

4th Annual European Fixed Income e-Trading Survey

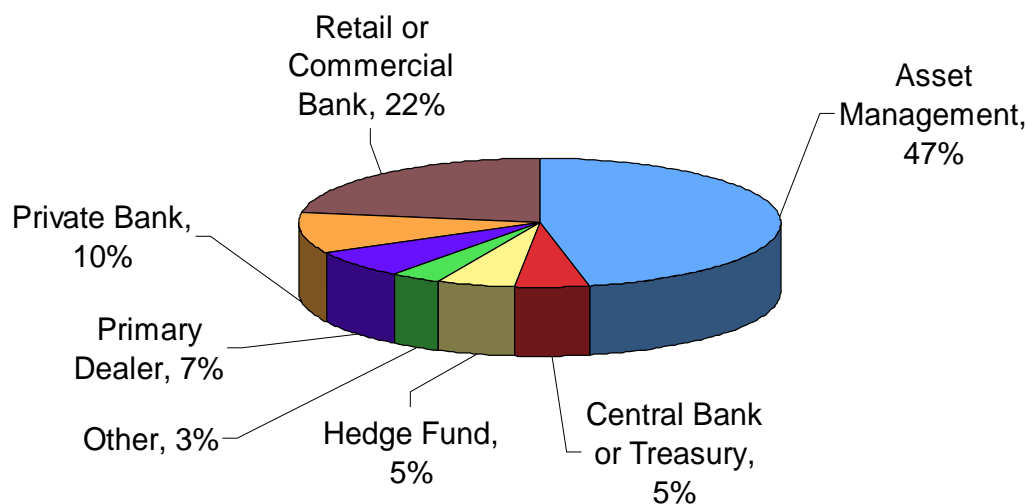
Introduction by:
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SIFMA

February 4, 2009



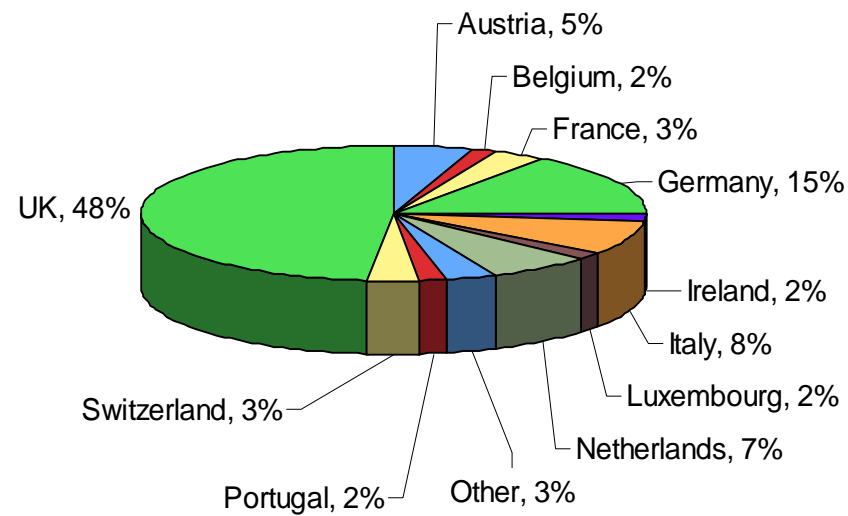
- ▶ Compiled from November 08 to mid January 09
- ▶ 64 Buy-Side Investors
- ▶ 13 Sell-Side Firms
- ▶ 5 Trading Platforms

Buy-Side Respondents Split by Type



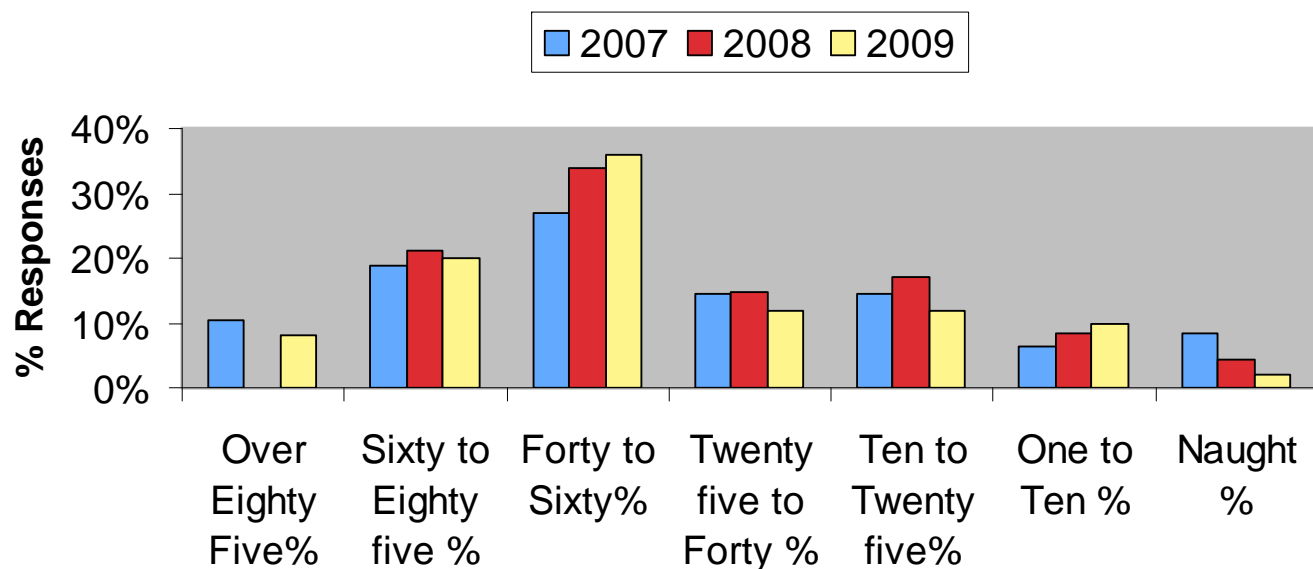
- ▶ **64 Buy-Side Investors**
- ▶ **A lot less Investors respondents than last year, certainly due to the crisis and time constraints**
- ▶ **73% of Respondents in a Primarily Execution Function**

