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+++ Presentation

Operator: Good morning, and thank you for joining us to discuss the ITG's Third Quarter Results for 2009. My name is Kiana, and I will facilitate the call today. (Operator Instructions) I would now like to turn the call over to Mr. J.T. Farley of ITG. You may proceed.

J.T. Farley: Thank you Kiana, and good morning. In accordance with Safe Harbor regulations, I would like to advise you that the forward-looking comments we will be making this morning are subject to a series of risks that may make actual results differ materially from expectations. I advise you to read about these risks in this morning's press release as well as in our SEC filings. I would also encourage you to visit the Investor Relations section of our website which contains PowerPoint slides that accompany this presentation.

To begin, I would like to introduce ITG's CEO and President, Mr. Bob Gasser.

Bob Gasser: Thanks, J.T. Good morning, and thank you for joining us to discuss ITG's third quarter.

In a few minutes, Howard will get into the details on the results, but first I will begin with some comments on industry conditions and how they are affecting our business. I will also provide an update on our business operations, and will address the outlook for key regulatory changes in our industry. Broadly, the third quarter saw declines in both volume, and in revenue per share. Market volumes continue to be characterized by a large proportion of high frequency trading, a phenomenon many of you have noticed particularly in low-priced financial stocks. So, our volumes fell slightly more than exchange volumes.

In addition, active US managers were impacted by fund outflows, reversing the inflows that they experienced in the prior quarter. We believe that this lackluster activity from our core client base further pressured our commissions per share. Internationally, increasing high frequency activity in Canada and the continued buildout of our platform in the Asia-Pacific region were drags on our profitability.

After the extraordinary turbulence of 2008, the past nine months have been anything but predictable. Not surprisingly, our business model is highly correlated to conditions in the global asset management business. It's becoming clear to us that despite positive performance across global equity markets in 2009, the volatility of 2008 seriously impaired investor risk tolerance. We

continue to believe our model is the right one for when assets return to the actively managed mutual funds. But until that happens, we continue to face head winds.

For the past couple quarters, we've talked about the ICI funds flow data as a barometer of our core client base, the actively managed, long-only funds. There are two contrasting interpretations of the data you see in the graph on slide 3. You could look at the April through August data and take heart that it was the first of five sequential months of net in-flows in two years. However, you could also look at those same months and notice the deceleration of the in-flows. Our estimate for September derived from ICI's weekly flow data is net outflow of roughly \$13 billion.

This effectively wipes out the equity inflows for the quarter, with September outflows canceling out gains in July and August. In effect, April and May were false positives.

Looking at slide 4, the fund flow data is broken down into US-based domestic funds versus US-based international funds. Domestic fund inflows lost more of their steam in June and July and went negative in both August and September. Overall, international fund flows were up approximately \$12 billion in the third quarter and the domestic funds were approximately \$12 billion to the negative.

Now, the September data are an estimate and are subject to revision. But, they indicate that there is no clear sign yet of a sustainable upturn in fund flows to our core customer base of active managers. Recent data from the Morningstar Group cited in the Wall Street Journal underscore this fact. According to Morningstar's numbers, almost \$12 billion in new money flowed into index funds through August of this year, while actively managed funds actually lost almost \$6 billion.

The good news is that investors are slowly climbing back into equities, through index and ETF vehicles. The bad news is they are not yet convinced that actively-managed funds provide an attractive risk return.

Amongst institutions we continue to hear that plan sponsors are distributing RFPs, or Requests for Proposals, for actively-managed mandates. Some are bullish about the prospects for awarded mandates in the first half of 2010. There is no question that the asset liability gap among pension plans continues to widen creating more latent demand for products on the higher end of the risk-reward base spectrum.

Looking at the overall trading environment, the third quarter was marked by a continued easing of volatility and the narrowing of trading spreads. On Slide 5 you can see that the VIX index fell to an average reading of 25 in the third quarter, down significantly from second quarter's average of 33. While 25 is still on the high side relative to long term historical averages, it is an improvement over the market conditions we saw at the start of the year, and major short term spikes in volatility are notably absent.

Along with the VIX, Bid/Ask spreads also continued to fall as shown on slide 6. Based on ITG's analysis, the average Bid/Ask spread in S&P 500 constituent stocks dropped from 7.7 basis points in the second quarter to 6.2 basis points in the third quarter. While narrower spreads are indicative of a less stressed trading environment, they also pressure margins in our spread trading business, which I'll address in a moment.

There is a silver lining, however. Sustained lower volatility should lead to a rebound in confidence amongst equity investors. I think it's reasonable to assume that the ultimate recovery in mutual fund inflows could lead to an increase in institutional trading activity that would more than counterbalance this continued reduction in spreads.

ITG saw volumes of pricing decline in the third quarter compared with the second quarter of 2009. Our US revenue per share fell back to 68 mils, closer to the 67 mils we saw in the first quarter, after having climbed to 70 mils last quarter.

This rate decline was largely result of a shift in order types, as we saw more plain vanilla orders such as Market on Open and Market on Close trades in the third quarter. This was reflective of index activity far outweighing single stock trading.

Our average daily volumes in the US were 180 million shares in the third quarter, which is 8% below the second quarter level. Broader US market volume was down almost 7%. Drilling down deeper, the nature of the market volumes continues to reflect the impact of the surge in high frequency trading. Backing out trading in five financial stocks, which were favored names amongst high frequency traders -- Citi, Fannie, Freddie, B of A, and AIG -- broader US market volume was down about 13%. So, we feel that we've held our own volume-wise in a challenging market.

POSIT average daily volumes were 66 million shares in the third quarter. This average daily volume figure is a more comprehensive number than we've used in the past. It includes all commission trades crossed in POSIT as well as the spread trading volumes executed in the POSIT system. In POSIT Alert, the average trade size was 37,700 shares. Even in a difficult single-stock environment, Alert was the fastest-growing segment of our POSIT suite. We are benefiting there from a steadily growing desktop footprint and more and more efficient liquidity management, both in the US and Europe.

