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Risk INTERDEALER RANKINGS 2013

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Steeled for consolidation

The usual names dominate this year's rankings, but the future of the sector is unclear, and the majority of respondents to the accompanying survey expect consolidation within the next two years. By **Tom Osborn**

It took roughly four weeks for Dealerweb, the interdealer arm of derivatives trading platform Tradeweb, to turn the CDX index market on its head. Within a month of its launch in October last year, the venue had grabbed 90% of interdealer volume from the handful of brokers that previously dominated the market.

The platform's success was based on the liquidity commitments it was able to extract from participants: in order to see prices, dealers had to provide a minimum of $100 million in liquidity in the CDX investment-grade index. This made it easier to lay off risk on Dealerweb than via the brokers, and volumes moved practically overnight.

For brokers, it was a worrying omen. Post-crisis reforms will expose the industry to innovative, aggressive new rivals – electronic trading platforms such as Dealerweb – while also making more of the over-the-counter market vulnerable to exchanges. The doomsday scenario is one in which platforms and exchanges tear away much of the brokers' interdealer business while the brokers' own swap execution facilities (Sefs) are unable to attract dealer-to-client trading: volumes and margins would shrink, forcing brokers to do the same.

There are no hints of that kind of upheaval in this year's *Risk* interdealer rankings, which tell a familiar story of dominance by the five biggest firms, with Icap winning the biggest share of the total vote. But broker respondents were also asked to complete a survey exploring the sector's attitudes to the reshaping of the OTC market (see pages 19–20). Among the most eye-catching findings, it reveals that more than a third of voters expect today's big five brokers to become a big three within two years, with a further 30% predicting that four names will be left.

That is not the sign of an industry in rude health – and the rise of Dealerweb initially seemed to show just how vulnerable the incumbents were.

But there is a second chapter to this story, says Ron Levi, chief operating officer at GFI – the top credit broker in this year's rankings. Learning from its new competitor, the broker revamped its electronic CreditMatch platform and has since clawed its way back, he says. "We saw a lot of CDX trading migrate to Tradeweb when it launched its platform last year. But we've now won that business back – and then some. Until last October, the CDX market was split five ways. From November through to February, Tradeweb probably had about 90% of the market. But since we've updated our own platform, I'd say over half the market has come back to us, with Tradeweb hosting most of the remainder," says Levi.

The technology overhaul was part of that, but the broker's long-standing relationship with the dealers helped tip the fight in GFI's favour, he argues. "Liquidity generally becomes more flighty when markets go electronic. But over time, everyone gets to the same point in terms of technology. If you're facing comparable offerings at two platforms, people will choose to execute where they have the strongest relationship, every time," says Levi.

Billy Hult, Tradeweb president, who heads the firm's Dealerweb arm, acknowledges the swing and echoes Levi's point about relationships: "Three months ago, our volumes were off the charts. Not surprisingly, the competition geared up. The incumbents are working their historic relationships; they have a long history in the space. But they've also updated their technology to try to accommodate quieter markets. And they've had some success with adding functionality that allows dealers to trade in the middle on pricing. However, we continue to make adjustments to our own technology, and are moving forward with our long-term strategy to succeed in this space."

And Hult sees the CDX skirmish as the start of a longer campaign. "Now that we've firmly established the Dealerweb presence in credit, we continue to look at other markets where we can apply that kind of approach. But we are prepared for a challenging, competitive environment," he says.

That seems sensible. Even though Sef rules in the US call for these new trading venues to provide impartial access to all users – meaning "fair, unbiased and unprejudiced", according to the Commodity Futures Trading Commission (CFTC) – many brokers believe there will continue to be a divide.

Some venues will be popular with end-users, while others will be home to interdealer trading. First and foremost, the brokers' strategy is to retain control of the latter.

"Bifurcated markets exist for good reasons, not just so banks can make more money out of their clients – although I'm sure [CFTC chairman] Gary Gensler thinks that's the case," says a senior executive at one European broker. "The banks service customers bilaterally, then lay off their risk in the interdealer market. In the event these markets start to merge, I would ask who the biggest beneficiaries would be. Customers would get more liquidity, but would they get a better price? Not necessarily – they would no longer have a core group of banks offering them tailored pricing."

"We saw a lot of CDX trading migrate to Tradeweb when it launched its platform last year. But we've now won that business back – and then some" Ron Levi, GFI

Natural by-product

But how would the current structure persist in a market where all Sefs are required to offer impartial access? Many argue it will be a natural by-product of the different execution styles the platforms offer.

"When you look at the dealer-to-client rates market now, it's mostly bilateral voice or request-for-quote (RFQ)," says Dan Marcus, global head of strategy at Tradition. "What Trad-X provides is a fully hybrid, click-and-trade order book, with high-quality liquidity, huge order depth and voice support. That's a very different proposition. So, even if their constituents start to overlap, I think platforms will remain differentiated by execution style. Purely electronic Sef entrants have no experience of running a voice brokerage, and I'm not sure they will want to in the new regulatory environment. It's a costly business; humans aren't cheap."

That is a widely held view, among brokers at least. Two-thirds of respondents to the survey believe broker-run OTC platforms don't need to move out of the interdealer market in order to survive.

It's not hard to see why. Interdealer volumes remain a much richer prize than dealer-to-client trading. According to research compiled by MSCI, the interdealer market in credit and rates is more than twice the size of the dealer-to-client market when measured by notional outstanding, at $342 trillion and $154 trillion respectively, as of the end of December 2012.

That is enough for a number of platforms, offering different execution styles to different customers, to survive, says Chris Ferreri, managing director of hybrid trading at interdealer broker Icap in New York. "I think what we're going to see, on a market-by-market basis, is a small number of Sefs dominant in particular products. I think we'll see three or four interest rate swap Sefs, but each will play different and sometimes complementary roles. Icap will leverage its position as a leading markets operator to seek to become a dominant limit order book-based market, while others will likely maintain their strengths in RFQ-based trading," he says.

A senior executive at a rival broker agrees with that assessment: "You can have the best platform, the best brokers and the most competitive commission rates, but traders will still divide up their business to keep competition alive."

These considerations will ultimately play a big part in deciding the future of the broker markets. For now, viewed through the lens of the rankings results, life seems reassuringly normal. Icap takes the biggest share of the overall vote – 25.8% – with Tullett Prebon second on 18.5% and Tradition third with 14%. BGC and GFI round out the big five, taking 10.2% and 9.2%, respectively.

In each of the four asset classes, the same names dominate the top of the charts – although there are a few exceptions. The strength of Gottex in the Swiss franc sees it win enough of the vote to finish joint fifth overall in the rates categories, while RP Martin is fifth in currency derivatives. London-based Sunrise Brokers – habitually strong across the equity derivatives products – takes first place overall in that category, and also lands fifth spot in credit. Those successes aside, the big five global brokers occupy every other space in the overall tables.

That begs an obvious question: if volumes and margins shrink, while technology costs increase, can the OTC market sustain five big, independent houses? Consolidation in the sector has been predicted for some time, but none of the big five brokers would be drawn on merger prospects for their own firm.

Survey respondents expect movement soon, with 36.3% saying the market will shrink to a big three in two years' time. The tie-up seen as most likely is Tradition and Tullett Prebon – selected by 19% of more than 400 voters – followed closely by a merger between the latter and GFI. The third most likely marriage is between BGC and GFI, while the other possible combinations are seen as far less plausible –

unsurprisingly, an Icap-Tullett merger scoops the smallest share of the vote.