Buy-Side Location



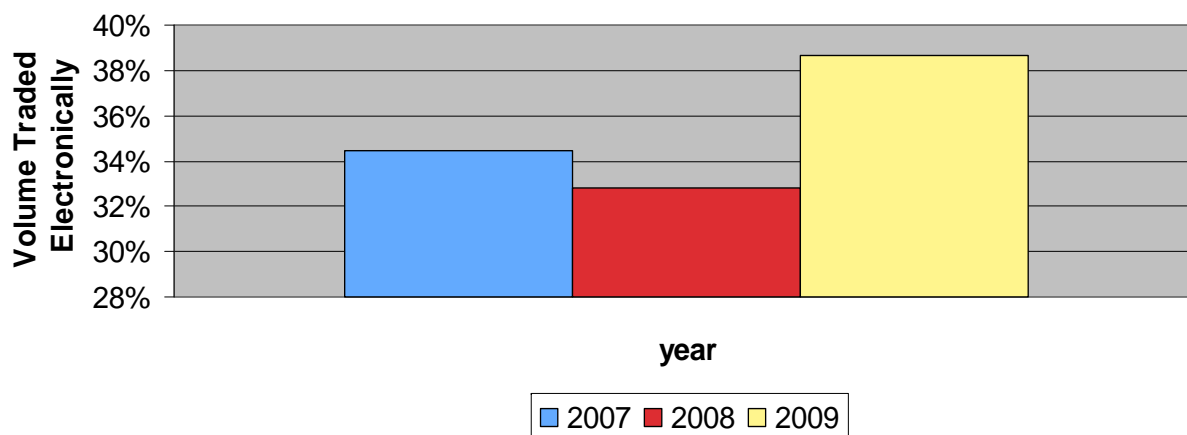
*Other: Middle East, Africa, Australia, North America, Latin America, Asia

Percentage of Overall Trading Electronically in Europe



- ▶ **Over half of buy-side respondents trade more than 40% of their fixed income volumes electronically which is significantly less than last year (60% last year)**
- ▶ **Strong decline in numbers of those trading more than 85% of their volumes electronically this year**

Sell-side % of overall trading volume in Europe traded electronically



- ▶ **E-trading volumes in fixed income decreased since the crisis set in: this is the first time such decrease in electronic trading is observed**
- ▶ **Growth expected in 2009: volumes will come back**

Volume of Products: Sell-Side

Sell-side	% Tickets traded electronically			% Volume traded electronically		
	This year	Anticipated next year	% Increase year-on-year	This year	Anticipated next year	% Increase year-on-year
ABS	16%	25%	56%	3%	6%	100%
CDS	0%	9%	-	0%	2%	-
Credit - Investment Grade	53%	58%	9%	16%	20%	24%
Repo	36%	46%	26%	32%	40%	25%
Credit - High Yield	30%	34%	13%	10%	13%	27%
IRS	11%	16%	49%	7%	11%	63%
Emerging Market Debt	51%	57%	12%	14%	20%	45%
ECP	25%	21%	-16%	9%	17%	89%
EU Government (inc Gilts)	72%	71%	-1%	38%	45%	19%
Futures	83%	87%	4%	85%	87%	2%
Sovereign / Agency / Supranational / Covered	42%	46%	10%	19%	21%	15%
US Treasuries	55%	56%	1%	38%	34%	-11%

- ▶ **Futures only set to trade over 85% of tickets electronically in 2009 as well as EU Government for which e trading volumes are also significant**
- ▶ **eTraded products with the highest rates of growth are less than last year: only ABS and ECP have higher expected rates of growth**

Trading by Customer Type: Buy-Side

Sell-side % of Volume Traded Electronically by Each Customer Type	This year	Anticipated next year
Asset Management	35%	41%
Central Bank	25%	37%
Commercial Bank (non-primary dealer)	33%	34%
Corporate / Treasury	15%	17%
Hedge Fund	12%	13%
Insurance	20%	21%
Pension Fund	20%	22%
Primary Dealers (acting as customers)	30%	31%
Private Bank	35%	39%
Retail / Professionals	30%	31%

