SUPERDERIVATIVES

Press Release

Use of over-the-counter derivatives rebounding according to pricing expert SuperDerivatives

London/New York, 2 June 2010: OTC derivatives usage has rebounded in the first part of 2010 across most asset classes, according pricing enquiries on SuperDerivatives (SD), the derivatives benchmark.

Dr David Gershon, CEO of SD, comments: "We have seen significant increase in OTC derivatives activity on our system throughout the last quarter, showing that, more than ever before in these turbulent markets, derivatives play a crucial role in how businesses across all sectors manage and hedge risk."

SD's pricing system is used by a large portion of the professional derivatives market and therefore reflects derivatives activity by banks, corporates and funds across the globe, across FX, interest rates, equities, commodities, energy and credit. Anecdotal evidence from customers is used to back up and contextualise the pricing trends seen on the system.

Key findings include:

- Overall usage of OTC derivatives experienced significant increase in first part of 2010 as institutions on the buy- and sell-side focus on risk management
- Rise in exotics usage in some asset classes shows a return to bespoke hedging strategies
- Particularly sharp increase in equity derivatives activity, across both vanilla and exotic products as buy-side investors diversify fund strategies and maximise alpha

Gershon continues: "We have seen a definite rebound in pricing of complex derivatives with past trade dates in some asset classes, showing that, institutions on both the buy- and sell-side are setting best practice by ensuring they know the fair market value of the contract they entered.

"Recent events have reinforced the need for institutions and investors to be prepared for unusual market circumstances with the proper financial instruments, used appropriately and transparently, along with the necessary tools for pricing and risk management. It is essential that regulators consider the value in hedging strategies using bespoke instruments and do not decrease this flexibility."

SuperDerivatives analysis of OTC derivatives usage by asset class

Interest rate derivatives

- Liquidity and volumes in major currency vanilla products, while nowhere near pre-crisis levels, have begun to rebound strongly
- For the first time in the post-crisis world both investor interest and dealer trading in core structured products such as callable fixed rate and callable range accruals is increasing
- There remains virtually no activity in "ultra-exotics" such as the snowball and TARN families of products

Foreign exchange

- Total number of FX options being traded is growing steadily
- Significant growth in usage of exotic options over the last quarter

- Combination of barriers of exotic options being hit and stop loss orders executed has contributed to higher rates of volatility over the last period

Commodity derivatives

- Despite the deleveraging observed in 2008, sustained volatility in commodity markets has attracted speculative interest while physical players continue to look to hedge their risk using derivatives
- As a result of the increased demand for clearing, more and more OTC products can now be cleared by leading commodity exchanges causing volumes of OTC trades given up for clearing to have grown significantly across all commodity asset classes
- Progress has been made to clear not only vanilla products but also more exotic products
- As regional markets become deregulated, derivative markets emerge evidenced by commercial interest and resulting liquidity growth in OTC volumes

Credit derivatives

- Increased attention to sovereign CDS in the light of problems with PIIGS
- Healthy activity in both index and single name trades
- Pick-up in index options trading
- Notional amounts have begun to contract, largely due to trade compression

Equity derivatives

- Significantly increased trading activity of plain vanilla products in the listed markets
- In the structured product space, auto-callables remain popular while older structures such as worst of puts and digitals on emerging assets have made a comeback
- High level of pricing enquiries suggests that, while volumes remain low, an imminent rebound in exotic equities structures is expected

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About SuperDerivatives

SD is transforming the world of derivatives by introducing transparency to all major traded derivative classes including foreign currency, interest rates, equities, commodities, energy and credit. Providing prices that reflect the interdealer market has led the company's web-based, market-calibrated platforms to be widely accepted as the benchmark for derivatives pricing.

Trading professionals on both the buy and sell side benefit daily from SD's unique combination of unbiased, aggregated market data and sophisticated modeling techniques. The company also provides fully-fledged risk management systems, award winning derivatives data and independent portfolio revaluation services.

Customers include leading banks, hedge funds, asset managers, custodians and hedge fund administrators in more than 60 countries, supported by a global network of SD offices with 24-hour support services.

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