For competitive reasons, we're not going to provide a breakdown of the various components of this new number. But we believe that going forward, it gives you a more accurate measure of the aggregated POSIT volume and the substantial liquidity which is available there. While the environment for spread capture was more challenging in the third quarter due to the narrower spreads and lower overall volumes I mentioned earlier, we believe this represents an important incremental revenue opportunity and we remain committed to growing that business in the coming quarters.

Turning to our international business, we saw continued positive signs in Europe, partially offset by results from other operations. In Canada, revenue declined 19% over the second quarter while operating profit dropped to \$3.9 million. This is against the backdrop of a 14% drop in volume on the Toronto Stock Exchange, compared with the second quarter of 2009. The gross market share decline is due in part to a surge in high frequency trading in Canada, a market segment in which we generally do not participate.

High frequency trading is estimated to be between 25% and 30% total market volume, up from just 5% to 10% a year ago. In addition, we saw increased competition and reduced spreads in the interlisted arbitrage area, reducing our profitability in that business. However, despite this backdrop of lower volumes and increased competition, our core institutional business in Canada remains strong and we expect it to perform well over time.

This is not unfamiliar territory for us. We've seen this high frequency movie play itself out in the US and Europe, and we're fully prepared in Canada to respond accordingly. Smart routing and lower latency access to both market data and exchange gateways are all being added to our Canadian capabilities.

In our Asia Pacific segment, third quarter revenues were up 10% over the second quarter, and losses were \$3.5 million. The market context was Japan's Nikkei, increasing 2% over the prior quarter with a 12% drop in market turnover, Hong Kong's Hang Seng index increasing 12% with a 7% lower market turnover, and Australia's ASX 200 index rising 20% on a 20% increase in market turnover.

The wider loss reflects increased compensation as we build out our regional sales and trading team. I am just back from a visit to Singapore and Hong Kong last week. In the past year, we have increased our footprint to 25 Tritons installed across the region and an algorithmic trading capability that continues to grow in terms of strategies and geographic footprint.

2010 is shaping up as a seminal year for the region. We will be deploying POSIT Marketplace in the first quarter of 2010. For the past two years, I have held off on introducing non-displayed liquidity into the region, choosing to first build out the desktop and algorithmic platforms. As the region nears algo and desktop product parity, I believe the timing is right for the launch of POSIT Marketplace.

The direct market access and algo landscape in Asia Pacific is very different than in other regions of the world. Clients tend to rely heavily on research and capital commitment. That said, I had many more client discussions about commission sharing arrangements and their importance to best execution on this trip than during any other visit to Asia. The unbundling of research and execution is just beginning.

A credible voice broking presence is an absolute imperative to raising the visibility of our Asia Pacific operation, and we're making good progress in places like Hong Kong and also in Australia, where our market share is up 64% over the third quarter of 2008.

In Japan, we received our proprietary trading system license from the regulators after a four year application process. It is our hope that we will be self-clearing for on-shore Japanese assets within the next several quarters. Importantly, we now have licenses to operate a non-display pool in Japan, Hong Kong, and Australia. We don't believe any other firm has that regulatory footprint across the region.

In Europe, we also saw sequential top-line growth in the third quarter, with revenues up 3% and earnings of \$1.4 million. The MSCI European Index was up about 19% versus the previous quarter, and up about 4% in terms of turnover. In what is traditionally a slow quarter seasonally, our European operation turned in a very solid result both on the top and bottom lines. In a visit I made to London this month, I was impressed by the product parity we now have in Europe relative to the US. Liquidity management in the region has had a demonstrable impact on our results year to date.

To provide some perspective on the European market, Slide 9 shows fund flow data on mutual funds that are managed in Europe. The source is the European Fund and Asset Management Association, which works on a cooperative basis with ICI. The latest European data goes through the second quarter. As in the US, the

European mutual funds saw a sharp increase in net cash inflows in the second quarter. We don't know yet if they will see the same kind of third quarter slowdown as US funds did.

Slide 10 shows that the European funds flows can be quite different than those in the US. In the recent crisis, the European investors got cautious much sooner than Americans did. The Europeans kept reducing their equity exposure right through the first quarter of 2009. The second quarter represented the first upturn in two years. We can only hope this is a precursor of an improvement in domestic US fund flows.

Slide 11 shows equity weightings across all classes of mutual funds for some of the largest markets in Europe. The UK has been the traditional equity-oriented investment culture in Europe. The continent has always been more fixed-income oriented. That is one of the reasons ITG's initial emphasis was on the UK market. Over the past five years, however, the UK has been steadily decreasing its equity exposure while some of the largest capital markets in Europe were increasing theirs. That corresponds to ITG's own expansion across the continental European markets.

The financial crisis came at an unfortunate time for Europeans' foray into equities. Across the major markets in Europe, investors cut back their equity allocations over the past year. It remains to be seen whether this retrenchment is long term or not. The breakout by country is not available yet, but European mutual funds saw EUR 23 billion in net equity fund sales in the second quarter. This suggested more European cash is ready to come back in equities again when the timing is right.

The other topic I wanted to provide some perspective on today is the regulatory environment. As the world of trading has grown more complex, regulators in the US and overseas have been struggling to ensure that market structure remains both efficient and fair. I would like to bring you up to date on the status of some of those key market structure issues.

Last Wednesday's unanimous approval by the SEC of the three proposals related to dark pools and indications of interest represented a momentous event for US equity market structure. ITG has been very actively engaged with the commission and its staff for the past several months. Our approach has been fact-based and supportive of both broader transparency and the preservation of existing capabilities that provide demonstrable benefit to institutions. The commission made three main proposals: Requiring actionable indications of interest to be treated like quotes, lowering the display threshold for alternative trading systems, and requiring real time post-trade transparency for ATSS. These regulations provide exceptions for block orders, defined by the SEC as orders valued at over \$200,000.

