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ITG - Q3 2016 Investment Technology Group Inc Earnings Call

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PRESENTATION

Operator

Good morning and thank you for joining us to discuss the ITG third-quarter 2016 results. My name is Michelle and I will be facilitating this call.

(Operator Instructions)

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 - *ITG - Managing Director of IR & Corporate Communcations*

Thank you, Michelle, 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.

During the call, we will also discuss non-GAAP financial measures, adjusted to exclude certain specified items. Reconciliations of these non-GAAP financial measures to the most comparable GAAP measures are available on our website.

The press releases and the PowerPoint slides which accompany this presentation are available for download in the Investor Relations section of ITG.com. Speaking this morning are ITG's CEO and President, Frank Troise, and CFO, Steve Vigliotti. To start, I would like to turn it over to Frank.

Frank Troise - *Investment Technology Group Inc - President and CEO*

Thank you, JT, and good morning, everyone. Today, I will review key points in our strategic operating plan and provide an update on the progress we made during the first quarter of our 10-quarter plan. I'll also share additional steps taken to sharpen our focus and increase operating efficiency. Steve will then review third-quarter financial results, and finally, Steve and I will address your questions.

Let me first address the SEC matter announced in this morning's news release. For the last two quarters, we've mentioned that we are facing regulatory inquiries related to the activities of our historical securities lending practices. The inquiry by the SEC is focused on pre-released American Depositary Receipts, or ADRs.

ITG discontinued transacting in pre-released ADRs in the fourth quarter of 2014. This activity involved a limited number of banks, as well as broker dealer counterparties. ITG's pre-release ADR activity was managed exclusively in our middle office operations, and was separate from ITG's execution, liquidity, workflow technology, and analytics businesses.

Based on our recent discussions with the SEC staff, we've set aside a reserve of $22.1 million for a potential settlement of this legacy matter. More than three-quarters of the reserve represents anticipated revenue disgorgement and associated interest for the period 2011 through the end of 2014, when the pre-released ADR activity was discontinued. The rest relates to an anticipated monetary penalty.

Most important, Steve and I and our entire team are dedicated to managing our Business with the highest standards of integrity. We are committed to addressing legacy issues. We remain fully focused on our core liquidity, execution, analytics, and workflow technology offerings.

Our path forward is detailed by our 10-quarter strategic operating plan. Let's briefly review this plan. We expect to make $40 million of incremental investments through the end of 2018 in technology and people. These investments are under way, with the majority to be completed in 2017. We expect our investments in technology and process to yield at least $5 million in annual savings from efficiency opportunities, starting in 2019.

We plan to add at least 60 new hires over the course of our 10-quarter plan. These new professionals will join client coverage teams for Alert, Algos, Triton, and Portfolio Trading, and will boost our technology development and product management efforts. We're already seeing early signs of business improvement. We expect the steady execution of the strategic operating plan will accelerate revenue growth in the second half of 2017.

Assuming current global trading activity, the goal of this investment plan is to exit 2018 at a $600 million annual run rate for global revenues. This is approximately 25% higher than pro forma full-year 2015 levels. Given our high incremental margins and the expected expense saves related to these investments, pre-tax margins should hit 15% by the fourth quarter of 2018.

Technology investments will allow us to deliver world-class client service, optimize operations, and drive business scale. Some goals of our strategic plan rollout focus on enhancing our client experience. We are developing robust account service tools to enable coverage teams to service clients better. This will improve the quality and consistency of coverage, and boost productivity of client-facing teams.

Creating a customization toolkit for Triton and Algos -- this will address client needs with greater precision and in a cost-effective manner. Working to better leverage our world-class analytics capabilities by embedding our pre-trade and real-time capabilities in our execution products, specifically global portfolio trading and electronic execution.

Since our discussions with you last quarter, we focused on executing our strategic plan. Our first step, after announcing the plan to investors, was to communicate it across the Firm to align our entire team on our mission and what we need to accomplish. We also conducted extensive client outreach to discuss this plan and listen to advice from the market.

I met with a significant number of clients during the past weeks, and the reaction we received has been overwhelmingly positive. Client engagement was instrumental in the development of our strategic operating plan, and it will continue to be an important part of my time going forward. Clients appreciate our role as a globally independent, technology-enabled trading solution provider. They are enthusiastic about the changes we are undertaking and the investments we are making. As a result, I'm seeing a new openness to considering ITG as a key execution partner.

