

# » TRADING:

## A CORE PARIBAS SERVICE

**PARIBAS WAS KNOWN FOR ITS STRENGTH IN TRADING DERIVATIVES, FIXED INCOME SECURITIES AND OTHER FINANCIAL INSTRUMENTS.**

It began developing its trading capabilities in the US in the 1980s and grew them rapidly in the 1990s, eventually building a trading group of nearly 300 people by 2000.

It started trading exchange-listed futures in 1985 and began trading futures over-the-counter four years later. In 1997, it achieved the distinction of becoming a “primary dealer” in government securities, as designated by the Federal Reserve. *The Wall Street Journal* has described this market as “brutally competitive,” attracting only the top banks and securities firms. Primary dealers are trading counterparties of the Federal Reserve Bank of New York in its implementation of monetary policy and are expected to make continuous markets in US government obligations. BNP Paribas continues today as one of only 23 primary dealers in the US.

Meanwhile, BNP was developing its own trading capabilities. In a notable example, in 1994 it acquired CooperNeff, a highly regarded derivatives firm based in Pennsylvania. A senior BNP official noted at the time that CooperNeff “has the same philosophy, the same conservative approach to risk as we have.” Building on the acquisition, the bank developed a premier position across a range of derivatives, including those based on equities, interest rates, commodities and currencies.

BNP and Paribas combined their trading resources in 2000 to create a formidable US and global presence in derivatives, fixed income securities, foreign exchange and other chosen areas. Today, trading is a vital service of BNP Paribas, providing market liquidity and creating structures that help clients hedge risks, obtain guaranteed rates of return, manage assets and liabilities, and achieve other financial objectives.

Natural resource companies often employ commodity derivatives to lock in future prices for their products. Equity derivatives are used in a wide variety of ways, from hedging risk to obtaining exposure to a basket of stocks. It is often easier, faster and less expensive for





a financial institution to buy a derivative that mirrors the performance of, say, the S&P 500 Index than to buy each of the 500 stocks.

Derivatives can also be used to structure notes with equity-like returns. As an example, Bank of the West issues market-linked certificates of deposit that offer customers a minimum annual interest rate together with the opportunity to participate in the price appreciation of a group of stocks. BNP Paribas helps structure the certificates, using derivatives to provide the equity component of the return.

Apart from derivatives, BNP Paribas is very active in trading government and corporate bonds and other fixed income securities. Unlike equities, which have liquid markets on securities exchanges, bonds are primarily traded over the counter. The bank serves institutional clients by trading securities they want to buy or sell, with a main focus on investment grade issues. Trading is also important to the interests of the bank's corporate clients. The bank typically provides liquidity for the debt issues it underwrites by making markets in them for a limited or extended period of time. Liquid markets for a company's existing debt securities make it easier to sell new securities in the future.

Trading has changed dramatically in recent years to become very technology based. The bank is a technology leader. Its Smart Derivatives platform, used for creating and trading a wide range of tailored structured products, has won the bank the "technology provider of the year" award from *Risk* magazine three years in a row beginning in 2015. Cortex FX is the bank's cutting-edge algorithm execution service for foreign exchange trading. It allows clients to capture price improvement, minimize market impact and achieve optimal execution while reducing overall transaction costs.



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