Tradition has been mooted as a likely merger prospect for the past decade, analysts point out. But in all that time, the Switzerland-listed firm has steered clear of frantic activity that has seen its European rivals balloon – in Tullett Prebon's case through the merger of Terry Smith's Collins Stewart Tullett with Prebon Yamane, while Icap has gobbled up BrokerTec, EBS and Link, among others.

"Tradition has long been fingered as an acquisition target. But it has been one of the fastest movers in the switch to e-trading, and it is doing very well out of that so far. Patrick Combes [the firm's chief executive] also guards his independence fiercely. That highlights what one might call the problem of the charismatic leader: none of the bosses of the big five want to be seen as bowing to any of the others. The bad blood between them is real, and dates back a long time in some cases," says one equity analyst at a European bank.

Another industry veteran argues any big deals are unlikely in the near term. "There are two fundamental barriers to mergers and acquisitions in the sector at the moment. First, all of the big five are currently looking inwards, trying to tidy up their balance sheets and generally making sure their house is in order. But the more fundamental barrier remains regulatory uncertainty. Three years on from the enactment of the Dodd-Frank Act, the industry is still facing too many questions about what its basic structure should look like. That's been a huge drag on share prices. Should there be concentration? Perhaps. But nobody wants to move first in such an uncertain environment," he says.

A volumes game

Brokers might not be in any hurry to merge, but they're not necessarily opposed to the idea either. "At the end of the day, this is a volumes game," says one senior executive. "If the volumes aren't there, then the quickest way to bolster your margins is to merge your front-office teams with another broker and cut your combined middle- and back-office operations in half. That's why everyone's flirting with everyone, to a certain extent."

And what of the smaller players, dominant in a few select markets – like Sunrise Brokers, or Gottex? Some of their larger peers don't see a bright future for them as independents. "If you haven't got the capacity to run a Sef, you can forget about your swaps business," says one executive at a larger broker.

To a certain extent, that depends how much of the market is mandated for Sef trading – an equation that is partly up to the regulators and partly up to the Sefs themselves (*Risk* July 2013, pages 21–24, www.risk.net/2275198).

Dave Perkins, head of electronic broking for Europe, the Middle East and Africa at Tullett Prebon, believes the market will quickly coalesce around the bigger players. "Almost definitely, there will be too many Sefs initially. But the setting up and operating of a Sef entity will be expensive and we feel that very quickly only the larger, multi-product Sef operators will be relevant and survive," he says.

But Claude Amar, London-based chief executive of Sunrise Brokers, rejects the view that the cost and compliance burden of running a Sef will shut smaller players out. "There is always a tendency from some players to mystify technology and to try to create perceptions of unattainable barriers to entry. I believe we are going to benefit from the migration to electronic trading. Sunrise has been heavily investing in technology for many years and has always been looking for synergies in that field," he says. The firm is still evaluating whether or not to submit a Sef application to the CFTC. The chief executive of Gottex Brokers told *Risk* recently that the firm will launch an electronic platform, when its clients need it (*Risk* July 2013, page 64, www.risk.net/2278073).

Others agree there will still be room for niche players. They point out that many of the would-be Sefs in the US are start-up businesses, currently run on a shoestring budget with head count kept low. "If electronic trading is the only requirement, then there will be off-the-shelf solutions the smaller players can buy. The lowest common denominator for a Sef is probably a voice desk with a whiteboard sat next to it," says the senior executive at a European broker. ■

How the poll was conducted

Risk received 971 valid responses from dealers and brokers to this year's interdealer survey. The responses were divided between Europe (54.8%), North America (13.4%), Asia (27.8%) and other (4%).

The survey covered 99 derivatives categories across interest rates, foreign exchange, credit and equity derivatives. Participants were asked to vote for their top three dealers in order of preference in categories they had traded over the course of the year.

It is important to note this poll is not designed to reflect volumes traded in any particular market and is therefore not a direct reflection of market share – voters are able to base their decisions on a variety of criteria, including pricing, liquidity provision, counterparty risk, speed of execution and reliability. In that sense, this poll should be considered a reflection of how market professionals view their peers in terms of overall quality of service.

When aggregating the results, we look to strip out what we consider to be invalid votes. These include people voting for their own firm, multiple votes from the same person or IP address, votes from people using non-work email accounts, votes by people who choose the same firm indiscriminately throughout the poll, votes by people who clearly do not trade the product, and block votes from groups of people on the same desk at the same institution voting for the same firm. For instance, we do not allow block votes from 20 people on the same desk, in the same location, all voting in exactly the same way, within hours and in some cases minutes of each other. We see this as a clear attempt to unfairly manipulate the poll. This is a process we take very seriously.

The votes were weighted, with three points for a first place, two points for second and one for third. No weighting system was used for brokers, as respondents only submit one vote. Only categories with a sufficient number of votes are included in the final poll.

The top banks are listed in terms of overall percentage of votes – and the same methodology has been extended this year to the brokers, bringing it into line with other rankings *Risk* compiles. To decide the overall winner, *Risk* uses the overall percentage of votes for each bank or broker.

The survey also includes a series of overall product leaderboards, calculated by aggregating the total number of votes across individual categories. These overall results are naturally weighted, as there are more votes in the large categories (for example, US dollar and euro swaps) than the smaller, less liquid categories.

OVERALL BROKERS

Overall

Credit

2013	2012	Broker	%
1		**GFI**	**33.1**
2		Tullett Prebon	26.3
3		BGC	15.3
4		Icap	9.3
5		Creditex	5.9
6		Sunrise Brokers	5.1
7		Tradition	3.4
8=		Avalon Capital Markets	0.8
8=		Tradeweb	0.8

Interest rates

2013	2012	Broker	%
1		Icap	29.4
2		Tullett Prebon	22.0
3		BGC	17.3
4		Tradition	14.9
5=		**GFI**	**5.6**
5=		Gottex	5.6
7		Sunrise Brokers	1.7
8		RP Martin	1.5
9		Velcor	0.7
10		All Trading	0.5

Currency

2013	2012	Broker	%
1		Tullett Prebon	30.1
2		Icap	20.9
3		BGC	12.6
4		Tradition	8.5
5		RP Martin	7.7
6		Tradition-Icap	6.5
7		**GFI**	**5.1**
8		Sunrise Brokers	4.2
9		HPC	1.9
10		Gottex	1.2

Equity

2013	2012	Broker	%
1		Sunrise Brokers	29.1
2		Icap	19.5
3		Tradition	16.7
4		Tullett Prebon	11.1
5		**GFI**	**10.7**
6		BGC	5.3
7		Exane	2.4
8		Forte Securities	1.4
9		Vantage Capital Markets	1.1
10		Carax	0.9

Risk INTERDEALER RANKINGS 2013

CREDIT PRODUCTS

CREDIT DEFAULT SWAPS

Investment grade – US and Canada

2013	2012	Dealer	%
1	1	JP Morgan	17.1
2	3	Goldman Sachs	16.1
3		Citi	12.7
4	4	Barclays	10.8
5	5	Deutsche Bank	10.1

