056	802,056	1,007,642	1,007,642	73,943	73,943	130,233	130,233	728,113	728,113	877,409	877,409
Adj. R^2	1.00	1.00	1.00	1.00	0.58	0.58	0.87	0.87	1.00	1.00	1.00	1.00

Note: This table presents results from estimation of Equation (7), where the dependent variable is the price of trade n on date t in clean upfront points. We present separate results for transactions where the client is the buyer and where the client is the seller. Dealer is Agent is an indicator equal to one if the client's clearing agent for the trade is also the transacting dealer and zero otherwise. The Pooled results (columns (1)-(4)) combine single-name and index transactions; columns (5)-(8) and (9)-(12) present separate results for single-name and index transactions, respectively. The notional variable is winsorized at the 1st and 99th percentiles. Heteroskedasticity robust standard errors are reported in parentheses. $^{*}p < .1,^{**}p < .05,^{***}p < .01$
Source: The Depository Trust & Clearing Corporation, Authors' analysis.

5.3 How do Clients Choose Their Clearing Agent?

We next examine the factors that influence a client's choice of clearing agent. To do so, we estimate a multinomial conditional logit model based on clients' selection among the 13 CCP members that collectively handle over 99.9% of client clearing activity. The probability that client c selects member m to be its clearing agent conditional on characteristics x_m is given by:

$$\Pr(y_{c_i} = m|x_m) = \frac{\exp(x_m\beta)}{\sum_{\hat{m}}^{M_{c_i}} \exp(x_{\hat{m}}\beta)}, \quad m = 1, ..., M_{c_i} \tag{8}$$

For a client's first agent choice, the set of alternatives includes all 13 members ($M_{c_1} = 13$). For subsequent selections, the choice set is restricted to the remaining $13 - i$ members with whom the client has not previously established a clearing relationship. The regressors include the log CDS spread of the member as a proxy for credit risk, the share of the client's uncleared gross notional outstanding facing the dealer, and the share of the client's trading volume over the prior month conducted with the dealer. If the client has completed fewer than 30 transactions in the past month, we extend the window used to compute trading volume shares until it includes 30 trades. Member fixed effects are included to account for baseline differences in market share, but the estimated coefficients on these dummies are excluded from the discussion to preserve data confidentiality.

Table 11 summarizes the results. Coefficient estimates are accompanied by heteroskedasticity-robust standard errors (in parentheses) and the averages of the alternative-specific marginal effects (in brackets). In Column (1), which includes all observed relationship formations, both the *Trade Share* and *Outstanding Share* enter positively and significantly. The marginal effect estimate on *Trade Share* indicates that a given dealer is nine percentage points more likely to be chosen as a clearing agent if it is the client's sole trading partner than if it has not recently traded with the client. Given that the most frequently chosen member is selected by 22.7% of clients, this effect is large economically. By contrast, the *Log Dealer CDS* spread is not statistically significant, suggesting that relationship-based factors, rather than credit risk, are the primary drivers of agent selection.

Column (2) reports results using only the first clearing relationship formed by each client. The findings are qualitatively similar, with both trading and outstanding exposures predicting agent choice, while the proxy for dealer credit quality remains insignificant. In Column (3), which restricts

Table 11: Clearing Member Choice

	All Relationships	**First Relationships**	**Additional Relationships**
	(1)	(2)	(3)
Log Dealer CDS	-0.222	0.360	-0.587**
	(0.194)	(0.354)	(0.259)
	[-0.015]	[0.024]	[-0.040]
Trade Share	1.428***	1.599***	1.036***
	(0.149)	(0.185)	(0.258)
	[0.095]	[0.105]	[0.070]
Outstanding Share	1.096***	0.910***	1.457***
	(0.184)	(0.209)	(0.486)
	[0.073]	[0.060]	[0.098]
Num. obs.	14,356	7,752	6,604
Log Likelihood	-2,382.3	-1,172.7	-1,188.3
Pseudo R^2	0.43	0.46	0.41

Note: This table presents results from multinomial conditional logit models for the choice of clearing agent by a client. For each choice, the set of alternatives is limited to the clearing agents with whom the client does not already have a clearing relationship. Standard errors are presented in parentheses, and the averages of the dealer-specific marginal effects are given in brackets. Columns (2) and (3) explore these effects separately for the establishment of a first clearing relationship versus the commencement of additional relationships. The specifications include member fixed effects, the log CDS spread of the member, the share of the client's trading volume over the past month for which the member served as the transacting dealer (Trade Share), and the share of the client's uncleared gross notional outstanding for which the member is the counterparty (Outstanding Share). The notional and transaction count variables are winsorized at the 99th percentile. $^{*}p < .1, ^{**}p < .05, ^{***}p < .01$
Source: The Depository Trust & Clearing Corporation, S&P Global, Authors' analysis.

the sample to second and subsequent relationships, the coefficient on the log CDS spread becomes negative and statistically significant. This result suggests nonmember clients that form multiple clearing relationships prefer safer agents, possibly because these clients are more sophisticated or more sensitive to counterparty risk.

