

## COVER STORY TOP 50 BROKERS

One year ago the futures industry was basking in the glow of record volume and strong profits thanks to increased efficiencies and competition. The common clearing link between the Chicago Board of Trade and the Chicago Mercantile Exchange created large savings for FCMs and ended a contentious period that threatened to split the industry in two. Direct competition in Chicago's most liquid financial contracts forced lower fees allowing brokers to realize more profit from record volume. With the challengers vanquished – at least in regard to direct competition in U.S. markets – and exchanges adopting a for-profit structure, will fees go up? And what impact will the still evolving Refco situation have on the industry as a whole?



# Top 50 Brokers

BY DANIEL P. COLLINS

**A**s 2004 came to a close, old animosities within the industry appeared to be healing and the next set of industry headaches was taking shape. The old bane of futures commission merchants (FCM), so called excessive exchange fees, had been mollified thanks to dramatic reductions in fees in the face of competition from non-U.S. exchanges and brokers were worried the next industry “tax” would be the result of patents awarded to independent software vendor Trading Technologies (TT).

The question of the ultimate cost of proprietary trading software has been pushed to the backburner in 2005 and fees are once again at the forefront of FCM concerns as the Chicago Board of Trade (CBOT) and the Chicago Mercantile Exchange (CME) appear to have successfully fended off overseas competitors and the environment that led to dramatic fee reductions is no longer in place. The CBOT has already raised its fees, though not close to pre-Eurex US levels. Despite the increase fees are much lower than before but what worries FCMs is that without the pressure applied by direct competition, fees could continue to climb. “They lowered fees when they had the competition. Now that the competition is gone they are raising fees. The entire industry is not very happy about this,” says Goldenberg Hehmeyer co-chairman Chris Hehmeyer.

When the CBOT dramatically cut fees just prior to the Eurex US launch, cynical industry insiders speculated fees would be raised once Eurex was defeated. FCMs are not happy but appear willing to accept it as long as it does not represent a trend. “We will give the CBOT this one but no more,” was a common refrain.

## A DOUBLE-EDGED SWORD

The FCM community views the move to for-profit exchanges as a double-edged sword. Many have advocated the

switch, efficiencies and professionalism the move has brought but fear the for-profit model, when unaccompanied by vigorous competition, may put too much pricing power in the hands of the exchanges. It has led some in the industry to call for a re-examination of the exchanges self-regulatory organization (SRO) status.

“Once the exchanges change their mission from providing a marketplace for its members to a mission to make money, the relationship changes. It is a good thing, it is something that I have advocated, but it does change the relationship,” Hehmeyer says. “A mutually owned organization is going to have a lot more input from its mutual owners than an organization that strictly has a mission of maximizing profits. It is a fundamental shift.”

Richard Berliand, global head of futures and options at JPMorgan, relates similar concerns. “There are a lot of benefits in dealing with exchanges that are for-profit. The largest of these is an ability to work with a commercial organization that is focused on delivering high quality product and high quality service. None of the demutualized exchanges ever delivered such high quality products and service as they do today, now they are bottom line focused.”

For-profit status presents problems as well though. “The drawback, of course, is that in return for receiving the higher quality governance, leadership, innovation and management, we have people who are not interested in reducing costs for the user. They are obviously more interested in maximizing returns for shareholders,” Berliand says. “These two objectives conflict: The question is whether or not the quality of the product is so much better in the demutualized world that it is worth putting up with the expense.”

He sees it as a delicate balance that must be managed. “As long as there is enough competition in the marketplace to ensure exchanges don’t gain too much pricing power, then the

demutualization program will have been a good trend for the industry. It is important to emphasize that an excessively strong pricing power can be very damaging and that is what we must guard against,” he warns.

Steve Sanders, managing director of Interactive Brokers, would like to see a change. “There should only be one organization taking care of the regulation for all the exchanges. It is inefficient to have every exchange have its own group. It would be wonderful to have a utility that oversees everything in the futures and securities industry.”

Fimat CEO Patrice Blanc agrees. “Something needs to be done because as the exchanges are competing against each other more and more, they [are] also competing in some respect with the FCMs. They are there to make profit. I don’t think they can be there [also] to regulate the market. We need to start the process of how it is going to be done.”

While the for-profit status is leading some FCMs to call for a new look at the SRO status, few are throwing around the term monopoly as they have in years past. That may be because of the growth in OTC trading and the specter of cleared OTC products.

“People will only tolerate fee increases for so long before they support or try and build a competitor,” says Mike Dawley, managing director of Goldman Sachs.

