



# Big is beautiful

The acquisition of Prebon Yamane by Collins Stewart Tullett has lifted Tullett Prebon ahead of Icap, last year's winner. With further consolidation on the cards, are the days of specialist niche brokers numbered? By Alexander Campbell, research by Xiao Long Chen

The £132 million acquisition of Prebon Yamane by Collins Stewart Tullett (CST) last October has propelled the combined group to top of the brokerage league tables for interest rate and currency derivatives, consigning last year's winner, Icap, to second place.

Tullett Prebon won 23 out of 61 interest rate categories and 12 out of 31 currency categories in this year's *Risk* inter-dealer survey – just enough to sneak it ahead of UK-based rival Icap, which came top in 22 interest rate and 11 currency derivatives groupings.

"The merger combined the strengths of both businesses. It brought together the forex forwards, cash, credit default swap and energy franchises from Prebon with the fixed income, interest rate derivatives, equities and forex options strengths of Tullett," says Stephen Duckworth, chief operating officer at Tullett Prebon in London. "Additionally, the merger was complementary to the European geographical spread of the business, with the enlarged group benefiting from offices in six European locations outside London, none of which were duplicated."

With Tullett Prebon and Icap dominating the interest rate and currency segments of the poll, it indicates that size is becoming more and more important in an industry hit by steadily shrinking margins. And there's likely to be a further shake-up among the top firms over the next year.

In August, CST announced that it had received several takeover approaches from unnamed parties. Speculation over the identity of the bidders has centred on US brokers, which could be attracted by CST's strong inter-dealer presence, and information providers such as Reuters and Bloomberg. Nothing more will be revealed until CST's interim results are released later in September.

If Tullett Prebon was combined with another inter-dealer broker, the merged operation would control much of the inter-dealer market. For this reason, any bid would probably come under close

scrutiny from the UK's competition authority and financial services regulator. Icap has already ruled out a takeover bid.

However, Tullett Prebon and Icap already dominate the two asset classes, with smaller, niche players increasingly disappearing from the rankings. Between them, the two firms accounted for 69% of the first places in the interest rate categories, and 58% of the top spots in the currency groupings.

"It has been this way for some time already. In virtually any market you tend to have two or three at the top – two battling it out for the first place, with maybe a third waiting for one of them to make a mistake," says David Casterton, London-based managing director at Icap. "It is becoming increasingly difficult for small firms to compete – the economies of scale make it hard."

Tradition, meanwhile, appears frequently throughout the survey in second and third position, but achieved only three first places in interest rates and two in currencies; predominantly in the yen categories.

While the mergers have, for the most part, helped the large brokers consolidate their positions at the top of the leaderboard, the shake-up has caused a spate of resignations, walk-outs and poachings across the brokerage firms. In February, 51 brokers from Prebon Yamane in Singapore joined BGC, prompting Prebon to take out an interim injunction – later overturned – preventing the brokers from starting work at the US firm. In a separate case, a Singapore judge approved an injunction in August preventing five former Tullett Prebon Singapore employees from working at BGC's Singapore office for another two months – the five had walked

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The consolidation activity is not just restricted to CST. Other brokerage firms have also looked to snap up smaller players. Tradition, the broking arm of Swiss-listed Compagnie Financière Tradition, announced at the end of last year that it had signed a letter of intent to acquire US broker Chapdelaine, while in May, BGC Partners, the inter-dealer broker spun off from Cantor Fitzgerald, completed its \$108 million acquisition of Maxcor Financial Group, parent company of Eurobroker.

BGC performed well in the interest rate categories this year, winning 16 first places. The firm performed particularly strongly in the more complex end of the spectrum, dominating the swaptions and exotics groupings, as it did last year. BGC also won two top spots in the currency categories, a joint first in euro/yen cross-currency swaps and a first in US dollar/yen vanilla options.

out on Tullett Prebon in July and started working for BGC immediately.

And that's just the tip of the iceberg. In April, Icap settled with an undisclosed payment to CST after 27 staff left Tullett Liberty in Hong Kong and Singapore to join Icap. Icap, in turn, is pursuing legal action against BGC for hiring 22 former Icap employees in February, hot on the heels of the departure of Mark Webster, Icap's former chief executive for the Asia-Pacific region, who left for BGC at the end of last year. The company was forced to close its Sydney futures broking desk after those defections, reopening in early May after appointing 13 new brokers, including Simon Watkin as head of futures broking in Australia.

"I don't think poaching has been particularly bad this year – although there has been more in the past 12 months than in prior years, and some of it has been

fairly large scale,” says Icap’s Casterton. “Morally and legally, there are lines that you don’t overstep – like unfair inducement – and there may have been some of that going on. It may be allied to the point that you need to be in the top three – it may be that brokers are taking more desperate measures.”

On a more consensual basis, GFI acquired Tullett Prebon’s entire Singapore-based regional forex options team in July, with effect from October this year. The move is aimed at avoiding duplication between the former Prebon and Tullett Liberty teams, and allows Tullett Prebon to integrate Tullett Liberty’s forex options within the combined group.