5.4 Why Do Clients Seek Multiple Clearing Agents?

The preceding analysis sheds light on clients' selection of clearing agents but leaves open the question of why clients engage multiple CCP members. To investigate this, we construct a monthly panel of clients that formed at least two clearing agent relationships during the sample period. We then estimate the following logistic regression model:

$$\begin{aligned}\text{Formation}_{c,t} =& \beta_1 \text{Avg Agent Arcsinh Gross Notional}_{c,t} + \beta_2 \text{Log CDX Spread}_t + \\ & \beta_3 \text{Arcsinh Num Transactions}_{c,t} + \alpha_c + \epsilon_{c,t} \end{aligned} \tag{9}$$

where $\text{Formation}_{c,t}$ is an indicator equal to one if client c establishes a new clearing agent relationship in month t, and zero otherwise. Avg Agent Arcsinh Gross $\text{Notional}_{c,t}$ is the inverse hyperbolic sine of the client's gross cleared notional scaled by its number of existing agent relationships, Log CDX Spread_t denotes the log of the maximum CDX.NA.IG spread during the month, and Arcsinh Num $\text{Transactions}_{c,t}$ is the inverse hyperbolic sine of the client's transaction count. Some specifications include a client fixed effect α_c. We winsorize notional and transaction count variables at the 99th percentile and apply the inverse hyperbolic sine transformation to mitigate skewness and accommodate zero-valued observations. Because a substantial number of agent relationships were formed in response to the 2013 index clearing mandate, we begin our panel in January 2014.

Table 12 reports coefficient estimates, heteroskedasticity-robust standard errors in parentheses, and average marginal effects in brackets. In Column (1), which omits client fixed effects, all three variables enter positively. The coefficients suggest that larger and more active clients are more likely to expand their agent networks. Column (2) includes client fixed effects to account for time-invariant heterogeneity across nonmembers. The coefficient on transaction count remains positive and statistically significant, consistent with the view that clearing demand increases with trading intensity. The positive and significant estimate on *Log CDX Spread* further indicates that agent relationship formation is more likely in periods of heightened systemic stress, when CCPs impose tighter collateral requirements. Together, these findings support the hypothesis that clients pursue additional member relationships to address margin constraints and maintain clearing access when aggregate volatility is high.

5.5 How do Clients Choose Among Their Agents for Specific Transactions?

Building on our analysis of agent relationship formation, we next examine how clients with multiple established clearing agents allocate individual trades across those agents. To do so, we estimate a multinomial conditional logit model. The probability that a client selects agent m for trade n at time t, conditional on agent characteristics x_m, is given by:

$$\Pr(y_{c,n,t} = m | x_{m,t}) = \frac{\exp(x_{m,t}\beta)}{\sum_{\hat{m}}^{M_c} \exp(x_{\hat{m},t}\beta)}, \quad m = 1, ..., M_c \tag{10}$$

Table 12: Clearing Agent Relationship Formation Timing

	(1)	(2)
Constant	-6.975^{***}	
	(0.762)	
Avg. Agent Arcsinh Gross Notional	0.014^{***}	0.012
	(0.005)	(0.010)
	[0.0003]	[0.0002]
Log CDX Spread	0.619^{***}	0.544^{***}
	(0.181)	(0.174)
	[0.0134]	[0.0115]
Arcsinh Num. Transactions	0.174^{***}	0.378^{***}
	(0.013)	(0.036)
	[0.0038]	[0.0080]
Client FE		Y
Num. obs.	28,463	28,463
Log Likelihood	$-2,970.041$	$-2,802.572$
Pseudo R^2	0.019	-0.032

