

# Manifold: *standing up* a new market for an electronic market-maker.

A leading electronic market-maker wants into North American natural gas, financially-settled basis first, physical later. The pricing edge is the easy part. Entry is gated by a market structure that looks nothing like a lit equity book, and by the operational, regulatory, and connectivity plumbing that has to exist before the first quote. Manifold turns "we should trade this" into a sequenced, launch-blocker-cleared go-live.

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**Concept for** Jane Street · Citadel Securities · Optiver · IMC · DRW

## The Problem

**A trading model clears none of the three gates that actually decide go-live. Microstructure:** gas is an exchange-and-OTC hybrid, NYMEX and ICE futures and options sit alongside cleared basis swaps and bilateral physical, priced off Henry Hub plus a lattice of dozens of basis hubs, with block, EFRP, and give-up conventions that don't behave like a continuous central-limit order book. **Operational and regulatory:** CFTC speculative position limits and large-trader reporting, ISDA onboarding with CSA and credit terms per counterparty, and, the moment physical is on the table, FERC oversight plus pipeline scheduling and delivery at named points. **Connectivity and infrastructure:** ICE and CME plus broker venues, curve construction across hub spreads and calendar spreads, and risk and position systems that have to speak basis, not just outright. The pricing model is the straightforward part. The launch risk sits in the plumbing around it.

FIGURE 1 · READINESS FRAME · 3 GATES × NO-GO / CONDITIONAL / GO

	READINESS FRAME · 3 GATES × 3 STATES → LAUNCH DECISION			
	NO-GO	CONDITIONAL	GO	PROOF
<b>Microstructure</b> hub + basis lattice	no basis curve no quote	1 hub, fin-settled pilot	multi-hub + spreads scale	Desk shadow
<b>Ops &amp; Reg</b> limits · ISDA · FERC	limits unmapped blocked	cleared-only pilot	physical onboarded scale	Reg memo
<b>Infra</b> data · risk · venues	outright-only risk blocked	basis in risk sys pilot	co-lo + auto-quote scale	Integration test

Three gates, three states each. Go-live needs every gate at conditional or better, with the launch decision set by the weakest gate, not the strongest. The pilot column (one hub, financially-settled, basis in the risk system) is the lowest-risk path to a real quote.

## Sizing the entry

North American gas futures and the cleared basis complex turn over enormous notional daily across NYMEX and ICE, and the basis complex still clears across cleared swaps and broker venues more than a single screen, which is where a systematic market-maker's edge compounds. The return is captured spread across a high-turnover book, not one large trade. Against it sits an integration cost that is mostly time and senior attention, not capital: the basis-aware risk build, the regulatory onboarding, and the venue and data connections. The discipline is to enter on the narrowest viable slice, prove the rails, then widen.

*Engagement-plan framing. Hub liquidity, limits, and connectivity costs are scoped to a named opportunity in Phase 0; figures here are directional.*

ENTRY SLICE

**1 hub**

*financially-settled basis first*

GATING RISK

**Plumbing**

*reg + infra, not the model*

NORTH-STAR

**Time-to-quote**

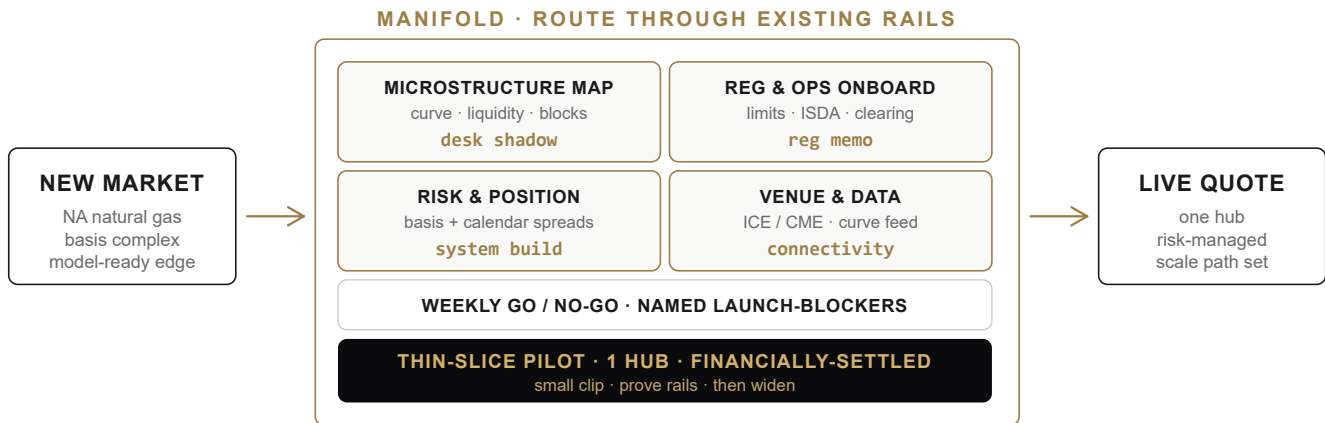
*first live quote, one hub*

## THE UNLOCK

Run it as a **sequenced Strategy & Product engagement, not a big-bang launch**. Phase 0 shadows the desk and maps the microstructure (how the basis curve is built, where liquidity actually sits, how blocks and EFRPs clear). Phases 1 to 3 scope the operational, regulatory, and technical integration against a single go-live date, then ship a **thin-slice pilot**: one liquid hub, financially-settled basis only, small clip, before any physical delivery is contemplated. Every workstream resolves to a single go/no-go with named launch-blockers, so the decision is which blocker remains, not a vague sense of readiness.

