

# credit INTERDEALER BROKER RANKINGS 2011

GFI was once again voted best overall interdealer broker in *Credit* magazine's second annual IDB survey, with Tullett Prebon runner-up, in a year that highlighted the value of voice broking

The interdealer broker (IDB) market found sturdier ground in the past 12 months. While brokers are managing the shift to electronic trading and adapting to changing regulation in the financial sector, bond issuance has remained strong and certain crisis moments, such as those created by Eurozone sovereign debt troubles, the Deepwater Horizon oil spill or social unrest in the Middle East, have provided opportunities.

"The European sovereign debt crisis last May and June had significant positive impact on IDB volumes," says Colin Heffron, president of GFI in New York. "Even over February and March this year the European crisis had a positive impact. The Middle Eastern crisis has not had anywhere near the impact on volumes in credit, but has had some impact on the commodities markets."

Following on from its success in last year's inaugural IDB rankings, GFI was once again voted best overall broker, notching up 30.7% of the points available. It also enjoyed top spot in three other categories: investment grade CDS, high yield CDS and CDS index trading. Voters made specific reference to GFI's strength in terms of liquidity provision.

"It has been a volatile year in terms of volumes and CDS index trading has had greater influence than single names, while cash has also been stronger than CDS in Europe. But volumes generally have held up," says Heffron, who believes GFI's repeat success in this year's survey reflects its growing market share in both cash and derivatives products.

Tullett Prebon also performed strongly in this year's survey, with dealers voting it first for both investment grade and high yield bonds. It also came second overall, with 24.0% of the points available. Tullett had a strong year in trading volumes as some of the smaller agency IDBs fell away.

"Agency-style businesses have come under a lot of pressure in the past year but those of us in the wholesale markets have done pretty well," says Mike Binns, head of credit at Tullett Prebon

in London. "Bond business continues to be strong and volumes have been fairly consistent across asset classes."

Binns views world events as crucial to his company's success over the past 12 months, since it has tended to favour sectors in which the company has taken a strong interest.

"We have done well because we have concentrated, particularly in the bond market, on topical sectors, where we have invested in people and technology," he says. "We are very strong on perpetual bond issues and debt issued by utilities and autos, which are all clearly seeing volatility as a result of world events."

When it comes to technology more generally, the jury remains out on whether a paradigm shift is currently taking place; specifically in terms of how regulation will shape the relative significance of electronic trading and traditional voice trading. While it might seem logical for IDBs to favour the latter, GFI's Heffron is bullish on the switch to electronic trading, highlighting the index business as crucial to this growth over the past year.

"Regulation will continue to push for more transparency, which will continue to turn the market towards more electronic trading in liquid single names and certainly in indexes," he says. "The real change in transparency will happen in North America. For the first time last year we have seen some significant traction in auction technologies and matching technologies and straightforward interactive pricing technologies."

The impact of Dodd-Frank legislation on the electronification of the credit market remains an unknown quantity at this stage. Although the legislation pushes for swaps to be traded via exchanges or clearing houses, how that will translate in terms of e-trading is as yet unclear. Binns at Tullett Prebon believes a combined approach will continue to work best.

"We are still waiting to see exactly how Dodd-Frank will be implemented but at the moment it looks as though the vast majority of products will still benefit from being traded via a

## Results

### Overall

Pos.	Broker	% of points
1	GFI	30.7
2	Tullett Prebon	24.0
3	ICAP	21.3
4	Creditex	12.0
5	BGC	9.3

### Investment grade bonds

Pos.	Broker	% of points
1	Tullett Prebon	33.0
2	GFI	26.9
3	ICAP	25.4
4	BGC	10.1
5	Creditex	4.6

### High yield bonds

Pos.	Broker	% of points
1	Tullett Prebon	37.8
2	GFI	35.4
3	ICAP	11.8
4	Creditex	9.5
5	BGC	5.5

### Investment grade CDS

Pos.	Broker	% of points
1	GFI	39.6
2	Tullett Prebon	34.2
3	ICAP	16.1
4	BGC	5.4
5	Creditex	4.7

### High yield CDS

Pos.	Broker	% of points
1	GFI	40.0
2	ICAP	35.0
3	Tullett Prebon	17.5
4	Phoenix	5.8
5	Creditex	1.7

### Index trading

Pos.	Broker	% of points
1	GFI	46.5
2	Creditex	30.3
3	ICAP	17.2
4	BGC	5.0
5	Tullett Prebon	1.0

hybrid model," says Binns. "The combination of technology and brokers is the best way forward and swap execution facilities will not make a huge difference to that in the vast majority of marketplaces. Some products may be entirely electronically traded but I do not anticipate a huge shift at this time."

Heffron argues the direction of Dodd-Frank has become clearer in the past six months, pointing to a less controversial impact than was being mooted just a year ago. Instead, he says, the focus now is less on the details of transactions as on a drive to push trades towards clearing in the name of transparency.

"The hope is that this drive will generate a level of transparency that creates a period of safety in the derivatives markets," he says. "If you push a lot of these standardised contracts into an open-access, cleared mechanism, then that alone will give you a lot of the transparency you want."

One key impact of regulation is on derivatives trading more generally. Uncertainty on derivatives reform as well as a revival in new issuance and secondary market opportunities saw market partici-

pants switch focus to cash products in 2009 and 2010. However, growing legislative clarity can only help boost derivatives trading volumes in the coming months, according to Heffron.

"Cash grew steadily over the last couple of years as a percentage of the credit business," he says. "Some of the regulatory changes are becoming a little clearer but derivatives have probably hit their base and I would expect to see growth over the next 18 months. Derivatives have certainly started to come back in the last six to 12 months compared to the summer of 2009."

There is also some expectation of increased consolidation within the IDB space over the coming 12 months, which both Binns and Heffron share. That will provide benefits for some of the larger players, but could also highlight the growing importance of technology.

"If anything, there is a split within the IDB market of the haves and the have-nots in terms of technology," says Heffron. "That could drive consolidation because the haves could continue to eat market share from the have-nots."

## METHODOLOGY

The survey results were compiled on the basis of a poll of European credit traders carried out by telephone interview and online voting between February and April 2011.

In total, 83 valid respondents took part in the survey with the sample carefully targeted to include respondents from leading dealers. Votes were checked and any votes from individuals who are not active counterparties of interdealer brokers were removed.

Respondents were asked to vote across five categories: investment grade and high yield cash and CDS and index trading. 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 a weighted score based on each interdealer broker's position in each of the other five categories.