FINAL TRANSCRIPT

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ITG - Q3 2011 Investment Technology Group Inc Earnings Conference Call

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PRESENTATION

Operator

Good morning and thank you for joining us to discuss Investment Technology Group's third-quarter results for 2011. My name is Kim, and I will facilitate the call today. After the speaker's remarks there will be a the question-and-answer period. I will provide further instructions before we take questions. This session is being recorded. I will now turn the call over to J.T. Farley of ITG.

JT Farley - *Investment Technology Group - Director, Investor Relations*

Good morning. In accordance with the Safe Harbor regulations, I would like to advise you that any forward-looking statements we will be making this morning are subject to a series of risks and uncertainties that may cause actual results to differ materially from those statements. These forward-looking statements speak as of today and you should not reply upon them as representing our views in the future. While we may elect to update these forward-looking statements in the future, we undertake no obligation to do so. I advise you to read about the risk factors that may affect forward-looking statements in this morning's press release, as well as in our SEC filings.

I would also like to point out that we will be referring to non-GAAP financial measures in today's presentation. Reconciliation of these non-GAAP measures to the comparable GAAP measures can be found in this morning's press release, as well as in the press releases covering prior earnings periods. The press releases and the PowerPoint slides which accompany this presentation are available for download at the Investor Relations section of ITG.com. We have with us this morning our CEO, Bob Gasser, and our CFO, Steve Vigliotti. To begin, we will turn it over to Bob.

Bob Gasser - *Investment Technology Group, Inc. - CEO and President*

Thanks, J.T., and thank you for joining us to discuss ITG's third quarter.

This morning, I will cover 3 areas. First, I will provide a financial and industry overview, including recent market developments. Then, offer an update on our competitive strategy. Lastly, I will discuss capital allocation.

ITG's efforts will continue to focus around our core mission statement, to be the most valued partner in execution and research to asset manager clients on a global basis. We believe that our strategic direction is a sound one, built around a long-term plan to capture additional commission dollars and, importantly, complemented by a disciplined approach to controlling expenses, which creates significant operating leverage in the event of a cyclical upturn in business conditions. We saw significant improvement in our profitability in the third quarter, driven by strong volumes in the US and improved international results. We remain focused on improving the efficiency of our core execution platform, while at the same time continuing the build out of ITG investment research. We are very pleased with the results of our cost control efforts but we also recognize that we need to remain diligent in identifying other areas where further efficiencies can be realized.

In many ways, Q3 gives you a window into the benefits of an increase in volume and the profitability it brings to our bottom line. As it relates to the industry, actively managed equity assets had another challenging quarter. Hedge funds had their worst quarter in nearly 3 years, resulting in an $85 billion drop in assets under management, according to HFR. Net outflows from domestic equity mutual funds were $68 billion, the worst quarterly fund flow since the exodus in the fourth quarter of 2008. These numbers demonstrate the continued negative investor sentiment, particularly toward domestic equities, as volatility increased during the third quarter. That spike in volatility was evident in the VIX, which nearly doubled over the prior quarter, to an average of 32.

Overall, US trading activity rose as the result of the heightened market volatility in the third quarter, with combined New York Stock Exchange and NASDAQ average daily volume up 11% year-over-year. In terms of our third-quarter volumes, ITG continued to outperform in this tough environment with average daily US volume in the third quarter up 30% over the prior year period. POSIT average daily volume improved to a record 96.6 million shares, up 56% from last year. Average block size in POSIT Alert in Q3 was relatively steady at 35,000 shares. Average revenue capture per share continued to decline due to volume mix, with an increase in sell-side trading and continued weakness in traditional long volumes. Steve will offer some more color on that in a few minutes.

Turning to our international operations, we had an excellent quarter, with all regions showing improvement. International revenues comprised 34% of our total revenues during the third quarter. ITG's deep liquidity management skills, i.e. POSIT, smart routing, and algos are now being exported efficiently into our foreign operations. The things we've learned from our liquidity management business in the US are being aggressively deployed into markets that continue to evolve in ways that are favorable to ITG's product suite. We are without a doubt, the world's leading dark aggregator at this stage.