To ensure we meet our progress targets between now and the end of 2018, we've established an oversight process for the plan. To lead this effort, we brought on Brian Pomraning. Many of you know Brian as a veteran leader in electronic trading. He's now overseeing the implementation process of our strategic operating plan, and heading up our technology development efforts.

In addition to Brian, we've also made other significant hires. We've added two new professionals to our US sales team, and a new head of our analytics consulting efforts in Europe. As part of our commitment to extending into asset classes beyond equities, we've hired Ruben Costa-Santos as our new Head of FX.

I've also spoken about the importance of delivering high content solutions to our clients. To further this goal, Robert Ferstenberg has rejoined ITG as an advisor. Robert is an industry leader in the theory and practice of financial engineering. And he will provide expertise for our execution analytics, and our approach to data technology and architecture. The expertise of these skilled professionals will help us deliver world-class client service and grow our global franchise.

We've also substantially restructured the leadership of our US team in several areas. These are single-stock execution, electronic coverage, portfolio trading, POSIT Alert coverage, institutional and hedge fund sales. Over the past three months, we've also brought some new technology capabilities to market. Specifically, we launched Broker Blocks, an opt-in functionality in POSIT Alert which enables buy-side clients to access additional block liquidity.

We refined our US PowerMatch product, which is now delivering average trade sizes of more than 70,000 shares to POSIT Alert clients. We rolled out new Close algos for Brazil and Mexico, enabling our clients to access the large pools of liquidity available late in the session. And we developed a new Algo Wheel, which empowers buy-side clients to implement a performance-driven trading process by measuring brokers based on best execution results and directing order flow accordingly.

We are now just one quarter into our 10-quarter strategic operating plan, and we're already adding expertise and building out technology capabilities that will enable us to achieve our business goals. We're also focused on improving the efficiency of our operations, and reducing costs through a delayering of management, elimination of positions, and a better allocation of resources to the highest priority areas. Through these efforts, we've identified additional annual cost savings of approximately $5 million, which we're implementing throughout the fourth quarter of this year. These savings, which are in addition to the $5 million in annual savings we discussed on the last earnings call, will improve our free cash flow.

I will keep you up to date each quarter about specific progress against our strategic operating plans. This will enable you to measure the impact of our efforts. And with that, let me turn it over to Steve to discuss the financial results of the third quarter. Steve, all yours.

Steve Vigliotti - *Investment Technology Group Inc - CFO*

Thank you, Frank. Good morning, everyone. We continue to generate solid profitability in Europe and Canada, and posted our third highest quarterly profit ever in Asia-Pacific during the third quarter. However, we incurred a wider loss overall due to a dip in US market share compared to the second quarter, as well as a decline in market-wide trading activity in North America and Europe. A return to profitability in our US business remains a key goal as we execute our strategic operating plan.

On a GAAP basis, we generated revenues of $104.2 million in the third quarter and incurred a GAAP net loss of $23.9 million, or $0.73 per share. These results compared to revenues of $120.6 million and a GAAP net loss of $0.16 per share in the second quarter of 2016, and revenues of $120.4 million and GAAP net income of $0.08 per share in the third quarter of 2015.

On Slide 9, we detailed non-operating items that were included in GAAP results for the third quarter of 2016, the second quarter of 2016, and the third quarter of 2015. Third-quarter 2016 results include the $22.1 million reserve for the ADR matter, together with related legal expenses of $1.6 million in the quarter, for a combined charge of $23.7 million pre-tax and $22.3 million after-tax, or $0.68 per share; only a small portion of the reserve is eligible for a tax deduction.

In addition, we recognized a translation gain related to the substantial wind-down of our Israel entity, and we recorded insurance proceeds representing recovered legal fees incurred for the arbitration settlement with ITG's former CEO. We also incurred costs for contractual upfront stock awards granted to our current CEO. Excluding these items, we incurred a net loss of $2.8 million, or $0.08 per share.

Second-quarter 2016 results include expenses and legal fees related to the arbitration case; restructuring charges related to headcount reductions and discontinued businesses; and an expense for upfront stock awards. These charges were partially offset by a gain for insurance proceeds related to a data center service interruption.

These items netted to an increase in our pre-tax GAAP loss of $7.1 million, or $0.14 per share after taxes. GAAP net income for the third quarter of 2015 includes legal and other fees related to the August 2015 SEC settlement of $2.5 million pre-tax, or $0.04 per share after taxes. For the remainder of this discussion, all references to results, revenues, and costs will be on an adjusted basis, excluding the items I just listed.