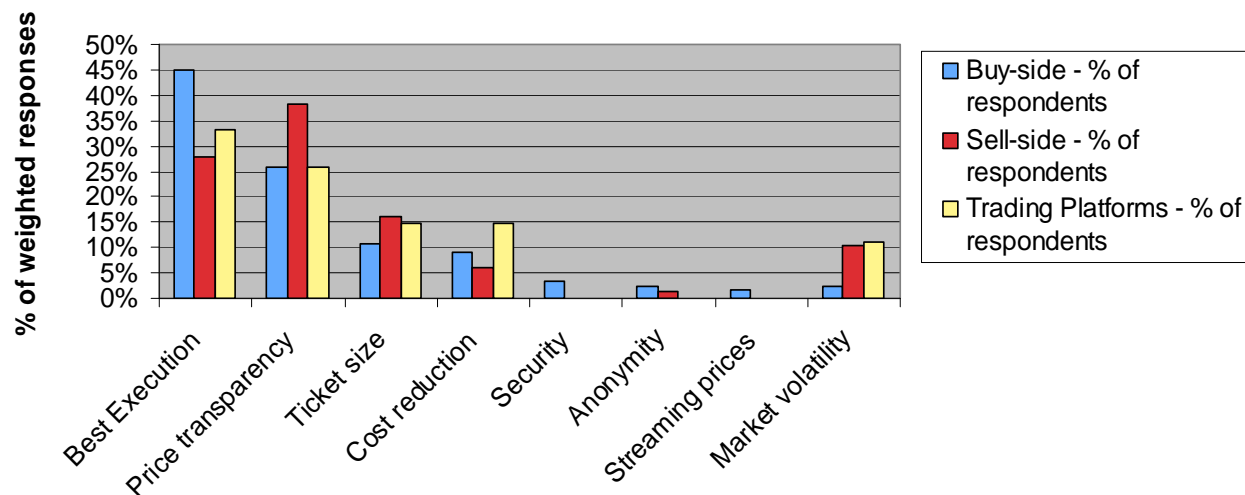
- ▶ **Uniform growth in customer types consistent with sell-side views**
- ▶ **Hedge Funds / Corporates and Pension Funds still lagging behind**
- ▶ **Results broadly similar with those observed last year**

Preferred Method of Execution: Buy-Side

	Single-Dealer Streaming			Multi-Dealer Inventory			Multi-Dealer Request For Quote			Exchange		
	2007	2008	2009	2007	2008	2009	2007	2008	2009	2007	2008	2009
EU Government (incl. Gilts)	4.4	2.4	12.0 %	10.7	9.5	40.0%	79.0	78.6	40.0%	6.0	9.5	8.0%
US Treasuries	6.8	2.2	13.6 %	13.2	8.8	40.9%	71.6	76.9	40.9%	8.4	12.1	4.5%
Sov / Agency / Sup / Cov	4.2	3.0	9.1%	14.7	22.0	45.5%	75.9	67.0	45.5%	5.2	8.0	0.0%
Credit - High Yield	3.9	7.9	15.6 %	32.6	34.9	42.2%	59.7	50.8	42.2%	3.9	6.3	0.0%
Credit - Investment grade	6.0	5.8	12.5 %	24.7	33.0	42.5%	65.9	55.3	42.5%	3.3	5.8	2.5%
Emerging market	8.2	5.9	14.3 %	24.6	31.4	42.9%	63.9	52.9	42.9%	3.3	9.8	0.0%
Repo	12.2	9.3	35.7 %	21.4	16.3	28.6%	53.1	58.1	28.6%	13.3	16.3	7.1%
IRS	11.4	15.0	50.0 %	17.9	15.0	21.4%	64.2	58.3	21.4%	6.5	11.7	7.1%
CDS	12.8	9.6	15.0 %	18.1	13.5	30.0%	60.6	57.7	30.0%	8.5	19.2	25.0%
ABS	10.1	11.1	37.5 %	27.9	40.0	31.3%	59.5	40.0	31.3%	2.5	8.9	0.0%
ECP	12.0	11.9	31.3 %	25.3	38.1	31.3%	60.0	40.5	31.3%	2.7	9.5	6.3%
Futures	17.6	22.8	19.5 %	3.0	2.2	2.4%	15.2	10.9	2.4%	64.2	64.1	75.6%