Asia Pacific posted a record quarter with $11 million in revenue, while further narrowing operating losses. In the third quarter, ITG's value traded in the region jumped 55% compared with the third quarter of 2010. Dark liquidity is gaining traction across the region, and we are well situated to continue to capitalize on this trend with our aggregation model. POSIT Marketplace was successfully launched for Japanese equities in September and additional dark pools were added to the regional platform. Asia Pacific volumes traded in POSIT Marketplace were up 65% compared to Q2. Clients trading in POSIT Marketplace in Asia experienced average price improvement of 13 basis points. POSIT Marketplace is now available for trading in 26 markets globally, including Hong Kong, Australia and Japan.

In Europe, ITG continues to gain market share in a highly competitive and volatile marketplace. Despite new MTF entrants to the dark liquidity market, Europe's POSIT crossed an average value of $278 million each day. This represents 150% increase over the same quarter last year. By expanding its offering and attracting more liquidity, POSIT represented an 8% share of total European dark liquidity during the quarter, up from 5% in the third quarter of last year.

Moving on to Canada, ITG saw 25% year-over-year revenue growth, as well as solid market shares gains. Volumes traded in MATCH Now, our Canadian dark pool, more than doubled over the third quarter of 2010. MATCH Now represented 2.4% of total Canadian market volumes during the quarter.

On the products side, we continue to bring new offerings to market across our platform. Over the past few months, we have introduced algorithmic trading for both Indian equities and Mexican equities and expanded our algo offerings in Brazil.

Looking ahead, our analytic products team is working hard to roll out a robust TCA offering for the foreign exchange markets during the first half of 2012. It is no secret that many institutional investors are unhappy with the lack of transparency in the FX markets and our product will go a long way toward filling an unmet client need. There is unprecedented demand from our installed base of TCA clients for a product that helps them measure FX transaction costs and potentially changes trading strategies and tactics.

As you might expect, our Derivatives business had a solid quarter. During the quarter, we added an options strategist, Ralph Edwards, to our team. Ralph generates unique investment ideas, combining fundamental research and derivatives strategies. In addition, we launched 4 futures algos during Q3, into a market that is underserved from that perspective. We continue to receive recognition across our product suite from industry analysts. In the most recent TABB report on OMS and EMS, Triton was the number one mentioned EMS among long-only asset managers, while Macgregor XIP was cited as the number 2 OMS. In the same survey, POSIT was cited as the number 1 dark pool, and ITG was ranked number 2 overall in algorithms.

Moving on to ITG Investment Research, or ITGIR, we continue to build IR and believe the combination of independent, data-driven, alpha generating research, with ITG's best-in-class global execution capabilities, offers a compelling value proposition to clients. We continue to transition ITGIR clients to trading relationships. As of now, more than half of the legacy Majestic clients, and one-third of the legacy Ross Smith clients are paying for ITG investment research via trading. We remain committed to expanding the research offering and during the quarter, we initiated coverage on medical devices, and hired Steve West to cover the restaurant sector. Additionally we are bolstering our distribution capabilities with research sales hires in both the US and Canada. During the quarter, we made alpha generating research calls on names like Clayton Williams Energy, American Eagle Outfitters, Royal Caribbean Cruises, and O'Reilly Automotive.

Moving onto our capital allocation, during the quarter we repurchased 950,000 shares of common stock, at an average price of $10.92. And as we announced last month, our board increased our share repurchase authorization by 4 million shares. ITG continues to pursue a balanced approach towards capital allocation, returning capital shareholders commensurate with our level of cash earnings. We certainly view our stock as an attractive investment at current levels.

We are pleased with the ongoing transformation of our company and its ability to weather these difficult operating conditions. We are taking costs out of the business, investing selectively to improve our growth prospects, and recasting the firm as a differentiated research broker. While we cannot predict the level of institutional trading activity in the future, we are confident that we have taken the appropriate steps to expand our client base to our execution and research offerings, and to broaden our international presence by deploying our products and services globally. The firm is benefiting from our stated goal, to diversify across products and geographies.

With that background, I'd like to turn it over to our CFO Steven Vigliotti, to take you through the key third-quarter financial developments.

Steve Vigliotti - *Investment Technology Group, Inc. - CFO*

Thanks, Bob and good morning everyone. Strong trading volumes, a reduced fixed cost base, and continuing growth in international profitability resulted in a substantial improvement in our earnings during the third quarter. These results demonstrate the improved leverage that exists in our business model during periods of higher trading activity following the cost reduction measures we have taken over the last 2 years, positioning us well for both cyclical and secular rises in institutional equity volumes going forward.