Slide 10 presents consolidated results, along with separate breakdowns of results from North American operations, Europe and Asia-Pacific operations, as well as our corporate activity. As a reminder, corporate activity includes investment income and other gains, as well as costs, associated with operating ITG's regional- and product-based business lines.

As compared to the second quarter of 2016, consolidated revenues were down $14 million, while consolidated expenses were down $11 million. Our consolidated pre-tax margin was negative 5.3%, down from negative 2.1% in the second quarter of 2016 and from positive 4.8% in the third quarter of 2015. The effective tax rate on our consolidated pre-tax loss was a 50% benefit for the quarter.

Our North American businesses posted a net loss of $0.15 per share in the third quarter on revenues of $62.5 million. Our combined European and Asia-Pacific businesses posted net income of $0.15 per share in the third quarter on revenues of $41.4 million. Corporate activity lowered net income by $0.08 per share.

On slide 11, you can review the year-over-year impact exchange rates had on the financial results of our foreign subsidiaries. Current exchange rates increased consolidated net income by $300,000 as compared to exchange rates in effect in the third quarter of 2015. It is worth noting that the foreign currency exposure for our European operations is split amongst multiple currencies, including British pounds and euros. The amount of European revenues and expenses that originate in British pounds largely offset each other. As a result, there was no negative impact to our bottom line from the weakening of the pound exchange rate relative to the US dollar.

On slide 12, we break down the performance of North American operations between the US and Canada. During the third quarter of 2016, we generated revenues of $48.8 million, with a pre-tax margin of negative 17.5% in the US. This compares to $58.6 million in revenues, with a pre-tax margin of negative 4.9% in the second quarter of 2016.

Commission revenues declined 18% sequentially due to lower market-wide trading activity, as well as reduced trading from hedge funds, including some which previously traded to pay for research. Our percentage of sell-side volume rose sequentially from 51% to 52%, while our average US revenue per share dropped from 42 mils to 41 mils.

Recurring revenues were down $2.4 million from the second quarter of 2016, and $7.1 million from the third quarter of 2015. This primarily reflects the investment research divestitures in May 2016 and December 2015. Other revenues were $600,000, up $400,000 sequentially but down $800,000 year over year, in part reflecting lower stock loan revenues following the wind down of that operation in the second quarter.

US expenses were lower, both sequentially and year over year, due primarily to the investment research divestitures. Our compensation ratio was 52.3% in the third quarter of 2016, as compared to 46.9% in the second quarter of 2016, and 46.8% in the third quarter of 2015. The increase in this ratio was due to the impact of lower revenues.

The drop in total Canadian revenues, as compared to both the second quarter of 2016 and the third quarter of 2015, included the impact of lower other revenues from the closing of our arbitrage trading desk at the end of April. This was part of our effort to close peripheral businesses to focus on our core capabilities.

On slide 13 is a breakdown of European and Asia-Pacific businesses. Our European daily value traded in the third quarter was down by slightly more than the drop in overall market turnover due to lower trading activity by our sell-side clients.

Asia-Pacific daily value traded was up 12% sequentially, better than the 4% growth marketwide due to the strong growth from buy-side clients using our liquidity and high touch offerings. The region returned to profitability, reporting its third most profitable quarter in history, while POSIT Alert set a second consecutive record in terms of both commissions and value traded.

On slide 14, we offer supplementary information on revenues broken out by our product groups and for investment income, which we categorize as corporate. This table shows revenues and execution services dropped 16% sequentially and 18% year over year. This decline reflects, in part, lower market activity in Europe and the US, a decline in single stock trading commissions and recurring research revenue due to the research divestitures, as well as continued lower levels of engagement by some US clients.

Workflow technology revenues were down slightly versus the second quarter of 2016 and the third quarter of 2015. This is due, in part, to a decrease in commission sharing for trades executed through Triton. Analytics revenues were down modestly, both sequentially and year over year, due, in part, to delivery timings and cancellations.

On slide 16, we present supplementary pre-tax income information for our three product groups and for our corporate activity. Margins were stable in workflow technology, reflecting the impact of recurring revenues in that business. The decline in market-wide volumes and lower engagement from some US clients pushed margins down in execution services. Analytics profitability declined due, in part, to increased recruiting costs, as well as higher allocations of shared cost.