2013	2012	Broker
1	**1**	**GFI**
2	2	Tullett Prebon
3		Creditex

High yield – US and Canada

2013	2012	Dealer	%
1	1	Goldman Sachs	17.9
2	2	Deutsche Bank	15.8
3	3=	JP Morgan	14.1
4	5	Bank of America Merrill Lynch	10.5
5		Citi	9.2

2013	2012	Broker
1	1	Tullett Prebon
2	**2**	**GFI**
3		BGC

Sovereign – US and Canada

2013	2012	Dealer	%
1	1	Goldman Sachs	16.9
2		Deutsche Bank	13.8
3	2	JP Morgan	12.3
4		Citi	11.3
5	5	Morgan Stanley	10.8

2013	2012	Broker
1	**2**	**GFI**
2	1	Tullett Prebon
3		BGC

Investment grade – Europe

2013	2012	Dealer	%
1	1	JP Morgan	17.2
2	2	Barclays	14.1
3		Bank of America Merrill Lynch	11.9
4	3	Deutsche Bank	11.8
5		BNP Paribas	9.9

2013	2012	Broker
1	1	Tullett Prebon
2	**2**	**GFI**
3		Creditex

High yield – Europe

2013	2012	Dealer	%
1		Citi	15.5
2		Barclays	14.1
3	1	Deutsche Bank	11.3
4	5	Goldman Sachs	10.9
5		JP Morgan	10.7

2013	2012	Broker
1	**2**	**GFI**
2	1	Tullett Prebon
3	3	Icap

Sovereigwn – Europe

2013	2012	Dealer	%
1		Goldman Sachs	18.1
2		Citi	16.7
3	3	Deutsche Bank	13.9
4	4	JP Morgan	11.1
5	2	BNP Paribas	9.2

2013	2012	Broker
1	1	Tullett Prebon
2	2	BGC
3		Icap

Investment grade – Asia

2013	2012	Dealer	%
1	3	Deutsche Bank	18.3
2	2	Goldman Sachs	17.6
3		JP Morgan	15.2
4	1	Bank of America Merrill Lynch	11.1
5	5	Morgan Stanley	10.3

2013	2012	Broker
1	1	Tullett Prebon
2	3	BGC
3	**2**	**GFI**

High yield – Asia

2013	2012	Dealer	%
1	1	Société Générale	17.2
2		Citi	16.1
3		Deutsche Bank	15.3
4		Morgan Stanley	13.8
5	3	Goldman Sachs	10.3

2013	2012	Broker
1	**1**	**GFI**
2	2	BGC
3		Tradition

Sovereign – Asia

2013	2012	Dealer	%
1		Deutsche Bank	17.2
2		Citi	15.1
3	5	Bank of America Merrill Lynch	13.6
4=	2	BNP Paribas	12.7
4=	1	Goldman Sachs	12.7

2013	2012	Broker
1	**1**	**GFI**
2	3	BGC
3		Icap

CREDIT DEFAULT SWAPS *CONTINUED*

Investment grade – Latin America

2013	2012	Dealer	%
1	1	Citi	19.0
2	3	JP Morgan	18.1
3		Deutsche Bank	14.3
4		BBVA	10.5
5	2	Goldman Sachs	10.2

2013	2012	Broker
1	**na**	**GFI**
2		Tullett Prebon
3		Creditex

High yield – Latin America

2013	2012	Dealer	%
1	2	JP Morgan	18.3
2	3	Citi	16.3
3		Deutsche Bank	14.5
4	1	Goldman Sachs	13.8
5	5	Morgan Stanley	12.1

2013	2012	Broker
1	na	Tullett Prebon
2		**GFI**
3		Creditex

Sovereign – Latin America

2013	2012	Dealer	%
1	2	JP Morgan	18.5
2		Citi	17.1
3	3=	Barclays	15.1
4	1	Goldman Sachs	13.7
5	5	Morgan Stanley	11.4

2013	2012	Broker
1=	**na**	**GFI**
1=		Tullett Prebon
2		Creditex

STRUCTURED CREDIT

Markit iTraxx Europe indexes

2013	2012	Dealer	%
1	2=	BNP Paribas	12.5
2	2=	Deutsche Bank	11.4
3	1	JP Morgan	11.1
4		Bank of America Merrill Lynch	10.3
5		Citi	9.5

2013	2012	Broker
1	**na**	**GFI**
2		Tradeweb
3		BGC

Markit iTraxx Europe tranches

2013	2012	Dealer	%
1	2	JP Morgan	13.5
2		Bank of America Merrill Lynch	11.8
3	3	Goldman Sachs	10.8
4	1	Deutsche Bank	10.4
5	4	BNP Paribas	10.1

2013	2012	Broker
Insufficient votes		

Markit CDX indexes

2013	2012	Dealer	%
1		Bank of America Merrill Lynch	13.3
2	3=	Goldman Sachs	12.0
3	2	Deutsche Bank	11.7
4		Barclays	10.5
5	1	JP Morgan	10.3

2013	2012	Broker
1		**GFI**
2		Creditex
3		Icap

Markit CDX tranches

2013	2012	Dealer	%
1	2	Goldman Sachs	13.1
2		Barclays	12.2
3	4	Morgan Stanley	10.8
4	1	JP Morgan	10.4
5	3	Deutsche Bank	10.1

2013	2012	Broker
Insufficient votes		

Other structured credit and correlation products

2013	2012	Dealer	%
1	5	Bank of America Merrill Lynch	13.0
2	1	JP Morgan	12.1
3		BNP Paribas	11.2
4	3	Deutsche Bank	10.5
5		Citi	10.3

2013	2012	Broker
1	**na**	**GFI**
2		Tullett Prebon
3		Creditex

INTEREST RATE PRODUCTS

SHORT-TERM INTEREST RATES

US dollar

2013	2012	Dealer	%
1		Barclays	12.6
2	1	JP Morgan	11.9
3	4	Credit Suisse	10.1
4	5	Bank of America Merrill Lynch	9.9
5	3	Citi	9.1

2013	2012	Broker
1	2	Tullett Prebon
2	1	Icap
3	3	Tradition

Euro

2013	2012	Dealer	%
1	1	Deutsche Bank	12.3
2	5	Barclays	11.5
3	2	Société Générale	10.5
4	4	Credit Suisse	9.3
5	3	BNP Paribas	8.7

2013	2012	Broker
1	1	Icap
2=	3	Tradition
2=	2	Tullett Prebon

Yen

2013	2012	Dealer	%
1	1	Bank of Tokyo-Mitsubishi UFJ	14.2
2	3	BNP Paribas	10.7
3	4	JP Morgan	10.6
4	2	Deutsche Bank	9.4
5	5	Mizuho Securities	9.2

2013	2012	Broker
1	1	Icap
2	3	Tradition
3	2	Tullett Prebon

Sterling

2013	2012	Dealer	%
1	2	Barclays	14.5
2	1	Royal Bank of Scotland	13.6
3		Lloyds Banking Group	10.8
4	4	HSBC	10.1
5	5	Société Générale	8.3

2013	2012	Broker
1	2	Tullett Prebon
2	1	Icap
3	3	Tradition

Swiss franc

2013	2012	Dealer	%
1	1	UBS	19.3
2	2	Credit Suisse	17.8
3	3	Société Générale	10.1
4		Zürcher Kantonalbank	9.7
5	5	BNP Paribas	8.8