As noted on slide 6, we generated revenues of $149.4 million during the third quarter, 5% higher than the second quarter of 2011 and 15% higher than third quarter of 2010. On a GAAP basis, we generated net income during the quarter of $0.25 per share, compared to a net loss of $4.77 per share in the second quarter of 2011 and net income of $0.14 per share in the third quarter of 2010. There were no non-operating items in the third quarter of this year and in the third quarter of 2010. GAAP results during the second quarter of 2011 included a goodwill impairment charge, a restructuring charge related to our second-quarter cost reduction plan, and costs related for the Ross Smith acquisition. For the remainder of this discussion, all references to results and costs for the second quarter of 2011 will be on an adjusted basis, excluding these items.

On slide 7, you can see our consolidated results along with separate breakdowns of the results from our US and international operations. On a consolidated basis, our expenses were up $200,000 from the second quarter, reflecting the net effects of $2.1 million in higher costs from our energy research operations; $1.9 million in higher variable transaction processing costs, if you exclude the effects of currency; $600,000 of lower costs from currency effects; and other cost reductions of $3.2 million. The higher costs from our energy research operations reflects the impact of a full quarter's worth of results for this operation following the acquisition of the Ross Smith Energy Group in early June and the other cost reductions primarily reflect the impact of the restructuring activities from earlier this year. The $3.2 million in savings was better than the $2.8 million in savings we guided to on our last call.

During the third quarter of 2011, we generated earnings of $0.17 per share in the US on revenues of $98 million. On sequential basis, you can see that our US pre-tax margin climbed to 11.7% in the third quarter, from 7.2% in the second quarter on revenue growth of 4%. Our pre-tax margin in the US was comparable to the 11.5% in the third quarter of 2010, as the impact of higher revenues was offset by the reduction in our rate per share from the further shift in the client mix of our trading volume, which I will discuss a little later.

Our combined international businesses generated net income of $0.08 per share on revenues of $51.4 million. Our international pre-tax margin was 11.1% in the third quarter, up from 7.8% in the second quarter of 2011, and up from 3.1% in the third quarter of 2010 due to volume growth in Europe and the continued improvement of our Asia Pacific operations. Our consolidated effective tax rate for the third quarter was 39.1%, compared to 45.2% in the second quarter of 2011 and 45.4% in the third quarter of 2010. The lower effective tax rate reflects, in part, the impact of our improved international profitability.

On slide 8, you can see that our US expenses were down $600,000 sequentially to $86.5 million reflecting cost reductions of $2.7 million, offset in part by $1.5 million of additional costs for energy research, and $600,000 of additional variable transaction processing costs. The increase in US expenses over the $78 million during the third quarter of 2010 primarily reflects the impact of all of the new research expenses totaling $9.8 million, and higher variable transaction processing costs of $3.1 million, offset in part by a $4.4 million reduction in all other costs. Our US compensation expense ratio dropped to 37.2% from 39.3% in the second quarter, due to the combined effect of increased revenues and cost reductions. Transaction processing costs as a percentage of revenue, was 14.4%, comparable to the second quarter, and up from 12.5% in the third quarter of last year largely due to our trade mix.

On slide 9, we have provided a summary of our international results. As compared to the second quarter of 2011, revenues were up $2.7 million, net of a reduction from currency effects of $600,000. This improvement was attributable to strong volume growth in Europe as well as in the Asia Pacific region where we generated record revenues of $11.1 million.

Overall, international expenses were up $800,000 sequentially due to $1.3 million of higher variable transaction processing costs, excluding currency effects, and $600,000 of additional research costs in Canada, offset in part by $500,000 in cost savings and $600,000 in reduction in cost from currency effects. The compensation ratio for our combined international operations dropped to 34.2% from 38.6% in the second quarter due to the combined effect of increased revenues and cost reductions. Combined international transaction processing costs during the quarter as a percentage of revenue were 21% up from 19.9% in the second quarter due to a change in the client and geography mix of our international volume.

On the next slide, we track the performance of our foreign segments over the past 5 quarters. As compared to the second quarter, our bottom-line results were better across all regions, particularly Europe and Asia Pac.