Reasons for Choosing to Trade Electronically

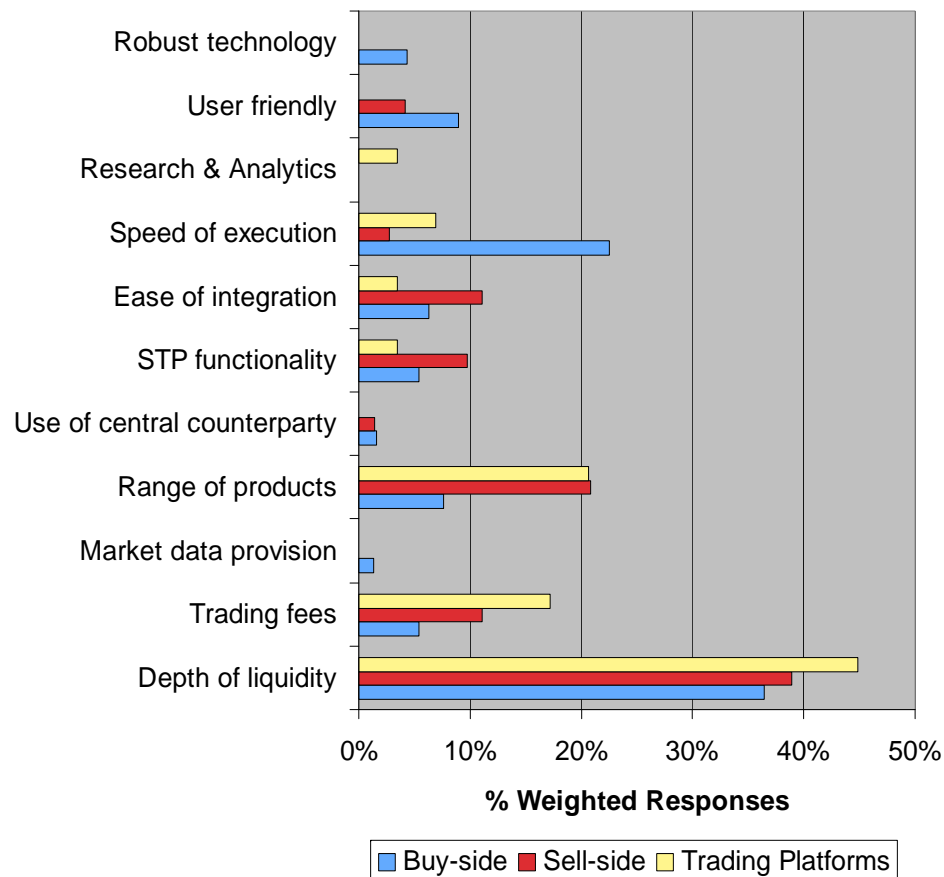
Reasons for Choosing to Trade Electronically



- ▶ **Best Execution and Price Transparency** the leading factors this year for all the participants in choosing whether to trade a product electronically
- ▶ **Streaming Prices** are no longer a concern for buy-side or sell-side, nor is **Market Volatility**
- ▶ **Ticket Size** becomes a more important factor for the investors in 2008

Reasons for Choosing an Electronic Platform

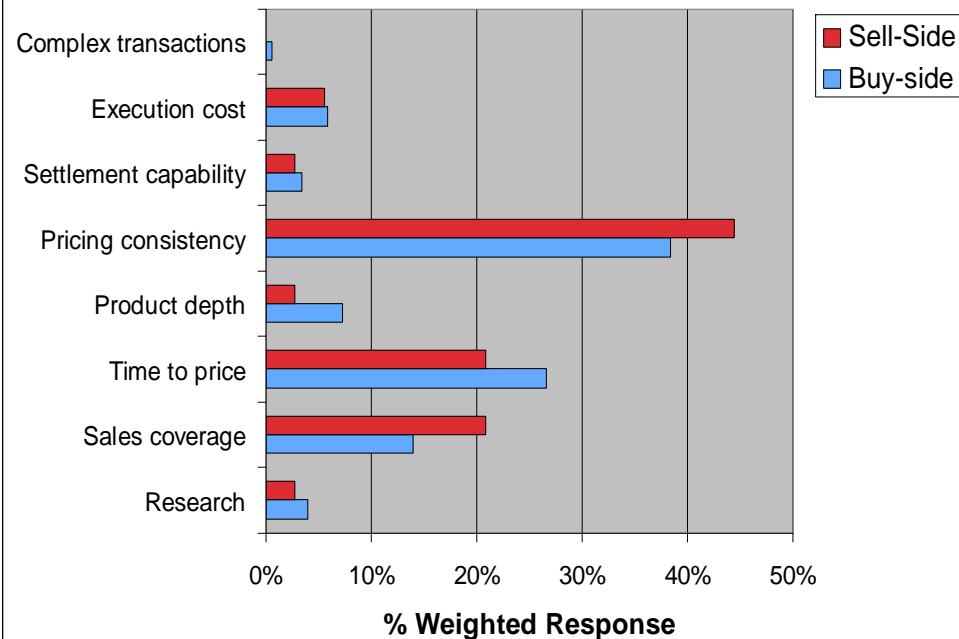
Reasons for Choosing an Electronic Platform



