



BARX

The Impacts of Electronic Trading on the Front Office

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Outline

- Fears vs. Reality
- US Treasury Markets – the impact of electronic execution on volume
- Foreign Exchange – building a franchise using e-trading
- Interest Rate Swaps – straight-through processing as the catalyst for e-trading
- Money Markets – where are we?
- BARX offerings

Fears vs. Reality

Fears: the traditional reasons for resistance to electronic trading:

- ▶ Fears over loss of jobs – e.g., less coverage required, less traders needed to manage flow
- ▶ Margin compression as multidealer platforms only allow dealers to compete on price
- ▶ Too much transparency (“winners curse”) leading to less desire to put capital at risk

Fears vs. Reality

Reality: what did we find?

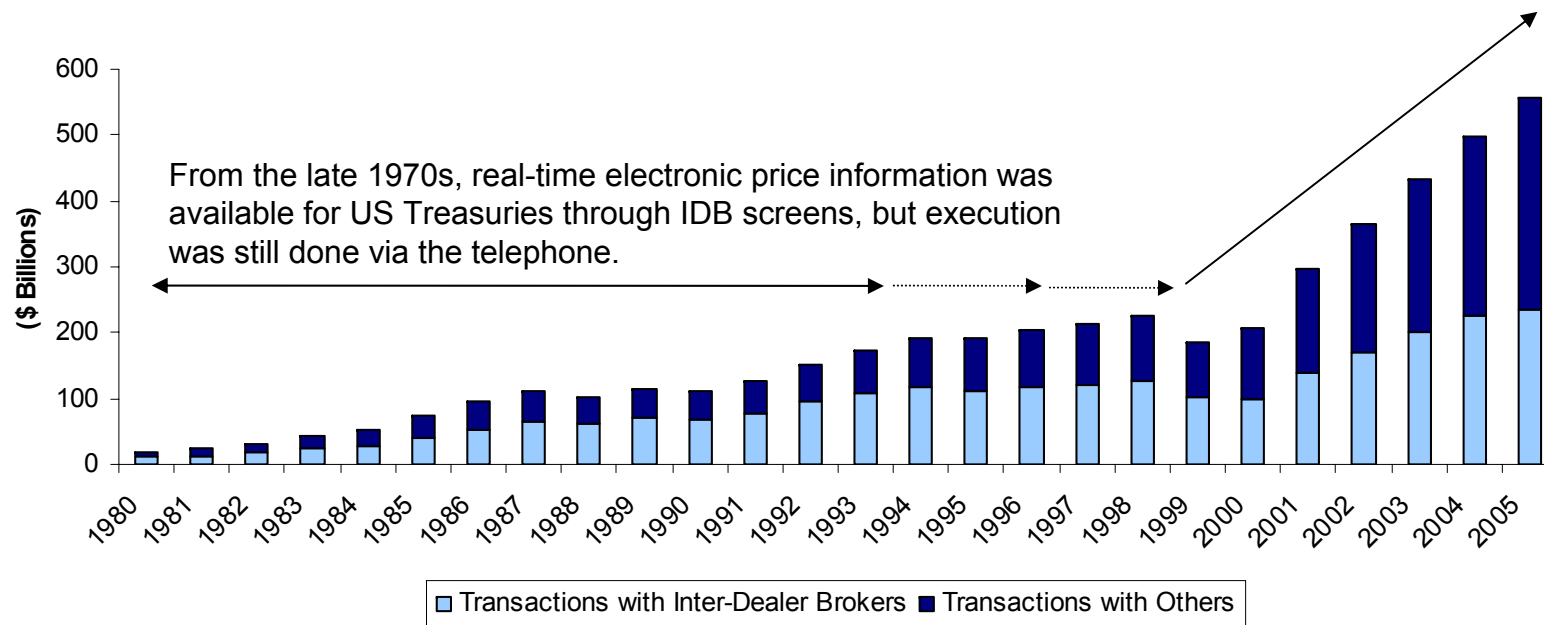
- ▶ Jobs change
 - Traders → X-Box generation risk managers
 - Flow sales → structured sales
- ▶ Margins have reduced but exploding volumes have more than made up for it
- ▶ As markets become increasingly price-transparent, “size discovery” is becoming the valuable commodity
- ▶ New opportunities have emerged – prompt and strong investment in technology can present dealers with a real first-mover advantage
- ▶ The breadth of market data generated is creating an appreciating asset, and generates the possibility of algorithmic trading
- ▶ Security and efficiency
 - Single, automated point of entry leads to near-zero error rates
 - STP reduces back office costs and operational risk
- ▶ Firms can now reach the “long tail” – historically too expensive to cover, dealers with a good e-strategy can now cover these clients, and with enough of them they can be a sizeable revenue source