On slide 11, we have presented our US volume and rate capture statistics. Our total average daily executed volume was up 10% in the third quarter as compared to the second quarter, driven primarily by the growth in volume from our sell-side clients and from active quantitative investors. The volume mix from our sell-side client segment was approximately 40% during the quarter, up from approximately 35% in the second quarter. Although this growing sell-side activity does reduce our average revenue capture rate per share, which declined 8% sequentially, it does allow us to utilize our excess capacity to generate attractive incremental margins, and it provides natural liquidity for our core institutional client base.

The 11.7 mil rate reduction from the third quarter of 2010 is largely attributable to the year-over-year growth of our sell-side volume, which only represented approximately 25% of our volume in the third quarter of 2010, as well as increased activity during the current third quarter from active quantitative investors. Excluding these 2 client segments, our revenue capture rate per share actually increased by 3.5 mils over the third quarter of last year.

As previously announced, during the third quarter we repurchased 950,000 shares for a total of $10.4 million or $10.92 per share. This brings our cumulative share repurchases, since we re-started our buyback program in the first quarter of 2010, to 5.1 million shares, for a total of $78.5 million. We currently expect to continue our disciplined approach to capital management, by returning cash to shareholders via share repurchases that are in line with our level of adjusted earnings and cash flow. Our Board recently added 4 million shares to our approved authorization.

We ended the quarter with $247.5 million of cash and cash equivalents on our balance sheet, down $21.4 million from June 30, primarily reflecting temporary increases in the liquidity needed for settlement purposes and for increased clearing margin requirements that we satisfied with our existing cash resources, offset in part by the continued buildup of annual incentive compensation accruals. At September 30, we had cash of $30 million over and above the amount needed to support our global regulatory capital needs, net of the current amount due on long-term debt and severance and other compensation liabilities.

Managing expenses in our electronic execution business will be an ongoing endeavor for us particularly during this period of reduced activity from traditional asset managers. This disciplined approach to managing our business will continue to improve our operating leverage and will provide us with flexibility to allocate additional resources to our research build-out. In October, we took further steps to reduce our cost base, as we consolidated leased office space and further reduced headcount as part of an organizational realignment. These measures will result in a fourth-quarter restructuring charge estimated at between $6.5 million and $7.5 million, and are expected to further reduce 2012 expenses by more than $3 million.

And with that, I would like to open the call to Q & A. Operator, please open up the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Chris Allen, Evercore.

Chris Allen - *Evercore Partners - Analyst*

Good morning, guys. I just wanted to get it straight -- the impact of the cost saves announced in July, what was the total impact during the quarter? And, obviously, you had further cost savings in October, but is there more to come from the July saves, or do we think about sequentially it is just going to be about the October impact?

Steve Vigliotti - *Investment Technology Group, Inc. - CFO*

As I mentioned in my remarks, Chris, we saved $3.2 million in expenses sequentially, this quarter, a little better than the guidance we had given of $2.8 million on the last call. We had previously given guidance of expense saves, which are going to now bill sequentially to $4.2 million in Q4 and then hitting the $5 million per quarter run rate at the beginning of next year. So, beginning next year, you can add the $3 million of annualized expenses to that run rate. But we are comfortable with that prior guidance.

Chris Allen - *Evercore Partners - Analyst*

Got it. And then, just on the capture rate, obviously, the mix of business has changed over the past year to sell side and quantitative. Is there any reason to expect that to change moving forward right now? I mean, we've seen the equity outflows continue. The market seems to be very similar to what we saw in the prior quarter, from a volatility perspective.

Bob Gasser - *Investment Technology Group, Inc. - CEO and President*

I think you hit the nail right on the head, Chris, which is -- I think it is very difficult to predict, but we've seen this movie play before, right, and we're managing this firm, as if -- as we've always said, as if it is secular. And we hope that there will be times like August and some other periods during the quarter that have little cyclical bounces, and I think we are in very good position to capture the benefits of that and drop it right to the bottom line. And, as Steve said, that will only get better over the successive quarters. But, you are absolutely right. I think it's very difficult to predict what the mix of our business is going to look like. But we are, I think, optimizing our capacity to the best of our ability.

Chris Allen - *Evercore Partners - Analyst*

Great. Thanks. I will jump back into the queue.

Operator

Rich Repetto, Sandler O'Neill.