There will be a 90-day comment period in which we expect there will be many divergent views on all of these topics. We interpret these proposals as the SEC establishing a bright line between truly dark pools and lit pools, with an exception for block liquidity. We are pleased that the SEC recognizes the need for institutions to confidentially interact to find natural block liquidity.

Our POSIT Crossing system fulfills such a need, and it has harmoniously existed within the US market structure for the past 22 years. Our analysis of millions of institutional trades confirms that POSIT reduces the market impact of block trades and enhances execution quality.

In addition to our transaction cost analysis, recent academic research demonstrates that market fragmentation itself has not harmed market quality. We support increased post-trade transparencies so long as the rules are applied consistently across the competitive landscape. In fact, we believe that the data arising from such transparency will help market participants to better measure the quality of their executions, empowering them to make better routing decisions in the future.

The SEC's unanimous vote last month to propose a flash order ban is another good example of the regulatory scrutiny of existing market structure. ITG does not engage in flash order activity on behalf of its clients. We prefer a control order execution more precisely by directly accessing the quotes displayed by each market. This allows us to avoid information leakage, better measure the execution performance, price movement, and latency of each liquidity pool, and ultimately improves trading performance.

The SEC intends to issue a concept release at a later date to discuss issues like high frequency trading, sponsored access, and co-location. High frequency traders make up as much as 70% of overall US equity volumes, according to TABB Group. ITG does not generally serve high frequency traders. As an independent observer, ITG does not have a stake in the use of this practice, however, we're committed to looking out for the best interest of our clients and the future of US market structure. We hold the view that high frequency trading plays an important role in the marketplace. High frequency firms take risks to make capital and provide liquidity, although they tend to focus their activity on a limited number of the 5,000-plus traded US equities.

These high frequency firms are both large customers of exchanges and ECNs, as well as some of their strongest competitors. Accordingly, these firms are able to provide cost savings for broker dealers, savings that are ultimately passed on to retail and institutional investors. Many of the high frequency firms are broker dealers, and are subject to the oversight of the SEC and FINRA. Furthermore, many serve both institutional and retail clients, and are critically assessed on the quality of their execution. These firms do not fly under the regulatory radar.

We are concerned, however, about sponsored access and the risks it potentially creates. Sponsored access refers to the practice of a broker-dealer providing market participants with direct access to a market center. One of the concerns is that this access could be provided to non-regulated funds without rigorous compliance oversight or appropriate financial controls. We believe that the issue of sponsored access firms deploying high frequency strategies deserves scrutiny and we applaud the SEC's intention to explore this issue.

Another issue of concern to us and to our clients is the behavior of some high frequency firms. It is our belief that some firms deploy strategies that could involve gaming or pattern recognition. ITG spends a great deal of time and resources fine-tuning our anti-gaming technology to avoid such predatory trading practices, and to protect our clients' interest. This provides our clients with optimal access to all sources of quality liquidity.

It is important to realize that this issue is not a black and white one. Clearly outsize returns generated by questionable trading practices must be scrutinized. However, retail and institutional clients can benefit today from the liquidity provided by high frequency firms. To impair that through broad-brush regulatory intervention without a targeted focus on abusive practices and

the potential risks of sponsored access could possibly harm the continuity and quality of US equity markets.

To wrap up, I'd like to say that we remain confident in the way ITG is navigating choppy market conditions. We continue to invest in our technology, our geographic footprint, intellectual capital, and overall service levels to our clients. Throughout, we have managed risk and strengthened our balance sheet. There are still mixed signals as to when our core client base will fully recover, but we believe that that time is coming. Hope, however, is not a strategy. We are keeping a close eye on costs and evaluating our business model to ensure that we achieve the maximum leverage from our operating platform. As business conditions improve, ITG has substantial opportunity to benefit from the upturn.

With that background, we'll now turn to some further detail on Q3 results from ITG's Chief Financial officer, Howard Naphtali.

Howard Naphtali: Thank you, Bob. ITG's third quarter performance yielded solid, consistent profitability in Europe during the traditionally weak summer months, market share growth in Asia and in a difficult equity trading environment, continued earnings and cash flow in the United States and Canada.

As noted on slide 14, we generated revenues of \$158 million and earnings per share of \$0.40 for the quarter. Moving into consolidated results on slide 15, our US business generated \$0.40 of earnings, down \$0.01 versus the previous quarter, while our combined international businesses operated essentially at break even.

For slide 16, for the year-to-date, our US operations have earned \$1.15 per share while our collective international businesses broke even, yielding consolidated earnings per share also of \$1.15.

Moving to slide 17, consolidated expenses were \$130.4 million, a \$3.6 million decrease from the trailing quarter, as we continue to carefully hold the line on all discretionary costs in this market environment. Overall, our US costs declined \$4 million versus the second quarter, while international expenses increased \$400,000.

Variances in the major cost categories were as follows -- compensation costs decreased \$2.1 million, driven principally by reductions in incentive compensation in the United States due to lower revenue and pre-tax performance levels. Our US compensation rate was 33.2% of revenues, consistent with recent results. International compensation costs increased \$600,000, despite a \$1 million adverse currency impact.

Our full time global head count was 1,328 at the end of the quarter. Transaction processing costs decreased \$700,000 for the quarter. US cost reduction derived from lower activity in ITG's US Equity Trading Business. Overall, US transaction processing costs were 11.8% of revs. International transaction costs decreased \$400,000 as our European model continued to improve, with European transaction costs declining to 27.3% of revenues from 31.4% in the trailing quarter, and 42.9% in the third quarter of 2008 as we continue to use our Smart Router technology to drive down execution costs in the same manner as we have in the US.