But you have to invest in technology and infrastructure properly – offering electronic execution without the right level of straight-through processing brings all the downsides but without the upside

US Treasury Markets – the impact of electronic execution on volume

- Average daily trading volume for UST increased from:
 - ▶ US\$226 billion in 1998 → <5% 'e'
 - ▶ US\$556 billion in 2005 → >70% 'e'
- Whereas total UST outstanding only increased from:
 - ▶ US\$3.35 trillion in 1998
 - ▶ US\$4 trillion in 2005

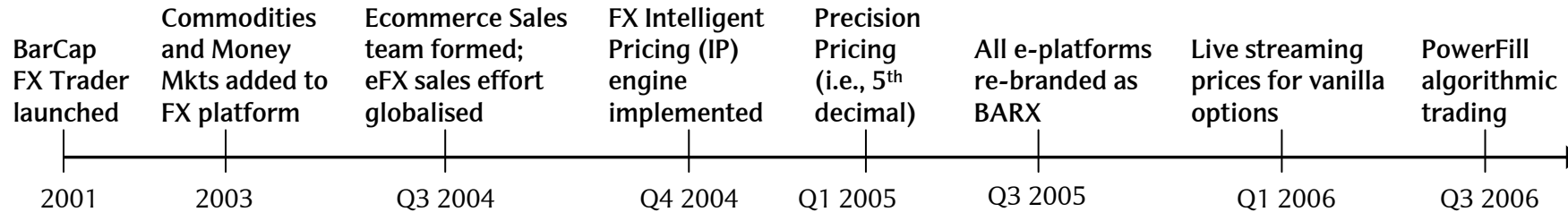
Average Daily Trading Volume of U.S. Treasury Securities



Beginning in the late 90s, technology was introduced that allowed traders to both view and execute prices on a screen in real time, which improved both pre- and post-trade transparency.

Foreign Exchange – building a franchise using e-trading

BARX FX Build-Out



Euromoney eFX Rankings (and Overall FX Rankings)

2002		2003		2004		2005		2006	
Provider	Rank	Provider	Rank	Provider	Rank	Provider	Rank	Provider	Rank
UBS	1 (2)	UBS	1 (1)	UBS	1 (1)	Deutsche Bank	1 (1)	Deutsche Bank	1 (1)
Goldman Sachs	2 (4)	Deutsche Bank	2 (3)	Deutsche Bank	2 (2)	UBS	2 (2)	UBS	2 (2)
Citigroup	3 (1)	Dresdner	3 (15)	Dresdner	3 (12)	Barclays Capital	3 (5)	Barclays Capital	3 (4)
Dresdner	4 (14)	Citigroup	4 (2)	Barclays Capital	4 (7)	HSBC	4 (4)	Citigroup	4 (3)
Deutsche Bank	5 (3)	Goldman Sachs	5 (5)	Citigroup	5 (3)	Goldman Sachs	5 (8)	RBS	5 (5)
CSFB	6 (6)	Barclays Capital	6 (9)	JP Morgan Chase	6 (4)	Dresdner	6 (13)	HSBC	6 (7)
JP Morgan Chase	7 (5)	State Street	7 (16)	Goldman Sachs	7 (6)	Citigroup	7 (3)	Goldman Sachs	7 (6)
Barclays Capital	8 (10)	CSFB	8 (6)	SEB	8 (N/A)	ABN AMRO	8 (9)	Dresdner	8 (13)
SEB	9 (9)	HSBC	9 (7)	ABN AMRO	9 (11)	Merrill Lynch	9 (6)	Bank of America	9 (8)
HSBC	10 (12)	JP Morgan Chase	10 (4)	HSBC	10 (5)	SEB	10 (21)	ABN Amro	10 (11)

Interest Rate Swaps – straight-through processing as the catalyst for e-trading

Execution

Bloomberg

TradeWeb

BARX Fixed Income

Bloomberg

- * Widespread distribution
- * Bloomberg Analytics
- * Multi-dealer and single dealer swaps pages
- * Single dealer order based trading