Richard Repetto - *Sandler O'Neill & Partners - Analyst*

Hi, guys. I have some static on the line. I guess, Bob, one of your competitors apparently committed a -- I don't know what you want to call it, but the cardinal rule or a major faux pas -- I can be specific because it's in the public - Pipeline -- on the trading side, by trading -- interacting with flow and not disclosing. I know you have already said stuff about -- I'm just trying to get these types of customers, as flow -- when you expect flow to move from that dark pool to yours; and, probably, for the benefit of the call, you could restate your position here, too.

Bob Gasser - *Investment Technology Group, Inc. - CEO and President*

I think you are being politically correct, Rich, in calling it a faux pas to begin with. I would say that it is surprising. It's shocking. I think for everyone that is engaged in this space, whether you are a buy-side or a sell-side firm. We have been very clear about our business model and how we execute our business. We have communicated that broadly to clients. As you know, we have been talking about various elements of our business very publicly, particularly the sell-side and the spread trading business, back to Q1 of '09, right. And that is in no way analogous to what Pipeline was doing. But, certainly, any nuance to our model, we feel absolutely compelled to communicate very clearly and very transparently. So, I think that there is probably a bit of a time here where clients ask the right questions, which is, how is my order flow being handled, who are your client constituents, broadly speaking, what are your processes and procedures? And, we are seeing a number of surveys go out, which I think is a good thing in terms of how folks are going to measure other dark pools in their, as I said, their processes and their standards and their policies. But, I would say Pipeline had been diminished in -- it's easy to see why, I guess, at this stage, in retrospect. It had been diminished in terms of the amount of volume that was trading there. And that was a process that had started many quarters ago. So I don't know that there's a lot of dark pool of volume -- or institutional dark pool volume up for grabs. I think it really is a 2-horse race at this stage of the game, with ourselves and Liquidnet. The only other thing that Pipeline, to my knowledge, was involved in, was some algo strategies and things like that. Obviously, I think there's probably, there again, a minimal amount of business up for grabs going forward.

Richard Repetto - *Sandler O'Neill & Partners - Analyst*

Got it. Okay. And then, Steve, on the revenue capture, we understand the mix, but could you give us some, just to be blunt, what a sell-side member would pay, revenue capture for sell-side versus the average?

Steve Vigliotti - *Investment Technology Group, Inc. - CFO*

Yes, I think that is probably commercially sensitive, Rich. We'd probably rather not give that on a call.

Richard Repetto - *Sandler O'Neill & Partners - Analyst*

Okay. And then, I guess the last thing is, overall, with the regulatory environment, where we're at, any new updates, Bob, that you seeing? Are we any closer to any resolution on all these things that have been, whether it be high-frequency trading, whether it be trade-at, whether it be limit-up, limit -down?

Bob Gasser - *Investment Technology Group, Inc. - CEO and President*

I don't think so. I think there's a lot of gearing up in activity within the industry to address that stuff. I think the industry is very well prepared, at this stage, to engage the regulators. But, as we have seen over the past several weeks, I think the regulators are going to be, now, consumed -- not only by rule writing, but by probably some of the things that have happened in the market in terms of client balance sheet and capital adequacy, all those things

I have to say, when I wake up in the morning, we are blessed by a simple business model. I'm not worried about the Volcker rule. I am not worried about Dodd-Frank. I am not worried about capital adequacy. We are overcapitalized -- as I think you guys have pointed out for many, many quarters for many years -- to conduct our business on behalf of clients, which is really about just clearing their business. I think the business is moving away from balance sheet. I think it is moving away, obviously, from principal and proprietary trading. And it's moving in the direction in which we could only hope it was going to move. That is, it's all about tenacity and creativity and good old-fashioned elbow grease. When I think about the way that other asset classes will evolve here, I think it's easy to get excited about the firm's prospects.

Richard Repetto - *Sandler O'Neill & Partners - Analyst*

Got it, thank you. Helpful.

Operator

Ken Worthington, JPMorgan.

Ken Worthington - *JPMorgan Chase & Co. - Analyst*

Good morning. Maybe, for Bob, a few first. You seem particularly excited about the opportunities in Asia. What's changing in Asia to drive your excitement there?

