

NEW YORK & LONDON--([BUSINESS WIRE](#))--Fitch Ratings has completed a peer review of four rated inter-dealer brokers (IDBs). Based on this review, Fitch has affirmed the following long-term Issuer Default Ratings (IDRs):

--ICAP plc (ICAP) at 'BBB', Outlook Stable;

--Tullett Prebon plc (Tullett) at 'BBB-'; Outlook Stable;

--BGC Partners Inc. (BGC) at 'BBB-', Outlook Stable.

In addition, Fitch has downgraded the IDR for GFI Group Inc. (GFI) to 'BB-' from 'BB'. The Rating Outlook remains Negative.

Please refer to company specific press release published today, and available on Fitch's website, for further rating rationale.

CHALLENGING OPERATING ENVIRONMENT

IDBs continue to face a challenging operating environment as global trading activity remains subdued reflecting persistently low volatility, the more onerous regulatory environment for their dealer clients, and the uncertainty associated with structural regulatory reforms of the over-the-counter (OTC) derivatives markets. Fitch believes some of these trends will continue impacting brokerage revenues in the near to intermediate term.

MIXED REGULATORY IMPACT

Major regulatory rules impacting the swap markets went into effect in the U.S. in the 1Q'14, reducing barriers to entry and increasing competition for some brokered products. However, trading volumes on swap execution facilities (SEF) has been below industry expectations as some of the mandatory trading rules impacting buy side firms are still subject to phase-in, keeping market participants away. IDBs have continued their dominance in the inter-dealer market due to the inclusion of voice brokered trades in SEF but have not been able to gain traction in the dealer-client market.

Fitch believes that in the longer run, use of central counterparty clearing, introduction of SEFs and organized trading facilities and mandatory trade reporting will increase liquidity and trading in swap products, potentially offsetting declines in margins/commissions from increased competition.

COST CUTTING/BUSINESS DIVERSITY MITIGATES REVENUE PRESSURE

IDBs have responded to the persistent decline in brokerage revenues by rationalizing their cost base with an emphasis on cutting compensation costs, which has helped to stabilize profit margins. Fitch expects additional cost saving actions to continue which should help create positive operating leverage and benefit the companies in the longer run.

IDBs have, to varying extent, focused on growing contribution from non-brokerage businesses, either organically or through acquisitions. This should help increase revenue and business diversity, particularly when they are uncorrelated or less correlated to financial market trends. Fitch expects IDBs to remain disciplined in their non-brokerage acquisition strategy in terms of managing funding and integration risk.

A return to aggressive compensation practices or large cash/debt funded acquisitions could put pressure on the IDB sector or individual companies.

LEVERAGE LEVELS STABILIZING

Leverage levels have generally stabilized as most IDBs have focused on repaying debt. Fitch does not expect any IDB to add incremental debt to its balance sheet. As such, further improvements in leverage will be more of a function of improvement in EBITDA levels. Interest coverage levels have also stabilized and are appropriate for each IDBs rating level. Near term debt maturities are manageable considering excess liquidity and pre funding of debt, in some cases.

Additional information is available on 'www.fitchratings.com'.

Applicable Criteria and Related Research:

--'Global Financial Institutions Rating Criteria' (Jan. 31, 2014);

--'Securities Firms Criteria' (Jan. 31, 2014);

--'2014 Outlook: Securities Firms' (Nov. 21, 2013);

--'Inter-Dealer Brokers: Challenges and Opportunities from New Regulations (Oct. 2, 2013).

Applicable Criteria and Related Research:

2014 Outlook: U.S. Securities Firms (Capital and Liquidity Counterbalance Challenging Market Conditions)

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=722741

Inter-Dealer Brokers: Challenges and Opportunities from New Regulations

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=719682

Global Financial Institutions Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=732397

Securities Firms Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=732556

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