Note: Results from a logistic regression model where the dependent variable is equal to one if the client forms a clearing agent relationship in a given month and zero otherwise. Standard errors are presented in parentheses, and average marginal effects are given in brackets. Avg. Agent Arcsinh Gross Notional and Arcsinh Num. Transactions are the inverse hyperbolic sine of the client's gross cleared notional outstanding divided by the number of existing agent relationships it has at the beginning of the month and the client's monthly transaction count, respectively; Log CDX Spread is the log of the highest CDXNAIG spread during the month. We winsorize the notional and transaction count variables at the 99th percentile. The monthly panel for this analysis begins in January 2014. $^{*}p < .1,^{**}p < .05,^{***}p < .01$
Source: The Depository Trust & Clearing Corporation, S&P Global, Authors' analysis.

where M_c denotes the number of clearing agent relationships formed by client c as of date t. The covariates include: the log CDS spread of the member as a proxy for counterparty risk, the share of the client's cleared trading volume over the prior month serviced by the member, the share of client's cleared gross notional outstanding serviced by the member, and an indicator equal to one if the member is also the transacting dealer. If the client has completed fewer than 30 transactions in the past month, we extend the window used to compute trading volume shares until it includes 30 trades. Member fixed effects are included to control for baseline differences in market share, but the corresponding coefficient estimates are again omitted for brevity and confidentiality.

Table 13 reports coefficient estimates, heteroskedasticity-robust standard errors (in parentheses), and the averages of member-specific marginal effects (in brackets). In Column (1), which pools client buy and sell transactions, *Log CDS Spread* is negative and significant, indicating that clients tend to avoid riskier agents. Both the trade and outstanding share variables are positive and significant, confirming that clients are more likely to reselect agents they have previously engaged.

The marginal effect of *Trade Share* suggests a 16.8 percentage point higher probability of choosing a given agent if it handled all the client's recent trades relative to if it had not been utilized. The coefficient on the indicator, *Agent is Dealer*, for whether the agent is also the transacting dealer is positive but economically modest, affirming limited execution-clearing integration in trade routing.

Columns (2) and (3) disaggregate the sample by client role. While the overall patterns persist, *Agent is Dealer* is only significant when the client is the seller. This asymmetry is consistent with earlier findings in Section 5.2 that dealers are better able to extract pricing concessions in such trades, underscoring that clients may have less bargaining power when selling protection.

Table 13: Trade-Level Clearing Member Choice

	All Trades	**Client Buys**	**Client Sells**
	(1)	(2)	(3)
Log Agent CDS	-0.140***	-0.119***	-0.159***
	(0.008)	(0.012)	(0.011)
	[-0.010]	[-0.009]	[-0.012]
Trade Share	2.260***	2.254***	2.268***
	(0.005)	(0.008)	(0.007)
	[0.168]	[0.167]	[0.168]
Outstanding Share	1.313***	1.223***	1.380***
	(0.006)	(0.009)	(0.008)
	[0.097]	[0.091]	[0.102]
Agent is Dealer	0.0244***	0.00586	0.0417***
	(0.004)	(0.005)	(0.005)
	[0.002]	[0.000]	[0.003]
Num. obs.	8,922,303	4,100,470	4,821,833
Log Likelihood	-1,755,216.9	-829,504.0	-925,227.8
Pseudo R^2	0.65	0.63	0.66

Note: This table presents results from multinomial conditional logit models for the choice of clearing agent by a client. For each transaction, the set of alternatives is limited to the clearing agents with whom the client has a previously established clearing relationship. Standard errors are presented in parentheses, and the averages of the dealer-specific marginal effects are given in brackets. The regression includes member fixed effects, the log CDS spread of the member, the share of the client's cleared trading volume over the past month for which the member served as the clearing agent (Trade Share), the share of the client's cleared gross notional outstanding for which the member is the clearing agent (Outstanding Share), and an indicator equal to one if the agent is also the transacting dealer (Agent is Dealer) and zero otherwise. The notional and transaction count variables are winsorized at the 99th percentile. The monthly panel for this analysis begins in January 2014. $^{*}p < .1,^{**}p < .05,^{***}p < .01$
Source: The Depository Trust & Clearing Corporation, S&P Global, Authors' analysis.

