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ITG - Q3 2017 Investment Technology Group Inc Earnings Call

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PRESENTATION

Operator

Good morning, and thank you for joining us to discuss ITG's Third Quarter 2017 Results. My name is Allison, and I will facilitate the call today. (Operator Instructions). As a reminder, this session is being recorded.

I would now like to turn the call over to J.T. Farley of ITG.

James T. Farley - *Investment Technology Group, Inc. - Director of IR and Corporate Communications*

Thank you, Allison, and good morning. In accordance with safe harbor regulations, I would like to advise you that the forward-looking statements we'll 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. 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.

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President & Director*

Thank you, J.T. Good morning, and thank you for joining us to review ITG's performance for the third quarter. I will deliver an update on our Strategic Operating Plan. We are now at the halfway point of this 10-quarter strategic plan. I will take stock of the progress we've made and the opportunities which lie ahead. I'll also share additional steps taken to manage expenses, increase operating efficiency and enhance ITG's product offerings. Steve will then take you through financial results. Finally, we will take your questions.

To begin, results for the third quarter were mixed. International operations performed well, but U.S. results lagged, due in part to lower market-wide trading volume. In Europe, we posted strong results driven by a 76% year-over-year increase in value traded in the POSIT Alert block crossing system. While the third quarter is typically seasonally weaker in Europe, this was the best third quarter on record in terms of revenues and pretax income.

As MIFID II comes into force in January, there is a heightened awareness about the need for best execution and accurate measurement of trading performance. Investments in technology position ITG to take full advantage of this trend.

In Asia-Pacific, we achieved record revenues and profitability. Results were boosted by another record quarter for value traded in POSIT Alert, which is available in 11 countries across the region. We also had a key win in our sell-side business, with an agreement to provide Algo trading capabilities to a major regional investment bank.

In Canada, our business continues to perform well. Both ITG Canada and our sell-side dark pool, MATCH Now, gained market share as compared to the third quarter of 2016. MATCH Now set new monthly market share records in both August and September, and ITG Canada's executed volume rose 10% year-over-year in the third quarter of 2017 despite a 14% drop in market-wide trading activity. And as we pursue our technology outsourcing agenda, we won a key trading mandate from a European investment bank to provide them with electronic trading services in the Canadian market.

In the U.S., we are working to narrow the profitability gap in the face of weaker market volumes. Average daily trading in U.S. equities fell to a 3-year low in the third quarter of 2017, down 12% year-over-year and 8% quarter-over-quarter to 6.1 billion shares per day. Market share in the third quarter was 2.06%, up from 1.75% in the third quarter of 2016, but down slightly from 2.15% in the second quarter of 2017. We remain focused on initiatives to grow revenue and maintain discipline in expense management. This is how we will achieve consistent profitability in U.S. operations.

On the expense side, during the third quarter we continued targeted reductions to U.S. headcount. Overall, since the launch of the Strategic Operating Plan, we have reduced annual costs by approximately $20 million. We're also taking additional steps to improve operating efficiency in the coming quarters.

Earlier this year, we consolidated our office space in Boston. Now, we are also reducing the real estate footprint in our New York headquarters and we are streamlining our derivatives offering through the establishment of the planned Matrix derivatives venture, which we announced in September. These cost saving measures are funding strategic initiatives and significant investments in technology and personnel. Steve will provide more details on the financial impacts of these steps.

I will now turn to our Strategic Operating Plan, which will deliver global, innovative, technology-driven solutions. We launched this 10-quarter Strategic Operating Plan in July of 2016, with plans for investing $40 million in people and technology. We are now at the 5-quarter halfway mark, a good time to take stock of progress. ITG has a clear opportunity in electronic execution and we are redoubling efforts to provide best-in-class product innovation and client service.

For example, the next-generation Triton Execution Management System is a true open architecture platform. Triton now offers integrated pretrade analytics, improved workflow configurability, and new tools to ensure compliance with MIFID II best execution standards. In analytics, we now provide transaction cost analysis for major global corporate and sovereign fixed income securities, as well as equities and foreign exchange. We're also integrating analytics into our portfolio trading execution capabilities and we've upgraded our analytics user experience to enable streamlined and more customizable access to ITG's robust transaction cost peer database.