Outside the core interest rate and currency categories, there was a broader range of winning companies. UK broker GFI came joint second in the equity derivatives categories with UK-based Sunrise, both posting eight first-place wins, behind TFS, part of Compagnie Financière Tradition, which came top in nine segments.

GFI also performed well in credit derivatives, dominating the credit default swap sector with four first-place wins out of eight categories. In the currency grouping, it won three first places. However, this could improve in the future: the firm is investing in its currency business, having launched Fenics dealFX in May, a foreign exchange options trading platform that enables Fenics clients to offer customised online pricing for their buy-side customers.

Also in currency, TFS-Icap, a joint venture between Icap and TFS’ forex options businesses, won nine first places – six in vanilla currency options and three in exotics. This follows the firm’s integration of the Volbroker electronic trading platform last year. Mike Leibowitz, TFS-Icap’s New York-based chief executive, says: “We have fully integrated Volbroker into our forex options broking business. Having the system allows us to offer straight-through processing, which a lot of our customers have found important. We can distribute infor-

mation more effectively and our own operations are more efficient.”

While electronic trading is a key to success, Leibowitz rules out moving to an all-electronic model. “Technology is an important factor, but we use a combination of voice and screen trading. This hybrid model allows us to offer a wide spectrum of services to our customers. Some standard forex options are better suited to being brokered electronically. However, more complex structures require the use of a voice broker.”

As further consolidation occurs, a market composed of ‘top threes’ in each product area would leave little room for most of the smaller players. But this year’s survey shows that smaller, newer asset classes can support specialist brokerages with little presence outside them. The rise of new product sectors, in response to investor demand for ever more exotic underlying assets, could create niches for specialist brokers, even as the more established sectors undergo more consolidation. ■

| <b>First positions – interest rates</b> |                   |                  |                 |                           |                         |                               |                       |                       |                        |       |
|---|-------------------|------------------|-----------------|---------------------------|-------------------------|-------------------------------|-----------------------|-----------------------|------------------------|-------|
| Broker                                  | Short dated swaps | Swaps 2–10 years | Swaps 10+ years | Interest rate caps/floors | Interest rate swaptions | Exotic interest rate products | Overnight index swaps | Repurchase agreements | Forward rate agreement | Total |
| Tullett Prebon                          | 5                 | 4                | 2               | 0                         | 0                       | 2                             | 3                     | 1                     | 6                      | 23    |
| Icap                                    | 3                 | 4                | 5               | 3                         | 0                       | 1                             | 4                     | 1                     | 1                      | 22    |
| BGC                                     | 0                 | 0                | 1               | 2                         | 5                       | 7                             | 0                     | 1                     | 0                      | 16    |
| Tradition                               | 1                 | 0                | 0               | 1                         | 1                       | 0                             | 0                     | 0                     | 0                      | 3     |
| Gottex                                  | 0                 | 1                | 1               | 0                         | 0                       | 0                             | 0                     | 0                     | 0                      | 2     |

  

| <b>First positions – currencies</b> |                      |                         |                   |                         |       |
|-------------------------------------|----------------------|-------------------------|-------------------|-------------------------|-------|
| Broker                              | Cross-currency swaps | Vanilla currency option | Currency forwards | Exotic currency options | Total |
| Tullett Prebon                      | 3                    | 1                       | 8                 | 0                       | 12    |
| Icap                                | 7                    | 0                       | 4                 | 0                       | 11    |
| TFS-Icap                            | 0                    | 6                       | 0                 | 3                       | 9     |
| GFI                                 | 0                    | 2                       | 0                 | 1                       | 3     |
| BGC                                 | 1                    | 1                       | 0                 | 0                       | 2     |
| Tradition                           | 2                    | 0                       | 0                 | 0                       | 2     |

  

| <b>First position – equity derivatives</b> |                   |                       |                      |                        |       |
|--|-------------------|-----------------------|----------------------|------------------------|-------|
| Broker                                     | Equity options US | Equity options Europe | Equity index options | Exotic equity products | Total |
| TFS  | 0                 | 1                     | 4                    | 4                      | 9     |
| GFI  | 3                 | 4                     | 1                    | 0                      | 8     |
| Sunrise                                    | 2                 | 1                     | 2                    | 3                      | 8     |
| Icap                                       | 0                 | 0                     | 2                    | 0                      | 2     |
| Tullett Prebon                             | 1                 | 1                     | 0                    | 0                      | 2     |

  

| <b>First position – credit derivatives</b> |                       |                   |       |
|--|-----------------------|-------------------|-------|
| Broker                                     | Vanilla default swaps | Structured credit | Total |
| Icap                                       | 2                     | 4                 | 6     |
| GFI  | 4                     | 1                 | 5     |
| Creditex                                   | 2                     | 1                 | 2     |