2013	2012	Broker
1	1	Gottex
2	2	Icap
3	3	Tullett Prebon

INTEREST RATE SWAPS 2-10 YEARS

US dollar

2013	2012	Dealer	%
1	2	Deutsche Bank	11.4
2	1	JP Morgan	11.2
3	4	Citi	10.8
4	3	Bank of America Merrill Lynch	10.2
5		Goldman Sachs	8.8

2013	2012	Broker
1	1	Icap
2	2	Tullett Prebon
3		BGC

Euro

2013	2012	Dealer	%
1	1	Deutsche Bank	14.9
2	2	Barclays	13.1
3	3	JP Morgan	10.5
4	4	Société Générale	9.1
5	5	BNP Paribas	9.0

2013	2012	Broker
1	1	Icap
2	2	Tullett Prebon
3		BGC

INTEREST RATE SWAPS 2-10 YEARS *CONTINUED*

Yen

2013	2012	Dealer	%
1	1	Bank of Tokyo-Mitsubishi UFJ	15.7
2		JP Morgan	12.1
3		Barclays	10.5
4	2=	Deutsche Bank	10.4
5		Nomura	10.2

2013	2012	Broker
1	3	Icap
2	2	Tullett Prebon
3	1	Tradition

Sterling

2013	2012	Dealer	%
1	1	Royal Bank of Scotland	16.9
2	2	Barclays	14.6
3		HSBC	10.9
4	4	Société Générale	8.7
5	5	Lloyds Banking Group	8.5

2013	2012	Broker
1	1	Icap
2	3	BGC
3	2	Tullett Prebon

Swiss franc

2013	2012	Dealer	%
1	2	Credit Suisse	20.5
2	1	UBS	20.1
3		Goldman Sachs	11.0
4	4	Zürcher Kantonalbank	10.4
5	3	Deutsche Bank	9.3

2013	2012	Broker
1	1	Gottex
2	2	Icap
3	3	Tullett Prebon

INTEREST RATE SWAPS 10+ YEARS

US dollar

2013	2012	Dealer	%
1	1	JP Morgan	13.0
2	3	Bank of America Merrill Lynch	11.5
3		Goldman Sachs	9.4
4	5	Morgan Stanley	9.3
5		Barclays	8.9

2013	2012	Broker
1	1	Icap
2	3	Tradition
3	2	Tullett Prebon

Euro

2013	2012	Dealer	%
1	2	Barclays	15.3
2	1	Deutsche Bank	12.7
3	4	Société Générale	10.0
4	5	BNP Paribas	9.8
5	3	JP Morgan	8.9

2013	2012	Broker
1	1	Icap
2	2	Tullett Prebon
3		BGC

Yen

2013	2012	Dealer	%
1	4=	Nomura	15.6
2	2	JP Morgan	11.1
3	1	Bank of Tokyo-Mitsubishi UFJ	11.0
4		Barclays	8.9
5		Daiwa SMBC	8.6

2013	2012	Broker
1	2	Tradition
2	1	Tullett Prebon
3	3	Icap

Sterling

2013	2012	Dealer	%
1	1	Royal Bank of Scotland	15.2
2	2	Barclays	13.8
3	5	JP Morgan	10.5
4=		Bank of America Merrill Lynch	9.8
4=		BNP Paribas	9.8

2013	2012	Broker
1	3	BGC
2	2	Icap
3	1	Tullett Prebon

INTEREST RATE SWAPS 10+ YEARS *CONTINUED*

Swiss franc

2013	2012	Dealer	%
1	1	UBS	21.2
2	2	Credit Suisse	20.5
3		Goldman Sachs	11.8
4	4	Zürcher Kantonalbank	10.8
5		BNP Paribas	8.6

2013	2012	Broker
1	1	Gottex
2	2	Tullett Prebon
3	3	Icap

INTEREST RATE OPTIONS

US dollar

2013	2012	Dealer	%
1	5	Morgan Stanley	12.0
2	2	JP Morgan	11.3
3	1	Citi	11.1
4		Goldman Sachs	10.1
5	3=	Deutsche Bank	9.6

2013	2012	Broker
1	2	Icap
2	3	Tradition
3		BGC

Euro

2013	2012	Dealer	%
1	1	Deutsche Bank	15.2
2	2	JP Morgan	12.1
3	4	Société Générale	10.8
4		Barclays	9.8
5		Citi	8.3

2013	2012	Broker
1	1	Icap
2		BGC
3		**GFI**

Yen

2013	2012	Dealer	%
1	4=	Nomura	12.5
2		Goldman Sachs	11.3
3=	3	Bank of Tokyo-Mitsubishi UFJ	10.5
3=	4=	Mizuho Securities	10.5
5	2	JP Morgan	8.8

2013	2012	Broker
1	3	Icap
2	2	Tradition
3		**GFI**

Sterling

2013	2012	Dealer	%
1	1	Royal Bank of Scotland	16.2
2	2	Barclays	15.7
3	4	JP Morgan	12.7
4		Lloyds Banking Group	10.8
5		Société Générale	8.1

2013	2012	Broker
1	1	Icap
2	2	Tullett Prebon
3		**GFI**

Swiss franc

2013	2012	Dealer	%
1	2	Credit Suisse	18.6
2	1	UBS	16.9
3	5	Société Générale	11.5
4	4	Zürcher Kantonalbank	9.7
5		Citi	9.6

2013	2012	Broker
1	2	Icap
2	3	Gottex
3		Tradition

INTEREST RATE EXOTICS

US dollar

2013	2012	Dealer	%
1		Morgan Stanley	14.0
2	3	JP Morgan	12.0
3		Credit Suisse	11.3
4	5	Barclays	10.4
5		Goldman Sachs	10.2

2013	2012	Broker
1	1	Icap
2	2	Tradition
3		BGC

INTEREST RATE EXOTICS *CONTINUED*

Euro

2013	2012	Dealer	%
1		JP Morgan	14.1
2		Citi	12.7
3		Barclays	10.6
4	3	Deutsche Bank	10.4
5	2	BNP Paribas	9.6

2013	2012	Broker
1	1	Icap
2	3	Tradition
3		BGC

Yen

2013	2012	Dealer	%
1	3	Nomura	14.3
2	1	Deutsche Bank	13.5
3		Bank of America Merrill Lynch	13.1
4		Barclays	11.2
5		Daiwa SMBC	9.5

2013	2012	Broker
Insufficient votes		

Sterling

2013	2012	Dealer	%
1	1	Barclays	18.6
2	2	Royal Bank of Scotland	16.3
3		Credit Suisse	12.0
4		Citi	11.6
5		BNP Paribas	9.3

2013	2012	Broker
Insufficient votes		

Swiss franc

2013	2012	Dealer	%
1	2	Credit Suisse	20.1
2	1	UBS	18.5
3	3	Deutsche Bank	12.0
4		Goldman Sachs	10.3
5		Citi	8.1

2013	2012	Broker
Insufficient votes		

INFLATION SWAPS

US dollar

2013	2012	Dealer	%
1	4=	Barclays	15.2
2	3	Citi	14.3
3	2	JP Morgan	14.1
4	1	Deutsche Bank	12.5
5		Morgan Stanley	11.1