Occupancy, telecommunications and other G&A costs were collectively \$800,000 lower than the previous quarter, despite a \$700,000 adverse currency impact.

We've continued to exercise tight controls over the discretionary element of these costs in this environment. On our international financial summary slide, you can see the breakdown of the \$43.8 million of non-US revenues for the quarter. Revenues decreased \$2.2 million versus the trailing quarter after giving effect to a \$2.3 million favorable currency impact, principally pertaining to weakness of the US dollar versus Sterling and both the Australian and Canadian dollars.

In local currency terms, we also grew revenues versus the third quarter of 2008 as a \$4 million adverse currency impact more than offset the \$3.4 million revenue decrease shown on this slide.

On slide 19, we track our Canadian, European and Asia Pacific performance over the past year. We saw our decline in Canadian revenues this quarter to \$15.7 million as a greater percentage of exchange volume and interlisted arbitrage activity gravitated towards electronic liquidity providers, which is generally not a component of our customer base. In addition, we experienced an increase in transaction processing costs from 18% of revenues in the preceding quarter to 21% with a major contributing factor representing execution costs, where our customers were takers of liquidity.

This is being addressed in the same manner as we have in both the United States and Europe, further deploying our Smart Router technology. Our pre-tax profit margins were approximately 25% for the quarter.

Our European business was a positive in the typically weak summer months, as we generated a small improvement in profitability with \$600,000 of revenue growth over the trailing quarter and continued improvement in transaction processing costs as previously described. We earned a pre-tax profit of \$1.5 million for the quarter.

Our Asian business saw an \$800,000, or 10%, revenue growth versus the previous quarter as our new management team continued to gain market share across the region. However, given the investment spending levels required for future growth, Australia lost \$1.9 million pre-tax on \$3.6 million of revenues. Hong Kong generated revenues of \$4.9 million, with a pre-tax loss of \$1.4 million, while losses in Japan were \$1 million. Overall, the Asia region pre-tax loss was \$4.2 million for the quarter.

Moving to slide 20, the blended average commission per share from broker-dealer revenues achieved during the quarter was 68 mils, which was slightly better than the first quarter of this year, a 3% decrease from the 70 mils in the preceding quarter and a 14% reduction from the 79 mils in the third quarter last year.

As you can also note from this slide, our collective commissions from spread-based trading, OMS revenue share, and ITG derivatives, were \$16 million for the quarter versus \$18.6 million in the preceding quarter. Please note that as we discussed during our last call, the spread-based fees which commenced in the first quarter are reported in the Commission and Fees line item on the income statement, rather than in Other Income to better reflect the nature of the revenues earned as commission equivalent fees.

On slide 21, you can see that our pre-tax margins during the quarter were 17.7%, for ITG as a whole, and 23.5% for our US business. The margin degradation versus the previous quarter was principally the result of lower revenue levels in the US and Canada, and the targeted investment spending in Asia-Pacific. We continue to carefully manage our cost base and are targeting investment spending



on both our international businesses and the principal growth elements of our product portfolio in North America.

On slide 22 we see that diluted earnings per share for the third quarter were \$0.40. Our effective consolidated income tax rate for the third quarter was 37.7% compared to 40.4% in the third quarter of 2008. And, moving briefly to our balance sheet, we had approximately \$354 million of unrestricted cash at September 30, 2009. However, unrestricted cash should not be confused with excess cash, and since we are self-clearing in the United States, there continue to be varying funding requirements with the NSCC, which have been as high as \$300 million over the past year.

In addition, as we touched on during our last call, the growth in our Asian business activity has required a further \$20 million capital injection, which was made in October. With that, we'll move to Q&A. Operator, will you open up the lines for questions?

+++ q-and-a

Operator: (Operator Instructions) Our first question will come from the line of Rich Repetto of Sandler O'Neill, you may proceed.

Rich Repetto: Good morning Bob, good morning, Howard.

Howard Naphtali: Good morning, Rich.

Bob Gasser: Good morning.

Rich Repetto: I guess the first question, on the transaction processing expenses, Howard, I know you've worked in the Smart Router, but as far as a percentage of US revenue, the 11.8, it has gone up. Is that just a function of market conditions, because it's still at a higher percentage than it was 2Q and 1Q.

Bob Gasser: Let me talk to that, Rich. There's a little bit of a mix shift there in terms of when we internalize positive liquidity. And, in some cases, capture spread. Sometimes, we're not making liquidity, right? So we more than make up for that, but it sometimes will shift that weighting around a little bit. So in other words, we're not making liquidity in the public marketplace. Instead, we're capturing spread or internalizing within POSIT. So, effectively that raises our transaction processing costs.

Rich Repetto: Got it, got it. I understand, okay. And then Howard, it seems like we're running a little bit higher in the comp rate. Is that something that -- well, is likely to play out throughout the year, like 35, 36, rather than 34% or 35%?

Howard Naphtali: Yes, the domestic is pretty much spot on where we've been for several quarters, in the range of 33-ish. I think where the growth occurred is really largely in the Asia-Pacific region, where some of the metrics on incentive comp have got to be about market share growth, Triton installations, etc., to really get the real estate to be able to leverage for the future. So, while we may have symmetry in places like the US and Canada. We don't necessarily have that in Asia, it's not taking the model way out, but there are incentives that we have to put on the table to be able to lay the foundation for future growth.

Bob Gasser: I've got to say, Rich, I saw it first hand in Asia last week. There is, I think it's a competitive labor market there.

Howard Naphtali: Once again.

Rich Repetto: Got it. Got it. Okay. And the last question is probably my most important one, is you know, I understand what the SEC has proposed, given block exemptions for the limit, actionable IOIs, etc., but you're -- look at ITG as sort of a blend because POSIT Alert, you gave the average share size, Bob, that is a block. But I would, I guess you only said that POSIT -- you said that POSIT was 66 million shares per day. I would assume that POSIT, the old POSIT crossing, is a big hunk of that 66 million. The question is, in your conversations with the SEC, are they going to treat all of POSIT in the 66 million as a block platform? Or just the volume related to POSIT Alert?