In execution, we are integrating artificial intelligence into our algorithms. We will be rolling out our innovative AI Algos to clients in the coming months. We're also gaining traction with our proprietary Algo Wheel, which allows for objective, repeatable auditable measurement of broker algos through a randomized approach. Algo Wheel frees up traders to focus on critical issues such as strategy selection. We already have more than 20 clients live on Algo Wheel, with a strong pipeline to be on-boarded shortly.

In liquidity, we've developed new functionality in the POSIT network, including PowerMatch for enhanced block-crossing opportunities and POSIT Auction in Europe, which will provide additional liquidity under the MIFID II dark cap regulations.

On the recruiting front, nearly all the targeted hires are now on board. We've identified 58 of the 60 hires for the SOP; 56 were in place by the end of the third quarter. These professionals include people in key roles in client coverage, product management and technology development. Even with these new recruits, our global headcount declined from 953 to 941 at the end of the third quarter, demonstrating our commitment to expense discipline across the enterprise.

Regarding the $40 million allocated for the SOP, we have so far invested approximately $15 million, including more than $7 million in the third quarter. Looking at internal benchmarks for the Strategic Operating Plan, on a global basis year-to-date, revenues are approximately 3% below 2017 planned targets through the end of the third quarter.

International operations overall are running well ahead of plan, while the U.S. operation is behind plan. As previously discussed, the SOP calls for accelerated revenue growth through the end of the year and into 2018. The major headwind to performance is U.S. trading activity. When we launched the SOP in July of 2016, we noted that it assumed flat market volumes from the prior quarter. In the U.S., that meant 7.3 billion shares average daily trading. Since then, volumes have been weaker, averaging 6.7 billion shares over the past 5 quarters.

As we've noted previously, it is more difficult to gain market share when market volumes are light. If U.S. market activity remains weak, it may take us longer than the targeted end of 2018 to reach the financial goals of the Strategic Operating Plan, which are $600 million in annualized revenue and 15% pretax margins. Despite these headwinds, we are working diligently to improve traction with clients and to grow U.S. market share. We've added new capabilities, improved technology infrastructure and experienced staff to our already capable team, and we are confident we will make progress in the coming months.

Since our last earnings call, I've met with clients globally. The feedback is clear, ITG's value proposition is resonating with them. MIFID II regulation is set for January and we've established a leadership position in working with clients to prepare for these changes. ITG is well placed to capitalize on the increased global focus on best execution and operating efficiency.

In short, we have a clear opportunity to solidify our place as a leading independent, technology-enabled agency broker. There's much to do in the next 5 quarters of our Strategic Operating Plan. I am confident that we are on the right track.

Now, I'll hand it over to Steve to discuss third quarter financial results. Steve, all yours.

Steven R. Vigliotti - *Investment Technology Group, Inc. - CFO, Chief Administrative Officer and MD*

Thank you, Frank, and good morning. As Frank noted, we posted strong international results with record Asia-Pacific revenues and strong global Alert activity. This was offset by weaker U.S. performance in the face of steep declines in market-wide trading activity.

In the third quarter, revenues were $114.5 million, and GAAP net loss was $47 million, or $1.42 per share. This compares to revenues of $121.6 million and net income of $0.14 per share in the second quarter of 2017, and revenues of $104.2 million and a GAAP net loss of $23.9 million or $0.73 per share in the third quarter of 2016.

On Slide 9, we detail nonoperating items that are in GAAP results for the third quarter of 2017 and the third quarter of 2016. In the third quarter of 2017, we incurred a noncash charge of $42.3 million or $1.28 per share to establish a full valuation allowance for U.S. deferred tax assets recorded as of June 30, 2017. We also incurred a charge of $1.1 million or $0.03 per share in intangible write-downs and legal fees related to the creation of the Matrix derivatives venture.