2013	2012	Broker
1	1	BGC
2	2	Tradition
3		Icap

Euro

2013	2012	Dealer	%
1	1	Barclays	14.0
2	2	Royal Bank of Scotland	12.1
3	4	Société Générale	10.7
4		Citi	9.3
5	3	Deutsche Bank	9.1

2013	2012	Broker
1	1	Tullett Prebon
2	2	BGC
3	3	Icap

Sterling

2013	2012	Dealer	%
1	1	Royal Bank of Scotland	16.2
2	3	HSBC	14.3
3	2	Barclays	12.7
4		Citi	9.5
5		Santander	8.2

2013	2012	Broker
1	1	Tullett Prebon
2	2	Icap
3		BGC

INFLATION OPTIONS

US dollar

2013	2012	Dealer	%
1	3	Citi	16.2
2	5	Bank of America Merrill Lynch	14.5
3	1	Deutsche Bank	14.3
4	4	JP Morgan	11.5
5	2	Barclays	10.9

2013	2012	Broker
1	1	BGC
2	3=	Icap
3	2	Tullett Prebon

Euro

2013	2012	Dealer	%
1	1	Barclays	16.3
2	2	Royal Bank of Scotland	16.1
3		Morgan Stanley	13.3
4		Citi	10.2
5	3	Deutsche Bank	9.4

2013	2012	Broker
1	2	Tullett Prebon
2	3	Icap
3	1	BGC

Sterling

2013	2012	Dealer	%
1	1	Royal Bank of Scotland	16.9
2	2	Barclays	13.8
3		Citi	11.5
4	5	HSBC	11.0
5		Lloyds Banking Group	10.2

2013	2012	Broker
1	1	Tullett Prebon
2	3	BGC
3		Tradition

REPURCHASE AGREEMENTS

US dollar

2013	2012	Dealer	%
1	2=	Citi	12.5
2	2=	Barclays	12.1
3		Goldman Sachs	11.3
4	4	Bank of America Merrill Lynch	10.3
5	1	JP Morgan	10.1

2013	2012	Broker
1	2	Tullett Prebon
2	3	BGC
3	1	Icap

Euro

2013	2012	Dealer	%
1	1	Société Générale	14.7
2		HSBC	11.4
3	3	Barclays	10.7
4	4	Royal Bank of Scotland	10.5
5	5	BNP Paribas	10.2

2013	2012	Broker
1	1	Tullett Prebon
2	2	Tradition
3		BGC

Yen

2013	2012	Dealer	%
1		HSBC	14.5
2		BNP Paribas	13.2
3	1	Mizuho Securities	12.1
4		Barclays	10.5
5	2	Nomura	10.4

2013	2012	Broker
1	3	Tradition
2	2	Tullett Prebon
3	1	Icap

Sterling

2013	2012	Dealer	%
1	1	Barclays	15.8
2	5	Lloyds Banking Group	15.1
3	4	HSBC	13.3
4		Santander	12.7
5	2	Royal Bank of Scotland	12.5

2013	2012	Broker
1	1	Tullett Prebon
2		Tradition
3	3	BGC

Swiss franc

2013	2012	Dealer	%
1	2	Credit Suisse	15.2
2	1	UBS	14.1
3	3	Société Générale	10.3
4	4	Barclays	10.1
5		JP Morgan	9.2

2013	2012	Broker
1	1	Tullett Prebon
2	2	Icap
3		Gottex

CROSS-CURRENCY SWAPS

US dollar/euro

2013	2012	Dealer	%
1	1	JP Morgan	14.3
2	2	Deutsche Bank	12.3
3		Barclays	10.5
4	4=	Société Générale	7.9
5		Credit Suisse	7.7

2013	2012	Broker
1	1	Icap
2	3	BGC
3	2	Tullett Prebon

US dollar/yen

2013	2012	Dealer	%
1	1	JP Morgan	16.1
2	2	Deutsche Bank	15.2
3		Barclays	11.4
4		Bank of Tokyo-Mitsubishi UFJ	10.4
5		Goldman Sachs	8.6

2013	2012	Broker
1	1	Tullett Prebon
2	2	Icap
3	3=	Tradition

US dollar/sterling

2013	2012	Dealer	%
1	1	Barclays	16.8
2	5	HSBC	14.5
3	4	JP Morgan	10.8
4	3	Deutsche Bank	10.3
5	2	Royal Bank of Scotland	9.7

2013	2012	Broker
1	1	Icap
2	2	Tullett Prebon
3	3	BGC

US dollar/Swiss franc

2013	2012	Dealer	%
1	2	Credit Suisse	18.6
2	1	UBS	15.8
3	3	Société Générale	11.5
4=	4	Deutsche Bank	10.4
4=	5	JP Morgan	10.4

2013	2012	Broker
1	2=	Gottex
2	1	Tullett Prebon
3	2=	Icap

Euro/yen

2013	2012	Dealer	%
1	1	Deutsche Bank	14.8
2	2	JP Morgan	13.6
3		Barclays	11.3
4	4	Société Générale	9.6
5	5	BNP Paribas	9.1

2013	2012	Broker
1		Icap
2		**GFI**
3	1	Tullett Prebon

Euro/sterling

2013	2012	Dealer	%
1	2	Barclays	15.9
2		Deutsche Bank	12.6
3	3	Société Générale	11.2
4		HSBC	9.8
5	1	Royal Bank of Scotland	9.3

2013	2012	Broker
1	1	Tullett Prebon
2		Icap
3	3	Tradition

CURRENCY PRODUCTS

Currency overall breakdown by currency

US dollar/euro

2013	2012	Dealer	%
1	1	Citi	11.1
2	2	Deutsche Bank	10.9
3	3	UBS	10.0
4	4	Bank of America Merrill Lynch	9.6
5		JP Morgan	9.3

US dollar/Swiss franc

2013	2012	Dealer	%
1	1	UBS	16.5
2	2	Credit Suisse	16.1
3	4	Citi	10.5
4	3	Deutsche Bank	10.1
5	5	Société Générale	9.4

US dollar/yen

2013	2012	Dealer	%
1	2	Citi	11.0
2	3	Deutsche Bank	10.5
3		JP Morgan	9.9
4	5	Bank of America Merrill Lynch	9.7
5		Barclays	9.1

Euro/yen

2013	2012	Dealer	%
1	3	Deutsche Bank	12.0
2		HSBC	11.2
3	1	UBS	9.6
4	2	Citi	9.3
5		Bank of America Merrill Lynch	8.8

US dollar/sterling

2013	2012	Dealer	%
1		HSBC	11.3
2	1	Barclays	10.9
3	2	Citi	10.2
4	5	Deutsche Bank	10.1
5		JP Morgan	9.1

Euro/sterling

2013	2012	Dealer	%
1	1	Barclays	13.2
2	3	Citi	11.2
3		HSBC	10.6
4	4	Deutsche Bank	10.3
5		Société Générale	10.1

FX SWAPS

US dollar/euro

2013	2012	Dealer	%
1	1	Citi	13.6
2	3=	UBS	13.0
3		Bank of America Merrill Lynch	11.4
4	2	Deutsche Bank	10.6
5	5	JP Morgan	9.8

2013	2012	Broker
1	1	Tullett Prebon
2	3	Icap
3		BGC

US dollar/yen

2013	2012	Dealer	%
1	5	Bank of Tokyo-Mitsubishi UFJ	13.1
2	2	Citi	11.4
3	4	HSBC	10.4
4		JP Morgan	10.2
5		Bank of America Merrill Lynch	9.5