The corporate loss was down considerably versus the second quarter due to a decline in legal expenses, as costs related to the ADR matter in the third quarter are carved out from adjusted results, while in prior quarters such legal fees were included in the adjusted results. These legal costs totalled $3.7 million in the second quarter of 2016. The year-over-year increase in corporate loss reflects the reversal of compensation in the prior-year period associated with management changes, partially offset by lower intangible amortization from the research divestitures.

Slide 16 presents US volume and rate capture statistics. Our average daily executed volume was down 12% versus the second quarter of 2016 and down 24% versus the third quarter of 2015. Overall revenue capture rate per share was up slightly year over year but down slightly on a sequential basis. This drop was due to a slight increase in the mix of sell-side trading, as well as a lower average sell-side rate per share.

The quarter ended with $260.9 million of cash. This was up from $237.5 million at the end of the second quarter. The increase primarily reflects a reduction in cash tied up in settlement activities in the wake of the Brexit vote.

Excess cash at September 30, over and above what is needed for required regulatory capital and other compensation liabilities, was approximately $50 million. This is down from $90 million at June 30, reflecting the reserve for a potential ADR resolution, as well as continued capital returns and the build-up of tax receivables in the US.

With regard to capital returns, we bought back 426,000 shares in the third quarter at an average price of $16.80 per share for a total of $7.2 million. Since the beginning of 2010, our buybacks have reduced shares outstanding net of issuances by more than 25%. The quarterly dividend program was maintained, paying out $2.3 million in cash dividends.

Looking forward, let me make a few closing observations. As Frank mentioned earlier, we have identified approximately $5 million in additional annual cost savings from management delayering and elimination of positions. In connection with these measures, we expect to incur a one-time charge of $5 million, or approximately $0.09 per share after tax, in the fourth quarter of 2016. We have suspended our share repurchases under our authorized repurchase program, pending the resolution of the ADR matter with the SEC, after which we will reevaluate our capital return approach.

Our US average daily volume in October was 125 million shares, with average revenue per share modestly higher than our third-quarter 2016 average. That reflects a market share increase of more than 15 basis points from September, and is the third consecutive month of market share gains. Combined average daily commissions in October in our Canadian, European, and Asia-Pacific businesses were up approximately 14% in US dollar terms compared to the third quarter of 2016. All four of our operating regions saw considerable market share gains in October, as compared to third-quarter levels, and we also posted a new record for value traded in POSIT Alert in Europe.

When you stand back and look at the numbers, they portray a company in transition, one that is moving toward improvement and growth. And with that, I'd like to turn the call back over to Frank.

Frank Troise - *Investment Technology Group Inc - President and CEO*

Thank you, Steve. Before we open for questions, I'll briefly recap our remarks.

We are determined to address legacy issues and we're working on a potential resolution of the ADR matter. Let me reiterate that we fully intend to pursue the investments we've outlined in the strategic operating plan. We have $50 million in excess cash on hand as of September 30. We plan to invest a significant portion of it to improve our profitability.

We are advancing our Business and are relentlessly focused on our growth opportunities. At this point, we are just one quarter into fulfilling our 10-quarter strategic operating plan. Each quarter, I'll provide you with updates on important milestones in terms of personnel, investments, and technologies that will help you follow the progress of our strategic operating plan.

Based on discussions with clients, we see that our plan is already beginning to gain traction. As Steve noted, revenues are up in all of our international operations. We're generating positive free cash flow, and based on initial estimates, we were roughly breakeven as a Firm on an operating basis in October.

In the US, our market share is headed in the right direction. After a disappointing 1.7% of total market share in July, it inched up to 1.74% in August and then to 1.81% in September and now 1.97% in October. We are not satisfied at our well below the 2.8% US market share level we achieved in the first quarter of 2015. However, we are on a positive trajectory.

With disciplined investment and a commitment to excellence, we will continue to focus on gaining significant market share, which is why I'm enthusiastic and eager about the opportunities ahead. With that, let's open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Rich Repetto, Sandler O'Neill.

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

I guess the first question is a follow-up on your comments on the SEC reserve and I'm just trying to understand -- I understand the $22 million with the related legal expenses, but how much could that, and I could have missed this, I apologize, but how much could that vary? What's the timeline of the negotiation? And I see part of it is disgorgement but also part of it is the anticipated civil monetary penalty so I guess how confident is this reserve is the appropriate amount or how much it could vary in the timeline?

Steve Vigliotti - *Investment Technology Group Inc - CFO*

Yes Rich, this is Steve. We are still working through the process with the Commission right now to resolve this matter so things could change but I will say the amount we reserved is pretty much in line with our current discussions.

