



**The Information Technology Division  
*Presents***

**BUSINESS AND TECHNOLOGY  
DIRECTIONS**

***April 7, 2009***

***Prepared and Moderated by  
Tellefsen and Company, L.L.C.***

# AGENDA

- I. Introduction, Our Distinguished Panel**
- II. Business and Technology Directions for 2009 / 2010**
- III. Questions for Our Panel**

# I. OUR DISTINGUISHED PANEL

■ ***Mayur Kapani***

- Vice President, Architecture, Intercontinental Exchange

■ ***Gerald Lawlor***

- Chief Technology Officer, International Derivatives Clearing Group, Ltd.

■ ***Lynn Martin***

- Senior Vice President, NYSE Liffe US

■ ***John Rapa***

- President / CEO, Tellefsen and Company, L.L.C.

## II. TECHNOLOGY DRIVERS

- Rate of introduction of new order management, trading, middle office applications and systems
- More technologically-sophisticated and demanding users
- Algorithmic trading and smart order routing technologies
- Growth of IT Budgets and rate of tech spending
- Evolution of new technologies and infrastructures that is faster, cheaper, better ...

## ***TECHNOLOGY DRIVERS (Cont'd) ...***

- **Quantity/quality of intellectual capital, tech skills inventory**
- **Relationship between information input and the velocity of trading (shorter time-scales, faster changes, more complex calculations, higher volumes)**
- **Adoption rate of industry standards across asset classes (e.g., quoting and execution messages).**

# III. BUSINESS TRENDS

- Regulatory reform in the winds
- G30: de-risk focus, push for more robust clearing and settlement systems
- Major banks (TARP recipients) effectively “government guaranteed”
- Reduced prop trading activities
- Focus on higher-margin, less capital intensive business lines
- Wider credit spreads
- Clearing OTC derivatives at futures clearing houses
- Growth of equity derivatives as a result of high VIX; lower equity capital markets volumes

## BUSINESS TRENDS (Cont'd) ...

- Firms' cost cutting initiatives:
  - Tiered client pricing and services
  - Reduced client coverage
  - Reduced trading desk staffing as a result of the extent of automated trading
  - Structural changes to reduce employees and back office overhead
- Retail investors are defensive, mutual fund assets under management expected to recover by 2011
- Institutional businesses predicted to recover first
- Growth of money market funds / money market asset management fees pinched by zero interest rate environments

## BUSINESS TRENDS (Cont'd) ...

- Pressures from institutional investors, hedge funds for best execution driving down equity commissions
- Evolution and consolidation of large full-service firms:
  - BofA / Merrill Lynch
  - Morgan Stanley / Smith Barney
  - Wells Fargo / Wachovia
- Growth of independent investment advisors, as retail brokers leave larger firms, growth of boutique players as a result of the brain drain from larger firms

## BUSINESS TRENDS (Cont'd) ...

- Futures exchanges base to grow from OTC clearing revenues, potential to introduce new products
- Contractions in dark pool liquidity, smaller average trade size from decline in retail orders and algo slicing impacting “chunky” block executions; some dark venues have become less efficient for buy-side traders
- Hedge funds diversifying prime broker relationships:
  - Shifting account locations to New York from London
  - Segregation of paid for assets and cash in unpledged accounts from assets hypothecated against margin loans made by prime brokers
  - Shifting assets to global custodians
  - Result: fragmentation in prime brokers market share
- Decline in hedge fund assets under management; impact on prime broker revenues/earnings

## BUSINESS TRENDS (Cont'd) ...

- Hedge funds diversifying operational and counterparty risks; diversifying prime broker relationships
- Hedge funds expanding in businesses being vacated or reduced by highly-regulated banks:
  - Can employ higher leverage, more aggressive funding strategies easier than TARP banks:
  - Can potentially profit from the capital and operating restraints of the larger banks
  - Large hedge funds – less regulated than commercial banks, lower credit ratings
- Prime brokerage costs expected to rise:
  - Increase in margin lending spreads by prime brokers
  - Decline in securities lending rebates to hedge funds
  - Increases in custodial fees to hedge funds, commensurate with risks
- Closer regulation of hedge funds and private equity firms is coming

### *III. QUESTIONS FOR OUR PANEL*

*THANKS TO OUR PANEL!!!*