



FPL Americas Electronic Trading Conference 2006



By **Tom Jordan** and **Kathy McGovern**, Jordan & Jordan

On October 24th & 25th the FPL Americas Electronic Trading Conference took place at the Marriott Marquis Hotel in New York.

Some of the quotes throughout the conference were quite memorable; see if you can match the quote with the speaker:

1	Harold S. Bradley, Chief Investment Officer, US Growth Equity Mid-Cap/Small Cap/Sector, American Century Investments	A	You can not tell a client where to trade
2	David Quinlan, President, Eze Castle Software	B	Easier to access the markets but harder to access the liquidity
3	Ted Oberhaus, Partner, Director of Equity Trading, Lord Abbett & Company	C	We had world's first hybrid market three years ago
4	Bill Brodsky, Chairman & Chief Executive Officer, Chicago Board of Options Exchange	D	Dark pools = block trading of old without the impact
5	Matt Simpson, Associate Director of Electronic Trading Architecture, FPL Global Technical Committee Co-Chair, Chicago Mercantile Exchange	E	Exchanges are no longer clubs, they compete directly with the broker dealer community
6	Scott Atwell, Manager of FIX Trading & Connectivity; FPL Global Steering Committee Co-Chair, American Century Investments	F	Clayton Rego just left, I will accept the \$500 Visa Card for him
7	Diana Zandani, FIX Business & Certification Analyst, ITG, Inc.	G	Don't you like people?
8	Fred J. Federspiel, President and Founder, Pipeline Trading Systems, LLC	H	Revolutionaries are always fruit cakes
9	Thomas M. Joyce, Chairman & Chief Executive Officer, Knight Capital Group, Inc.	I	I am glad I am not an equity exchange
10	William R. Harts, Managing Director, Head of Strategy for Equities, Banc of Americas Securities	J	That reminds me of the quote that God was able to make the world in 7 days because there was no install base

It was possibly the most interactive two day session in the financial markets; not only among the 54 speakers but also among the 300 registrants. Our 24 exhibitors and 8 sponsors had a packed house of interested delegates. Was there any consistent message across the fifteen panels?

Yes, the cost of electronic trading continues to decline, FIX is the enabler, firms want choice and electronic trading is growing in all asset classes. The consolidation that all were worried about 6 months ago has been replaced by dark pools and over twenty execution venues. Competition has made our markets more efficient, regulation has resulted in intended and unintended effects, and technology has made possible the evolution or revolution.

If you are an FPL member and/or attended the conference you can access the video by requesting a password from FPL@fixprotocol.org. A summary of selected observations and take aways from the various sessions:

The Equities/Options Markets

- It is easier to access the markets but harder to access the liquidity
- Decimals created the opportunity for smart order routers, REG NMS makes it a necessity
- If you route to exchanges you will get top of book but will not access dark pools
- Dark pools equal block trading of old without the impact
- Options market is growing faster than stocks because of education and product innovation

- CBOE is hybrid - 95% of orders done electronically - remaining 5% represents 25% of volume
- Partnership and competitors - you can list on an exchange and still compete with them
- Brokers spent \$200M investing in exchanges, a price war will continue



- Expect growth in retail but not in block trading
- FIX is great - firms can connect in 1 week although some big firms take 6 months
- Scale matters or maybe you can have a niche but don't be caught in middle

