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ITG - Q3 2012 Investment Technology Group, Inc. Earnings Conference Call

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PRESENTATION

Operator

Good morning to you, ladies and gentlemen, and thank you for joining us to discuss ITG's third-quarter results for 2012. My name is Nancy and I will facilitate the call today. After the speakers' remarks, there will be a question-and-answer period. I will provide further instructions before we take questions. As a reminder this session is being recorded.

I would now like to turn the call over to JT Farley of ITG. Please go ahead.

JT Farley - *Investment Technology Group*

Thank you Nancy, and good morning. In accordance with Safe Harbor regulations, I would like to advise you that the 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 rely 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. Reconciliations of these non-GAAP measures to the comparable GAAP measures can be found in this morning's press release, as well as the press releases covering prior earnings periods. Press releases and the powerpoint slides which accompany this presentation, are available for download in the investor relations section of www.ITG.com.

Speaking this morning are ITG's CEO Bob Gasser, and our CFO Steven Vigliotti. To start, it would like to turn over Bob.

Bob Gasser - *Investment Technology Group - CEO*

Thanks, JT, and thank you for joining us to discuss ITG's third-quarter results. I would like to offer a brief review of the current state of the industry, and a summary of our quarterly performance, discuss some of the developments within our global product areas, and finish up with some comments on our balance sheet. Before we dig into the third quarter, I would like to speak briefly about the events of the past week. We are relieved to report that we have no lost lives or serious injuries among our staff as a result of the storm, and none of our offices suffered any significant damage. Our employees, many of whom suffered storm damage, hundreds of whom are still without power in their homes, have done a tremendous job in keeping ITG operational. I would like to single out our technology staff, in particular, who put in incredibly long hours to prepare for yesterday's resumption of trading.

Our industry in general, and the New York Stock Exchange in particular, have faced some criticism in the press for supposed lack of preparedness for this disaster, but I think that misses the broader point - US markets were shut with good reason, due to concerns of safety for all participants. Now that they have reopened, the markets are as functional and liquid as ever.

I will turn to industry conditions. As you know, the third quarter offered no respite from the difficult business conditions of the past three years. US volumes weakened further, and unfortunately we saw a similar pattern in other regions during the third quarter. It is clear to us that this is the new normal. We remain focused on our strategic plan to gain market share through measured global product expansion, while we maintain a disciplined approach to expenses, and continue our active share buyback program.

Taking a look at industry data from the third quarter, the headwinds we faced are clear. Active equity managers had another challenging quarter, as evidenced by an estimated $43 billion in domestic equity fund outflows, on top of the $36 billion in outflows in the second quarter this year according to ICI. US equity volumes reflect these negative numbers, with combined New York Stock Exchange and NASDAQ average daily volume down 27% year-over-year in the third quarter. ITG's average daily US volume was down 18% compared to the very volatile Q3 period in 2011.

Average daily US volume for our POSIT crossing network decreased 16% versus Q3 2011 to 81.2 million shares, while average block size in POSIT Alert in Q3 2012 was steady sequentially at 32,000 shares. The overall average US capture rate was flat sequentially. It has been steady for the past four quarters now, while the average buy-side rate actually rose to its highest level since the first quarter of 2010. Sell side funds accounted for 51% of total volume, up from 50% in the second quarter, offsetting the increase in the average buy-side rate per share.

We are very encouraged by the improvement in the buy-side rate card, reflecting the impact of accounts paying for research at a higher bundled rate, and recent market share gains for our POSIT Alert product. Market conditions were similarly difficult in our international operations. We continue to make modest share gains in Canada, Europe, and the Asia-Pacific region, even in the face of steep declines in market-wide trading activity. In Canada, our revenues were down about 18% against the backdrop of overall Canadian volumes down 25%. Our Canadian dark pool match now crossed more than 2.5% of total Canadian market volume during the quarter. While the jury is still out on the new dark pool rules that took effect two weeks ago, we believe that MATCH Now remains an increasingly unique source of natural liquidity and that our overall competitive position in the market remains solid.