TradeWeb

- * Multi-dealer RFQ
- * Spread/Rate-based trading
- * Strong technology
- * High cost of participation
- * Well developed post trade (STP) functionality

BARX Fixed Income

- * Proprietary technology
- * Reduced dependency on 3rd party distributors
- * Main channel for innovative product development for Barclays

Only viable with very high levels of post trade automation and industry-driven STP

Confirmation

Swapswire

- * Eliminates expensive paper-based confirmation and reconciliation process
- * Reduces back-office resource overhead
- * Trade confirmation, trade capture, and broker confirmation on one screen/one action

Risk Management

LCH

Switchfix

London Clearing House

- * Ability to net multiple, bilaterally negotiated swap agreements in single, multi-lateral agreement
- * Lower counterparty and operational risk
- * Standardized processing

Switchfix & Fra-Cross

- * Reset matching service
- * Personalized and efficient method to manage unwanted risk
- * Fully integrated into the Swapswire system

Money Markets – where are we?

What is out there

- E-Mid, 360T, FX-All offer multidealer B-2-C portals for execution of MM deposits
- Other third party platforms are considering MM deposits
- Bloomberg, MTS, Eurex and Brokertec offer electronic repo execution
- Barclays offers MM deposit trading on our proprietary multi-asset class BARX platform

How is it developing?

- Liquidity is currently very fragmented
- Client traction is patchy as the money market product is still very much viewed in the “secondary product” space, i.e. a tag-on for FX, fixed income etc. rather than being seen as a product in its own right. This is exacerbated by the lack of serious offering from multidealer platforms but presents opportunities for proprietary bank portals that offer multiple asset classes
- Efficiency improvements in the B-2-C repo market by platforms such as Bloomberg are starting to have an effect but it's still early days, and varying degrees of technology integration from participant dealers has a drag-effect on the uptake

BARX offerings

The screenshot displays the BARX trading platform interface, which is part of Barclays Capital's Investor Solutions. The top navigation bar includes the Barclays Capital logo, the BARX logo, and the user's name 'David Wood' with a 'Logout' option. Below this, there are sections for 'Live Prices', 'New Offer', and 'Trade Blot'. The main area is divided into several panels:

- Market Overview:** Shows a list of instruments with their current prices and bid/ask spreads. For example, 'CHF 1.2495/97', 'EURCHF 1.6188/89', 'GBPCHF 2.4657/61', and 'D.EUR.1W 5.2900'.
- Order Entry:** A 'SELL Z06 Bund' order entry screen is visible, showing account details, client information, and order parameters like 'Quantity' and 'Price'.
- Market Data:** A 'Liffe' market data window showing a grid of contract prices and bid/ask spreads for various futures contracts.
- Account Information:** A 'Current Prices' window showing the user's account balance and various market data points.


The interface is highly detailed, with multiple windows and data feeds, typical of a professional trading environment.

BARX offers access to Barclays Capital's liquidity through innovative proprietary platforms and via leading ECNs in the following asset classes:

- Fixed Income
- Foreign Exchange
- Futures & Options
- Commodities
- Equities
- Money Market deposits and Repo
- Structured Products

Our commitment to e-trading:

- Uptime over past 6 months 99.75% (513 trading minutes lost out of 206,000)
- Over 100 IT personnel dedicated to development and technical support
- Over 120 E-Sales and Client Services personnel dedicated to marketing, client onboarding and business support
- BARX is a single global brand for all our e-trading services




profit
Digital FX Awards
2007

Best Overall Platform
for two years running

BARX

March 2007



profit
Digital FX Awards
2007

Best Click and Deal
Functionality

BARX

March 2007




profit
Digital FX Awards
2007

Best Structured Products
Platform

BARX


March 2007



2006
American
Financial
Technology
Awards

Best Cross-Asset
Trading Initiative

December 2006




Poll of Polls

No 1 in Internet Services
Overall

BARX

February 2006

Questions?



TradeWeb
BARX

Top 2

in Gilts, US Treasuries,
TIPS, Agency Discount
Notes, European
Government Bonds


January 2007



No 1 Market Maker on:

MTS Italy
MTS Denmark
MTS Belgium

January 2007



No 1

Interest Rate Swaps


December 2006



Top 2

Single dealer market
US Treasuries and European
Government Bonds

December 2006



No 1

in EUR & USD Eurobonds

January 2007