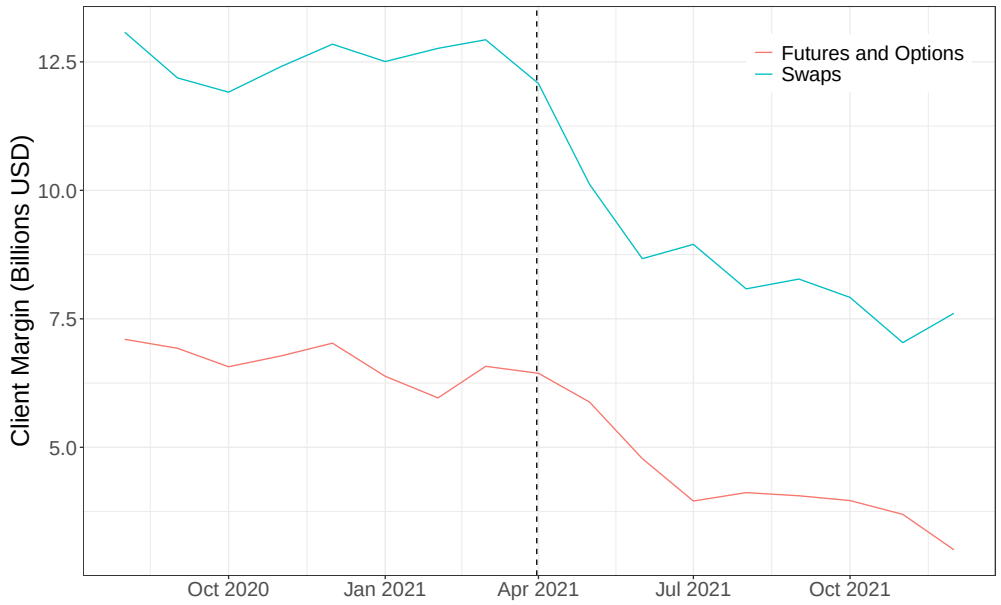
5.6 How do Clearing Member Constraints affect Clients?

The preceding results emphasize the salience of counterparty risk in clients' selection of clearing agents. Although CCPs maintain porting protocols to facilitate the transfer of client

positions in the event of member default, clients' persistent aversion to riskier agents suggests limited confidence in these safeguards. To assess the impact CCP member distress has on clients, we examine the sudden collapse of Archegos Capital Management in March 2021. The family office's failure to meet margin calls from its prime brokers, including Credit Suisse, Nomura, Morgan Stanley, and UBS, triggered substantial losses across these institutions. If adverse shocks to clearing member institutions impede their ability to offer clearing services or prompt clients to shift to other agents, we should observe a decline in margin posted through the affected members.

Using data from the Commodity Futures Trading Commission, Figure 7 plots client margin overseen by Credit Suisse, the most severely impacted member with reported losses of $4.7 billion in April 2021. The dashed vertical line indicates the timing of the Archegos collapse. In both the futures and options and swaps segments, margin volumes fall sharply following the event. The declines are notable, but it remains unclear whether they reflect voluntary client reallocation or binding constraints imposed by the former investment bank. If clients transitioned to alternative agents of their own accord, the disruption may have posed little threat to clearing access. If clearing capacity was rationed by the member and clients were unable to find other agents to handle their positions, however, clients may have experienced difficulty maintaining their desired exposures.

Figure 7: Client Margin Overseen by Credit Suisse



Note: This figure shows the amount of client margin overseen by Credit Suisse as a clearing agent. The dashed line marks the date of the Archegos collapse.
Source: CFTC, Authors' analysis.

We estimate the following regression model to formally assess whether CCP member constraints impair clients' ability to access clearing services:

$$\begin{aligned}\Delta\text{Gross Outstanding}_{c,r} =& \beta_1 \text{Shock Share}_{c,r} + \beta_2 \text{Num Agents}_{c,r} + \\ & \beta_3 \text{Shock Share}_{c,r} \times \text{Num Agents}_{c,r} + \alpha_c + \alpha_r + \epsilon_{c,r} \end{aligned} \tag{11}$$

where ΔGross Outstanding$_{c,r}$ denotes the percentage change in client c's cleared gross notional outstanding on reference entity r between the onset of the Archegos collapse (March 2021) and the final weekly snapshot of August 2021. Shock Share$_{c,r}$ is the share of the client's cleared gross notional exposure on reference entity r that was cleared through Credit Suisse in March 2021, and Num Agents$_{c,r}$ is the number of clearing agents used by the client at that time. Fixed effects α_c and α_r capture client-specific and reference entity-specific heterogeneity, respectively. The dependent variable is winsorized at the 99th percentile to mitigate the influence of outliers, and standard errors are double-clustered by client and reference entity.

If clearing capacity was restricted due to the member's constraint, and clients were unable to replicate their positions using other clearing agents, we should obtain a negative coefficient on *Shock Share*. A positive coefficient on the interaction term would suggest that clients with broader agent networks were better able to offset the constraint, highlighting the importance of multi-agent relationships as a hedge against member-specific distress.