Bob Gasser - *Investment Technology Group, Inc. - CEO and President*

Yes, I've got to say, I'm about to head out there next week. And, in looking back on the past year or so, I would tell you that the customer adoption of dark liquidity, dark aggregation is really taking off. The region is evolving very differently than the way the US and Europe did. In other words, market structure was not regulated into existence. In fact, it probably had to overcome some of the regulatory resistance and some of the primary exchange resistance to fragmentation. But clients are voting with their feet, and they are looking at transaction cost analysis and all the good works and data that our guys provide, and they are saying it's just too damn expensive to trade in Hong Kong. It shouldn't cost that much. And I think dark aggregation is a tried-and-tested way to address that. And I think a lot of the best practices that have now been so effectively ingrained within large global asset managers to control market impact and costs are now being fully deployed into that region, so it is tough not to be excited about how we fit into that mosaic.

Ken Worthington - *JPMorgan Chase & Co. - Analyst*

Great. Thank you. And then, I apologize for the sensitivity of this, but you have made a number of executive changes, both MDs and direct reports over the last 6 months. What are you trying to accomplish with those changes and, maybe, how have the goals and mandates changed within your senior staff?

Bob Gasser - *Investment Technology Group, Inc. - CEO and President*

Well, I think, clearly there are some things we wanted to do to provide more organizational clarity. And, first off, I will say, that we -- separating from those folks was probably the toughest thing that I have done in my professional lifetime. These were folks that were dedicated to ITG. They did great things for the firm over its close to 25-year history, and we are thankful to them for that. There had reached a moment in time, however, where I think we needed more organizational clarity. We needed to, obviously, to change our cost structure, to look at the yield that we were deriving from some of the senior elements of our staff and that culminated with, as you pointed out, a very top-heavy -- in many respects, a very top-heavy reduction in force, which is unusual, obviously, for the Street. But one that, I think that -- when we look at our business model, and it's obviously unique -- we felt that was the right direction in which to head. We are very, very pleased with Dave Stevens and the good works he is doing in the US, and he has acted very quickly to really seize the reins and to reposition the firm.

Ken Worthington - *JPMorgan Chase & Co. - Analyst*

Thank you. And, for Steve, on the tax rate, particularly in the US, we are at the lowest legitimate level we have seen in sometime. You mentioned that the mix, US versus international, was the driver of the overall rate. But if we look at just the US only, what is driving that rate lower? Is it the better profitability in the business that is helping out, and to what extent is that rate below 40% realistic as a run rate?

Steve Vigliotti - *Investment Technology Group, Inc. - CFO*

Yes, I think, certainly, the improved profitability in the US does help the rate. So things like tax reserves that we regularly book get diluted by the fact that we have a higher pre-tax income amount. So, certainly, at this level of earnings and this level of a mix between US and international, I think a 40% or 41% percent rate is probably fair to model.

Ken Worthington - *JPMorgan Chase & Co. - Analyst*

Great, thank you very much.

Operator

Niamh Alexander, KBW.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

Thanks for taking my questions. On the expenses, the comp ratios have really come down, and I know you have given us the numbers in terms of the guidance for the lower comp and the restructure that you had to work through. But, are these good run-rate levels? Like a 34% compensation ratio in the international business, that is the lowest we've seen, and then the US getting below the 38%. Is that how we should think about modeling these going forward?

Steve Vigliotti - *Investment Technology Group, Inc. - CFO*

The international rate, Niamh, is likely to vary a little more, just based on the lower revenue levels and the extent those move around a little bit. You might see more variability there. On the US side, I think we're fairly comfortable with this 37% to 38% range, given that there is a little more in cost savings we'll flow through over the coming quarters and that will somewhat be muted by, depending on what the levels of revenues will be, but I think it's reasonable to assume 37%, 38% in the US, with potentially some more variability internationally.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

Okay, fair enough. Thank you. Then, Bob, a couple of questions. One, you talked earlier about a certain level of comfort with respect to all the various regulatory potential changes that are coming, but, MIFID 2 seems to want to address dark liquidity, fragmentation of liquidity, and you make money by helping people find liquidity when it's fragmented, so if there's something that points back towards concentration, how does that help you? How does that not hurt you?

Bob Gasser - *Investment Technology Group, Inc. - CEO and President*

Well, when we read through the MIFID 2, through the initial document, I think that we do see -- we continue to see opportunities to aggregate liquidity. There are focuses on minimum execution size and high-frequency trading and some of the, what I would describe as manufactured liquidity there. We are not as heavily dependent on that, in terms of POSIT's liquidity, so I think we view the purity of the model as being an asset in an environment where some of that may be altered. I am not going to say it is going to go away, but it may be altered in terms of its-- both its composition and its size. And, I think the participants are already reacting to that, and I think that you see it in our POSIT numbers - I've been really happy with the gains in the market share, the rank and, obviously, the turnover. I think those guys have done a really, really good job of pre-positioning themselves for change here.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

And you don't think that some of the suggestions about eliminating dark liquidity, or reducing it -- do you think POSIT might be grandfathered there, or is there some risk that the dark pools in their entirety could get squeezed out?