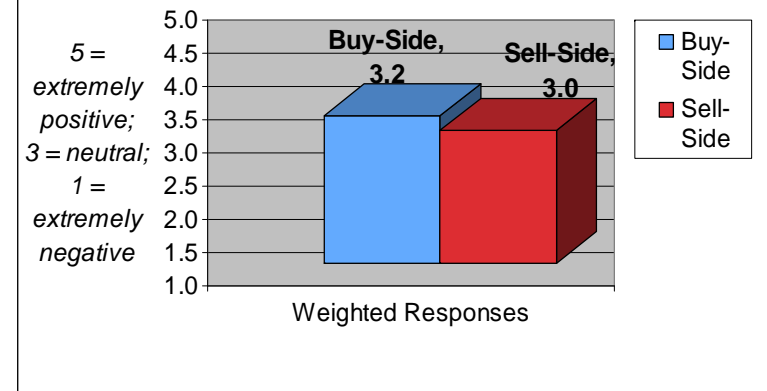
- ▶ **Depth of liquidity is still the most important factor but now the main difference is that Trading Platforms see it as more important factor than last year**
- ▶ **Range of products remain a more important factor for Trading Platforms than the Trading fees which become an important factor for the sell-side**
- ▶ **Investors perceive Speed of Execution as the second most important factor in choosing an ePlatform**

Reasons for Choosing a Dealer: Government Bonds

Reasons for Choosing a Dealer - Government Bonds

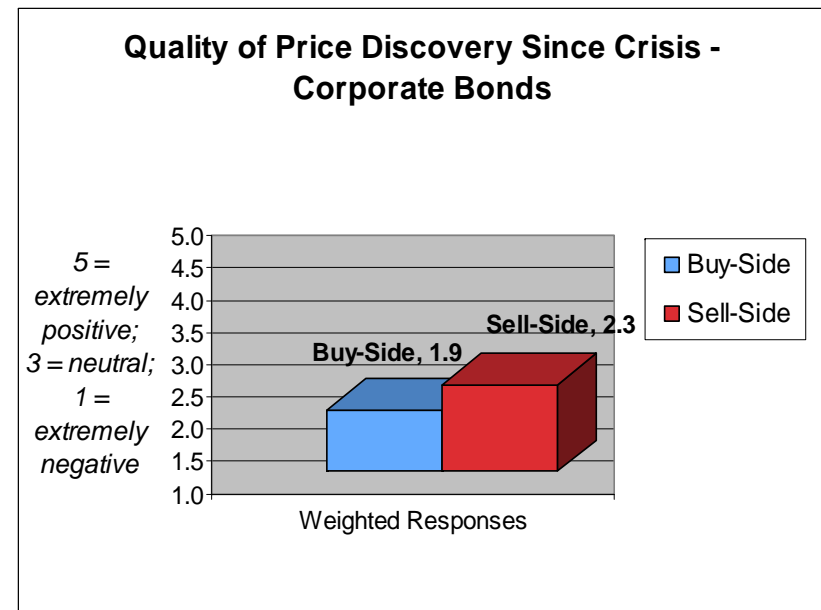
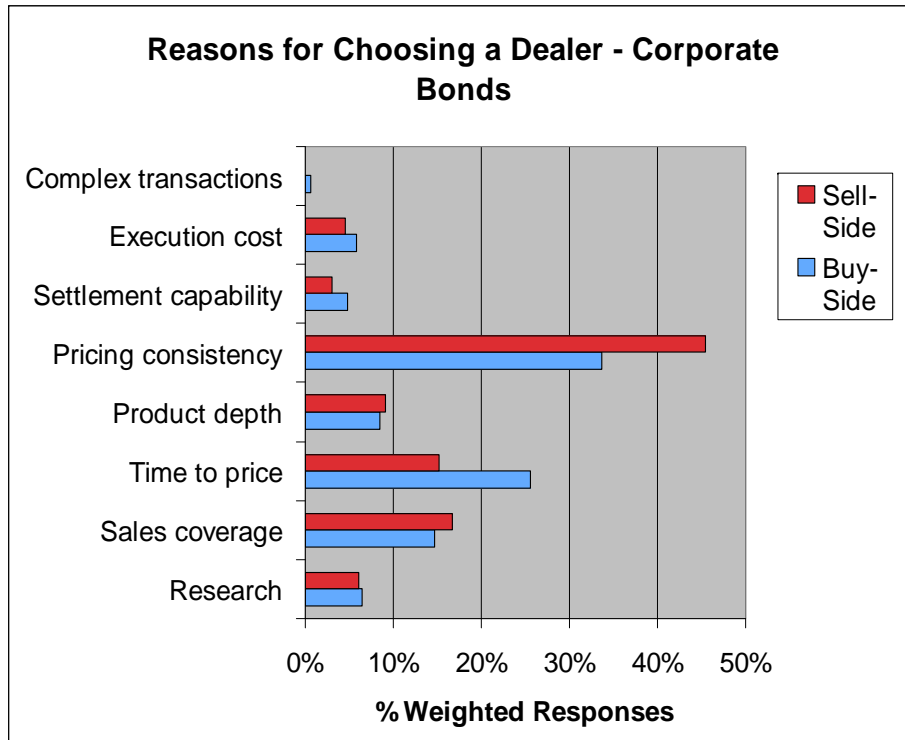