We established a full valuation allowance on U.S. deferred tax assets based on prevailing accounting guidance related to recent cumulative losses, which limits our ability to consider subjective evidence such as forecasts of future U.S. profits. This noncash charge does not limit our ability to utilize the underlying tax assets against future U.S. profits. Excluding these items, we incurred an adjusted net loss of $3.6 million or $0.11 per share for the quarter.

For this discussion going forward, all references to 2017 and 2016 results and costs will be on an adjusted basis, excluding the items listed on Slide 9.

Slide 10 presents consolidated results, along with separate details of results from North America, Europe and Asia-Pacific operations as well as corporate activity. As a reminder, corporate activity includes investment income and other gains as well as costs not associated with operating ITG's regional and product-based business lines.

Compared to the second quarter of 2017, consolidated revenues were down $7.1 million, while consolidated expenses were down $1.1 million. Consolidated pretax margin was negative 0.8%, down from 4.2% in the second quarter of 2017 and up from negative 5.3% in the third quarter of 2016.

We recorded $2.7 million in taxes, despite incurring a pretax loss due to the establishment of a valuation allowance on U.S. deferred tax assets that arose during the quarter on our U.S. and adjusted corporate results totaling $5.5 million or $0.17 per share. This portion of the charge was included in adjusted earnings, so you can see the impact of the revised assessment of U.S. deferred tax assets going forward. Excluding this portion of the valuation allowance, we would've posted adjusted earnings of $0.05 per share in the third quarter of 2017.

North American businesses posted a net loss of $0.26 per share on results of 62 point -- revenues of $62.4 million. Net loss in North America includes a valuation allowance on deferred tax benefits on U.S. operations that arose in the third quarter totaling $3.5 million or $0.11 per share. Combined European and Asia-Pacific businesses posted net income of $0.30 per share in the third quarter on revenues of $51.6 million. Corporate activity lowered net income by $0.15 per share including a valuation allowance of $2 million or $0.06 per share on deferred tax assets that arose during the quarter on adjusted corporate activity.

On Slide 11, you can review the impact of exchange rates on financial results of foreign subsidiaries. Currency changes increased profitability by $700,000 when compared to rates in effect in the second quarter of 2017 and by $400,000 when compared to rates in effect in the third quarter of 2016. You can also see the larger impact on reported revenues and expenses.

On Slide 12, North America operations are separated between the U.S. and Canada. During the third quarter of 2017, we generated revenues of $47.4 million with a pretax margin of negative -19% in the U.S. This compares to $52.8 million in revenues with a pretax margin of negative -9.5% in the second quarter of 2017.

U.S. commission revenues declined 13.6% sequentially, while daily market-wide volumes were down 12% versus the second quarter of 2017. The percentage of sell-side volume fell from 55% to 52% quarter-over quarter. The average U.S. revenue per share was flat at 36 mils, as a greater percentage of our buy-side flow during the third quarter was from lower priced rebalanced trades. Recurring revenues were flat sequentially and down 5% from the third quarter of 2016. This year-over-year drop reflects a shift in the allocation of revenue attributable to global connections as well as OMS attrition.

U.S. expenses were 2.4% sequentially, reflecting lower transaction processing costs and the impact of cost-savings measures, partially offset by investments in the Strategic Operating Plan. U.S. expenses also reflect employee termination costs of $1.7 million, up from $1.2 million in the second quarter of 2017. Expenses were down 1.6% year-over-year, largely due to the wind-down of the energy research distribution agreement.

Third quarter 2017 compensation ratio was 55.7% compared to 49.4% in the second quarter and 52.3% in the third quarter of 2016. These increases reflected, in part, the impact of higher employee separation charges during the third quarter of 2017.

Canadian revenues were down 5.8% sequentially, outpacing a 19% decline in daily market-wide trading volumes due to a significant increase in market share. Canadian revenues were up 9.7% year-over-year despite a 14% reduction in daily market-wide trading volumes.