Again, with respect to the amount reserve, as Frank noted in his remarks, roughly 75% of that amount reserve relates to revenue that we anticipate we're going to have to return to the Commission, along with associated interest so that pretty common, in cases like this where we expect that, that's what the Commission is going to look for.

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

Okay that's helpful. And then Frank, just a question on the -- excuse me, strategic plan. You -- very helpful in the market share figures that you gave, for August, September and October. Any comments on what we thought were pretty interesting stats or on the client -- what do you call, the return of clients in regards to the number or percentage of clients doing less than 50%, that was 30% of clients, and the amount doing in 50%, the amount doing 75% or above? Is there any meaningful change that's helping you contribute to that slight uptick in market share over the last three months?

Frank Troise - *Investment Technology Group Inc - President and CEO*

So Rich, the market share numbers that we give you here month by month, really are an indication that our plan is gaining traction. The comparison quarter over quarter of the stats I gave you last quarter would be influenced by a drop in the overall volume levels in the US in the third quarter. So I would take the guidance from the market share statistics I gave you over the last four months.

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

Okay, okay, understood. Last question, Steve, on the cash flow, $50 million of free cash -- the investment program and I see that you laid out the expensing of the investments, between 2017 and 2018. Could you talk about, I guess the cash, the actual cash timing of the cash being invested and if we are getting -- we're a little bit closer to -- you don't have as big a buffer as anticipated before?

Steve Vigliotti - *Investment Technology Group Inc - CFO*

Yes, I know, thanks. So the numbers we have the slide in terms of timing actually were the cash flow amounts, right? So we expect roughly 55% of that $40 million investment program to be expended during 2017. Now, not all of that is going to run through the P&L because roughly half of our investment is going to be capitalized and expensed over an extended period of time.

So roughly, I think we said about between $10 million and $12 million will be a -- of that will be expensed in 2017 but in terms of cash flow, we are looking at roughly 55% of that $40 million or roughly $22-ish million we're anticipating being expended in 2017.

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

Understood, okay. Thank you. That's all I had. Thanks

Operator

Ashley Serrao, Credit Suisse.

Ashley Serrao - *Credit Suisse - Analyst*

Just first question just on the settlement and the ADR activities. Steve, can you just give us some more color what exactly transpired? And also, is there -- are you completely out of this business and are there any other legal or regulatory matters on the horizon that you're currently tackling?

Frank Troise - *Investment Technology Group Inc - President and CEO*

Good morning, Ashley. By way of background, we were engaged in a legacy business. It was run out of our middle office operations. The business was related to pre-released ADRs and it involved a small number of banks and broker-dealers. ITG terminated this business.

We exited this business in the fourth quarter of 2014 and we've been working to put this legacy matter behind us so we can continue, as we have been, focusing on our strategic operating plan. Steve, do you want to give some color on the mechanics?

Steve Vigliotti - *Investment Technology Group Inc - CFO*

Yes, just in terms of some of the details, Ashley. So I don't know if you're familiar with the pre-released ADR but that's a situation where the depository banks issue an ADR before they receive the underlying ordinary share. Primarily all of our activity, with respect to pre-released ADRs, occurred through our legacy matched-book securities lending operations where we're helping our broker-dealer clients borrow and loan securities.

The specific issues we're working through with the Commission relates to representations we made and requirements we had in order to obtain those pre-released ADRs.

Frank Troise - *Investment Technology Group Inc - President and CEO*

I think, Ashley, you also asked what else is there? So we all operate in a highly regulated industry. As such, we are subject to inquiries and investigations as part of the business. And we will make disclosures as appropriate, just as we have done today.

Ashley Serrao - *Credit Suisse - Analyst*

Okay, and it looks like you're investing in the business, deploying more on the technology front. As you talk to clients today, what are they asking for on the technology front that you can bring to the table?

Frank Troise - *Investment Technology Group Inc - President and CEO*

Clients continue to ask us for solutions, end-to-end solutions in the implementation process. So end-to-end solutions that drive best execution related to pre-trade analytics, various channels of execution, whether it's single stock portfolio trading or electronic execution, block crossing. And then also post-trade analytics for transaction cost measurement and control. That's one category.

The second category is clients are asking us for and continuing to look for opportunities in operational efficiency, to drive down their cost of doing business. And that's where our workflow technology capabilities fit right into the sweet spot of what they need.

Ashley Serrao - *Credit Suisse - Analyst*

Okay, and I guess final question. Just on analytics revenues this quarter, a little softer. Have you reached a run rate level here or can you share some more color?

