

GFI Group Inc. Has Continued To Invest In Advanced Technology, Energy And Credit Trading Platforms And Generate Revenues Even As Customers Were Consolidating

**Financial
Investment Brokerage - Regional
(GFIG-NASDAQ)**

GFI Group Inc.

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**Colin Heffron
President and Director**

Company Profile:

GFI Group Inc. (NASDAQ: "GFIG") is a leading provider of wholesale brokerage, electronic execution and trading support products for global financial markets. GFI provides brokerage services, market data, trading platform and analytics software products to institutional clients in markets for a range of fixed income, equity financial and commodity instruments.

Headquartered in New York and founded in 1987, the company employs more than 1,700 people with additional offices in

London, Paris, Hong Kong, Seoul, Tokyo, Singapore, Sydney, Cape Town, Santiago, Dubai, Dublin, Tel Aviv, Calgary, Englewood (NJ) and Sugar Land (TX).

GFI offers its customers a hybrid brokerage approach, combining a range of telephonic and electronic trade execution services, depending on the nature of the products and the needs of the individual markets. GFI complements its hybrid brokerage capabilities with decision support services, such as value-added data and analytics products, real-time auctions and post-transaction services, such as straight-through processing ("STP"), clearing links and trade and portfolio management services.

GFI is an industry leader in various credit, financial, equity and commodity markets according to recent market surveys published by Risk, Credit and Energy Risk magazines.

**Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com**

CEOCFO: Mr. Heffron, what is the focus at GFI today?

Mr. Heffron: The focus of GFI for the last several years has been to grow into diverse markets, both derivative and cash, and to provide technology based platforms following our hybrid model. We seek to expand our market share across all asset classes from equities to rates to credit and commodities. Our business growth and our continuous development of technology have enabled us to provide our clients with the best service and the most liquidity.

CEOCFO: What has changed in your strategy over the last year or so?

Mr. Heffron: We obviously had to cut costs as several of our customers merged or went out of business and volumes were negatively impacted. Over the last twenty years, the number of major banks decreased from over 30 banks to less than a dozen today.

Nonetheless, we continued to invest in advanced technology platforms from energy trading platforms to credit trading platforms.

In addition, we focused on increasing our customer base by reaching out to other types of customers. We have grown the amount of business that our energy, credit and equity businesses do with hedge funds and money managers and we have added around 300 new customers in the last 18 months.

We saw the changing markets as an opportunity to grow a more diverse customer base.

CEOCFO: I see as part of your mission statement that you want to be the most innovative and intelligent wholesale broker; what does that mean, what do you do that is different and how do you continue to innovate?

Mr. Heffron: We look at execution as a cycle, not as an isolated event. We look at pre-trade, trade or execution and post-trade.

We look at what causes our customers to do a trade. We study the possible circumstances and provide analytical tools as well as data to help in formulating the decision. Our subsidiary GFI FENICS, is a software vendor that concentrates on providing pricing, trading and risk management solutions. If you are interested in looking at several strategies in the gold

market, the energy market or the FX options, multi-leg or multi-currency, FENICS Professional allows you to price on live market volatility or to use ours or 3rd party maths to price option strategies.

Once you have determined what you want to do, we move on to execution. We use our best technology and people to access the best price for you - we talk to many different customers, we try to get the best bids and offers and the best size to fit your needs. We strive to make the experience as positive and pain-free as possible.

Once your trade has been executed, we provide straight-through processing so the transaction is sent into your risk-management system via STP (straight through processing) or into a risk-management system that we can provide. We can do this with a number of asset classes.

Our approach could be defined as a “soup to nuts” approach. We do not think there is anybody out there who handles the business in this fashion. We have competitors in all three phases of the trade cycle: pre-trade, trade and post-trade, but we do not think there are a solid across the board as we are. We have competitors in the IDB “old world voice space” but they do not have the technology for electronic execution. There are a number of post-trade firms that compete with us after execution but they do not have the execution end and most do not have the ability to do STP.

We are in all three phases of the cycle which gives us a clear competitive advantage.

CEOFCO: Do most of your customers take advantage of the full range of services that you have available?

Mr. Heffron: No, maybe 30-50% of them take advantage of the full range. This actually creates an opportunity for us. We would like to see more of our customers take as full a range of our services as they do in the foreign exchange space. In FX, our customers can trade directly with each other on GFI ForexMatch® or

with their customers on FENICS Trader™. In both instances, they use our technology throughout the process. It is this type of trading technology [STP] that we look to expand into other asset classes such as credit and energy. It is a clear growth opportunity for us.