Quality of Price Discovery Since Crisis - Government Bonds



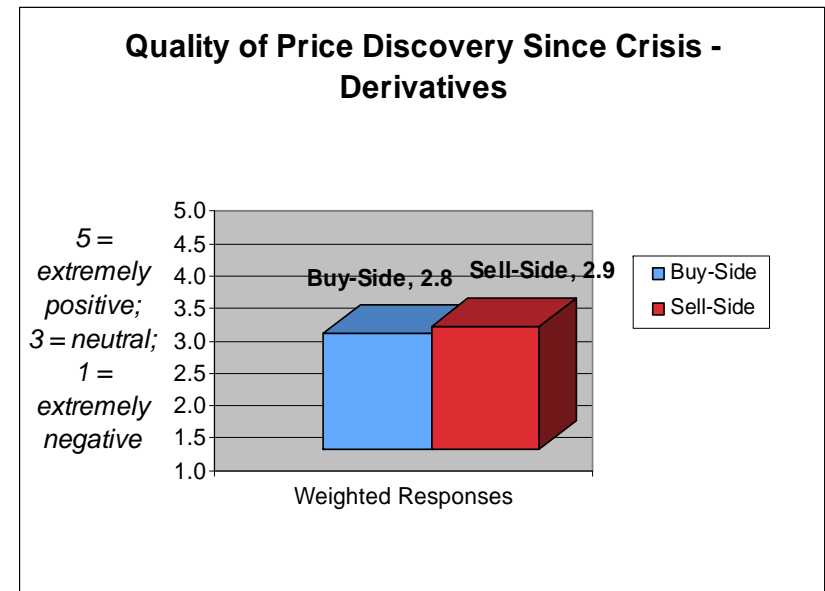
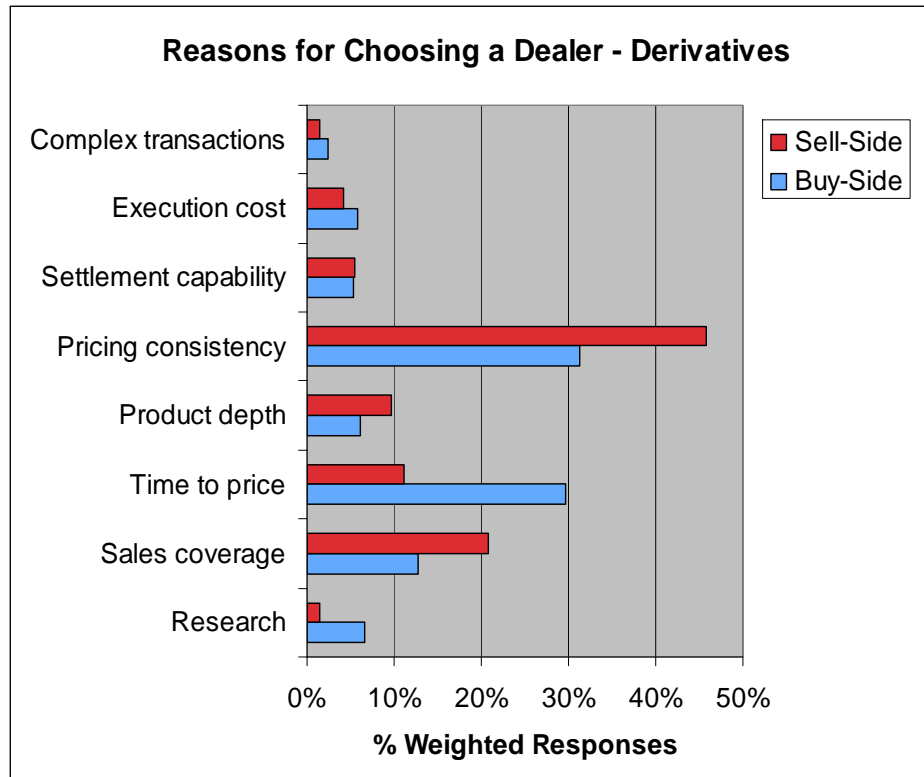
- ▶ Both emphasise the importance of Pricing Consistency as a main driver for choosing a dealer
- ▶ The Quality of Price Discovery is slightly better than neutral according to the buy-side whereas it's neutral for the sell-side

Reasons for Choosing a Dealer: Corporate Bonds



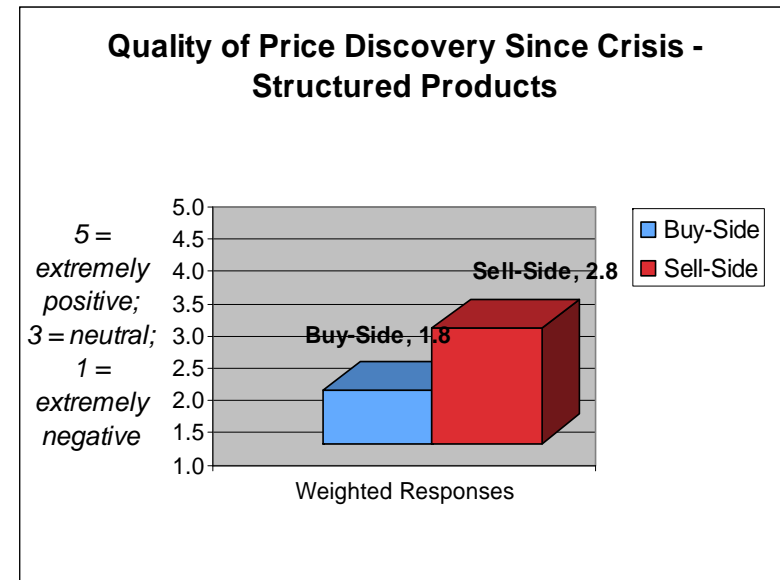
- ▶ **Buy-side value Time to Price more than sell-side although Price Consistency remain the key factor to choose a dealer**
- ▶ **The Quality of the Price Discovery is perceived somewhat negatively according to the buy-side while the sell-side considers it is only slightly negative**

Reasons for Choosing a Dealer: Derivatives



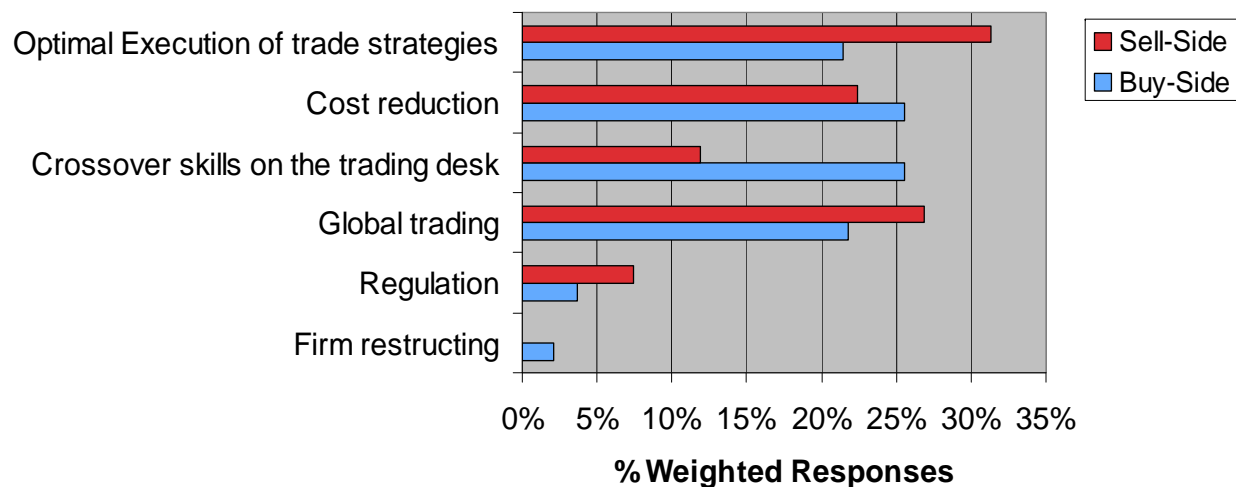
- ▶ **Buy-side value Pricing Consistency as much as Time to Price while it still remains the main factor to choose a dealer for the sell-side**
- ▶ **The Quality of the Price Discovery is generally seen as slightly negative by both the buy and sell-side for derivatives this year**

Reasons for Choosing a Dealer: Structured Products



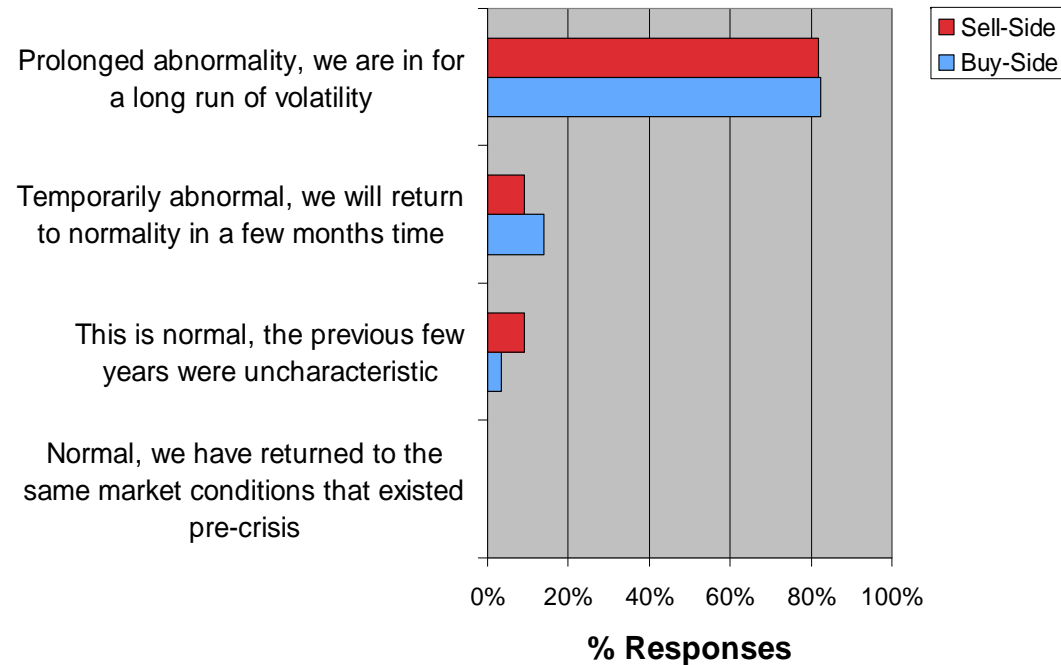
- ▶ **Sell-side believe Sell-Coverage to be the most important criterion while buy-side still consider Pricing Consistency and Time to Price to be the most significant factors**
- ▶ **There is a big difference between them regarding the Price Discovery: sell-side see it as neutral since the crisis whereas buy-side estimate it's slightly negative**

