

CREDIT INTERDEALER BROKER RANKINGS 2010

GFI has been voted best overall credit broker in *Credit* magazine's inaugural IDB survey, winning plaudits for its strength across markets, liquidity provision and durability. Tullett Prebon also performed well, taking top place in the two cash bond categories

It has been a tough 12 months for the interdealer broker market, which saw mixed volumes in 2009. The credit derivatives arena was particularly challenging, as market participants adjusted to standardised contracts and the move towards centralised clearing, whilst also waiting for clarity on what regulators planned to do with the derivatives market. In an effort to reduce leverage, some dealers also scaled back their credit derivatives activity.

At the same time, bond issuance surged as risk appetite returned and borrowers sought to refinance imminently maturing bank debt in the bond market, locking up long-term funding with interest rates at or near historical lows. Consequently, one of the major trends of the past 12 months in the IDB market has been the shift away from derivatives to cash products.

"There was a major move to cash in 2009," says Colin Heffron, president of GFI. "The derivatives market has been flat and choppy, with everyone waiting to see what regulations are introduced. If there are likely to be increased capital charges on derivatives, banks will be careful about their participation in that business."

As well as taking top spot overall, GFI came first in all three credit derivatives categories and was voted second in both the cash bond sections.

GFI's dominance of the credit derivatives categories reflects its status as the firm that has seen the highest trading volumes over

a long period, and its reputation for liquidity provision. "GFI has a long-standing track record in credit default swaps," says one trader. "In addition, the ability to do straight-through processing of trades and aggregating prices of different brokers on one screen is beneficial: only some IDBs offer this, but it is an important element of the business."

GFI's strength across multiple asset classes was cited as another reason for it securing top place in the best overall category. "GFI is strong in every sector and reliable," says one credit trader at a French bank. "The business is dependent on the strength of your relationships, and we believe it has a strong sense of professionalism. Each broker also has individual strengths in their particular area."

Tullett Prebon's position in this year's survey as best high grade and high yield cash broker comes on the back of record bond issuance last year. It placed second in the overall broker and high grade CDS categories. "We predicted early on in the crisis that bonds would become increasingly important," says Mike Binns, managing director of credit for Europe, Middle East and Africa at Tullett Prebon. "There is no question bond volumes are up significantly. The key factor alongside issuance is that banks are far better positioned to provide liquidity than they were at the height of the crisis. We have invested heavily in credit, and launched our cash bond trading platform [tpCreditdeal] last October, which has helped us."

Alongside its strength in cash, the broker has been ramping up its efforts in the credit derivatives market. Although the business has not recaptured the peaks seen in 2007, Binns says activity has recovered strongly since the middle of 2009.

Success in the credit derivatives index business is heavily influenced by firms that can deliver the best screen-based trading.

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Colin Heffron, GFI

Results

Overall

Pos.	Broker	% of points
1	GFI	39.1
2	Tullett Prebon	22.6
3	ICAP	14.0
4	BGC	11.9
5	Creditex	4.1
6	Tradition	3.7

High grade bonds

Pos.	Broker	% of points
1	Tullett Prebon	26.0
2	GFI	22.5
3	ICAP	20.2
4	BGC	17.9
5	Tradition	10.4

High yield bonds

Pos.	Broker	% of points
1	Tullett Prebon	30.4
2	GFI	24.6
3	ICAP	16.7
4	BGC	12.3
5	Tradition	4.3

High grade CDS

Pos.	Broker	% of points
1	GFI	50.7
2	Tullett Prebon	17.9
3	ICAP	13.6
4	BGC	6.4
5	Tradition	5.0

High yield CDS

Pos.	Broker	% of points
1	GFI	45.7
2	ICAP	14.9
3=	Phoenix	10.6
3=	Tullett Prebon	10.6
5	BGC	7.4

Index trading

Pos.	Broker	% of points
1	GFI	37.5
2	Creditex	21.4
3	ICAP	14.3
4	BGC	10.7
5	Tradition	7.1

“You don’t need a lot of voice broking on index trading so relationships, while still important, are less of an issue,” says an index trader at a large US bank. “The high grade broker services vary a lot depending on which part of the market you’re dealing in. Relationships do matter more on single-name CDS, which is why you have a lot more voice broking in this area.”

Unsurprisingly given its client base, financial regulation is likely to be a major determinant of what happens to the IDB business over the coming years. As well as pushing for more transparency and the use of electronic trading platforms, regulators have been calling for all over-the-counter derivatives to be reported to trade repositories, and for standardised trades to be cleared through central counterparties and potentially migrated to regulated exchanges.

Heffron insists this will not harm IDB volumes. “We believe the move towards central clearing will lead to more customers participating in credit derivatives and higher volumes. But banks do want to protect their ability to do trades, so it depends on how open they are to providing services to end-users,” he says.

Technology has also become more important than ever in distinguishing broker services, as electronic trading continues to grow in prominence. “There is less necessity for voice brokers these days,” says a London-based CDS trader at a UK bank. “Certainly on the CDS side, brokers won’t have been busy over the last year.”

Heffron at GFI agrees the migration of the business to electronic trading is likely to continue. “We will see greater adoption of technology across all markets,” he says. “This is likely to continue as regulators push for greater transparency, which requires more electronic trading.”

Beyond individual asset classes, the next 12 months could see some major changes in the IDB space, with merger and acquisition activity widely anticipated. “There is likely to be some phasing out of smaller brokers,” says GFI’s Heffron. “Consolidation wouldn’t surprise me: there is too much capacity in the market right now. But that would be positive for us as we could grow into some of the spaces left open.”

Sarfraz Thind

M E T H O D O L O G Y

The survey results were compiled on the basis of a poll of credit traders carried out both online and by telephone interview during February and March 2010.

In total, 109 respondents took part in the survey. Votes were checked and any from individuals who are not active counterparties of interdealer brokers were removed.

Respondents were asked to vote across six categories: high grade and high yield cash and CDS, index trading and best overall broker.

The votes were weighted, with three points for a first place, two points for second and one for third. The top brokers are listed in terms of overall percentage of available points. To decide the overall winner, *Credit* used the overall percentage of points for each bank.