Bob Gasser: No, it'll be, it'll be the -- no, it -- well, there are certainly blocks that fit that profile in POSIT Alert, and there are blocks within POSIT Now that fit that profile. So, anything that's \$200,000 notional or more, will fit that profile, right? So, we actually, we whole-heartedly support the objectives of what the commission and the staff have put out there, and we think that one of the intended consequences of these concept releases, or these rule proposals, will be that folks will be pushed into the block arena if they want to remain completely dark. And, so, we think that will be, obviously that'll be a benefit for systems like POSIT Alert. And certainly, there's a constituency within POSIT Now that will also benefit in terms of our order flow.

Rich Repetto: But I guess the question is then out of the 66 million in POSIT, what ballpark percentage would you know, approximately get that block exemption?

Bob Gasser: Yes, I don't have that data in front of me, Rich.

Rich Repetto: Okay. Okay. Thank you.

Operator: Our next --

Bob Gasser: No, actually, the one thing I should clarify though Rich, is that POSIT is a truly dark system and getting back to my comments around lit versus dark, that won't affect the volume thresholds. So, I just want to be clear about that. For truly dark systems. All right. I'm sorry Operator, I interrupted the next question.

Operator: No problem, our next question comes from the line of Mike Vinciguerra of BMO Capital Markets, you may proceed.

Mike Vinciguerra: Thanks very much. Just a follow-up on Rich's question, there. The one thing that's a little confusing to me is, how you go about displaying what is currently a dark, or if it's not going to be a block size, can you explain the mechanics of how a broker dealer who would normally internalize in their dark pool is going to actually flash that to the market, so that everyone gets a chance to trade against it?

Bob Gasser: Well, I don't think that's going to be flashed. I mean, that's the key, right? I mean I think that in the new paradigm, you're either dark or lit. I think the minute you're forced to display a quote, you're no longer dark. So, it's going to be I think tough from an internalization perspective, to get away with indications shared among ATS's going forward.

Mike Vinciguerra: Okay, understood. And then the corollary then is you mentioned internalization, we're looking at according to our figures, 24% of the US market or so is kind of being internalized and posted to the TRF now. Do you have a sense for how much of that is dark versus the broker dealers maybe stepping up in a lot of the low priced stocks and acting as a market maker to internalize?

Bob Gasser: I have no idea.

Mike Vinciguerra: Okay.

Bob Gasser: I mean, I would, I would suspect that there's quite a bit of that going on. But there's no supporting data out of the SEC or public filings that would give us anything other than you know, conjecture.

Mike Vinciguerra: Okay, fair enough. Shifting over to Asia Pac, I don't know if you can get a sense for this, but do you have an idea where break-even revenues in that market kind of are? Because I'm assuming that there's incentive comp that's going to go as your employees there build the business, but obviously it's a big drag on earnings right now. Is there a revenue level where you feel confident that you might be able to break into the black?

Bob Gasser: Yes, I wouldn't throw that out there, Mike. What I would say is that the investments we're making right now or have made since Leon's arrival at the end of March, I think are the right ones. I think that it was validated for me and confirmed for me last week in my visits with both customers and visits to our regional offices in both Singapore and Hong Kong. I've got to say, as I look out for the plan for 2010, in AP, I think we're in pretty good shape in terms of people and headcount and capabilities. So, from a people perspective, from a comp base and incentive, I think that the investments we're making this year will, I think you can assume that that will basically carry us for the coming year.

Mike Vinciguerra: Okay, great. And then just Howard, one clarification, you mentioned the tax rate had dropped, but you didn't give kind of an explanation as to why. Typically it's that the international operations are a bigger contributor to pre-tax and they have lower tax jurisdictions, but that didn't seem to be the case this quarter. What's going on there?

Howard Naphtali: I think we, as was the case in the first quarter, we settled some long outstanding tax audits. We typically have fairly conservative reserves in our accounts, and consequently the actual reduction of the tax rate was entirely domestic.

Mike Vinciguerra: Okay, so you think was it like a 40% range going forward, is kind of a decent range for us to use?

Howard Naphtali: The order of magnitude on a typical run rate has been between 40 and 41.

Mike Vinciguerra: Great, okay, thank you guys.

Bob Gasser: Thank you, Mike.

Operator: Our next question comes from the line of Gil Luria of Wedbush Morgan. You may proceed.

Gil Luria: Good morning, thanks for taking my question.

Howard Naphtali: Good morning, Gil.

Bob Gasser: Morning, Gil.

Gil Luria: I wanted to ask, in your comments you delineated between fund flows into domestic funds versus ETFs and international funds, and I think you've discussed in the past why flows into ETFs are not necessarily a segment you really gain from. But why are flows to international funds not beneficial to you, given your platform? Why are those not as beneficial as flows into domestic funds, could you elaborate on that?

Bob Gasser: Well, I think they are start - they are starting to be beneficial to us in places like certainly Europe, right. And so, the European, both the domestic European performance and that US fund flow performance I think certainly is starting to show up in the European numbers, and in overall turnover, and our operating leverage as you saw in Howard's numbers, it's improved significantly. Particularly around transaction processing. I think in Canada, certainly we didn't benefit that way, and I think there was a struc - there's obviously a structural change in Canada that's accelerating here. It's very close akin to what we experienced in the US in Q1 of 2007 where there was - it's some transaction processing costs have - have gone up significantly in the face of significant structural change in that market. So, and then, you know, finishing off in AP, clearly a lot of those fund flows did not translate into higher turnovers despite increased price performance, with the exception of Australia.

