

Creditex: Best multibank site for credit derivatives

Creditex is an interdealer credit broker that finalizes all trades over the phone. But it uses the internet to deliver real-time prices and historical data in a way that greatly adds to the market's transparency and speed. The credit derivatives market has had to mature fast in this year's difficult credit environment and volumes have grown explosively. The need for a simple, robust system for price discovery has never been greater.

John McEvoy, a former director of Deutsche Bank's New York credit derivatives business and co-founder of Creditex along with Sunil Hirani, says that chaotic conditions in the cash credit markets mean business is growing faster than ever. He says: "Perversely, the more ugly and volatile the credit markets get, the more it pours gasoline on the credit derivatives market and benefits us. We had huge volumes in July with the events around WorldCom, and with the turmoil recently it looks like October's going to be similar. When people are scared, they buy insurance."

The RealTime application is Creditex's price delivery system for traders. It lets them put up, pull and maintain prices, view credits or sectors they are interested in, follow prices in a small ticker to save screen space, graph price movements, and download trading histories into a spreadsheet. They can also use instant messaging, in an attempt to preserve market colour.

"The site has a lot of useful tools for graphing information and analyzing the market," says a trader at one of the biggest dealer banks in credit derivatives. "The real benefit is the price information, though. Prices are good most of the time, and it's very useful to be able to get a sense of where the market is at any time. Everything is still executed using the phone, and of course as a market maker I have our own systems to provide me with data, but it's good to have an independent source as well."

Creditex says more than three-quarters of the dealer community in London and New York now have RealTime installed. And they are getting more comfortable with putting their own prices up on the system rather than letting Creditex do it - only one per cent of the prices on the system were directly

traderentered at the start of the year, but this figure has now risen to around 30%. Trades are finalized over the phone, but RealTime greatly speeds and eases the process.

This applies as well to Creditex's operations support - it offers Bloomberg-based trade ticket generation, automated trade confirmation summaries for all traders at the end of the day, and automated spreadsheet generation for the back office.

The platform also offers historical pricing information on the CDS market, alongside third-party material. This is useful for groups such as risk controllers, portfolio managers, and research staff, for purposes as varied as valuing synthetic CDOs or performing relative value analysis across a name's capital structure. Users can see the last bid and offer for a name or the biggest daily movers, for example, or can graph price movements. They can also create and track their own portfolio, analyzing it by industry, ratings distribution, or average weighting.

McEvoy thinks this market information service is likely to be Creditex's biggest growth area in the near future. He says: "Our singlename default swap platform is probably the biggest component of our business, but most of the interdealer community is already using it. So we're now concentrating more on pushing our market data service, which about 30 institutions use at the moment. A lot of the customers here are still the dealers - their traders have this price information already, but sales, back office and research want it too."

The site also has functionality to cover the more structured end of the market. Of particular interest is the Auction facility, which radically shortens and simplifies the process of ramping up a synthetic CDO. Before, this could take some weeks of trying to assemble the requisite pool of default swaps, and often the eventual price would not be the best. This feature lets dealers send their whole wish-list to Creditex, who then break it down and find the best prices for each component. While only about seven auctions have taken place so far, interest is building.

Creditex chairs the FpML working group that is trying to create a version of the language tailored to credit derivatives. It



plans to enable an online FpML trade confirmation interface, giving clients true STP, when this is possible. It is also looking at supporting T+1 settlement and at automated term sheet generation. It will also roll out portfolio optimization facilities that are undergoing beta testing - these will simplify the process of choosing credits for a synthetic CDO, giving the best yield for a given rating, for example. And it will add more pre-trade analytics, such as credit correlation tools.

Full electronic trade execution does not seem to be any closer in the interdealer market than it is on single-bank platforms. The challenges here are to do with market practice rather than any technological difficulties. Says McEvoy: "We're on most people's desktops already, and it would be technically easy to enable full electronic execution. But we don't think the market is ready for that yet. We can't force it on people, but we'll turn it on if they start telling us they want it."

The other contender in this category is CreditTrade, which also wins this year's award for loan trading. Another interdealer broker, it has recently launched a series of liquid market pages giving price information on particular sectors in the CDS market, and also offers a market data service with strong analytics allowing the user to look at CreditTrade's database according to a variety of criteria and flexibly graph the results.

Alongside this is excellent benchmark tracking functionality and the ability to analyze structured products. Soon to be added are a set of indices to let users follow specific sections of the market. CreditTrade's internet offering does not seem to have achieved the same level of penetration into the credit derivatives market as its rival yet, but may yet become a strong competitor.