5th Annual Market Liquidity Fixed Income Survey
3rd February 2010

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Buy-Side Demographics: Function and Investor Type

- 52 buy-side respondents
- 68% of respondents primarily in an execution function
- 57% of investors were from Asset Managers
• 54% of buy-side respondents were from firms with over €20bn AUM
• 65% of firms were based in the UK
• Other major locations included North America, Nordic Region, Netherlands and Germany
Electronic trading in European fixed income markets continues to show signs of growth

- Clients who conduct majority of their trading electronically (more than 60%) is up to 35% versus 21% in the previous year
- The number of buy-side respondents trading more that 85% of their volumes electronically in 2009 was 36%, versus 21% in 2008 and 28% in 2007
- Conversely, some buy-side respondents continue to prefer voice trading with 35% of respondents conducting minimal, 10% or less, trading electronically
- For the sell-side, the majority of respondents conducted 25-40% of their trading electronically
Sell-side showing significant growth in electronic trading when compared to buy-side

- 53% of buy-side respondents increased their electronic trading in Europe compared to 76% of sell-side respondents
Market participants largely expect electronic trading to increase in 2010
- 51% of buy-side expecting electronic trading to increase somewhat
- 50% of sell-side more bullish and expect a significant increase in 2010
Largest overall increase in electronic trading expected in the EU government market

- Buy-side expects the largest increases in Investment Grade Bonds, and Government Bonds
- Sell-side also expects a large increase of electronic trading of Interest Rate Swaps
- Credit intensive products such as Emerging Markets, High Yield and ABS not expected to see significant increase to electronic trading volumes in 2010
Impact On Client-Dealer Relationship

Sell-side saw more positive impact of electronic trading on their relationship with clients

- 57% extremely positive, 29% somewhat positive
- Only 18% of buy-side saw an extremely positive impact; 11% saw a negative impact on the client-dealer relationship
Speed of execution (24%), price transparency (20%) were primary reasons for buy-side when choosing electronic trading.

For sell-side, whilst also in agreement, 19% also perceived firm prices as a top reason their clients may chose to trade electronically.
Ability to trade in large ticket sizes remain primary reason for voice trading
- 29% of buy-side respondents chose to trade by voice due to size of the transactions
- Access to liquidity, market volatility and anonymity remain important reasons for continued preference for voice trading by investors
All participants agreed that depth of liquidity is most important consideration when selecting a trading platform

- Of buy-side respondents, 13% and 12% respectively were also concerned with speed of execution and cost
- Sell-side and trading platforms both perceive range of products to be a much higher consideration for the buy-side
Pre Trade Price Discovery in 2009

Buy-side and sell-side rank pre trade price discovery in government bonds as excellent

- Supranational, agencies also rated highly overall by all participants
- Structured products and high yield credit seen as underperforming in terms of pre trade price discovery
Buy-side and sell-side both rank post trade price transparency in government bonds as excellent
  • Buy-side and trading platforms both perceive post trade transparency on credit intensive products
    and derivatives as poor
  • Sell-side consistently rank post trade price transparency as fair to good across all major products
All participants have a largely negative view on most new regulatory initiatives

- All participants foresee a very negative impact of Tobin tax on future liquidity
- Forcing OTC trading to be centrally cleared was seen as positive by all
Buy-side respondents mostly expect approved list of dealers to remain the same in 2010

- 48% of buy-side expect the list to remain the same versus 14% of sell-side respondents
- 36% of buy-side expect the list to increase somewhat or significantly versus 71% of sell-side
Electronic Trading continued to increase over the course of 2009
- Buy-side and sell-side expects this trend to continue in 2010; sell-side expects a faster growth
- By product areas, the largest growth is expected in European and US Government Bonds as well Investment Grade Credit

Speed of execution and price transparency were seen as the primary reasons for the buy-side when choosing to trade electronically
- In considering choice of electronic trading platforms, depth of liquidity, speed of execution and cost were key considerations from the buy-side

Buy-side were also expressing some concerns with electronic trading
- A sizeable percentage of buy-side participants now chose to do fewer trades electronically
- Only 18% of buy-side see an extremely positive impact of electronic trading; 11% actually see a negative impact on the buy/sell relationship

Voice trading still crucial to investors to access liquidity for large sizes
- 29% of buy-side respondents chose to trade by voice due to size of the transactions. 18% also chose to trade by voice due to better liquidity

Existing pre and post trade price transparency seen as positive in high credit products
- Government Bonds, Supranationals, Sovereigns and Investment Grade Credit all deemed to have very good pre and post trade price transparency

Most market participants overall saw potentially negative impacts of regulation on liquidity
- The least supported regulatory changes were on the Tobin Tax and higher capital requirements
- Forcing the regulation on pre and post trade transparency were seen as somewhat negative
- Central clearing of OTC trading is expected to have a positive impact on liquidity
Thank You
1. The survey was sent out to a number of Investors, Dealers and Trading Platforms in association with FinancialNews

2. 52 Investors, 10 Dealers and 5 Trading Platforms completed the survey over the course of December 2009 to January 2010

3. For questions were respondents were asked to rank their top three choices, the data was analysed such that 3 points was awarded to the first choice, 2 points to the second, and 1 point to the third. The weighted average results were represented in the charts

4. For questions were respondents were asked to rank their views for a comparative list of options, the responses were converted to a score such that 100 points was awarded to option chosen as Extremely Positive, 50 points to Somewhat Positive, 0 points to Neutral, -50 to Somewhat Negative and -100 to Extremely Negative. The weighted average scores were represented in the charts

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Independent Regional Organisation with Global Integration
As regulation of the financial markets takes on an increasingly global dimension, LIBA (London Investment Banking Association) and the European operations of SIFMA (Securities Industry and Financial Markets Association) have joined forces to form AFME (Association for Financial Markets in Europe). AFME represents a broad array of global and European participants in the wholesale financial markets.

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