Howard Naphtali: One other clarification, Gil, just to make sure we're looking at things the same way, when we're talking about domestic equity flow, Bob was honing in on really, our US performance and the way we're reporting the revenues is, the revenue is reported in the particular geographic region where the physical execution takes place. So, with an international fund, as he was just describing, the revenues may be reported in Europe or in Asia Pacific. So that's why we're trying to just segregate the two things.

Gil Luria: Got it. Then the other commissions and fees line has been a big swing factor in your results the last couple of quarters, and in the second quarter there was a lot of increase there, a lot of it because of the spread-based trading. Can we assume that most of the decline between the second and third quarter, because of the spread base, what were kind of the dynamics for the three parts: spread based, OMS and derivatives?

Howard Naphtali: Well, that's actually reported on the commissions and fees line, not on the other income line. And obviously you have the total number on our commissions line, and consistent with the discussion we had last quarter, we're not going to break out the individual elements of that.

Gil Luria: Got it. So then, one last question about your investment activity. As you approach the end of the year this year, do you feel like you've continued to invest in the Asian and European markets at the same rate as you have before? Do you feel like this year's investment was a little more subdued and get back more to the kind of to the previous run rates, or do you feel like you're approaching a point where you're not going to have to invest as much in some of those fixed costs to get the benefits and growth there?

Bob Gasser: I'd say, I just went into Europe, we really have product parity in Europe now, vis-a-vis North America. They have every single algorithmic product and strategy they have, the matching capability, they have the desktop capability, they have everything in place in Europe to be successful, in my mind. And so, incrementally from here it's not for Europe in 2010, it's about the top line and operating leverage in the region. Asia Pac is a bit of a different story.

I think if you look at our overall investment in Asia this year it's been heavy. It really recognizes, I think, the nuances of that region institutionally. As I said in my prepared remarks, it really, the amount of discretionary work flow that's available for us to compete for in terms of electronic and algorithmic trading, is a much smaller percentage than we would experience in Europe and North America. So in other words, there hasn't been unbundling in Asia Pac, that we've seen in the other regions.

So, the need to have a voice broked, high touch relationship on the other end of the phone, and having to invest in that in the region, has been probably the biggest single differentiator this year over last.

Gil Luria: Got it, thank you.

Operator: Our next question comes from the line of Ken Worthington of JP Morgan, you may proceed.

Ken Worthington: Hi, good morning.

Bob Gasser: Good morning, Ken.

Ken Worthington: First on the regulation in the dark pools, there's a number of different components to it. It seems like some aspects are actually quite positive for ITG, and others may be somewhat negative. Is it possible to maybe go through the different elements of either what are being proposed, or separately what are being talked about? In terms of you know, if different elements went through, what might be the positives for ITG, and where we might see the negatives? So for example, I think CS was talking about open access. And that would seem to be like, a negative, for example.

Bob Gasser: Okay, well, I don't know if you watched the Senate hearing yesterday, but I thought we had a -- actually, I thought the Senate hearing yesterday was actually a very, very productive one. I mean, I think we pulled back the veneer on a lot of anecdotal issues, a lot of anecdotal stories and about you know, high frequency trading, and dark pools, etc., etc. In fact, I thought it was a very, very positive hearing for the industry.

This whole notion of open access, I think, is one that I think is being shouted down pretty aggressively, by not only ITG but other firms in the space. I think CSFB is taking a very lone wolf position in this particular area. And if you take it to its logical extreme, why not, you know, why not have access to Goldman Sachs' hoot-n-holler and their communication between their traders and sales traders? I mean, our liquidity pools and how we operate, are what -- that's what differentiates us as firms. And clearly, at ITG, with us being an agent only and hosting and facilitating direct institutional access, or direct institutional interaction, it's just not something I think that any one of our clients would support.

So, and I think that the SEC has very clearly recognized that. I think the beauty of what's out there now, is that there's clarity. We welcome the clarity. We welcome the clarity about being dark versus lit. We welcome the clarity around some of these IOI's and things that we're being shared between pools that were creating kind of a virtual inside market. That, I think, is going to have a hard time perpetuating itself post the actual rules being enacted.

So, we as I said in my prepared remarks today, and in my remarks at SIFMA, and my remarks down in Washington yesterday, and in our communications with clients, I think we're whole-heartedly supportive of the objectives of what the commission and the staff has put out there. And we think that given POSIT's history, functionality and the trust the clients have in our system, that it will benefit from the succession of those three things being enacted.

Ken Worthington: Okay. It seems like, like post-trade display, you already display your trades post-trade. So, like that element doesn't have an impact on you?

Bob Gasser: Well, yes, what's interesting about it, Ken, is actually, and this one, there's a great deal of discussion about this yesterday. Every ATS in the US reports the trade immediately when they execute a trade. It's not, it's just not disclosed who that ATS is. So, it's reported to what we call the TRF, the Trade Reporting Facility, of either the New York or the NASDAQ. But, there's no disclosure as to who that, who that ATS is actually -- which ATS is actually executing that trade. And so, that's one interesting concept.

The second interesting concept is that with the \$200,000 notional threshold, POSIT will not be forced to disclosed that it's POSIT to the TRF, if it meets that criteria.

Ken Worthington: Um-hmm.

Bob Gasser: So, the notion of I think pushing people up the curve in terms of wanting to trade more block liquidity, because it will be truly dark, as opposed to liquidity that's happening in 200 and 300 share lots, which will now be fully disclosed. Not in terms of who the customer is, but who the ATS is.

Ken Worthington: Um-hmm. It seems like this is far more damaging regulation to your competitors than it is to you, and therefore, net-net, seems like it could be very positive for you. Am I mis-reading that?

Bob Gasser: I think our whole-hearted support for the SEC and the staff speaks for itself.

Ken Worthington: Okay. Great. I won't belabor that any more. And then, I - just one thing, given the trends in commissions from the buy-side this year, periodically you see the buy-side divert commissions from a firm like ITG to more full service shops. Sometimes that's an issue at your end, other times it's not. You've enacted some services that would mitigate that negative impact. But is this a year, given what we've seen towards the beginning of 2009, where that could be an issue again for ITG?