Our European revenues were down 21% versus the third quarter of 2011, due largely to weaker overall market turn. Remember, European markets in Q3 2011 were very much focused on the Euro crisis. According to BATS data of both lit and dark markets, Pan-European turnover fell nearly 40% year-over-year in the third quarter. POSIT performed well, despite these headwinds, with average European daily value crossed rising almost 20%, versus the third quarter of 2011. POSIT now represents over 10% of total European dark trading.

On the regulatory front, we continue to monitor developments with MiFID II, and we are engaged in an active dialogue with both policy makers and market participants about the possible legislation. While it is still too early to predict the end results of this process, our team has been extraordinarily vigilant in their efforts to make sure that our business plans are anticipatory of a changing regulatory environment.

In the Asia-Pacific region market turnover dropped nearly 30% versus Q3 2011, while our revenues were down just 16% in the same period. POSIT Marketplace is gaining traction in the Asia-Pacific region, delivering average price improvements this year of 11 basis points per trade to the institutions using it, while POSIT Alert is becoming a key source of block liquidity for buy-side traders. During the quarter we expanded POSIT Marketplace and Alert to Indonesia, marking the 27th global market where POSIT is available, and we plan to expand to another country in Asia shortly. Our efforts in the region were recognized last week when Asian Investor named ITG the region's best agency broker, highlighting the value of our unconflicted business model to our clients there. Lastly, we have introduced our first research content into the region with our initiation of Chinese online-gaming and internet search providers. In addition we have launched the Chinese data set that tracks the usage of 50 million fix-wired internet users. We believe China is an important region with a distinct lack of empirical products to address the research mosaic.

Moving on to ITG investor research, or ITGIR, we continued to increase our penetration to key clients with a combination of differentiated research, coupled with ITG's best-in-class global execution capabilities. Since our last earnings call, we made away from consensus Alpha generating calls on names like CarMax, Coinstar, and Panera. We also initiated coverage on Zimmer Holdings, Dominoes, and Starbucks, as well as the handset manufacturing sector. In September we marked our second foray into investor conferences with our Play-by-Play energy analyst day in New York. The analyst day drew investors from more than100 buy-side firms to hear presentations by our 12 Calgary-based energy analysts. We expect to hold more events like this in the coming months as we increase our engagement with the PM and analyst communities.

Outside of research, we continue to make improvements to our execution platform. This morning we announced the launch of POSIT Match, a point-in-time cross which will occur at 9.45 AM Eastern every trading day beginning November 16. POSIT Match is a time-tested solution to a very current pressing problem, the temporal fragmentation in the market, and the need for institutional block liquidity, particularly during the first half-hour of the trading day. POSIT Match follows in our launch earlier this year of the Dynamic Open algorithm, which intelligently accesses liquidity in the New York Stock Exchange and NASDAQ opening auctions. POSIT Match and Dynamic Open are both good examples of how our product development efforts help institutional investors source quality liquidity, prevent information leakage, and avoid the predatory strategies of some high-frequency traders. We also announced last month that ITG TCA was named the best transaction cost-analysis offering at the Financial News Awards for excellence in trading in technology in London. ITG TCA was selected by an independent panel of 50 industry veterans and experts, further validating our dominant position in that market.

Turning to our balance sheet, we remain dedicated to returning capital to shareholders through our stock-repurchase program, buying back 500,000 shares of common stock during the third quarter for $4.4 million. As a reminder, we have repurchased 7.9 million shares since the first quarter of 2010, returning over $106 million in capital to shareholders and reducing net shares outstanding by more than 13%. We expect to continue to repurchase shares at a level at or above the amount of our operating earnings each quarter. We will use the stock repurchases as a yardstick to measure against other potential uses of our capital.

To wrap up, we believe that ITG is strongly positioned in terms of our product differentiation, alpha-preservation and generation capabilities, as well as our intense focus on client service. However, this new normal that we are facing poses a host of challenges. Looking forward we cannot predict when we will see a material improvement in market volume levels, and therefore need to continue to adapt our model to this environment. We will continue to look at every aspect of our organization, and seek out every efficiency opportunity that can be made without adversely impacting the business and our ability to serve or clients.

