

NEWS NEWS NEWS

E-trading decimates broker fees for credit index trades

Credit derivative dealers have emerged as the big winners at the expense of brokers following the launch of the \$500-a-ticket electronic trading platform for credit derivative indices by broker **Creditex** in February.

Dealers say that traditional voice brokers, who previously charged between \$2,500 and \$5,000 a trade, have responded by cutting their brokerage for index trades by up to 80%. One now charges the same level as Creditex. Another leading broker is said to be charging \$1,250 an index trade.

Although all previous attempts to bring online trading to the credit derivatives market have come to nothing, the switch from voice brokerage to e-trading in credit indices was decisive in the first weeks of trading. "When Creditex launched the screen it absorbed entirely the liquidity of the Street," says a European default swap trader.

Credit derivative traders say that voice brokers have had little choice but to cut their fees or exit the index business. "I am not sure everyone wants to be in a business where you charge that little for brokerage," he adds. "We will see the index business concentrated in the hands of fewer brokers."

The fees charged by brokers for index trades have been a sore point for dealers, which quote indices such as Dow Jones Trac-x and iBoxx at much tighter bid-offer spreads than single names. "Brokerage fees have been set way too high," says one trader. "\$500 per ticket is a huge saving advantage on a product that trades on a 1 to 2 basis point bid-offer and where there are no margins."

At its peak, before voice brokerage fees were cut, e-trading of the indices using Creditex was winning out in the US market by as much as 99 e-trades to one voice brokered trade, say dealer officials. In Europe, a

trader puts the ratio at 10 to one.

And the Creditex platform appears to have maintained a good foothold, even though traditional brokers have reclaimed a decent chunk of liquidity. "The split is probably 40% e-trading to 60% voice," says a credit derivatives trader in New York. "To say that the screen is the wave of the future would be wrong, but both screen and voice have their benefits and their drawbacks."

"There is a role for electronic and a role for voice," says **Sunil Hirani**, CEO of Creditex. "There is a segment of the market that wants electronic trading, which is clear from the fact that even when the voice brokers have matched our price we are still doing a lot of trades."

Hirani says that 20 to 30 trades (done in the standard \$25 million clips) would be defined as a good day. "Even on slow days we can be doing 10 trades," he says.

The success of the platform contrasts with Creditex's attempts to get e-trading up and running in the single-name default swap space, since it began life in 1999. Even so, there is little sign of traditional brokers following Creditex's lead.

Some brokers, such as **Garban ICAP**, say an alternative model for credit derivative index trades is to mix voice brokerage with an electronic platform. This is a long way from the pure e-trading platform offered by Creditex. "With Creditex you don't need to speak to a broker if you do not want to," says a sell-side credit derivatives trading head, "whereas hybrid models still rely on the broker going back and forth."

Gary Smith, managing director of fixed income at Garban ICAP, says a fully interactive e-service is available via the broker's ETC/

BrokerTec platform. "At present we do not feel there is enough liquidity to support an e-service," he says.

"However, we are in a position to give our clients the ability to execute their own trades should the demand arise."

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