Bob Gasser: You know, I've got to say, Ken, I think one of the things that concerned me in the current quarter, the current -- the quarter we're discussing right now, was the resurgence of the investment banks, right, and the IPO calendar which is probably one of the most powerful currencies that bulge bracket firms have. And let's face it, that really is our competition at this

stage of the game. And I've got to tell you, that I feel very confident given what I've seen and you know, we do track our own institutional presence, and share amongst clients from the perspective of we have access to obviously a lot of data. And we feel good about where we're at, and so, while that was a concern during the quarter, I feel good about the firm's competitive position.

Ken Worthington: Okay great, thank you very much.

Bob Gasser: Ken, and the other thing that helped I think was the fact that a lot of the calendar had some mixed performance, certainly in the aftermarket. So, you know, the question mark, the big question mark now, is whether or not it's going to even hold between now and year end.

Ken Worthington: Right, thank you.

Bob Gasser: Thank you, Ken.

Operator: Our next question comes from the line of Bob Napoli of Piper Jaffray. You may proceed.

Bob Napoli: Thank you.

Bob Gasser: Hey Bob, good morning.

Bob Napoli: Good morning. Question on Canada. Just a little surprised at the change, it's been a very solid market, steady performer for you guys for many years, and the rapid change in market structure that you said is accelerating, I'd like to get a little more clarity on what that means. I mean, your margins are obviously down significantly, your revenue took a big hit even though you probably had some currency benefits in the quarter. What changed, I mean, it really changed this quarter. You were doing pretty well in Canada through last quarter.

Bob Gasser: No, you're absolutely right, it has been a very consistent performer. I think it was the result of a perfect storm in Canada. You had first of all, volumes were down overall. There is a significant amount of high frequency competition for the interlisted arb so there's a lot of folks that have piled into that market. Clearly, the US is a very crowded space from a high frequency standpoint right now. Europe is getting more crowded. Canada, I think, was just another place for people to logically kind of shift their gun sights.

The other thing that's changed is that there is a significant amount of fragmentation, which I think in the long term is good for us, but in the short term it's caused a similar issue to the ones we had in US in Q1 of '07 where some strategies, some clients, get very -- you know, are aggressive takers of liquidity. We end up paying a premium for execution, whereby if we adjust our routing and our capabilities a bit, and I think we are, there's a little bit of latency in our infrastructure that we're addressing right now or augmenting, and it's a very delicate balance, right. So it's about managing all this data, it's about the access to the various pools of liquidity, and it's about the router making what I would describe as the right economic decisions based on where the best possible liquidity can be found at any moment in time.

So, that kind of balance has been achieved in the US consistently, and in Europe. And in Canada, I think it's as I said, I think it's a bit of a perfect storm in the last quarter that we're addressing very aggressively.

Bob Napoli: And I mean, you're seeing that again, I mean that hasn't, admit that -- your comments made it sound to me like it was going to be worse in the fourth, it was more challenging in the fourth quarter.

Bob Gasser: No, I wouldn't interpret that. I would say that we're on it. And it's not going away, I mean, in terms of you know, we don't expect high frequency firms to pack up any time soon and leave. And we don't expect the pressures on market data and the infrastructure to change. It's about our confidence and our ability to reverse all those things. The only thing we can't control is the overall revenue. I mean I'm sorry, the overall volume.

Bob Napoli: Okay. Question on the spread business. I mean you had, the spread business really kind of came out of nowhere, anyway, in materiality in the second quarter. It seems to have softened a little bit this quarter. I'd like to understand a little bit better why, and what that exactly how that business is working. Are you matching retail flow with institutional flow? Is that how I mean, how is that business working, why did it come out so strong, and why is it moderated? And what is the --?

Bob Gasser: Well, moderated, I think it's moderated actually, the result of some of the moderation in our volumes, right? I mean surely, that's one factor.

Bob Napoli: Sure, sure.

Bob Gasser: The other is the spread issue, which I discussed, which is pretty significant when you think about it in percentage terms. So, when we're capturing spread, we're inside the bid offer, and if the bid offer comes down from 7.7 basis points to 6.2, that's intuitive. I think we feel, we continue to feel very good about first of all, volatility is probably going to continue to come down and probably the bid/ask spread will come down a bit. But we feel good about our ability to continue to bring on new sources of liquidity to overcome that, and clearly feel that you know, as volatility does get reduced that hopefully if the equity market can maintain its current strength, that that will give clients or the end investor more confidence in the risk return of the US market.

Bob Napoli: Are you -- is it retail, I mean, how is that business work exactly?

Bob Gasser: It's a mix of, of, of institutional and retail.

Bob Napoli: Okay. And then just a question on revenue per share, I mean you had a significant decline in the first quarter. I think you felt like some of that might have been temporary, but we've kind of been at that level now for three quarters. Is it just in the -- are we permanently at lower levels, and why?

Bob Gasser: Yes, I think it's a function of certainly a significant mix shift, and I think that's why we've spent so much time on the ICI numbers and the mutual fund flows, and where they're coming from, where they're being, where the outflows are happening.

And it's because the index managers have such a different profile in terms of their execution strategies, and so, I can tell you that MOO and MOC orders were a significant part of our volume for the quarter, and I think they're a function of both the mix of clients and that's led to the -- and that's a theme we've been talking about all year. Client mix shift leads to product mix shift which leads to this rate card degradation. I do think there is a strong correlation



between the return of the active managers and this rate card. Will it go back to where it was? I don't think I can answer that question. But I certainly can see it improving, from here.