## Engagement architecture

FIGURE 2 · ROUTING A NEW PRODUCT THROUGH EXISTING RAILS



The new market routes through the firm's existing operational, regulatory, and technical rails rather than bolting on. Four workstreams run in parallel under a weekly go/no-go, and the output is a live quote on one hub with the scale path already mapped.

## WORKED EXAMPLE · SIMULATED · PILOT SLICE

Phase 0 maps the basis curve at one liquid hub and confirms the firm's outright-only risk system cannot yet represent a hub-minus-Henry-Hub position. Phase 1 builds basis and calendar-spread representation into risk; Phase 2 onboards cleared-only access (no physical, so FERC and scheduling are out of scope for the pilot) and maps the CFTC limit headroom, where a cash-settled-only book carries a conditional 10,000-contract spot-month limit against 2,000 with any physical (CFTC, 2021); Phase 3 ships a small-clip financially-settled quote. Pilot recommendation: *go-live on a single hub, cleared and financially-settled, physical deferred behind its own gate*.

## Sequenced delivery

PHASE	WORKSTREAM CADENCE	FORCING-FUNCTION DELIVERABLE	LAUNCH-BLOCKER CLEARED
<b>P0</b> Shadow · map	Desk shadow · microstructure map · liquidity and limit scan · target-hub shortlist	Readiness frame with a named state per gate	"We understand the book"
<b>P1</b> Risk build	Basis and calendar-spread representation in risk and position systems · curve construction · scenario set	Risk system prices and limits a hub-minus position	Infra gate to conditional
<b>P2</b> Reg & ops	CFTC limit headroom · large-trader reporting · ISDA and clearing onboarding · cleared-only scope (physical deferred)	Reg memo and onboarding checklist signed	Ops/reg gate to conditional
<b>P3</b> Pilot · scale	Small-clip live quote on one hub · daily desk read-out · scale-path design (multi-hub, spreads, then physical gate)	First live quote · go/no-go on widening	All three gates at conditional or go

## Metrics that matter

LAYER	METRIC	PILOT TARGET	WHY IT MATTERS
North-star	Time-to-first-quote (one hub)	Set in P0 · gated weekly	This is when the model starts paying for the plumbing
Readiness	Gates at conditional-or-better	3 of 3 before go-live	The weakest gate sets the launch date, not the strongest
Risk integrity	Basis position priced and limited in system	100% of pilot book	An unrepresented basis leg is an unhedged tail, not a feature
Compliance	CFTC limit headroom · reporting live	Verified before first clip	A limit breach ends the program, not just the trade
Counter-metric	Physical exposure in pilot	Zero	Physical delivery is a separate, later gate; pilot stays cleared

## Risks & mitigations

**HIGH** **Regulatory scope creep: physical delivery pulls in FERC oversight, pipeline scheduling, and delivery-point obligations that a cleared-only pilot avoids.**

**Mitigation:** hard-scope the pilot to financially-settled and cleared only, with physical behind its own gate and its own legal and operations workstream; zero physical exposure is a counter-metric, not an aspiration.

**HIGH** **Risk-system representation gap: an outright-only position system cannot express a hub-minus-Henry-Hub basis leg, so exposure looks flat when it is not.**

**Mitigation:** P1 builds basis and calendar-spread representation before any quote; no go-live until the risk system prices and limits the full pilot book, verified against a scenario set.

**MED** **Connectivity and data drift: venue, curve-feed, and clearing connections lag the model, so the desk can price but cannot reliably quote or clear.**

**Mitigation:** venue and data is its own workstream from P0 with an integration test as the gate; the pilot widens only after a clean end-to-end quote-to-clear on small clips.

## 30 / 60 / 90: after pilot

### 30 DAYS

#### Prove the rails

- › Single-hub quote stable on small clips
- › Daily risk and limit read-out clean
- › Blocker log closed or owned

### 60 DAYS

#### Widen carefully

- › Add second hub and calendar spreads
- › Limit headroom re-checked at new size
- › Auto-quote scope proposed

### 90 DAYS

#### Decide on physical

- › Physical-entry business case sized
- › FERC and scheduling workstream scoped
- › Go/no-go on physical behind its own gate

### DECISION ASKED

Authorize a **phased market-entry engagement** staffed by Strategy & Product with the desk, technology, and compliance, to take North American gas from "we should trade this" to a **live, risk-managed quote on a single hub**. **Scope:** financially-settled and cleared only, physical deferred behind its own gate. **Deliverable:** a go-live cleared through a readiness frame, with every launch-blocker named and owned. **Success:** the firm quotes a new market without a surprise, because the plumbing was built before the first clip, not after it.

*Sources: U.S. EIA, Today in Energy (2024); CME Group / NYMEX, Henry Hub Natural Gas futures; ICE, Henry Basis and regional basis futures; CFTC, Position Limits for Derivatives final rule (published 2021) and Large Trader Reporting (17 CFR Parts 17 and 20); FERC under the Natural Gas Act and CFTC under the Commodity Exchange Act (Hunter v. FERC, D.C. Cir. 2013); ISDA, North American Gas Annex; Jane Street, Strategy & Product (2025); Bloomberg (2025). Engagement-plan framing; figures are directional.*