

## FIS slams LME central screen study

Liz McCarthy - Friday 25 September 2009



John Banaszkiwicz

FREIGHT Investor Services has slammed the latest study from the London Metal Exchange calling for a shift from over-the-counter to exchange trading.

As one of the largest freight derivatives brokers, it has questioned claims from the LME that using a central screen could generate over \$2bn in extra revenues for shipbrokers.

“Traders build liquidity, not screens. Brokers have spent the past 24 years educating people about the product and no screen has ever been able to do that,” FIS managing director John Banaszkiwicz said last week.

The LME was not working to help the market or rebuild liquidity but was “out on its own and out of touch with reality”, he said.

“If the LME can find \$2bn of revenue for shipbrokers that we never knew was there, just imagine what they can do in other markets. In all seriousness, income is down 80% and we have been looking down the back of the sofa for new players.”

The exchanges’ commercial department director Liz Milan said last week that trading volumes would double by 2015 and triple within 12 years if the shift to exchange trading with a central screen was followed through with.

Last year the majority of the 2.1bn tonnes of dry bulk freight derivatives traded OTC was voice-brokered, with only 4% estimated to have taken place on three separate proprietary screens.

“Judging by current screen transaction levels, there is little evidence that the users want an exchange-traded FFA market,” Mr Banaszkiwicz said.

“Previous attempts at a central screen have all failed because they didn’t understand the market and how it has developed.”

There was also a fear in the market that the freight derivatives were at risk from new regulation and trading on a Recognised Investment Exchange, he continued.

“In fact, the trend towards clearing and the fact that contracts on the most liquid routes are standardised disproves that argument,” Mr Banaszkiwicz said.

“OTC markets like interest rates and credit default swaps worth trillions of dollars are the markets which need to be regulated. In freight, 99% of trades are cleared via LCH, SGX and NOS which self-police their members. In effect, we are well down the road in terms of self-regulation,” he concluded.



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