And the other issue is, I think that as we've talked about, from a regulatory perspective and thinking about the implications for POSIT and more specifically, POSIT Alert, and the block matching we're doing, that is the highest rate card product we have today. Just below, actually, electronic product, I should correct myself. High Touch Voice Broked is the highest commission-based product. But if we're right, that these concept releases and proposed rules are enacted, we do believe that there is some cause for optimism in that business.

Bob Napoli: Thanks, the last question, just on Asia, just to try to be -- follow up on the earlier question, it sounds to me like you've peaked, you've come to an investment level you're comfortable with, the expenses there from here should grow slower than revenue, is that kind of, we should expect the loss to gradually decline over the next year?

Bob Gasser: I think on the comp line, we're in terms of people, I think we're at where we need to be. The question is, over time, whether or not there's some infrastructure-related expenses that may need to be applied to that business, and I think it's -- the jury's out on that. But I mean obviously, we're going to aggressively manage that.

Bob Napoli: Over the next year, you view that certainly at least over the next year as an investment business likely to continue to generate loss?

Bob Gasser: Yes, I do believe, as I said in my remarks though, for good reason, that 2010 is a seminal year. I mean, to introduce block dark trading into the region, the POSIT Marketplace into the region, the unique position we have on the equivalent of the ATS side in Japan, Hong Kong and Australia, and a management team now that I think is absolutely well-equipped and qualified to penetrate the client base. I feel good about our prospects there.

Bob Napoli: Thank you.

Operator: Our next question comes from the line of Daniel Harris of Goldman Sachs, you may proceed.

Daniel Harris: Yes, hi, good morning.

Howard Naphtali: Good morning, Dan.

Daniel Harris: I just wanted to ask just one more question on the spread business. If you eliminated the spread compression that you saw during the quarter, would there -- is there any other trends you could talk about, have you signed up new clients, are you seeing more activity from the clients you had, or is execution getting better in such that if spreads were to widen out a little bit, which obviously may not happen, that business would have an upward rebound?

Bob Gasser: Yes, I think it's correlated to both volume, I think we've got a good pipeline of new participants coming on, but you need the volume to interact with, clearly. We're not making any assumptions internally about spreads, you know, gapping out from here or improving from here. And so, I think the spread based business is one that we continue to be very positive about, we think it adds quite a bit to the overall liquidity pool and the client experience. We've managed the introduction of these new sources of liquidity I think very well.

It's been a win-win from the different constituencies' perspectives. So, I think that we -- our view is that with a little bit more volume, we provide some wind in our sails, plus a pipeline of new participants. We continue to be positive about it as a business line for the firm.

Daniel Harris: And when you think about that pipeline, where are these, are these mostly clients that have already been clients of ITG in some other fashion, or -- and if that is the case, can you put some qualitative or quantitative measures around what percentage of clients are using this versus what percentage you think you can still sign up?

Bob Gasser: I think generally the folks that are interacting with us in the spread business this year, I'd say that the majority of them are new clients of the firm.

Daniel Harris: Okay, that's helpful. And then just lastly on the international business, I want to -- I think someone asked this and I just want to make sure I understand. If you go back, six, seven quarters, revenues were close to \$50 million, expenses were in the 44-ish range. And so, revenues have come down, here and expenses are down around 43. Should we expect that that 43-44 could stay around that level, but the international revenues could continue to move higher? We wouldn't see the same sort of increase in expenses?

Howard Naphtali: There's a lot, certainly there's a lot of upside leverage that we've been talking about in Europe as we continue to bring down the transaction costs, and with any market recovery, and you have the *ad valorem* pricing, you'll see a significant, may see a significant, increase in contribution there. I think we've certainly talked exhaustively on this call already about Asia Pacific and Canada.

Bob Gasser: Canada, I mean, Canada really left a hole. There's no question about it, and but, the one piece of good news is, we know where, we know what caused the hole. And we're focused on it, aggressively.

Daniel Harris: Okay, thanks, guys.

Bob Gasser: Thank you.

Operator: Our next question comes from the line of Rob Rutschow of CLSA, you may proceed.

Rob Rutschow: Hi.

Bob Gasser: Good morning, Rob.

Rob Rutschow: Good morning. I was just trying to think about ways that you may be able to benefit from some of the cross-border flows out of the US and into other markets. Is there any, in light of the State Street issue with California, is there any room for you to sort of step in to some of that FX activity that's been captive to the custodians, and how else should we think about the opportunities from that trend?

Bob Gasser: I certainly don't want to speak directly to that, but I think there has been, and continues to be, an interesting evolution of the FX business that is focused on more direct access to FX prices, and dealers, that -- away from the custodial business. And I think it's probably intuitive. And so, you've seen alternative FX trading systems pop up, some of which are owned by State Street,

you know, CURRENEX and FX Connect. There's FX All, etc., etc. So, there's a broad variety of products out there and companies that are starting to, or have been for quite some time, but there's starting to be I think, some momentum in that business generated by conflicts like the one we witnessed.

So, FX I think clearly is an interesting asset class. And we're doing more and more investigation of how FX can fit within our platform. The guys in Canada, for instance, have done a fantastic job of integrating FX into their best market server, so we're a significant player in CAN dollar, every day, on the part of both northbound and southbound flows. And I think there may be some more opportunities for us to exploit that kind of the efficiency of FX, or integrate a more efficient FX capability into the algorithmic capability, and that's something that we've got some folks spending some time on.

Rob Rutschow: Okay, that's helpful. Last question, I apologize if you said this already, but did you give us any guidance on what the costs might be associated with the POSIT rollout in Asia?

Bob Gasser: No.

Howard Naphtali: No.

Rob Rutschow: Okay. Can you?

Bob Gasser: No.

Rob Rutschow: All right, thanks a lot.

Bob Gasser: Thank you, Rob.

Operator: With no further questions in the queue, I would now like to turn the call back over to Bob Gasser for closing remarks. You may proceed.

Bob Gasser: We want to thank you for joining us this morning, and we look forward to speaking with you in January.

Operator: Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect.