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Smaller Firms Taking Corporate Bond Dealing Share From Top Banks

Tougher Rules and Retrenchment Among Large Banks Contribute to Shift

By Katy Burne
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The top five banks dealing in U.S. corporate bonds have lost market share to smaller firms, according to figures from researcher Greenwich Associates, the latest sign of the financial-sector shake-up being driven by tougher rules and bank retrenchment.

J.P. Morgan Chase & Co, Bank of America Corp., Citigroup Inc., Morgan Stanley, and Barclays PLC this year have handled 57% of investment-grade corporate bond trading, down from 61% in 2013 and 66% in 2009, Greenwich data show. Greenwich based its findings on a survey of fixed-income investors in North America, conducted in the second quarter.

Firms that have picked up share in the U.S. include BNP Paribas SA, Nomura Holdings Inc. Royal Bank of Canada's RBC Capital Markets, and Wells Fargo & Co., Greenwich said.

"We have grown market share over the years by slowly and deliberately expanding based on client demand," said Walter Dolhare, head of the markets division at Wells Fargo Securities. "We also recognized early on that electronic trading would become an important solution to offer clients," he said.

"We believe our market share gains are the result of our continued focus at a time where other international banks have been retrenching," said Laurent Samama, head of U.S. credit trading at BNP.

Representatives for Nomura, RBC, J.P. Morgan, Bank of America, Citigroup and Barclays declined to comment. Morgan Stanley didn't respond to a request for comment.

Overall, the top dealers still dominate corporate bond trading by volume, but the Greenwich data suggest institutional investors are beginning to explore new providers.

"The rise in electronic trading is giving these emerging bond dealers access to a much bigger client base, and if they can quote aggressively enough, they're going to win business," said Kevin McPartland, head of market structure research at Greenwich.

The shift comes as leading bond dealers have been holding fewer securities for trading with clients.

These stockpiles, known as dealer inventories, are down more than two-thirds since their precrisis peak, and large banks have become choosier about which clients they serve.

Historically, the broker dealer arms of big banks had the capital and the willingness to buy less liquid bonds from clients and hold on to them. Now, they are less inclined to take on big trades and often prefer to call around to find willing buyers, acting more as matchmakers.

"We are certainly trading more and more away from the giants," said **Jason Graybill**, senior managing director at Carret Asset Management in New York, who oversees $1.5 billion of bonds and said he had picked up a lot of activity with Wells Fargo. "Some of the regional desks have been more aggressive," he said.

In the second quarter, many top-tier Wall Street firms posted declines in their fixed-income trading revenue from prior-year levels because of a slump in trading, but the drop wasn't as bad as they first feared because of a pickup in June. Still, the quarter highlighted the fragility of the bond trading business.

Customers have a clear incentive to try new avenues. While the top-tier banks are grappling with new rules that have pressured their balance sheets, holdings by asset managers and others have exploded. Assets in U.S. domiciled taxable bond funds have doubled to $4.1 trillion as of Sept. 3 from $2 trillion in November 2009, according to Lipper data.

Portfolio managers say they have little choice but to explore alternative trading partners and electronic platforms that can link up market participants. The percentage of investors trading at least some of their bonds electronically is now 80%, up from 47% in 2009, Greenwich found. Historically, bond transactions occurred over the telephone.

MarketAxess Holdings Inc., which runs the largest electronic corporate-bond trading platform in the U.S., has added more than 40 dealers to its system since the financial crisis, bringing the total dealer count to 90 from 49 six years ago.

In the second quarter, the new dealers added to MarketAxess since 2008 won 35% of investment-grade secondary bond trades by transaction count, an increase over the 32% recorded in the year-earlier period and 2% recorded in the third quarter of 2008.