Steve Vigliotti - *Investment Technology Group Inc - CFO*

As I mentioned in my remarks, a lot of it is just accounting timing in terms of when reports get delivered and when we can recognize revenue. A little bit of cancellations impacted the quarter as well but so the combination of those two things but not a major trend, one way or another.

Ashley Serrao - *Credit Suisse - Analyst*

Okay. Thanks for taking my questions.

Operator

Ken Worthington, JPMorgan.

Ken Worthington - *JPMorgan - Analyst*

Frank, ITG is recovering from legacy, I guess, behavior issues, already which you inherited. How meaningful a setback is the announcement on the ADR side to winning back customers who are maybe already concerned with past ITG behavior?

Frank Troise - *Investment Technology Group Inc - President and CEO*

Good morning, Ken. Right. The team has been working with the intensity to face off with clients and provide solutions and grow our business. We take these matters very seriously, and we recognize that there is heightened sensitivity among some of our clients with respect to regulatory matters. As evidenced by our international results, right, and our market share growth in the US, we've made significant progress with our clients.

What I'd like clients to take away is that this is a legacy matter, with activities run out of our middle office. It was shut down in the fourth quarter of 2014. The activities involved a limited number of banks and broker-dealers. It's independent of our core business and is no way related to the issue from July of 2015. We want to put this legacy matter behind us.

Additionally, we're committed to pressing forward with our strategic operating plan and we've made a number of enhancements to our risk and controls and governance environment. They start of the top of the house, with changes that we've made to the Board. We named a new General Counsel, a new Global Chief Compliance Officer. We've introduced new processes, and additionally, in coordination with the Board, we've hired an external Compliance Consultant so we're dedicated to operating with the highest level of integrity.

Ken Worthington - *JPMorgan - Analyst*

Great, thank you. Steve, you gave, I guess, maybe a little bit of color on the $5 million of extra cost take-outs. Can you give us a better sense of timing of when those get delivered? I know you said the charge would be in 4Q; again, is this over a year? Does it come immediately in 1Q? And then a little more (multiple speakers) -- and more details on where you find them. I think you said there's some compensation in there, executive comp, but anyway, can you flesh out further?

Steve Vigliotti - *Investment Technology Group Inc - CFO*

Yes, sure, so we expect the new cost savings program to be fully implemented by the end of the year. So maybe -- even partially implemented throughout this fourth quarter but certainly, by the end of the year, it will be fully implemented. And as both Frank and I noted in our comments, the cost reductions are really related to flattening out our management structure a little bit and delayering and eliminating some positions to get the team closer to the action and more focused.

Ken Worthington - *JPMorgan - Analyst*

Okay, okay, thanks. Maybe lastly, market share is improving. Maybe talk a little bit about the business and customer types that are driving share improvements. I think over maybe the last month or two months, we're seeing more sell-side business, or was it MOC business, like market-on-close which tends to come in at a lower fee.

So when we think about the market share that's coming back, is it possible to give us some flavor of the market share that's recovering from maybe the better clients or the better businesses versus the lower fee customers and the lower fee business? I guess what I'm trying to figure out is the market share is improving; is it coming from the right places?

Steve Vigliotti - *Investment Technology Group Inc - CFO*

Yes, it is. That's good news we want. All prices are good prices in terms of market share to come back from, but as I noted in my remarks, our commission rate in October was modestly higher than what we saw in the third quarter. And as we continue on through early part of November, market share continues to perform well and that's at a stronger rate as well. So we're -- it's coming from a -- a good chunk of that is coming from buy-side clients, Ken.

Frank Troise - *Investment Technology Group Inc - President and CEO*

I'd add, Ken, that we have strong capabilities and the strategic operating plan are a number of investments to make them even stronger. We've been increasingly upping the intensity in our engagement with clients. And we're starting to see the results.

Ken Worthington - *JPMorgan - Analyst*

Thank you.

Operator

At this time, I have no further questions in queue. I'll turn the call back over to Frank Troise for closing remarks.

Frank Troise - *Investment Technology Group Inc - President and CEO*

Thank you all for your questions. In the quarters ahead, we plan to update you on specific actions and measurements as we roll out our strategic operating plan with a talented team and market-leading technology. We look forward to discussing our progress with you on our fourth-quarter call in February. Thank you again for joining us this morning.

Operator

Thank you, everyone. This will conclude today's conference call. You may now disconnect.