One FCM official takes a stronger stand. “With electronic execution of OTC contracts, the exchanges will see the large firms as competitors of theirs rather than distributors, [and] it will come to a head in the next couple of years and that [regulatory] function will have to go over to the NFA or some like body,” says the official. “I don’t think the exchanges can do an effective job of that going forward,” he says, adding, “We are back to where we were two or three years ago. The only consolation we have is I am hoping the exchanges interpreted the volume increases with the fee reductions as being related.”

2005 rank

2005 rank		Date as of	2005 Customer equity (1) (millions)	2004 rank	2004 Customer equity (1) (millions) as of Aug. '04	2005 Adjusted net capital (millions) 2	2005 Secured amount (millions) 3	Broker / dealer	2005 Non-U.S. customer equity (millions) 4	2005 Global clearing volume (millions) 5	Retail / institutional	Managed funds	Online futures trading
1	Goldman Sachs & Co. (6)	30-Sep	10611.66	1	8789.18	5106.07	(7)	Y	DND	DND	I	Y	Y
2	Citigroup Global Markets Inc.	30-Sep	8372.74	3	6963.96	331.79	3285.34	Y	DND	DND	B	Y	Y
3	JP Morgan Futures Inc.	30-Sep	7545.47	4	6497.37	766.19	926.18	N	DND	DND	I	N	Y
4	Refco LLC (8)	30-Sep	6468.36	9	3643.99	183.19	443.36	N	483.57	389.90	B	Y	Y
5	UBS Securities LLC (9)	30-Sep	6383.98	2*	7649.89	2365.52	2721.48	Y	6500.00	DND	B	Y	Y
6	Merrill Lynch Pierce Fenner & Smith (10)	30-Sep	5804.64	5	6364.82	666.04	(7)	Y	DND	DND	I	N	Y
7	Calyon Financial	30-Sep	5448.72	7	3886.33	672.22	349.26	Y	1977.00	N/A	I	N	Y
8	Fimat USA Inc.	30-Sep	5281.42	6	4303.9	1702.99 (11)	420.90 (12)	Y	21388	506.90	I	N	Y
9	Man Financial Inc. (13)	30-Sep	5132.89	10	3432.67	1104.99	303.89	N	DND	DND	B	Y	Y
10	Lehman Brothers Inc.	30-Sep	2981.92	12	2291.22	100.40	2124.94	Y	DND	DND	I	Y	Y
11	Morgan Stanley & Co. Inc. (14)	30-Sep	2867.46	8	3651.29	1919.49	3670.09	Y	DND	DND	B	Y	Y
12	ABN Amro Inc.	30-Sep	2830.16	15	1740.77	494.84	621.68	Y	4.76	450.00	I	Y	Y
13	Bear Stearns Securities Corp.	30-Sep	2817.98	11	2462.95	845.93	3926.38	Y	DND	DND	B	N	Y
14	Barclays Capital Inc.	30-Sep	2487.65	13	2125.54	732.73	552.56	Y	DND	DND	I	N	N
15	RJ O'Brien Associates Inc.	30-Sep	1603.08	19	921.36	183.19	85.88	N	9.90	38.25	B	Y	Y
16	Prudential Equity Group Inc.	30-Sep	1599.82	17	1354.62	115.38	92.62	N	DND	DND	B	Y	Y
17	Credit Suisse First Boston LLC	30-Sep	1585.95	14	1841.29	523.04	4297.42	Y	905.00	235	I	N	Y
18	Deutsche Bank Securities Inc.	30-Sep	1539.06	16	1555.96	1607.22	2544.50	Y	DND	DND	I	N	Y