Factors Driving Multi Asset Trading



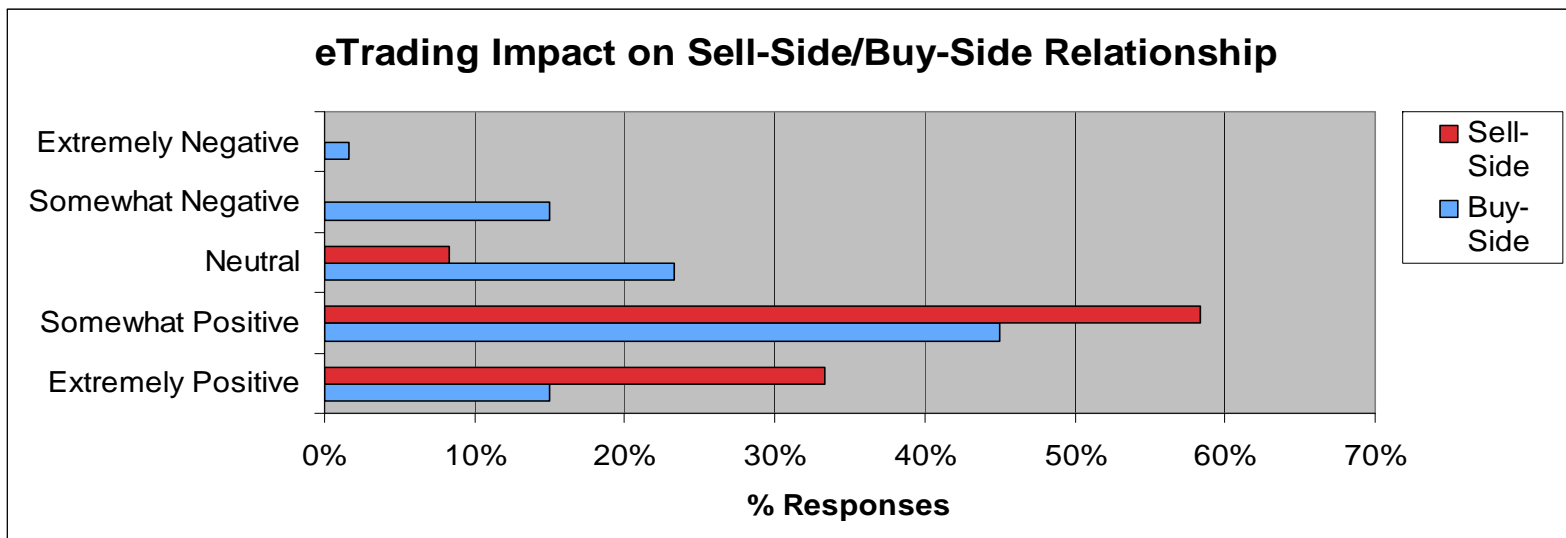
- ▶ **Sell-side and buy-side are broadly consistent in their views**
- ▶ **No one dominant factor driving Multi Asset Trading: pretty similar to the 2008 results with the Optimal Execution of Trade Strategies and the Cost Reduction being the key factors**

Description of Current Market Conditions



- ▶ **Big shift by both buy and sell-side that foresee long run of volatility**
- ▶ **Last year there was an equal split believing that it was either temporary or prolonged**

- ▶ **31% of buy-side respondents expect to be able to use a single platform for all of their institution's wholesale electronic trading activity**
- ▶ **This is a huge drop on the view of the expected use of a single platform compare to the previous years (where percentages were around 85%)**



- ▶ **However both buy and sell-side see the electronic trading as positive on their relationship although there is a small percentage of investors who sees it as slightly negative**

- ▶ E-trading volumes in fixed income decreased in 2008 for the first time in several years due to the credit crisis
- ▶ There is a move to the use of single-dealer platforms and multi-dealer inventory from multi-dealer request for quotes
- ▶ Consensus amongst the market players on duration of market volatility which is likely to be prolonged
- ▶ A minority of buy-side participants now expect to use a single platform for all their products in the near future