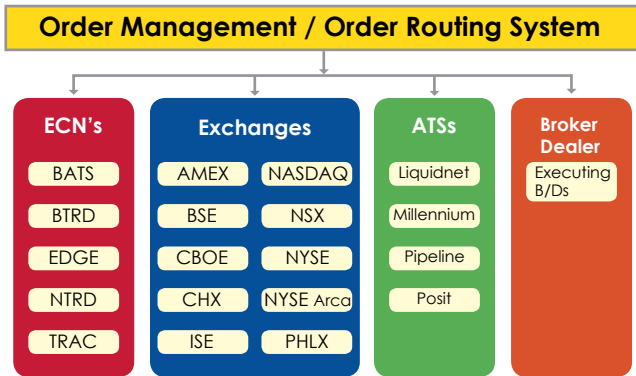
Exchange Ownership

<p>AMEX</p> <ul style="list-style-type: none"> - Member owned 	<p>BSE/BEX</p> <ul style="list-style-type: none"> - Citigroup - Credit Suisse - Fidelity - Lehman - Merrill Lynch 	<p>CBOE</p> <ul style="list-style-type: none"> - Interactive Brokers - LaBranche - Susquehanna - Van der Moolen 	<p>CHX</p> <ul style="list-style-type: none"> - Bank of America - Bear Stearns - E-Trade - Goldman Sachs 	<p>ISE</p> <ul style="list-style-type: none"> - Bear Stearns - Citadel - Deutsche Bank - E-Trade - Interactive Brokers - JP Morgan - Knight Capital - Nomura Securities - Sun Trading - Van der Moolen
<p>NASDAQ</p> <ul style="list-style-type: none"> - Publicly Owned 	<p>NSX</p> <ul style="list-style-type: none"> - Bear Stearns - Bloomberg Tradebook - Citigroup - Credit Suisse - Knight Capital - Merrill Lynch 	<p>NYSE</p> <ul style="list-style-type: none"> - Publicly Owned 	<p>NYSE Arca</p> <ul style="list-style-type: none"> - Publicly Owned 	<p>PHLX</p> <ul style="list-style-type: none"> - Citigroup - Credit Suisse - Citadel - Merrill Lynch - Morgan Stanley - UBS

Source Jordan & Jordan

ATS/ECN's

- History of ECNs/ATS's is that they are created, they consolidate then new ones are created
- They have always been a good investment even when they fail



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Source: Jordan & Jordan

Market Data

- The importance of market data latency is more pronounced; there is a lot more of it but sub-second delivery time is critical
- Hybrid-already noticeable increase in quotes for hybrid stocks especially around the open
- There is such a premium on speed that firms are bypassing consolidators
- The market data rebate formula is moving from gaming to payments for good quotes
- Interesting that Europe with MiFID is looking for a consolidator for quotes and the U.S. is moving away from that
- You need a robust market data infrastructure for both trading and compliance purposes
- Some derivative exchanges are expecting brokers to report on market data usage and get involved in managing market data fees
- Rising market data volumes are not correlated with rising trade volumes

OMS/EMS

- OMS systems' slow down will cause some firms to go to EMS for performance enhancements
- EMS is just a channel as web services expand
- There is increased benefit in owning the desktop
- No firm can tell the client where to trade

Customer Needs/Solutions

- When talking about buy-side needs, you must segment the market
- It is difficult to oppose unbundling although there is significant disagreement on the value

- Buy side deals with sell side because of responsive sales traders, DMA, algo's and capital commitment
- Consistent response that traders do not know of any firm that conflicts proprietary and agency trading
- You can still like people and push electronic trading
- If you do self service in any business, you expect lower costs



Asset Expansion - Foreign Exchange, Derivatives, Fixed Income

- Coming soon, Algo's for Foreign Exchange, although again it depends on what segment of the market
- Firms exploring centralizing production for all asset classes
- Firms still need to go live with counterparty for specific asset class
- Post trade fixed income is progressing but now needs a focused approach, especially on settlement instruction information
- There is significant commitment from hedge funds for trading OTC derivatives

Algo's

- Firms use different algo's for specific purposes; some even utilize an algo to confuse others that are trying to discern their strategy
- Clients would like to have more consistency/standards in algorithms but must be cautious that they do not telegraph specific parameters in advance
- Make integration easier; algo's are now part of the landscape
- Don't fall in love with a product or service
- Large firms will win
- NYSE Hybrid will change the name of the game

Regulation:

- Regulation NMS has already had significant effect on electronic trading and the competitive environment for equity trading

- Smart order routing is extending to the listed market
- Do not expect near-term regulatory light on dark pools, although participants have been surprised before by regulators. Among other reasons is that dark pools are still a small percentage of the overall market.

Technology:

- New business/regulatory requirements will necessitate significant infrastructure and IT resources. Smaller brokers will use bigger brokers or vendor solutions
- Release FIX 5.0 will, among other enhancements, implement session layer independence from application layer, which means that different message versions can be used within the same FIX session

Two conference events that we can't describe adequately here in mere words, were the cocktail party with it's unique networking opportunities (held at The View with breathtaking views of Manhattan) and also the

luncheon performance by Harold Bradley. His recounting of trading history, the role of industry visionaries/ revolutionaries and his clear thinking builds confidence to see a path to success in today's exciting marketplace.

Answers: 1. H, 2. A, 3. G, 4. C, 5. I, 6. J, 7. F, 8. D, 9. E, 10. B

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Any thoughts on this or other articles?

Please send any comments, referring to this article as Vol 1 Issue 12 AM1, direct to Edward at edward@fixglobal.com