19	HSBC Securities USA Inc.	30-Sep	1021.07	22	473.13	41.24	427.36	Y	DND	DND	I	N	Y
20	BNP Paribas Brokerage Services Inc. (15)	30-Sep	1006.29	21	624.47	38.02	97.74	N	DND	DND	I	N	Y
21	ADM Investor Services Inc.	30-Sep	887.26	20	740.14	19.84	103.79	N	DND	22.46	B	Y	Y
22	FC Stone LLC	30-Sep	528.82	23	377.56	0.93	25.77	N	8.90	DND	Y	Y	Y
23	AG Edwards & Sons Inc.	30-Sep	436.43	33	121.61	0.03	637.36	N	DND	1.00	B	Y	N
24	Greenwich Capital Markets Inc.	30-Sep	430.86	24	368.51	6.01	666.32	Y	DND	DND	I	N	Y
25	Rosenthal Collins Group LLC	30-Sep	378.27	25	365.46	2.18	33.88	N	7.00	56.00	B	Y	Y
26	McVean Trading And Investments LLC	30-Sep	358.31	29	278.29	0	6.27	N	DND	DND	B	Y	N
27	Vision LP	30-Sep	356.59	30	206.11	0.08	19.88	N	none	DND	B	Y	Y
28	Banc Of America Futures Inc.	30-Sep	285.47	28	280.19	0.06	100.72	Y	DND	DND	B	N	Y
29	Interactive Brokers group (16)	30-Sep	204.34	45	45.53	34.65	659.58	Y	n/a	3.34	B	N	Y
30	Mizuho Securities USA Inc.	30-Sep	193.94	26	282.27	40.45	145.82	Y	DND	DND	B	Y	Y
31	MBF Clearing Corp.	30-Sep	188.39	41	82.19	1.31	10.15	N	DND	DND	B	N	Y
32	Fortis Clearing Chicago LLC**	30-Sep	180.28	37	93.13	12.73	44.50	N	DND	DND	I	N	Y
33	Peregrine Financial Group Inc.	30-Sep	125.06	35	112.16	0.60	8.74	N	2.00	1.90	B	Y	Y
34	Alaron Trading Corp.	30-Sep	122.86	40	83.03	1.94	6.11	N	DND	DND	B	Y	Y
35	Triland USA Inc.	30-Sep	204.34	n/a	47.54	0.08	28.28	N	70.00	3.30	I	Y	Y
36	Rand Financial Services Inc.	30-Sep	117.52	32	123.24	18.90	21.68	N	DND	10.90	B	Y	Y
37	Iowa Grain Co.	30-Sep	116.32	31	133.18	0.05	7.61	N	DND	DND	B	Y	Y
38	Enskilda Futures Limited	30-Sep	111.40	n/a	0	0	11.40	N	DND	DND	I	N	N
39	Advantage Futures LLC	30-Sep	109.88	42	79.76	7.12	9.16	N	DND	1.75	B	Y	Y
40	Tenco Inc.	30-Sep	92.14	39	85.93	0	26.18	N	DND	DND	I	N	N
41	Goldenberg Hehmeyer & Co.	30-Sep	88.34	38	92.63	5.05	6.52	Y	DND	125.00	B	N	Y
42	Xpresstrade LLC	30-Sep	75.98	n/a	0	1.14	6.17	N	DND	DND	R	N	Y
43	First Capitol Group LLC	30-Sep	53.37	44	55.47	0.02	4.04	N	DND	DND	B	Y	Y
44	O'Connor & Co. LLC	30-Sep	51.85	34	120.1	2.35	50.40	Y	DND	125.00	B	N	Y
45	Kottke Associates LLC	30-Sep	46.19	n/a	16.98	0.01	13.67	N	DND	DND	I	Y	Y
46	Cadent Financial Services LLC	30-Sep	39.52	n/a	18.92	4.51	3.67	N	DND	DND	B	Y	Y
47	Cantor Fitzgerald and Co.	30-Sep	38.46	n/a	0.95	0	114.25	Y	DND	DND	I	N	N
48	Sterling Commodities Corp.	30-Sep	36.19	n/a	39.10	2.14	7.26	N	***	***	***	***	***
49	Gelber Group LLC	30-Sep	35.26	n/a	23.96	0.05	35.88	N	***	***	***	***	Y
50	Farr Financial Inc.	30-Sep	34.69	49	22.21	0.10	1.64	N	1.30	DND	B	Y	Y

Source: CFTC, the brokerage firms

DND = Did not disclose N/A = Not available/applicable

Footnotes

- Customer equity is the amount an FCM owes each customer who trades on U.S. commodity exchanges. The CFTC requires FCMs to segregate such amounts in full. These values are from those reported to the CFTC.
- Adjusted net capital is the amount of liquid capital an FCM has to meet CFTC capital requirements. The CFTC requires each firm to have minimum capital of the greatest of: 4% of customer equity, \$250,000 or, in the case of FCMs registered as securities brokers/dealers, the SEC requirement.
- Secured amount is the amount of funds an FCM is required to set aside for U.S.-domiciled customers trading non-U.S. markets. The minimum amount is the margin required on such customers' positions, plus or minus the mark-to-market gain or loss on such positions. Some firms may choose to set aside more than the minimum required.
- Non-U.S. customer equity is the amount of funds FCMs hold for trades outside the United States. This was obtained from the FCMs on a voluntary basis. It is not reported to the CFTC.
- This is the number of trades cleared by the listed firm, reported through

- September unless otherwise noted. This includes both clearing and give-up volume unless the firm specified the amount of give-up volume, in which case only clearing volume is listed.
- Includes amounts from Goldman Sachs Execution & Clearing Corp.
- This FCM/broker dealer's ultimate parent company is regulated by the SEC as a consolidated supervised entity. The firm computes its minimum capital requirement in accordance with the Alternative Net Capital Requirement as permitted SEC rules. As of Sept. 30, 2005, the firm had net capital in excess of its minimum capital requirements.
- Refco LLC's numbers are as of Sept. 30, 2005, prior to the disclosure that its CEO had hidden \$430 million of unrecoverable debt and Refco Inc.'s subsequent bankruptcy filing. A large portion of those segregated funds have moved to other FCMs since then.
- Includes a portion of funds from UBS Financial Services.
- Includes amounts from Merrill Lynch Professional Clearing Corp.
- Fimat USA LLC is part of Fimat Group, which had total customer equity of

\$26.669 billion as of Sept. 30, 2005.

- This figure apply to major derivatives exchanges of which Fimat is a member.
- Man Financial Inc. USA is a part of Man Group PLC, whose global brokerage companies had a total customer equity of \$9.63 billion as of Sept. 30, 2005.
- May or may not include amounts from Morgan Stanley DW Inc.
- Includes amounts from BNP Paribas Commodity Futures Inc. and BNP Paribas Securities Corp. and affiliates.
- Includes amounts from Timber Hill LLC.
- Last year's ranking included funds from UBS Financial Services that were counted twice.
- Fortis Clearing Chicago signed an agreement to acquire O'Connor & Co. in November. The acquisition is subject to regulatory review and acceptance from exchanges and clearing organizations.
- Did not supply data.

## CHARTVIEW: TOP 50 BROKERS

Our December Top 50 Brokers chart ranked futures commission merchants based on customer equity through Sept. 30. It did not include shifts in customer equity as a result of the Refco bankruptcy. We posted subsequent charts on our Web site. Here are the most recent numbers, as of Dec. 31. Also the columns listing 2005 adjusted net capital and secured amount were transposed. This may have created the false impression that some firms were below their capital requirements. In addition to that the CFTC had changed this requirement (see footnotes).

2005 Rank	Futures Commission Merchant	2005 Customers' Equity (1) (in millions, as of Dec. 31)	Sept. 30, 2005 Rank	2005 Secured Amount (2) (in millions)	2005 Adjusted net (3) (in millions)
1	GOLDMAN SACHS & CO (4)	10054.57	1	5302.00	(5)
2	UBS SECURITIES LLC (6)	7999.00	5	3858.77	2817.12
3	CITIGROUP GLOBAL MARKETS INC	7962.00	2	328.00	3547.80
4	MAN FINANCIAL INC (12)	7219.60	9	1493.30	523.74
5	JP MORGAN FUTURES INC (7)	6795.40	3	1535.20	953.70
6	MERRILL LYNCH PIERCE FENNER & SMITH (8)	6457.00	6	679.20	(5)
7	CALYON FINANCIAL INC (10)	5502.00	7	890.20	447.00
8	FIMAT USA LLC (9)	5222.57	8	1680.57	520.73
9	LEHMAN BROTHERS INC	3366.00	10	150.21	(5)
10	ABN AMRO INCORPORATED (13)	3229.29	12	729.78	1072.56
11	BEAR STEARNS SECURITIES CORP	3118.00	13	1335.21	3918.00
12	BARCLAYS CAPITAL INC	2893.50	14	951.00	560.47
13	MORGAN STANLEY & CO INCORPORATED (11)	2851.00	11	1698.00	(5)
14	PRUDENTIAL FINANCIAL DERIVATIVES LLC	1909.76	16	163.00	119.06
15	DEUTSCHE BANK SECURITIES INC	1736.00	18	1085.65	2042.07
16	RJ OBRIEN ASSOCIATES INC	1718.00	15	13.52	97.23
17	CREDIT SUISSE SECURITIES USA LLC	1483.40	17	739.75	4495.40
18	BANC OF AMERICA SECURITIES LLC	1007.70	28	1.50	1352.67
19	ADM INVESTOR SERVICES INC	956.77	21	22.75	105.10
20	BNP PARIBAS COMMODITY FUTURES INC (14)	625.54	20	261.63	119.63
21	HSBC SECURITIES USA INC	619.74	19	25.45	840.00
22	ROSENTHAL COLLINS GROUP LLC	603.50	25	2.72	41.40
23	FC STONE LLC	512.60	22	1.46	20.19
24	GREENWICH CAPITAL MARKETS INC	429.5	24	11.85	1307.72
25	MCVEAN TRADING AND INVESTMENTS LLC	399.40	26	0	6.18
26	VISION LIMITED PARTNERSHIP	371.37	27	0.18	22.46
27	AG EDWARDS & SONS INC	286.40	23	0.08	631.36
28	ENSKILDA FUTURES LIMITED	255.28	38	0	13.42
29	FORTIS CLEARING CHICAGO LLC	218.79	32	16.10	41.80
30	INTERACTIVE BROKERS LLC (15)	209.80	29	39.30	172.41
31	MIZUHO SECURITIES USA INC	188.63	30	43.20	148.33
32	PEREGRINE FINANCIAL GROUP INC	182.13	33	0.63	13.25
33	MBF CLEARING CORP	140.19	31	1.35	10.41
34	ALARON TRADING CORPORATION	138.43	34	4.10	4.99
35	RAND FINANCIAL SERVICES INC	128.22	36	19.84	22.09
36	OCONNOR & COMPANY LLC	126.31	44	3.15	46.44
37	TRILAND USA INC	123.07	35	0.11	29.12
38	IOWA GRAIN CO	103.70	37	0.15	8.22
39	ADVANTAGE FUTURES LLC	98.91	39	9.40	9.73
40	XPRESSTRADE LLC	94.12	42	1.65	6.79
41	GOLDENBERG HEHMEYER & CO	93.52	41	3.97	7.80
42	TENCO INC	73.61	40	0	27.21
43	CADENT FINANCIAL SERVICES LLC	62.78	46	1.35	5.12
44	STERLING COMMODITIES CORP	51.00	48	3.56	6.08
45	FIRST CAPITOL GROUP LLC	43.10	43	0.03	4.17
46	GELBER GROUP LLC	40.72	49	0	36.18
47	KOTTKE ASSOCIATES LLC	40.04	45	0.003	11.51
48	CANTOR FITZGERALD & CO	37.60	47	0	112.65
49	FARR FINANCIAL INC	37.10	50	0.11	1.89
50	COUNTRY HEDGING INC	28.75	N/A	0.07	9.41