And with that, I would like to turn it over to our CFO, Steve Vigliotti, to take you through the third-quarter financial developments. Steve?

Steven Vigliotti - *Investment Technology Group - CFO*

Thanks Bob, and good morning, everyone. A further decline in market-wide trading activity from the already low levels we saw in Q2 negatively impacted our results during the third quarter, offsetting the effects of our ongoing efforts to cut costs. As noted on Slide 7, we generated consolidated revenues of $119.6 million during the third quarter, 6% lower than the second quarter of 2012, and 20% percent lower than the third quarter of 2011, when volatility and result in trade activity were at high levels from the European debt crisis and the US debt downgrade.

We posted consolidated net income the $0.01 per share in the third quarter. That compares to a GAAP net loss of $6.40 per share and adjusted net income of $0.05 per share in the second quarter of 2012, and net income of $0.25 per share in the third quarter of 2011. Slide 8 details the goodwill impairment charge included in GAAP net income during the second quarter of 2012. For the remainder of this discussion, all references to results and costs for the second quarter will be on an adjusted basis excluding this item.

On Slide 9, you can see our consolidated results along with separate breakdowns of the results from our US and international operations. On a year-over-year comparative basis, consolidated expenses were down $12.8 million, due to both lower variable transaction processing costs and the impact of our cost-reduction efforts.

Our consolidated pretax margin was 0.2% down from 2.9% in the second quarter, and 11.5% the third quarter of last year. Net income for the third quarter included a net tax benefit of $1.3 million in the US, or $0.03 per diluted share from resolving an income tax contingency. Please note that this contingency reserve had been established over several prior reporting periods, and was not excluded from adjusted results as it was accrued. If you exclude the impact of the tax reversal, we would've had income tax expense of $1.3 million on pretax income of $200,000. Since we have pretax income in the US and Canada during the third quarter, we need to report tax expense in those amounts. However, since the first quarter of 2009, we have not been recording offsetting benefits on our Asia-Pacific losses due to our operating history there.

In addition, ongoing tax contingencies that we reserve for and various transfer pricing adjustments have a larger impact on our US effective tax rate in periods where we have lower amounts of pretax profitability. During the third quarter of 2012, we posted earnings of $0.03 per share in the US on revenues of $77.8 million, and a pretax margin of 1.1%. Our combined international businesses posted a net loss of $0.02 on revenues of $41.8 million.

On Slide 10, you can see that our US expenses were down $3.7 million sequentially, to $77 million, primarily reflecting lower compensation and G&A costs. US expenses declined $9.5 million, compared to $86.5 million in the third quarter of 2011, reflecting, among other items, $3.2 million of lower variable transaction processing costs and $5.6 million of lower compensation costs due to our cost-reduction efforts and to lower revenues. Our US compensation expense ratio was 39.7% versus 40.5% in the second quarter of 2012, and 37.2% in the third quarter of 2011. Transaction processing costs as a percentage of revenue were 14% versus 13.2% in the second quarter of 2012, and 14.4% in the third quarter of 2011.

On Slide 11, we have provided a summary of our international results. As compared to the second quarter of 2012, revenues were down $3.2 million on weaker market-wide trading activity in all our international regions. Overall, international expenses were essentially flat, sequentially, at $42.4 million. The compensation ratio for our combined international operations rose to 38.8% from 36.3% in the second quarter, due to the decline in revenues. Combined international transaction processing costs during the quarter as a percentage of revenue were 20.2%, up from 19.6% in the second quarter.

On the next slide, we tracked the performance of our foreign segments over the past five quarters. Regional declines in market-wide trading activity resulted in lower revenues and pretax earnings across-the-board on both quarter-over-quarter and year-over-year basis.

On Slide 13, we have presented our US volume and rate capture statistics. Our average daily executed volume was down 6% versus the second quarter of 2012, and 18% versus the third quarter of 2011. Our overall capture rate per share has remained steady since the fourth quarter of 2011, even with an increased portion of our volume coming from the sell side. The percentage of our volume from sell-side clients was 51%, up from 50% in the second quarter of 2012, and 48% in the first quarter. Our capture rate from buy-side clients was higher than both the second quarter of 2012 of and the third quarter of 2011, and as Bob noted earlier, was the highest since the first quarter of 2010. We maintained our repurchase activity during the third quarter in accordance with our guidance of funding repurchases based on premium to adjusted earnings. During the quarter, we repurchased 500,000 shares for $4.4 million or $8.71 per share, and on the year-to-date basis, we have repurchased 1.8 million shares for $17.5 million, representing 232% of adjusted earnings.

As we view our stock as an attractive investment at current levels, we continue to believe that share repurchases are an effective way to return capital to shareholders. We currently have 2.2 million shares available for repurchase under approved authorizations. We ended the third quarter with $262.9 million of cash and cash equivalents on our balance sheet, up from $228.8 million at the end of the second quarter.

The increase in our balance sheet cash was due to a decrease in the amount of cash we had tied up in settlement activities, lower clearing deposit requirements, and an increase in payables. At quarter end, we had cash in excess of $50 million, over and above the amount needed to support our global regulatory capital needs, and the current amount due on long-term debt and severance and other compensation liabilities.

With that, I'd like to open the call to Q&A. Operator, please open up the lines for questions.

QUESTIONS AND ANSWERS

Operator

Thank you, ladies and gentlemen.

(Operator Instructions)

We have a first question in the queue from the line of Ken Worthington from JPMorgan. Please go ahead.

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

Good morning; hopefully you can hear me.

Bob Gasser - *Investment Technology Group - CEO*

Good morning, Ken.

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

Great. In the world of new normal, are there areas that you have to pull back on so you can continue to make investments in the areas that you highlighted on the call, particularly in the context of weaker volumes? And then, as an extension of that, what initiatives are you most hopeful for, near-term? And I'd love an update on FX if you could?

Bob Gasser - *Investment Technology Group - CEO*

Yes, I think in the new normal I certainly think we are focused on how we re-calibrate the cost structure to reflect that. You can expect that in the coming months and quarters that there will be more information provided on that. I do think it is probably a function of the level of activity that exists in the marketplace. In other words, there is probably -- it's a different ecosystem out there, there's different requirements -- the intensity of client demand and need for customization, et cetera. I think it is intuitively lower in an environment like the one we are operating in, and so I think that there are certainly areas throughout the firm that I think can be adjusted to reflect overall lower and slower market activity, and that goes for obviously the global footprint of the firm.

In terms of things that we are focused on in the coming year, clearly I believe -- and you saw it in the rate card, the buy-side rate-card in the US, which folks have been telling us for a very long time that you will never reverse that, you will never get it higher. Obviously, we need buy-side volumes to reverse in a positive direction. It is very encouraging to me that the combination of what we have been saying, which is the unique liquidity products like Alert, combined with the research offering, that puts us on the map in terms of being an alpha generator, being a part of research lists, is a good combination for the firm, is a good combination for the client, and they're willing to pay for it, most importantly.

And with Alert, I believe we have a once-in-a-lifetime market share opportunity here and we are going to go after it hard. So I am very encouraged by Alert; I am very encouraged by the research. We do have a multi-asset class opportunity I think that continues to develop -- FX TCA is out there and it's in trial with a very significant cross-section of our existing equity TCA client base.

We are closing deals, we are closing contracts with clients. We are going through proofs-of-concept. It is a real functioning factory floor right now, and we are looking to introduce a very fulsome execution product suite in Q1 that will look a lot like our cash equity liquidity management business -- smart routing, internalization through POSIT, and algorithmic trading.

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

Great. And then you mentioned the rate card for the buy-side, and just gave us a little bit of flavor. Can you deepen your comments? Why did it go up? Are you seeing re-pricing at existing customers? Or is it customers that are paying a higher rate are sending you more business -- like again can you flesh it out?