Slide 13 is a breakdown of European and Asia-Pacific results. Daily European value traded in the third quarter was up 11% year-over-year versus a 9% increase in daily market-wide trading activity. A 76% increase in value traded in POSIT Alert more than offset the impact of reduced trading by sell-side clients.

In the Asia-Pacific region, we set new records for revenues, net income and value traded in POSIT Alert. Commissions in the region were up 22% year-over-year versus a 12% increase in daily market-wide value traded.

On Slide 14, we offer supplementary information on product group revenues and investment income, which we categorize as corporate. Execution services revenues dropped 8% versus the second quarter of 2017 due in part to seasonally weak trading in all regions except Asia-Pacific. Revenues were up 14% year-over-year, boosted by a 36% increase in global POSIT Alert revenues.

Workflow technology revenues dropped 3% versus the second quarter of 2017 due to lower commission share revenues. Workflow technology revenues were 1% lower than the third quarter of 2016 due in part to OMS attrition. Analytics revenues were up 3% on a sequential basis and 4% year-over-year on stronger sales and favorable currency translation.

On Slide 15, we present supplementary pretax income information for 3 product groups and for corporate activity. Margins in execution services were down sequentially due to lower trading activity and up significantly year-over-year, driven by strong global growth in POSIT Alert. Workflow technology margins were down both sequentially and year-over-year due in part to the impact of employee separation charges and investments under the Strategic Operating Plan.

Analytics margins returned to positive territory in the third quarter of 2017 despite the impact of employee separation charges. The pretax loss for corporate activity increased year-over-year, reflecting higher legal expenses. As I have mentioned in prior calls, corporate expenses, including legal costs, will vary from quarter to quarter as we work through litigation, regulatory and other corporate matters.

Slide 16 presents U.S. volume and rate capture statistics. Average daily executed volume was down 15% versus the second quarter compared to a 12% decrease in daily market-wide trading volume. Our market share decreased slightly on a quarter-over-quarter basis but was up versus the third quarter of 2016. Overall revenue capture rate per share was flat on a sequential basis and down year-over-year.

We ended the quarter with $239 million of cash, down from $252 million at the end of the second quarter. This decrease was due primarily to an increase in cash tied up in European settlement activities, as well as higher clearing deposit requirements in the U.S. Excess cash at September 30, over and above what is needed for required regulatory capital and other compensation liabilities, was approximately $80 million, up from $75 million at June 30 due to further capital efficiencies both in Europe and Asia-Pacific.

Regarding capital returns, we continued to buy back shares during the third quarter, repurchasing 120,000 shares for approximately $2.4 million or an average cost of $20.22 per share. While our goal over the long term is to use our share repurchase program to offset dilution from share issuances on the vesting of stock awards, we may not reach that goal for full year 2017.

Looking forward, here are a few closing observations. As Frank mentioned, we invested approximately $7 million in the Strategic Operating Plan during the third quarter, and invested more than $12 million in the first three quarters of this year. We now expect total 2017 investment to be in the high-teens millions range, with roughly half of that expensed and half capitalized, and the remainder of the SOP investment to take place during 2018.

We anticipate that the staff reductions we made in the third quarter of 2017 will reduce our annual compensation expenses by approximately $2.5 million annually, starting in the fourth quarter of 2017.

Following on the consolidation of our Boston office space, we are reducing the real estate footprint in our New York headquarters, moving staff onto 2 floors from 3. We expect to take a one-time charge between $7 million and $8 million related to this move in the fourth quarter. This charge is largely noncash for the write-off of leasehold improvements. We anticipate this will reduce our U.S. occupancy expenses by $2.5 million annually starting in the first quarter of 2018.

The Matrix derivatives venture we announced in September is on track to be finalized either before year-end or in early 2018. This deal is expected to improve our U.S. profitability by approximately $1.5 million annually, given expectations of a $5 million drop in annual revenues and a $6.5 million drop in annual expenses.

Looking at current business activity levels, U.S. average daily volume in October was 127 million shares, with an average revenue per share approximately 8% higher than the third quarter 2017 average. Market share was slightly higher than the third quarter 2017 average.