CEOFCO: How do you drive business?

Mr. Heffron: We provide value-added services such as equity and multi-asset research. In energy, for example, we have electronic execution platforms alongside brokers – our hybrid model- and we have the capability to provide straight through processing of trades. We could look into expanding our analytics offering to assist in making decisions on what type of and how many energy contracts to buy. Driving business may come down to the “build or buy” question. Sometimes, growth in a certain area might require an acquisition as it did with FENICS five or

The best opportunities are the fact that transparency will lead to a “flatter” world where we will be able to service a greater number of financial institutions and have unfettered access to clearinghouses. This is where the real opportunity lies. We are not going to be the “winners” in every single asset class, but we will certainly be amongst the strongest in energy, credit and financials. - Colin Heffron

six years ago. On the other hand, in equities we chose to build - we had so much proprietary knowledge inside the firm because of all the data points we get in credit derivatives, equity derivatives and energy derivatives, that we decided to develop a “credit to equity” research product that analyses a company’s corporate finance structure and studies those events in the credit market that would impact the equity market.

CEOFCO: What is your global reach?

Mr. Heffron: We have offices in New York, London, and Paris and throughout Asia. We have the Middle East covered through Dubai and Tel Aviv. We also have a small office in Africa, a new office in Chile, an office in Texas and we are looking into California.

We are also a globally diverse business by revenue with about 40% in revenue from Europe, 40% from North America and

with Asia, data and analytics making up the remaining percentage.

CEOFCO: How do you see the new mix changing?

Mr. Heffron: I think that the cash markets will continue to drive business until the regulatory landscape for the derivatives markets is clearer. We saw a real increase in our cash business last year, particularly in cash bonds, and we think these asset classes will continue to do well. However, there seems to be a bit of a renaissance in the derivatives market. After the drop off in revenues in 2008, we are now seeing a recovery in this market. We believe we are in a very good position as we are in both in the derivative and cash markets. As for future regulatory changes, we feel we are well placed for whatever comes our way. The proposed regulation seeks to add transparency to the markets. We are great supporters of

transparency as we believe this enhanced transparency will drive more use of technology. As I mentioned before, we are strong on the technology side, which gives us a clear competitive advantage over many of our competitors - there are only one or two of our peers that can compete with us here.

All this puts us in a very good position to absorb further market share.

CEOFCO: What challenges with the economy do you see ahead?

Mr. Heffron: The key issue here is regulation; it is imperative for legislators to get the regulation right. The current lack of clarity creates a short-term drag on firms like ours. In the end, the increased transparency sought by the new laws and regulations should only drive greater volumes and an ever-growing customer base for GFI. In addition, if you have the technology for the future as we do, and you are sitting in the middle of all this as we are, you are well placed for future growth.

CEOFCO: And to balance it out, what are the best opportunities forward?

Mr. Heffron: The best opportunities are the fact that transparency will lead to a “flatter” world where we will be able to service a greater number of financial in-

stitutions and have unfettered access to clearinghouses. This is where the real opportunity lies. We are not going to be the “winners” in every single asset class, but we will certainly be amongst the strongest in energy, credit and financials.

CEOCFO: What is the financial picture like for GFI Group?

Mr. Heffron: We are a profitable and extremely sound company. We have an incredibly strong balance sheet. Throughout our 22 odd year history, we have been led by our founding CEO whose assertive approach towards building a great company has blended very

well with a conservative approach towards risk and many what-if scenarios of the current environment. This has led us to a strong financial position. We are able to invest when others frankly are not and we think that this is only going to serve us well in the future. Having a strong balance sheet during times like these has been incredibly valuable.

CEOCFO: What should potential investors know and why should they be interested in GFI Group?

Mr. Heffron: They should know that they are investing in a very diverse platform that has a strong foothold in energy,

fixed income, equities and financials. They should know that by investing in us they can get exposure to our sector to without taking the massive P&L risk that you get by investing in a proprietary risk-based model, where the running of large cash and derivatives books is commonplace. An investment in GFI is an investment in the effective middleman or an OTC exchange. And, why GFI as the middleman versus some of our competitors? I would say technology; I believe technology will play a greater and greater role going forward as the markets move towards greater transparency.



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