Bob Gasser - *Investment Technology Group - CEO*

Yes, it's across the product suite. In other words, a migration towards Alert, which I think is been very, very helpful. And it is the high-touch offering that is amplifying the research piece. And I think primarily that bundled rate card is improving most vigorously on the hedge front fundamental side -- these are the long-short guys, who are consuming the former Majestic research, consuming the Ross Smith research, now obviously under the umbrella of ITG investment research. That is probably the client segment that has rewarded us most handsomely in terms of the improvement of the rate card.

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

Okay, so execution-only clients becoming full-service clients, particularly focused on the hedge funds?

Bob Gasser - *Investment Technology Group - CEO*

Yes.

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

Awesome, thank you.

Bob Gasser - *Investment Technology Group - CEO*

Thank you.

Operator

Thank you for your questions again. We have a next question in the queue from Richard Repetto from Sandler O'Neill. Please go ahead.

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

Yes, hello Bob and Steve. Good morning.

I guess the first question on cash -- and you talked about buyback being greater than net income; so are we talking about $40 million or $50 million, I thought you said excess cash, above regulatory requirements? Is that how much we have available for the buyback?

Bob Gasser - *Investment Technology Group - CEO*

Yes, we have $50 million of cash over and above our regulatory capital needs, that is correct.

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

Okay. And then I guess, Steve, the question is, it is peculiar that the tax is greater than the pretax income? I believe that is because of the Europe and US and how the loss -- could you just walk through how that happened, because I think I understand, but I want to make sure.

Steven Vigliotti - *Investment Technology Group - CFO*

Yes, sure it certainly jumps off. I tried to address that, but let me clarify if I can. So we obviously had a mix, as you can see, through the materials, of profitability and losses in our different operating regions, we had profitability in the US and Canada where we had to accrue tax expense. That pre-tax profitability was offset by losses in the Asia-Pacific region, and basically since the end of 2009 we have not been recording any tax benefits on our losses in the Asia-Pacific region, just because of our operating history there. So you have an area, even though you net break even, your positive income in one area where you're expensing income taxes and your losses in another area, where you don't have an off-setting tax benefit being booked, so it kind of skews the rate there.

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

Got it. And then on the taxes -- these reserves, were they in your guidance prior, because I thought the reserve that you took for this contingency -- were they in the 40% to 41% prior tax cuts?

Bob Gasser - *Investment Technology Group - CEO*

They have always been in our regular effective tax rate, that is correct Rich. And it has been built over a period of time and as the contingency resolved, we took it out -- we took it off the balance sheet.

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

Okay, and one last one, Bob. You talked about, at the very beginning, about the issues of what we went through on Monday and Tuesday this week, with the opening. And I guess I am just trying to get more clarity into the situation. You know apparently the NYC was ready to open via Arca, without the floor, but the trading community, there were certain issues of connectivity, and not having tested the backup plan. Is that -- did you participate in the call, is that the picture you got? And was ITG ready to operate via Arca, if need be?

Bob Gasser - *Investment Technology Group - CEO*

Yes, we did participate heavily, and most importantly, I think we facilitated a lot of our client dialog, so one of the most important things about yesterday was the fact that it was month-end, so it had some significant volume attached to month-end activity that is particularly important to a historically very important client base of ours, the Index community. So we were very actively engaged with them. We were very actively engaged in facilitating that communication back to the exchange and back to the industry trade groups that we are participating in, and we were fully prepared to open with Arca as the primary and only destination in the New York Stock Exchange.

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

Okay; we can talk more off-line. Thanks Bob.

Bob Gasser - *Investment Technology Group - CEO*

Yes.

Operator

Thank you, we have the next question in the queue from the line of Niamh Alexander from KBW please go ahead.

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

Thanks; good morning.

Bob Gasser - *Investment Technology Group - CEO*

Good morning.

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

I'm glad to hear everybody is okay. At the outset -- back to your initial comment, Bob, about this being the new normal, and you hinted at maybe just a little bit more to come, and kind of right-sizing some of the more bespoke elements of the business, but help me get a better sense of this. You've had a few years of restructures, when you and I caught up recently, I understood we have cut as much as we can cut, we don't see much more room to cut without changing the offering. So help me understand. Is there more flexibility here? If this is the new normal, you can't be running costs seen at the same level of the revenue.