October combined average daily commissions in Canada, Europe and Asia-Pacific were up approximately 11% in U.S. dollar terms compared to the third quarter of 2017. On a blended international basis, there were approximately 22 trading days in October 2017.

Thanks to the stronger international performance, and the expense savings measures we've implemented, we returned to profitability on a consolidated basis for the month of October. While we are still battling the U.S. headwinds Frank discussed, there are many encouraging developments in our international business. And we've taken concrete steps to improve efficiency and position ITG for future growth.

Now, I'll turn it discussion back to Frank.

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President & Director*

Thank you, Steve. Before we address your questions, let me sum up our comments today. We are at the halfway mark in executing on the 10-quarter Strategic Operating Plan. We are making clear progress despite challenging U.S. market conditions. International operations overall are performing above expectations.

In the U.S., we are determined to fight the headwinds of lower trading activity and drive our business to consistent profitability in the coming quarters. With a focus on world-class client service, disciplined investment and a commitment to excellence, I am confident we are on a path toward achieving our goals.

Now, Steve and I will answer your questions.

QUESTIONS AND ANSWERS

Operator

We will now begin the question-and-answer session.

(Operator Instructions). Our first question will come from Rich Repetto with Sandler O'Neill. Please go ahead.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal, Equity Research*

Yeah, good morning, Frank; good morning, Steve. I guess the first question on this cost savings that you talked about, Steve, with Matrix and the real estate footprint, are these incremental to the cost saves from the Strategic Operating Plan?

Steven R. Vigliotti - *Investment Technology Group, Inc. - CFO, Chief Administrative Officer and MD*

Yes, they are; yes, they are. The cost savings from the Strategic Operating Plan will kick in at the back end of '18 and into '19 as other -- some of our technology initiatives get put into place.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal, Equity Research*

Okay. And then sort of the balance to that is you pushed out the $600 million run rate and the 15% pretax margins. I guess the question is if we stayed at the 6.5 billion shares per day, are we looking at early into 2019 or mid or late, if volumes -- if we assume volume is flat where we're at right now versus the 7.4 billion earlier?

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President & Director*

Good morning, Rich. It's Frank. We are committed to our SOP financial targets and our international businesses are performing well. The U.S. is lagging on a consolidated basis. It is the U.S. market volume, that's the major headwind to our global performance. And as I stated, should the U.S. market volumes continue at these levels, it may take us longer than the end of 2018 to reach our financial goals.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal, Equity Research*

Okay. So no more -- what you call it -- detail, more specifics on timing other than just beyond 2018?

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President & Director*

Not at this time, Rich.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal, Equity Research*

Okay. And I guess the very last thing, the $7 million that you spent and invested in the Strategic Operating Plan in the quarter, can you give us more detail where that was spent?

Steven R. Vigliotti - *Investment Technology Group, Inc. - CFO, Chief Administrative Officer and MD*

Sure, Rich. During the quarter just in terms of -- I don't have the initiative project-by-project here, but just in terms of from a cash flow perspective, roughly $4 million of that went through the -- went through the P&L, and $3 million was a combination of CapEx and capitalized software.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal, Equity Research*

Okay. Okay. Thank you very much.

Operator

Our next question will come from Ken Worthington with JPMorgan. Please go ahead.

Kenneth Brooks Worthington - *JP Morgan Chase & Co, Research Division - MD*

Hi, good morning. In terms of the U.S. business, you talked about activity levels being depressed. We see that in your -- the market share is sort of stalled and you're still a ways from profitability. If activity remains depressed, do you need to alter the plan to reach profitability, or do you not, and it's just more time?

I know you said it's going to take more time, but do there need to be changes to the plan as well? And if there are changes to the plan, are those ones that can be kind of implemented slowly over time and reversed, or they're big changes that would need to be contemplated, ones that like self-clearing? You're either in or you're out, and once you're out, you're not getting back in. Thanks.

