



Technology-focused interdealer GFI explains the coverage of its electronic trading platforms

Fully covered

★ GFI is a leading interdealer broker in global over-the-counter (OTC) derivatives serving banks, insurance companies, hedge funds, other financial institutions and large corporations. With over 1,000 brokers and 2,200 clients, GFI executes trades on behalf of its clients around the clock and around the world, in all asset classes and many currencies. Energy and commodities are one of GFI's main focuses, accounting for more than one-fifth of the company's revenue.

Broad coverage, tailored solutions

Through offices in major financial and business centres worldwide, GFI provides brokerage services in coal, power, emissions, freight, natural gas, soft commodities, insurance, precious and base metals and refined and crude oil. Markets for many of these commodities are linked – and in turn are linked to other markets in which GFI is active – for example, foreign exchange derivatives. This means that GFI is often able to provide complete tailored hedging strategies by looking at total risk across a range of markets. For example, an integrated European energy utility might have exposure to oil prices, freight costs and exchange rate movements. Related desks at GFI therefore often work closely together, structuring client transactions.

GFI is continually looking to expand either by entering into partnerships, joint ventures or by outright acquisition. It is a significant pointer to GFI's ambitions that three of its most recent

acquisitions were in energy: Starsupply, Amerex Brokers and Trayport.

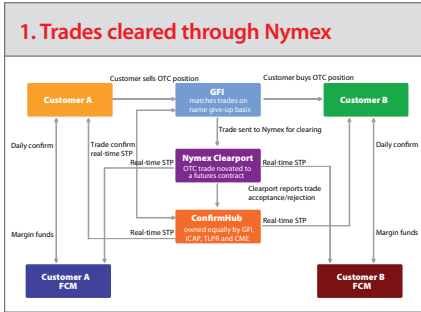
Starsupply and Amerex were, and remain, a leading oil broker and a leading gas, power and emissions broker, respectively. Trayport, purchased in 2008, is a provider of electronic trading and order matching software for brokers, exchanges and traders across many asset classes and dominates the market for commodity trading technology in Europe. Before the acquisition, GFI was already a Trayport client – deploying its technology for its freight and energy desks.

Hybrid broking

GFI has for many years seen the importance of applying technology to interdealer broking. This covers the whole life cycle of a trade, from pre-trade analytics through electronic trading to confirmation and post-trade straight-through processing. GFI has been a pioneer in hybrid broking: electronic trading supported by experienced voice brokers who provide market colour, insight and anonymity in a way that is simply not possible through electronic trading alone.

Clearing

GFI clients may trade bilaterally or clear their trades through one of the many clearing houses to which GFI links. As credit availability contracted during 2008, firms became less inclined to take on the credit risk of their trading counterparties



and many started to look for centralised clearing. This happened in many OTC markets and energy was no exception. But it is important to distinguish between clearers and exchanges and between trading and central clearing. GFI operates in OTC markets, yet much of its energy business ends up being cleared centrally after having been initially crossed bilaterally. The organisations at the centre of this include not only exchanges such as Intercontinental Exchange and the Chicago Mercantile Exchange/New York Mercantile Exchange (see figure 1), but also dedicated clearers such as LCH.Clearnet in Europe.

The result is a demand for trading platforms that can link to multiple clearing venues – since it seems clear that there will be no single clearing house across the diverse energy markets. As ever, desktop real estate remains at a premium, so market participants will want a single front-end solution to execute at the multiple clearing houses or, if credit is available, trade bilaterally.

Coverage*

EnergyMatch®	EnergyMatch® Europe
<ul style="list-style-type: none"> • Natural gas • Forwards and swaps in SO₂ and NO_x • Electric Reliability Council of Texas (ERCOT) power 	<ul style="list-style-type: none"> • European power • European gas • UK power • CO₂ • Freight • Coal • European emissions

* As of January 2009

Fueling electronic trading

EnergyMatch® and EnergyMatch® Europe are electronic trading platforms that are supported by GFI’s own voice brokers and include capabilities to link to clearing houses, exchanges and clients’ own accounting, risk management and other systems. They have been developed in-house by GFI, drawing on resources that were added to with the acquisition of Trayport. The market has responded well to EnergyMatch® and EnergyMatch® Europe, and GFI expects these platforms to see increased use as the benefits of hybrid broking – with links to venues to multiple central clearing venues – become more widely appreciated and additional markets are added.

A technology-focused interdealer broker

With its significant and continuing investment in technology, GFI is set to continue to play a growing role in energy broking. Clearing is moving more to centre stage and GFI, with its own technology and that of Trayport, is well prepared to function in a centrally cleared world. ■

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