Table 14 presents the results. Column (1) reports estimates from a baseline specification without fixed effects. The negative and statistically significant coefficient on *Shock Share* suggests that clients reliant on Credit Suisse experienced difficulty maintaining cleared positions. Column (2), which adds reference entity fixed effects, yields a similar estimate. The coefficient implies that clients who exclusively cleared with the former investment bank on a given reference entity reduced their gross positions by nearly 20% relative to those using other CCP members. This result provides compelling evidence that distress at a clearing member can restrict client access to the CCP and reinforces the counterparty risk concerns identified earlier.

To address the possibility that these declines reflect reduced client demand rather than binding constraints, Columns (3) and (4) introduce client fixed effects. Although the associated t-statistics fall just below conventional thresholds, the point estimates remain negative and closely

Table 14: Position Changes in Response to Archegos Shock

	(1)	(2)	(3)	(4)	(5)	(6)
Constant	0.047					
	(0.059)					
Shock Share	-0.160^{***}	-0.196^{***}	-0.216^{*}	-0.206^{*}	-0.442^{***}	-0.414^{***}
	(0.058)	(0.070)	(0.118)	(0.110)	(0.151)	(0.135)
Num. Agents					-0.062	-0.105^{**}
					(0.053)	(0.051)
Shock Share x Num. Agents					0.172^{**}	0.159^{***}
					(0.071)	(0.061)
Client FE			Y	Y	Y	Y
Ref. Entity FE		Y		Y		Y
Num. obs.	9,133	9,133	9,133	9,133	9,133	9,133
Adj. R^2	0.001	0.069	0.074	0.143	0.074	0.144

Note: Results from estimation of Equation (11), where the dependent variable is the percentage change in a client's cleared gross notional outstanding on a particular reference entity between the final weekly position snapshot of August 2021 and the onset of Archegos' collapse at the end of March 2021. Shock Share is the share of the client's cleared gross notional exposure on the given reference entity that was cleared through Credit Suisse in March 2021 and Num Agents is the number of clearing agents used by the client at that time. The dependent variable is winsorized at the 99th percentile. Standard errors are double clustered by reference entity and client. $^{*}p < .1,^{**}p < .05,^{***}p < .01$
Source: The Depository Trust & Clearing Corporation, Authors' analysis.

aligned with the previous coefficients. The results indicate that clients reduced their cleared positions more on reference entities for which they relied heavily on Credit Suisse for clearing services.

Columns (5) and (6) examine whether clients with broader clearing agent networks were better insulated from the Archegos shock. While *Shock Share* has a negative base effect, its interaction with *Num Agents* enters positively and significantly, indicating that cleared positions managed through multiple agents experienced attenuated declines. These results highlight the strategic value of agent diversification in preserving clearing access during periods of stress. They further suggest that smaller or less sophisticated clients that rely on a single agent may be more vulnerable to member-specific constraints.

5.7 Summary of Clearing Service Provision Results

This section has examined the incentives underlying dealers' provision of clearing services and clients' agent selection decisions. The results underscore the central role of relationships in shaping both dynamics. Sections 5.1 and 5.2 highlight the strategic value of offering clearing services, showing that doing so enables dealers to extract pricing concessions and capture a greater share of client transaction volume. Section 5.4 establishes that relationship formation is driven

by collateral demands, as clients are more likely to seek additional agents when trading activity increases or when margin requirements tighten during periods of systemic stress. Sections 5.3 and 5.5 show that clients tend to select clearing members that are affiliated with their most used dealers and that pose less counterparty risk. The concerns about credit quality are particularly salient, given that member distress can impair a client's access to the CCP. Taken together, these findings demonstrate that while dealers have strong incentives to offer clearing services, clients actively shape clearing network structure through their allocations of agent relationships and exposures.

6 Conclusion

This paper investigates the incentives and consequences of client clearing in derivatives markets. Using regulatory data from the U.S. credit default swap market, we analyze how central clearing reshapes intermediation and risk-sharing between dealers and clients. While prior research has largely focused on clearing members, our findings highlight the economically significant yet underexplored role of clients in driving clearing adoption and influencing market structure.