Bob Gasser - *Investment Technology Group, Inc. - CEO and President*

Yes, I don't think it's our expectation that dark pools in their entirety will be eliminated in Europe. Clearly, POSIT is an MTF that has been around in Europe, before my time, and I think it has a long history of both operation and -- I think that we do something that's very different and value-add to the buy-side community. I will say I think the buy-side community in Europe is energized around this topic in a way that we haven't seen before. I think they will, obviously, be just as important to the debate as they were in the US several years ago. And I do think that there are still probably some discrepancies or some disagreements amongst some of the local regulators in terms of the direction in which this will all head. But, I have to say, we are on it. We have a very, very active effort to educate clients. We have a significant round of dinners and meetings with clients across the Continent and the UK, coming up in the next several weeks, and we are very much engaged in the process there.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

Fair enough, thanks. And, if you could, last, we struggle with kind of getting more excited about the stock because you are doing what you can with the capital management, but it's just the industry. Do you see an opportunity to grow your revenue next year after all these redemptions and, potentially, the commission pie shrinking again next year? Do you think you could grow that revenue in that environment?

Bob Gasser - *Investment Technology Group, Inc. - CEO and President*

I think it is certainly challenging, and I think our theme from the very beginning has been control what we can control and make sure that we maintain the levels of quality and leadership in both products and service and support, and to sell as hard as we can into these markets. I think it's clear, at this stage of the game, that there will be a lesser number of competitors and there will be a lot of capacity taken out. I think we were early on that front, and I think getting beyond that quickly was actually -- I give our team a lot of credit for having done as well as they did in this quarter for not missing a beat, despite the fact that this happened, our reduction in force happened, in late July. So, as I said, we control what we can control. It's tough to predict how this is all going to play out and what the aftermath of these redemptions are going to be. But I think one thing you can take to the bank is, there will be less capacity and a smaller number of competitors.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

Fair enough, thanks, Bob.

Operator

Patrick O'Shaughnessy, Raymond James.

Patrick O'Shaughnessy - *Raymond James - Analyst*

Good morning. I think the question I have is on your recurring revenues, certainly you keep seeing a nice uptick on that and you saw a nice uptick again in the September quarter. How much of that is from additional cross-selling to some of the research groups that you have brought on over the last few quarters? And, if not that, what else would you attribute that growth in the recurrent revenues to?

Steve Vigliotti - *Investment Technology Group, Inc. - CFO*

Yes, Patrick, it's primarily driven by research, in particular, having a full quarter's worth of Ross Smith. As you know, we completed that acquisition in June, so we only basically had a month's worth of activity in Q2; so having 3 full months this quarter helped boost revenues from Ross Smith.

Patrick O'Shaughnessy - *Raymond James - Analyst*

Okay. And then, going forward, would you presume that some of that recurring revenue would actually be transitioned into commissions and fees as people start paying you to trade instead, and so there would be a trade-off or maybe see a little bit better revenue capture, a little bit more trading volume, but lower recurring fees? Is that the right way to think about it?

Steve Vigliotti - *Investment Technology Group, Inc. - CFO*

Yes, that is certainly part of the strategy. We obviously look at each client individually to see where that makes the most sense, but that's part of the strategy.

Bob Gasser - *Investment Technology Group, Inc. - CEO and President*

I think the longer we own these assets the better we get at making sure that the opportunity for leverage of a bundled offering is good enough to take it out of the recurring line. So, we are getting very, very sharp in terms of our ability to do that going forward. So, I would expect probably a measured amount of conversion.

Patrick O'Shaughnessy - *Raymond James - Analyst*

Understood. Thank you.

Operator

There are no further questions at this time. I would like to turn the call over to Bob Gasser for closing remarks.

Bob Gasser - *Investment Technology Group, Inc. - CEO and President*

We thank you for joining us for this morning's call, and we look forward to speaking with you in February, I believe. Take care.

Operator

Ladies and gentlemen, that does conclude today's conference. Thank you for your participation. You may now disconnect and have a great day.