# Glencore IPO Shows Unregulated Traders Beat Goldman Sachs

By Christine Harper, Elisa Martinuzzi and Zijing Wu

May 5 (Bloomberg) -- For Goldman Sachs Group Inc. and Morgan Stanley, two of Wall Street's biggest commodities-trading firms, the year's largest initial public offering represents a nightmare come true: the rise of unregulated rivals.

Glencore International AG's IPO probably will catapult the Baar, Switzerland-based commodities firm from relative obscurity onto London's FTSE 100 list of most valuable stocks this month.

Chief Executive Officer Ivan Glasenberg, 54, a former coal trader, owns a 16 percent stake in Glencore worth $9.6 billion if the sale assigns the firm a mid-range value of $61 billion.

In the wake of the financial crisis, governments and regulators such as the Federal Reserve and Basel Committee on Banking Supervision are cracking down on risk-taking at NewYork-based banks like Goldman Sachs and Morgan Stanley. At the same time Glencore, a 37-year-old company that primarily focuses on physically moving commodities around the world, faces no limits on leverage, proprietary trading or compensation.

"Glencore is unregulated and competes in many of the same businesses," said William D. Cohan, author of "Money and Power: How Goldman Sachs Came to Rule the World" and a contributing editor to Bloomberg. "It's based in Switzerland and can do a lot of things that Goldman can't do anymore."

**"Prop trading remains as a potent incentive to join Glencore, Noble, Trafigura and any of the major trading firms not restricted by banking rules," said George H. Stein, managing director of Commodity Talent LLC, a recruitment firm in New York.**

The commodities desks of Wall Street's biggest banks have long competed with closely held specialists such as Cargill Inc. in Minneapolis, Paris-based Louis Dreyfus & Cie and Geneva-based Vitol Group that, like Glencore, produce and trade commodities and have operated with little oversight.

**Racketeering, Tax Evasion**

Glencore's decision to go public in London and Hong Kong, which promises to make billionaires out of Glasenberg and four other executives, shows the firm believes it can overcome a history of secrecy. Founder Marc Rich and his partner Pincus Green fled the U.S. for Switzerland in 1983 just before being indicted

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on 65 counts of wire fraud, racketeering, tax evasion and violating a U.S. embargo by trading with Iran. President Bill Clinton pardoned them in 2001.

The Swiss commodities trader has already received orders or all $11 billion of shares sale after the offering began yesterday, according to two people with knowledge of the matter who declined to be identified. Citigroup Inc., Credit Suisse Group AG and Morgan Stanley are among underwriters that may get about $275 million in fees from the IPO, the prospectus shows.

**Marc Rich**

Glencore produces and trades metals and minerals such as aluminum, cobalt and zinc, energy products like oil and coal, as well as grains, cotton, sugar, oils and oil seeds. Among its holdings in publicly traded companies is an almost 35 percent stake in Xstrata Plc, a Zug, Switzerland-based mining company with a market value of 42.9 billion pounds ($71 billion) on the London Stock Exchange.

Glencore employs 57,500 workers either directly or indirectly and generated $145 billion of revenue on $79.8 billion of assets last year, according to its website.

Glasenberg, a South African who joined Glencore in 1984 and became CEO in 2002, participated in a management-led buyout of the business from Rich in 1994. Glencore has made its name by acquiring and trading commodities in places such as the Democratic Republic of Congo, Kazakhstan and Bolivia.

In its IPO prospectus filed yesterday, Glencore disclosed that subsidiary Glencore Grain Rotterdam BV, a former employee and one current employee have been charged in Belgium with corruption. The criminal charges allege an exchange of non-public information while applying for European export subsidies, Glencore said.

**'Big Quasi-Bank'**

"Glencore is probably making the call that to get involved in larger deals it is worth having to engage in its business more transparently," said Richard Baumann, a partner who specializes in securities law at Morrison Cohen LLP in New York. "As a big derivatives trader, and to the extent it operates like a big quasi-bank, systemic regulators around the world might see a need to regulate Glencore more."

By contrast, Goldman Sachs and Morgan Stanley, the two biggest U.S. securities firms until September 2008, are already bank holding companies under Federal Reserve supervision. The Dodd-Frank financial-regulation law enacted last year includes the so-called Volcker rule, which limits banks that get federal assistance such as deposit insurance from proprietary trading, or making bets with their own money.

Glencore, like rivals such as Hong Kong-based Noble Group Ltd. and Amsterdam-based Trafigura Beheer BV, can take bigger trading risks in the commodities markets, helping to make them more profitable and more appealing as employers for top traders.

**'Potent Incentive'**

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Glencore's average 2010 value-at-risk, a measure of how much the firm's traders could lose in a single day, jumped to $43 million from $27 million in 2009, according to the firm's annual report. Goldman Sachs's commodity price value-at-risk dropped to $33 million in 2010 from $36 million in 2009, company data show.

Goldman Sachs's return on equity, a measure of how well the firm reinvests shareholder capital, dropped to 11.5 percent in 2010 from about 33 percent three years earlier, before the crisis. Glencore has achieved an average return on equity of 38 percent, according to a research report by UBS AG, one of the IPO's underwriters.

**Dodd-Frank**

The Dodd-Frank Act also requires agencies like the Commodity Futures Trading Commission, the Fed and the Securities and Exchange Commission to establish margin requirements as a way of limiting risk in the $583 trillion global swaps market.

Regulators are debating whether to exempt commodity producers, refiners and consumers, known as "end users," from the requirements.

Glencore, because it owns and operates mines and refineries, could win such an exemption, according to two veterans of Wall Street commodity-trading desks who spoke on the condition of anonymity because they weren't authorized to speak publicly.

Glencore's IPO is also a challenge to Wall Street's banks because of the level of wealth it's creating. When Goldman Sachs went public, then-CEO Henry M. Paulson's stock was worth $219 million and then co-chief operating officers John A. Thain and John L. Thornton were each worth about $160 million apiece. That's dwarfed by Glasenberg's potential $9.6 billion stake.

**'Oh, Goldman, Yawn'**

"When Goldman was going public, that was the Glencore of 12 years ago, in other words everybody wanted to work at Goldman," said author Cohan. "Now, it's like 'Oh, Goldman, yawn.'"

Even at hedge funds, the source of some of Wall Street's greatest riches, Glencore's IPO has been a source of envy.

"I turned them down because I thought I could make more at a hedge fund," said a trader at a multibillion-dollar hedge fund, who didn't want to be identified because he's not authorized to speak publicly. "That turned out to be a mistake."

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