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President & Director*

Good morning, Ken. We are committed to our Strategic Operating Plan, right, and we're not satisfied with our financial performance in the U.S. and attaining consistent profitability in the U.S. is a top priority. A contributing factor is the relatively light market volume environment, so the acceleration -- part of the acceleration in our financials will depend on market volumes. Regardless of the challenging market volumes, we're making the right moves in our business by pursuing revenue and operational efficiency initiatives.

We've been complementing and supplementing our team and rolling out enhanced and innovative products, and client feedback is very positive on these capabilities. Our value proposition is strong and internally, we have reignited the ITG innovation engine, that's being recognized by clients. On the operational efficiency side, we talked about taking out $20 million in costs over the past 5 quarters and we'll continue to do so. We will continue to look for those opportunities.

Kenneth Brooks Worthington - *JP Morgan Chase & Co, Research Division - MD*

Okay. So the way I'm reading it is the plan is an all-weather plan? Even if the volumes are depressed, the plan is still the one that is going to work without really any major tweaks.

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President & Director*

Right, with these initiatives, right, and these actions, we expect to achieve profitability in the U.S. and we're confident we're on the right track.

Steven R. Vigliotti - *Investment Technology Group, Inc. - CFO, Chief Administrative Officer and MD*

Yes, and as you can see, Ken, we are adapting to the current environment with a lot of the measures we're taking around cost discipline as well.

Kenneth Brooks Worthington - *JP Morgan Chase & Co, Research Division - MD*

Do you have (unintelligible)?

Steven R. Vigliotti - *Investment Technology Group, Inc. - CFO, Chief Administrative Officer and MD*

As we're investing in a plan, we're simultaneously being very disciplined on existing expenses.

Kenneth Brooks Worthington - *JP Morgan Chase & Co, Research Division - MD*

Right. Maybe Frank also, can you talk about the enhancements you've made thus far? You're bringing out a number of new capabilities. I know that's a big part of the plan. Where I struggle is translating the new capabilities into kind of the earnings outlook.

So to what extent are the enhancements that you have made adding to revenue currently? I know it's early days, so the follow-up to that is how much might these existing enhancements that you kind of listed out, contribute to annual revenue, say, within like 3 or 4 years? Like how big are these as part of the grand plan?

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President & Director*

Right. I won't give you any specifics out 3 or 4 years. We are making investments in analytics and the user experience; basically, the user front end. We have a robust database, we're opening it and unlocking it for greater manipulation on the clients' side. The next-generation Triton is an open architecture, so clients can embed their analytics, embed any intra-day execution capabilities as well as post-trade analytics.

The workflow technology solution of our Algo Wheel is right in line with MIFID II. At this point, we have 20 accounts in the pipeline to go live. We expect that to have a lot of legs to it into the future, and we are the tip of the spear around innovation with machine learning and artificial intelligence with rolling out our Active AI Algorithm, which is in its early days. So we're looking at rolling out very, very fresh innovative products that should have -- and we expect to have -- multi-quarter and year impact to our financials.

Kenneth Brooks Worthington - *JP Morgan Chase & Co, Research Division - MD*

Okay. And lastly for me, you mentioned the U.S. realization rate was up a bunch in October. What's driving the improvement there? I assume it's mix, but is it also some of the initiatives? Thank you.

Steven R. Vigliotti - *Investment Technology Group, Inc. - CFO, Chief Administrative Officer and MD*

Yes, the team has made good progress with buy-side accounts and again, that rate can fluctuate from period-to-period depending on a lot of factors, Ken, including the mix of clients as well as the mix of services they use, but good penetration with the buy-side in October.

Kenneth Brooks Worthington - *JP Morgan Chase & Co, Research Division - MD*

Okay. Thank you.

Operator

Our next question will come from Chris Allen with Rosenblatt Securities. Please go ahead.

Christopher John Allen - *Rosenblatt Securities Inc., Research Division - Senior Research Analyst*

Good morning, guys. I just wanted to ask, Frank, you just mentioned the 20 clients in the pipeline, the Algo Wheel and for Europe with MIFID II. Earlier in your remarks, you mentioned Asia-Pacific agreement for Algo trading to regional IB. Then a Canadian mandate for a European investment bank. I'm just kind of wondering what the pipelines look in Asia-Pacific kind of for those kind of opportunities moving forward in Europe, just want to get some more color there.