2013	2012	Broker
1	1	Tullett Prebon
2	3	Icap
3		BGC

US dollar/sterling

2013	2012	Dealer	%
1	5	HSBC	12.7
2		Bank of America Merrill Lynch	11.2
3		Deutsche Bank	10.6
4	1	Barclays	10.3
5	2	Citi	10.1

2013	2012	Broker
1	2	Tullett Prebon
2		Icap
3	3	RP Martin

US dollar/Swiss franc

2013	2012	Dealer	%
1	1	UBS	16.2
2	2	Credit Suisse	15.6
3	4	Citi	12.0
4		HSBC	10.1
5	3	Société Générale	9.2

2013	2012	Broker
1	1	Tullett Prebon
2		Icap
3	3	Tradition

Euro/yen

2013	2012	Dealer	%
1		Bank of America Merrill Lynch	13.2
2	3	Deutsche Bank	12.4
3	1	UBS	12.1
4		Bank of Tokyo-Mitsubishi UFJ	11.8
5	4	HSBC	10.8

2013	2012	Broker
1		Icap
2	3	Tullett Prebon
3		BGC

FX SWAPS *CONTINUED*

Euro/sterling

2013	2012	Dealer	%
1	1	Barclays	13.9
2	3	Citi	13.3
3		Bank of America Merrill Lynch	12.3
4	5	HSBC	11.8
5		Société Générale	10.2

2013	2012	Broker
1	1	Tullett Prebon
2		BGC
3		Icap

FX OPTIONS

US dollar/euro

2013	2012	Dealer	%
1	4	Citi	13.6
2		Credit Suisse	12.8
3		Barclays	12.6
4	2	Deutsche Bank	10.6
5	3	UBS	10.1

2013	2012	Broker
1	1	Tradition-Icap
2	2	Tullett Prebon
3		**GFI**

US dollar/yen

2013	2012	Dealer	%
1		HSBC	13.9
2		Bank of America Merrill Lynch	12.9
3	4=	Deutsche Bank	11.9
4		Goldman Sachs	11.4
5	1	UBS	11.2

2013	2012	Broker
1	1	Tullett Prebon
2		BGC
3	2	Tradition-Icap

US dollar/sterling

2013	2012	Dealer	%
1=	4	Citi	13.1
1=		HSBC	13.1
3	1	Barclays	11.0
4		BNP Paribas	9.4
5		JP Morgan	9.1

2013	2012	Broker
1	1	Tullett Prebon
2	**2**	**GFI**
3	3	Tradition-Icap

US dollar/Swiss franc

2013	2012	Dealer	%
1	1	UBS	17.3
2	2	Credit Suisse	17.1
3	4	Citi	11.9
4	3	Deutsche Bank	10.4
5	5	Société Générale	9.1

2013	2012	Broker
1	2	Tradition-Icap
2	1	Tullett Prebon
3	**3=**	**GFI**

Euro/yen

2013	2012	Dealer	%
1	3	Deutsche Bank	13.1
2		Bank of America Merrill Lynch	12.8
3	5	HSBC	12.1
4	4	Société Générale	11.8
5	1	UBS	10.9

2013	2012	Broker
1	3	Tradition-Icap
2	1	Tullett Prebon
3	**2**	**GFI**

Euro/sterling

2013	2012	Dealer	%
1	2	Citi	14.1
2	5	Barclays	13.5
3		HSBC	12.9
4	4	Royal Bank of Scotland	12.1
5		Société Générale	9.9

2013	2012	Broker
1	1	Tullett Prebon
2=	**2**	**GFI**
2=	3	Tradition-Icap

FX FORWARDS

US dollar/euro

2013	2012	Dealer	%
1	1	Deutsche Bank	14.3
2	2	Citi	12.3
3	5	BNP Paribas	11.7
4	3	UBS	10.6
5	4	HSBC	10.0

2013	2012	Broker
1	1	Icap
2	2	Tullett Prebon
3		BGC

US dollar/yen

2013	2012	Dealer	%
1	2	Citi	14.1
2	3	Deutsche Bank	12.2
3		Barclays	11.3
4		JP Morgan	10.7
5=		Bank of Tokyo-Mitsubishi UFJ	9.0
5=	1	UBS	9.0

2013	2012	Broker
1	1	Tullett Prebon
2		Icap
3	3	Tradition

US dollar/sterling

2013	2012	Dealer	%
1	1	Barclays	14.6
2	5	Deutsche Bank	13.9
3	4	Citi	12.6
4		HSBC	10.8
5		JP Morgan	10.1

2013	2012	Broker
1	2	Tullett Prebon
2	3	Icap
3		RP Martin

US dollar/Swiss franc

2013	2012	Dealer	%
1	1	UBS	18.4
2	2	Credit Suisse	16.0
3	3	Société Générale	11.4
4	5	Deutsche Bank	10.4
5	4	Citi	9.2

2013	2012	Broker
1	1	Tullett Prebon
2		Icap
3	3	Tradition

Euro/yen

2013	2012	Dealer	%
1	1	Société Générale	14.2
2	3	Citi	13.7
3	4=	Deutsche Bank	12.9
4		Barclays	11.6
5		HSBC	11.1

2013	2012	Broker
1	1	Tullett Prebon
2		Icap
3	3	Tradition

Euro/sterling

2013	2012	Dealer	%
1		HSBC	12.9
2	1	Barclays	12.8
3	4	Citi	12.4
4	3	Société Générale	10.4
5	5	Deutsche Bank	10.3

2013	2012	Broker
1	1	Tullett Prebon
2		Icap
3		RP Martin

EXOTIC FX PRODUCTS

US dollar/euro

2013	2012	Dealer	%
1	4	Deutsche Bank	15.5
2	2	Société Générale	14.7
3	5	Bank of America Merrill Lynch	12.6
4	1	UBS	12.0
5	3	Citi	9.8

2013	2012	Broker
1	3	Tradition-Icap
2	1	Tullett Prebon
3	**2**	**GFI**

US dollar/yen

2013	2012	Dealer	%
1	3	Deutsche Bank	14.8
2=	5	Bank of America Merrill Lynch	12.5
2=		Barclays	12.5
4		JP Morgan	11.5
5	1	Citi	10.8

2013	2012	Broker
1	3	Tradition-Icap
2	2	Tullett Prebon
3		BGC

US dollar/sterling

2013	2012	Dealer	%
1		HSBC	15.9
2	2	UBS	13.2
3		Barclays	12.1
4	4	BNP Paribas	10.1
5	3	Deutsche Bank	10.0

2013	2012	Broker
1	3	Tradition-Icap
2	2	Tullett Prebon
3	**1**	**GFI**

US dollar/Swiss franc

2013	2012	Dealer	%
1	1	UBS	17.3
2	4	Credit Suisse	16.5
3		JP Morgan	12.3
4	2	Deutsche Bank	10.5
5	5	Barclays	10.1

2013	2012	Broker
1	1	Tullett Prebon
2	2	Tradition-Icap
3	**3**	**GFI**

Euro/yen

2013	2012	Dealer	%
1	1	UBS	15.3%
2		HSBC	14.2%
3	5	Barclays	12.2%
4		Bank of America Merrill Lynch	11.1%
5	3	Citi	10.9%