We show that clearing improves netting efficiency for dealers and is associated with better pricing outcomes for clients. Clients that incur the fixed costs required to access CCPs expand their trading networks, suggesting that clearing enhances dealer competition. While client clearing generates durable shifts in intermediation patterns, it also introduces new constraints. Most clients are reliant on a small number of clearing members, selected based on existing relationships and credit quality, to provide clearing services. These concentrated agent relationships help dealers retain intermediation share but also generate operational dependencies that may become systemically relevant during periods of stress.

Our results identify several frictions, including prohibitive fixed costs, limited contract portability, and member concentration, that create significant barriers to clearing. These findings have important implications for the design of client clearing services and the regulation of CCP access. As clearing mandates expand into new asset classes, including U.S. Treasuries, facilitating client access to CCPs becomes increasingly critical to preserving both the functioning and systemic resilience of financial markets.

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Clearing Markets and Client Clearing Services

Supplemental Appendices

Appendix A Interdealer Clearing Choice

Table A.1 presents results when we investigate the decision to clear dealer-to-dealer trades. The seller's CDS spread enters positively when buyer fixed effects are included in Columns 2 and 3 and the buyer's CDS spread enters positively when we use seller fixed effects in Columns 4 and 5. These estimates accord with our earlier results showing that customers are sensitive to counterparty risk. They are also consistent with those of Bellia et al. (2024), who consider a narrower sample of interdealer trades referencing three sovereign reference entities prior to the adoption of UMR. The positive coefficients for Buyer Net Seller with respect to CCP when the buyer's identity is held fixed and on Seller Net Buyer with respect to CCP when the seller's identity is held fixed affirm that dealers seek to optimize their collateral burden. These estimates are also qualitatively similar to those from Onur et al. (2024), who study the behavior of clearing members in exchange rate derivatives markets, and Bellia et al. (2024).

Table A.1: Clearing Choice: Interdealer

	Interdealer Trades				
	(1)	(2)	(3)	(4)	(5)
Log Seller CDS	0.136^{***}	0.324^{***}	0.400^{***}	-0.473^{***}	-0.173^{**}
	(0.015)	(0.017)	(0.020)	(0.054)	(0.069)
	[0.021]	[0.048]	[0.063]	[-0.068]	[-0.027]
Log Buyer CDS	0.217^{***}	-0.436^{***}	-0.208^{***}	0.428^{***}	0.504^{***}
	(0.015)	(0.054)	(0.069)	(0.017)	(0.020)
	[0.034]	[-0.064]	[-0.033]	[0.062]	[0.078]
Buyer Net Seller wrt CCP	0.174^{***}	0.031^{***}	0.016^{*}	0.201^{***}	0.202^{***}
	(0.007)	(0.008)	(0.010)	(0.008)	(0.009)
	[0.027]	[0.005]	[0.003]	[0.029]	[0.031]
Seller Net Buyer wrt CCP	-0.014^{**}	-0.037^{***}	-0.059^{***}	0.081^{***}	0.074^{***}
	(0.007)	(0.008)	(0.009)	(0.008)	(0.010)
	[-0.002]	[-0.005]	[-0.009]	[0.012]	[0.011]
Log Ref Entity Spread	-0.299^{***}	-0.326^{***}	-0.423^{***}	-0.313^{***}	-0.386^{***}
	(0.003)	(0.004)	(0.009)	(0.004)	(0.009)
	[-0.047]	[-0.048]	[-0.067]	[-0.045]	[-0.059]
Log Notional	-0.315^{***}	-0.315^{***}	-0.333^{***}	-0.332^{***}	-0.357^{***}
	(0.004)	(0.004)	(0.005)	(0.004)	(0.005)
	[-0.050]	[-0.046]	[-0.052]	[-0.048]	[-0.055]
Month FE	Y				
Buyer x Month FE		Y	Y		
Seller x Month FE				Y	Y
Ref. Entity x Month FE			Y		Y
Num. obs.	508,925	498,198	382,986	500,583	384805
Log Likelihood	$-239,187.038$	$-219,804.072$	$-181,625.802$	$-217,721.109$	-179414.049
Pseudo R^2	0.235	0.279	0.225	0.289	0.237

Note: This table presents results from logistic regressions for the decision to clear a single-name CDS transaction, using the sample of interdealer trades. Column (1) contains results from the baseline regression; columns (2)-(3) incrementally add buyer x month fixed effects and reference entity x month fixed effects; columns (4)-(5) analogously incrementally add seller x month fixed effects and reference entity x month fixed effects. $^{*}p < .1,^{**}p < .05,^{***}p < .01$
Source: The Depository Trust & Clearing Corporation, S&P Global, Authors' analysis.