Bob Gasser - *Investment Technology Group - CEO*

Yes, you hit the nail right on the head, and that is that we have to be very strategic at this stage in our thinking around the cost structure. Right? So we have to make some very strategic decisions around what we think the implications of new normal are; and those implications for our business. So it is very different than the environment we faced in '09 or 2010, for that matter. And so I think what you can expect in the coming months and quarters is more clarity around that, but there is a significant effort going on within the firm to understand strategically the implications of new normal, and that goes to the revenue opportunities as well.

So you can see, we are taking share in Europe, we're taking share in Asia Pac, we are taking share in Alert, we are taking share in the research side, we are raising the rate card on the buy-side. There are certain things that I think are absolute priorities and things that may be not as important as they once were to the firm's business model. And so those -- to get to the heart of it, that is the core of the effort.

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

That's helpful, Bob, thanks.

So is there something that's underway right now as part of the year-end and budgeting for next year so we could get an update? Do you think we'll get an update on that before year-end?

Bob Gasser - *Investment Technology Group - CEO*

Yes -- I'm not going to comment on any timing or the internal process, but that is as far as I'm going to go.

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

Okay, fair enough. Thanks Bob.

And your stock's pretty much trading here at net cash, and with cash now up at $8.20, as you pushed out some of the payables and whatnots, and we are hearing of some of your private competitors selling parts of their business -- which are similar to yours -- at much higher price tags; and then you have other competitors, like Instinet for example, which was considered kind of an agency-type platform like yourself, but now it is fully attached to its parent and owner, and has kind of replaced the more traditional trading desk. How do we think about how you consider your business, the role of the agency model going forward? Because that could open up a lot of different services that you could provide and whatnot, going forward?

Bob Gasser - *Investment Technology Group - CEO*

We are obviously watching the activity going on in the marketplace very closely. I think the new normal has different implications for different companies. Obviously there are different ownership and government structures out there, and balance sheets, and all kinds of things. We are watching the way the market values these offerings very closely; and to be honest when I hear about some of the activity out there and I look at our lines of business, I wonder whether or not the market is fully appreciating the sum of our parts.

And I understand when you get to a place here in the cycle, and some would say it's secular, but if you get to a place like we are today in this cycle, and you look at our net contribution, it is hard to see through that. But that is something I think Steve and I feel very strongly about -- watching these various activities in the marketplace and I think we're thinking about the implications for our business and how we would present it. Because we do think that there could be some value capture there.

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

Yes, and would the Board maybe consider something strategic if needed to maybe recognize more value for shareholders? I don't know if you mean presenting earnings in a different way, or breaking down contributions. Or are you talking about the Board taking a re-visit, given some of these private assets for sale, seeming they have some pretty steep price tags?

Bob Gasser - *Investment Technology Group - CEO*

I mean, everyone can rest assured that our Board see themselves as 100% fiduciaries of shareholder value, and we have more domain expertise and capability on our Board pound-for-pound than, I'd say, as good as anyone in the industry, certainly. And so you can count on the fact that it is an iterative process that we go through with the Board, and they will certainly never shy away from an opportunity to maximize shareholder value.

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

There should be good comps coming through with all these other adjustments in the space. And then lastly, could I touch on MiFID and the European landscape, because you have significant market share of the dark pool activity. We have had round one of the MiFID II negotiations. How do you feel like, coming out of that now? I mean it is only round one, and what business activity is over there right now could not proceed if these rules are currently revised if they make it their way through to the end?

Bob Gasser - *Investment Technology Group - CEO*

I think it's still very unclear what the timing and substance of MiFID II will be. We are a very actively engaged, as I said, with the regulators, with members of the European Parliament, with clients, with competitors; and we are doing everything in our power I think to advance the notion of, let's let the data drive the decision-making as opposed to anecdote. And it's a very similar approach that we took to the dark pool examination and ultimate process that the SEC went through back in 2009.

It is meant to be very empirical, very objective. Let's make sure the data speaks as part of the debate, and our guys -- I think we have -- there again, some tremendous resourced intellectual capital domain expertise over there to contribute to this exercise.