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President & Director*

Sure. We're pursuing our technology agenda across the globe in all 4 regions and that technology agenda is taking our execution infrastructure and outsourcing it to broker-dealers across the globe. We're seeing more and more traction; we noted 2 of those in my comments this morning. I won't give you any specifics on the pipeline, but we have a very robust offering and we are actively pursuing these opportunities now. And we think that there will be greater traction as we enter 2018, as some of the broker-dealers look to reduce their expense around technology infrastructure.

Christopher John Allen - *Rosenblatt Securities Inc., Research Division - Senior Research Analyst*

Got it. And then I also wanted to touch base on -- you mentioned some OMS attrition. Was that just kind of a one-off or is anything underneath the surface there?

Steven R. Vigliotti - *Investment Technology Group, Inc. - CFO, Chief Administrative Officer and MD*

No, we've seen a little bit of that, Chris, over the last couple of years, right? So it's a continuing trend, nothing major, but it does impact that recurring line within the U.S.

Christopher John Allen - *Rosenblatt Securities Inc., Research Division - Senior Research Analyst*

Got it. And then last one for me -- obviously, a lot of moving parts now with the DTA. Where does that kind of stand right now in terms of from a regional perspective, and how to think about that against future profitability?

Steven R. Vigliotti - *Investment Technology Group, Inc. - CFO, Chief Administrative Officer and MD*

Yes, thanks for asking that question. I think when you think about our tax expense going forward, you should think about it regionally, right? So when you think about the U.S. and corporate sort of on a combined basis, we expect to incur a fixed level of tax expense basically for some local state subsidiary taxes we have as well as some minimum taxes , somewhere between $400,000 and $500,000 a quarter, regardless of our profitability levels.

And you move to Canada, we expect to incur taxes on pretax profits at a rate between 35% and 40% and in Europe, we expect to incur taxes on profits in the low 20% range. And as you know, in Asia-Pacific, we're not reporting any tax on our profitability there because of the NOLs we have that we've established previously full valuation allowances on. So when you build your models, I'd build it out regionally, Chris, according to those guidelines.

Christopher John Allen - *Rosenblatt Securities Inc., Research Division - Senior Research Analyst*

Got it. And how much is left in the Asia-Pac in all?

Steven R. Vigliotti - *Investment Technology Group, Inc. - CFO, Chief Administrative Officer and MD*

Quite a bit. We have NOLs in the region between Hong Kong and Australia that can shield nearly $80 million of future taxable income. So we've got a ways to go on that.

Christopher John Allen - *Rosenblatt Securities Inc., Research Division - Senior Research Analyst*

Got it. Thanks a lot, guys.

Operator

Our next question is a follow-up from Rich Repetto of Sandler O'Neill. Please go ahead.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal, Equity Research*

Yes, hi, Frank, I just wanted to ask a question about the Treasury report that was released, was it, 2 or 3 weeks ago, but I'm just trying to see what you -- any reflections you have specific to ITG or even the industry. I know they talk about Reg ATS disclosure, but I guess what did you think about the impact on ITG and any other industry reflections you have as well?

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President & Director*

We're big proponents of transparency, all right, so anything to do with greater ATS transparency or order routing is in line with the way we think about the business. We're also proponents of overall systematic reliability in market structure. We're looking forward to working with Chair Clayton and Brett Redfearn, now that he's in his new seat. We have significant expertise in market structure and we're looking to collaborate with the regulators as they move forward.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal, Equity Research*

Understood. Thank you.

Operator

Ladies and gentlemen, this will conclude our question-and-answer session. I would like to turn the conference back over to Frank Troise for any closing remarks.

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President & Director*

Thank you for your questions. We look forward to discussing our continued progress on our fourth quarter call in the new year. Thank you again for joining us this morning.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your line.
