

The logo for Seeking Alpha, with the text 'Seeking Alpha' in white and a gold Greek letter alpha symbol to the right, all on a dark red background.

GFI Group, Inc. Q3 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) The first question comes from Don Fandetti – Citigroup.

Don Fandetti – Citigroup

Broadly speaking and obviously there is a risk of less OTC business, more regulatory pressures and greater exchange involvement. Is the IDB model at risk here and do you feel a need to sort of morph your business over time? I just wanted to see if you could comment on that.

Michael Gooch

You are talking particularly about all of the various financial markets or are you just specifically focusing on credit?

Don Fandetti – Citigroup

I would say in general. I think the issues in credit are obviously highlighted but I think there are sort of implications in other OTC products in general, just longer term.

Michael Gooch

I think I made the point in my presentation about what happened after Enron disruption and there became the issue of counter-party risk in the energy markets and clearing of OTC energy developed and the IDB's actually across north of 75% of all of the OTC energy markets that are then cleared on LCH, Ice Clear and NYMEX and I could imagine a similar situation is going to evolve. There is already centralized clearing in certain OTC markets including LCH and B Clear in London. B Clear is part of Eurex which is part of the NY Stock Exchange. So there is already precedent for this. What the IDB's do is we simply send the transaction to clearing at whichever clearing entity the customer requests or in some cases we are actually paid a rebate for steering the clearing to those entities and they compete for the clearing business. The European regulators are quite keen to have very open, flat clearing mechanisms that are in competition with each other as opposed to the CME would seem to have quite a monopoly position in the interest rate futures.

I think from our perspective we will continue to be an execution broker. We operate now what is known in the regulated markets as an alternative trading system. It is regulated in ETS, electronic trading systems, we obviously do a lot of voice brokered business and a lot of that stuff is on the screens and trade side by side with the futures. I think one of the misnomers of the marketplace is this mixed comprehension that when something goes to the exchange somehow it is now getting

crossed in a different environment when in fact a significant amount of those transactions actually get crossed upstairs at IDB's on their trading platforms and so I think that is how this going to develop. I think we will certainly have to morph somewhat. We will absolutely find that our investment in Trade Port is going to pay off because the demand for electronic trading will increase which suits us anyway and we will need to morph with the market in order to put listed and OTC centrally cleared markets next to each other.

Copyright © 2008 CNET Networks, Inc. All Rights Reserved.