2013	2012	Broker
1	3	Tradition-Icap
2	2	Tullett Prebon
3	**1**	**GFI**

Euro/sterling

2013	2012	Dealer	%
1	3	Deutsche Bank	16.3%
2	5	Barclays	15.3%
3		BNP Paribas	10.5%
4	4	Société Générale	10.4%
5	2	Royal Bank of Scotland	10.2%

2013	2012	Broker
1	2	Tullett Prebon
2	**1**	**GFI**
3	3	Tradition-Icap

EQUITY PRODUCTS

OTC SINGLE-STOCK EQUITY OPTIONS

US

2013	2012	Dealer	%
1	1	Société Générale	16.7
2	2	BNP Paribas	13.7
3	3	JP Morgan	11.6
4		Morgan Stanley	9.7
5=		Bank of America Merrill Lynch	9.6
5=	5	Barclays	9.6

2013	2012	Broker
1	1	Sunrise Brokers
2		**GFI**
3	2	Icap

Europe

2013	2012	Dealer	%
1	1	Société Générale	16.3
2	2	BNP Paribas	13.2
3		JP Morgan	10.8
4	3	Morgan Stanley	9.5
5	4=	Barclays	9.4

2013	2012	Broker
1	1	Sunrise Brokers
2	**2**	**GFI**
3		Tullett Prebon

Asia

2013	2012	Dealer	%
1	1	Société Générale	16.5
2	2	BNP Paribas	14.1
3		Credit Suisse	11.2
4		JP Morgan	10.3
5	3	Nomura	9.9

2013	2012	Broker
1	1	Sunrise Brokers
2		**GFI**
3		Tullett Prebon

EQUITY INDEX OPTIONS

DJ Euro Stoxx 50

2013	2012	Dealer	%
1	1	Société Générale	15.9
2	2	BNP Paribas	13.0
3	4=	JP Morgan	10.2
4	3	Morgan Stanley	10.1
5		Deutsche Bank	9.5

2013	2012	Broker
1	1	Sunrise Brokers
2		Tradition
3		Icap

S&P 500

2013	2012	Dealer	%
1	1	Société Générale	15.4
2	5	Goldman Sachs	12.7
3	2=	JP Morgan	10.9
4	2=	BNP Paribas	10.5
5	4	Morgan Stanley	9.9

2013	2012	Broker
1	1	Sunrise Brokers
2		Icap
3	2	Tradition

FTSE 100

2013	2012	Dealer	%
1	1	Société Générale	16.3
2	4	BNP Paribas	13.1
3		JP Morgan	11.5
4	5	Barclays	11.1
5	3	Morgan Stanley	10.4

2013	2012	Broker
1	2	Tullett Prebon
2	1	Sunrise Brokers
3	3	Tradition

Nikkei 225

2013	2012	Dealer	%
1	1	Nomura	14.9
2	2	Société Générale	13.3
3	3	BNP Paribas	12.3
4	5	Bank of America Merrill Lynch	10.6
5	4	Morgan Stanley	9.6

2013	2012	Broker
1	1	Tradition
2	2	Sunrise Brokers
3		Icap

SMI

2013	2012	Dealer	%
1	1	Société Générale	17.1
2	2	BNP Paribas	12.6
3	4	Morgan Stanley	11.7
4	5	Credit Suisse	11.4
5		JP Morgan	10.1

2013	2012	Broker
1	3	Sunrise Brokers
2	2	Tradition
3	**1**	**GFI**

EQUITY INDEX OPTIONS *CONTINUED*

Dax 30

2013	2012	Dealer	%	2013	2012	Broker
1	1	Deutsche Bank	16.2	1	1	Sunrise Brokers
2	2	Société Générale	14.2	2		Tradition
3	3	BNP Paribas	12.2	3	2	Tullett Prebon
4		JP Morgan	10.5			
5	4	Morgan Stanley	10.2			

Cac 40

2013	2012	Dealer	%	2013	2012	Broker
1	1	Société Générale	20.2	1	2	Tradition
2	2	BNP Paribas	16.8	2	3	Sunrise Brokers
3		JP Morgan	11.2	**3**	**1**	**GFI**
4	3	Morgan Stanley	9.2			
5		HSBC	8.6			

Hang Seng

2013	2012	Dealer	%	2013	2012	Broker
1	1	Société Générale	16.1	1	1	Sunrise Brokers
2	2	BNP Paribas	13.7	2	2	Tradition
3	3	Nomura	11.7	3	3	Tullett Prebon
4	4	Morgan Stanley	10.7			
5	5	HSBC	9.2			

EXOTIC EQUITY PRODUCTS

Exotic single-stock options

2013	2012	Dealer	%	2013	2012	Broker
1	1	Société Générale	17.2	1	1	Sunrise Brokers
2	2	BNP Paribas	13.3	**2**	**3**	**GFI**
3=		Goldman Sachs	10.7	3	2	Tradition
3=		JP Morgan	10.7			
5	3	Deutsche Bank	9.1			

Exotic index options

2013	2012	Dealer	%	2013	2012	Broker
1	1	Société Générale	17.4	1	1	Sunrise Brokers
2	2	BNP Paribas	14.8	**2**	**2=**	**GFI**
3	3	JP Morgan	11.2	3	2=	Tradition
4		Deutsche Bank	10.2			
5		Goldman Sachs	8.9			

Other exotic equity options (worst-of, basket, cliquet, etc)

2013	2012	Dealer	%	2013	2012	Broker
1	1	Société Générale	18.7	1	1	Sunrise Brokers
2	2	BNP Paribas	16.7	**2**	**3**	**GFI**
3	3=	JP Morgan	12.6	3	2	Tradition
4	5	Deutsche Bank	11.9			
5		Credit Suisse	10.3			

Volatility/variance swaps

2013	2012	Dealer	%	2013	2012	Broker
1	1	Société Générale	18.1	1	1	Sunrise Brokers
2	2	BNP Paribas	16.1	2	3	Tradition
3		Goldman Sachs	13.4	**3**	**2**	**GFI**
4		Credit Suisse	10.6			
5	4	JP Morgan	10.2			

Dividend swaps

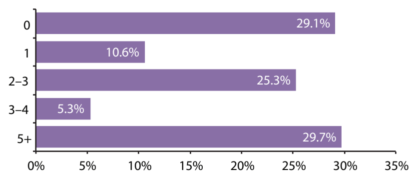
2013	2012	Dealer	%	2013	2012	Broker
1	1	Société Générale	18.6	1	1	Sunrise Brokers
2	2	BNP Paribas	15.0	**2**	**3**	**GFI**
3	5	Goldman Sachs	12.1	3	2	Tullett Prebon
4		Credit Suisse	9.6			
5	3	JP Morgan	9.4			

The future of **OTC derivatives**

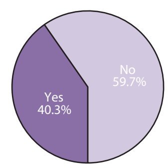
Respondents to this year's Risk *interdealer rankings were also asked for their opinions on the forces shaping the over-the-counter derivatives market. Dealers are split on whether regulation is now materially affecting their market-making ability. There's more consensus among brokers over the future shape of their industry – even if it's not a rosy picture. By* **Tom Newton**

DEALERS

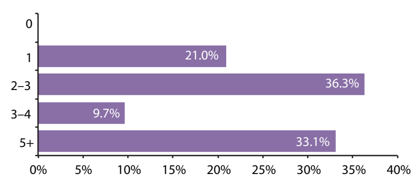
1. How many OTC CCPs has your firm joined as a direct member?