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

I understand what you're saying. I guess I don't know if the politicians are going to respond and let the data speak. If the rules are enforced today as they have made their way through round one negotiations, I'm thinking that would negatively impact your business.

Bob Gasser - *Investment Technology Group - CEO*

I don't know that it is fair. There are certain things that we do within POSIT in terms of price improvement, in terms of natural liquidity, natural institutional liquidity. There's a school of thought, Niamh, that says that the market reverts back globally to a low-frequency environment; and I would ask you, who has got the better resource than we do to provide institutions with natural liquidity to transact against one another in an environment where there's substantially reduced EMM and high-frequency activity?

One of the reasons we are introducing POSIT Match, which is really retro, and kind of old-school for ITG, we're responding to institutional customer demand for a low-frequency alternative. I can see the environment playing out in a number of different ways, but in every scenario we're looking for ways to optimize the use of what we consider to be very unique assets.

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

Okay, fair enough, thank for your answer.

Operator

Thank you, we have a next question from the line of Matthew Heinz from Stifel Nicolaus.

Matthew Heinz - *Stifel Nicolaus - Analyst*

Good morning, guys.

Bob Gasser - *Investment Technology Group - CEO*

Good morning, Matt.

Matthew Heinz - *Stifel Nicolaus - Analyst*

Just wondering what the currency impacts were on the international business? It looks like you are -- on a nonadjusted basis your revenues were down 19%, expenses down 7% versus a year ago. I am just wondering how that would have looked, excluding any currency impacts?

Steven Vigliotti - *Investment Technology Group - CFO*

Currency impacts, Matt, were relatively minor. About $600,000-ish in year-over-year revenues.

Matthew Heinz - *Stifel Nicolaus - Analyst*

And similar amount on expenses?

Steven Vigliotti - *Investment Technology Group - CFO*

Yes.

Matthew Heinz - *Stifel Nicolaus - Analyst*

Okay, great. Thanks a lot.

Steven Vigliotti - *Investment Technology Group - CFO*

Thank you.

Operator

Thank you, Matthew.

We have one more question in the queue from the line of Chris Allen from Evercore. Please go ahead.

Chris Allen - *Evercore - Analyst*

Good morning, guys.

Bob Gasser - *Investment Technology Group - CEO*

Good morning, Chris.

Chris Allen - *Evercore - Analyst*

I guess just on Europe -- how much of your business would be impacted by the potential transaction taxes being contemplated by the 10 countries there?

Bob Gasser - *Investment Technology Group - CEO*

That is a good question. I do not know the answer to that question off the top of my head, Chris, so I do not want to answer that without the exact data. We can certainly get that back, we can revert back to you with that.

Chris Allen - *Evercore - Analyst*

I guess in a different way -- is your business balanced between the UK and continental Europe, or mostly skewed towards the UK?

Bob Gasser - *Investment Technology Group - CEO*

I would say the majority of it is in the UK, but I would say it is probably 55/45 or 60/40 -- somewhere in there

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Chris Allen - *Evercore - Analyst*

I got it.

And then in the US, we are hearing some chatter about potential regulatory capital changes in terms of offsetting trades, now that broker-dealers are different clearinghouses. You guys hearing anything similar to that? Any pending regulatory changes from a capital perspective?

Bob Gasser - *Investment Technology Group - CEO*

Nothing specific to speak about now. We are always in contact with the clearing orgs about what their liquidity requirements are, but nothing specific to talk about at this time.

Chris Allen - *Evercore - Analyst*

Good. Thanks, guys.

Bob Gasser - *Investment Technology Group - CEO*

Thank you, Chris.

Operator

Thank you, ladies and gentlemen, for your questions today. I would now like to turn the call over to Bob Gasser for closing remarks. Please go ahead.

Bob Gasser - *Investment Technology Group - CEO*

Thank you, Operator, and thank you all for joining us, and we look forward to speaking with you in February. Thank you.

Operator

This concludes the presentation, ladies and gentlemen. You may now disconnect. Have a good day.