### Footnotes

- Customer equity is the amount an FCM owes each customer who trades on U.S. commodity exchanges. The CFTC requires FCMs to segregate such amounts in full. These values are from those reported to the CFTC.
- Secured amount is the amount of funds an FCM is required to set aside for U.S.-domiciled customers trading non-U.S. markets. The minimum amount is the margin required on such customers' positions, plus or minus the mark-to-market gain or loss on such positions. Some firms may choose to set aside more than the minimum required.
- Adjusted net capital is the amount of liquid capital an FCM has to meet CFTC capital requirements. The CFTC requires each firm to have minimum capital of the greatest of: \$250,000, 8% of total customer risk maintenance margin and 4% of total noncustomer risk maintenance margin; or the amount of capital required by the NFA or, in the case of FCMs registered as securities brokers/dealers, the SEC requirement.
- Includes amounts from Goldman Sachs Execution & Clearing LP.
- This FCM/BD's ultimate parent company is regulated by the SEC as a consolidated supervised entity. The firm has elected to compute its

- minimum capital requirement in accordance with the Alternative Net Capital Requirement as permitted by SEC rules. As of December 31, 2005, the firm had net capital in excess of its minimum capital requirements.
- Includes a portion of funds from UBS Financial Services.
- JP Morgan recently acquired Bank One Capital Markets.
- Includes amounts from Merrill Lynch Professional Clearing Corp.
- Fimat USA Inc. is a part of Fimat Group, which had total customer equity of \$19,501 million as of September 2004, and year-to-date (through September global clearing volume of 455.2 million lots).
- Merger of Carr Futures and Credit Lyonnais Rouse USA Ltd.
- Includes amounts from Morgan Stanley DW Inc.
- Man Financial Inc. USA is a part of Man Group PLC, whose global brokerage companies had a total customer equity of \$7,196 million as of September 2004.
- Includes amounts from ABN Amro Sage Corp.
- Includes amounts from BNP Paribas Commodity Futures Inc. and BNP Paribas Securities Corp. and affiliates.
- Includes amounts from Timber Hill LLC.



# Man Financial

The Measure of Value

OVER 200 YEARS OF EXPERIENCE WITH EVERY TRADE

## THE POWER OF PERFORMANCE AND PERSONAL ATTENTION

Timing, execution efficiencies, access, insight and analysis – they're part of every Man Financial transaction. For over 200 years Man Financial has adhered to a trading culture which demands exacting standards in all aspects of service – setting us apart as the premier brokerage.

From individuals to institutional accounts, at Man Financial every future is personal.

# PERFORMANCE



EVERY FUTURE  
IS PERSONAL™

800 621 0265  
[www.manfutures.com](http://www.manfutures.com)

*Trading futures and options does involve financial risk.  
Privacy policy available upon request.*