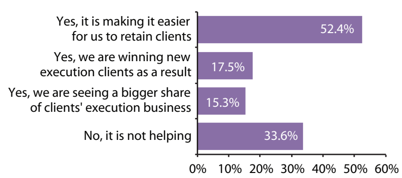
2. Will your firm also access OTC CCPs as the client of another member firm?



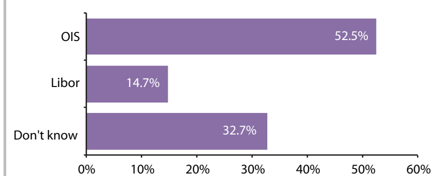
3. If yes, how many CCPs do you expect your firm to access indirectly?



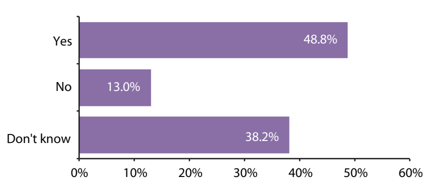
4. If your bank has a client clearing business, is that helping the execution franchise?



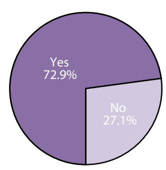
5. What rate do you use to discount cash-collateralised trades?



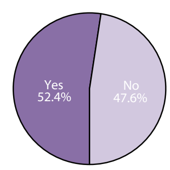
6. Does your firm take collateral posting optionality into account when valuing trades?



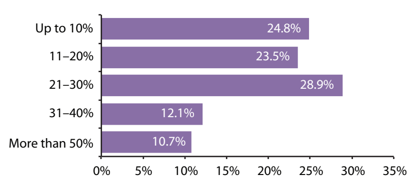
7. Do you support the idea of a standard industry model for initial margin?



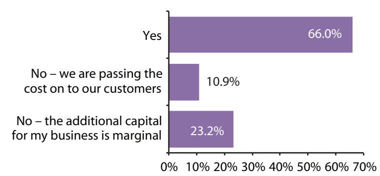
8. Has the new regulatory environment constrained your ability to act as a market-maker?



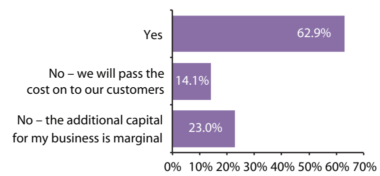
9. If yes, how much smaller is your inventory capacity?



10. Are Basel's rules on trading book capital reducing the profitability of your business?



11. Will Basel III's capital requirement for CVA reduce the profitability of your business?



For several years, it's been received wisdom that a suite of post-crisis regulation would crimp bank trading activity as well as profits. It was a case of when, not if. For many, that moment came in late May and June this year after US Federal Reserve chairman, Ben Bernanke, warned the US may rein in its bond-buying programme. The resulting volatility was due in part to a lack of market-making liquidity, the argument goes.

But banks are divided on this topic. "Questions about dealer appetite are a big theme in the market at the moment, and they may have some merit – dealer balance sheets are smaller than they were before the crisis – but large banks are still willing to dedicate a significant chunk of balance sheet to their rates businesses," says Nat Tyce, head of interest rate trading at Barclays in London.

When asked whether the regulatory environment was constraining their ability to make markets, the 313 dealers that responded to that question were split roughly evenly – 52.4% said it was. Of these respondents, 10.7% said their inventory capacity had more than halved. 28.9% estimated they were carrying 21–30% less inventory.

The jury is still out on this issue, but there is more consensus elsewhere. Asked whether the Basel 2.5 package of new trading book measures, which includes stressed value-at-risk and the incremental risk charge, would reduce profitability, 66% said it would – roughly the same proportion as last year.

European banks looked to have scored a major capital victory this year, when legislators gave them an exemption to the Basel III charge for credit valuation adjustment (CVA) on trades with corporates, sovereigns and pension funds. But it doesn't seem to have moved the needle in this year's survey – 63% still said the CVA capital requirement would reduce their profits, marginally more than last year.

Consensus on the use of overnight indexed swap rates when discounting cash-collateralised trades emerged among the top dealers following the first phase of the crisis. It's still not a uniform practice though – only 52.5% of respondents said they used it in this year's survey, while a third of respondents said they do not know what discount rate their firm uses. When asked whether their employer takes collateral posting optionality into account when pricing trades, 13% of respondents said no – a big drop from last year's 34%. More than a third did not know.

Many derivatives users in the US are now subject to a mandatory clearing requirement, with Europe's equivalent regime set to come online next year, and traders believe the immature client clearing business is already helping the execution franchise. Just over half of respondents say clearing is helping them retain trading clients, while 17.5% say it is bringing them new customers, and 15.3% claim to be seeing a greater share of clients' execution business. One-third of respondents said the advent of clearing was not helping the trading desks.

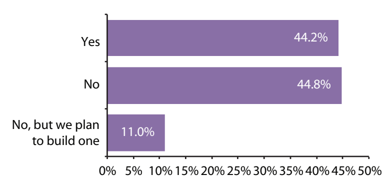
Interdealer brokers are also facing upheaval. New trading rules in the US call for swap execution facilities (Sefs) to offer impartial access to all users, potentially tearing down the wall between dealer-to-dealer and dealer-to-client trading. One striking result of this year's questions is that fully 67% of brokers polled believe their Sefs will not need to move out of the interdealer market to survive. Of those that thought the sector does need to expand its horizons, roughly half said dealers may not allow it.

The result highlights the fact that interdealer volumes are a richer prize than dealer-to-client trading. But brokers still believe near-term consolidation among the big five firms is likely. Just over a third of respondents expect there to be just three independent brokers in two years' time, with 29.9% predicting there will be four stand-alone firms. Of the possible merger combinations, three stand out as most popular: a Tradition-Tullett combination gets 19% of the vote, with GFI-Tullett on 18.1% and BGC-GFI on 14.6%. ■

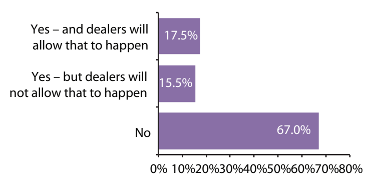
> "Questions about dealer appetite are a big theme in the market at the moment, and they may have some merit"
>
> Nat Tyce, Barclays

BROKERS

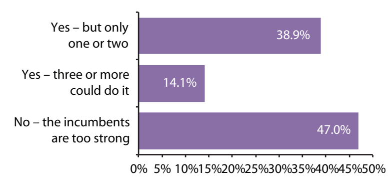
1. Does your firm offer electronic trading of OTC products via a Sef/OTF/MTF platform?



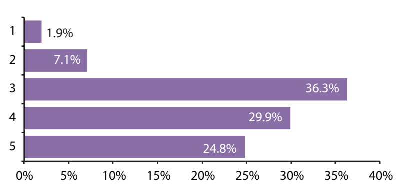
2. Do broker OTC platforms need to move out of the interdealer market in order to survive?



3. Is it possible for any of today's brokers to launch a futures exchange?



4. How many of today's big five OTC brokers will still exist as independent entities in two years' time?



5. If any, which of the following big-broker merger combinations do you think is most likely to happen first?