TP ICAP Capital Markets Update

Full Transcript

30 November 2017

Introduction
John Phizackerley, Chief Executive Officer

1.0 Introduction

Good morning everybody and a very warm welcome to you all. What's excellent about today is that I'm not going to be doing most of the talking, so I am looking forward to hearing these presentations and obviously interacting with everybody here today, with any questions you may have. It's so good to see so many investors and shareholders and analysts and you're all very, very welcome.

Before we start the formal presentations I'd like to reflect for a minute or two on what has happened in the last two years since we last held one of these strategy days. At that time it was our first Group strategy meeting, we were Tullett Prebon and we presented the actions, products, regions, clients, and technologies that we thought were, at that time, the most exciting prospects for the Tullett Prebon business going forward. And that strategy, as you might remember, was branded the Ten Arrows.

We talked about our intention to diversify the business, particularly in energy, the possibility of opening up the buy side as a new client base for us and about investing in our technology and notably about growing the data business. And a lot of that stuff has actually happened so now seems a good time to update everybody on where we're taking the Group and our thoughts for the future.

Of course, the biggest thing that happened was the acquisition of ICAP, which has been a massive win for us and you'll be hearing today about what ICAP has delivered, with an update on the integration of course, and how it helps positions TP ICAP for the future.

Now as I mentioned at the beginning I'm joined today by my senior colleagues from across the Group, some of them you know, some of them you haven't met before. But I have to tell you I'm immensely proud as I look at the top team here at TP ICAP, it's made up of some very talented individuals. Some of them have been with TP for a long time, ICAP for a long time, and others are new to the business.

What I set out to do was assemble the very best team I could and there have inevitably been some tough decisions along the way as I've chosen between leaders from TP and ICAP. And I have been to a fair number of retirement parties.

But today, the Global Executive Committee is an energised group, it's intellectually curious, globally minded and very focused on taking us forward. I believe it's the best management team in the brokerage industry. The world is changing and new opportunities are continually emerging, so we are positioning ourselves to be at the forefront of that change. And hopefully driving it and shaping it in a way that is relevant and valuable to our clients.

So onto the agenda, I hope you can read that. First up, we'll hear a presentation on some of the important aspects of our financial profile from Robin Stewart, our Interim CFO. Robin has been with the Group since 2003, so he's steeped in detail about us and I'm confident he'll do a superb job in this new role.

We'll then have a presentation from our new COO, Iain Plunkett, Iain now leads the integration effort, reporting directly to me and he'll take you through progress on the integration, the levers we can pull to reduce costs and where he sees IT and operations and other things in the future.

We'll then move on to our presentations from the four major business divisions, first up Global Broking, a presentation will be given by Nicolas Breteau, who is here somewhere, there are you Nicolas, thank you, and he'll take you through a wide variety of execution protocols that we provide our clients and show how the broker and our technology are increasingly welded together.

You know I'm often asked about the electrification of the business and whether our business model is sustainable. I can assure you it is. And if I think about it, less than 10% of our revenues are generated from pure voice broking, technology is embedded in all that we do and we're going to be showing you a video so you can see this in action and hope it will bring that to life for you. And I think Perky is also joining in on that part of the presentation.

Our Head of Europe, Frits Vogels, will present on two of the major issues that we have faced in Europe in 2017 and will continue to deal with next year, namely MiFID II and Brexit. And although these are primarily European issues Frits will talk about how we've been preparing for these events so we can manage the effectively. And without stealing Frits' thunder, I would add that I've come to the view that MiFID II and even Brexit present a competitive advantage for a company the size of TP ICAP and that both will hasten consolidation in the brokerage sector.

For example, in a post MiFID II world, with participants required to pursue best execution, TP ICAP as the biggest operator of MTF and OTF venues will offer superior liquidity by virtue of our market share to both buy side and sell side clients. With pre and post trade transparency and analytics with the number one ranked data product, this in itself should drive and attract further liquidity to our firm. Underlying all this, I believe, are the best and most productive brokers in the market.

Then John Abularrage who runs our Americas business will talk about client relationship management and talk about some recent original research we commissioned from the US, from the TABB Group on the West Coast of the United States. I believe TP ICAP now leads the way in client relationship management in our sector. It was one of the Ten Arrows and it is definitely a competitive advantage.

We are also delighted to then welcome three of our most important clients, who have gamely agreed to sit on a panel to discuss what they look for in a broker and a business partner.

Then Sam Ruiz will talk about our Institutional Services business and we have an announcement on that this morning. When we did our first Investor Day in June 2015 the Institutional Services division didn't exist and we created it in August 2016 and we now know we've tapped into an underserved part of the market and have the potential to provide a service where there is significant and growing demand. And Sam will explain more about where we're going and how institutional services can become an important new divisions for TP ICAP.

We're working down the list, next up is Andrew Polydor, who will cover our Energy and Commodities business. As you know, as well as being the biggest interdealer broker in the world, TP ICAP is the largest Energy and Commodities broker in the world. It's become more than 20% of our total revenues and like Global Broking offers clients a full range of methods to transact with us. It's a hugely varied product in its client base and in geography and it's a division with further growth prospects.

Then the fourth division, Information Services, where I'm very pleased to introduce you to Eric Sinclair who joined just two weeks ago, welcome Eric. Eric comes from an exchange background and we have great hopes for what he and his division will be able to deliver. Eric said when we interviewed him that he was excited to be joining the world's biggest broker with an interesting data and analytic business. He then said when he's done we'll be a global data and analytics business with an interesting brokerage business and I said, you're hired.

[Laughter]

At the end I'm looking forward to coming back and saying a few closing remarks. And we've made sure there's plenty of time for questions during the sessions and I hope you get to meet as many of the management as you can.

Lastly, I often say to people the exciting thing about TP ICAP is not a day goes by when we don't see something we could do better or find a new business opportunity. And I hope you come away from today with a sense of our collective enthusiasm about this company and our optimism for its future. Thanks very much for coming and I'm going to hand over to Robin.

Finance

Robin Stewart, Interim Chief Financial Officer

2.0 Finance

Thank you, Phiz. Good morning everyone, I'm Robin Stewart and I'm Interim CFO here at TP ICAP. For those of you how don't know me I've been Financial Controller and Deputy CFO for the last six years. I joined Tullett 14 years ago and have held a number of other senior finance roles during that time. For the last two years I've been heavily involved in the negotiations, completion and integration planning for the ICAP acquisition. I'm looking forward to successfully implementing those plans, having invested a lot of time and energy in the transaction so far.

What I plan to do today is give you some further insight into our strategic thinking in key areas where investors often ask for more information. So I'm going to talk this morning about regulatory capital, how we manage our cash resources, our dividend policy and the restructuring of our legal entities. These four areas are all interconnected and are key to delivering value for shareholders over time.

Before I do that I'd like to talk briefly about the integration. Our Chief Operating Officer Iain Plunkett will talk in more detail about this shortly, but I'd like to confirm that the integration is well on track and we are making good progress.

As you know we announced synergy savings of £8m at the half year compared to a full year target of £10m. So we now expect synergies of more than £16m for the full year. As we said in our 2016 Annual Report, we continue to expect overall synergy savings of £80m, by 2019, with a further £20m, delivered in 2020.

So let me move on now to talk about regulation. The Group is subject to EU capital requirements regulation and in particular Capital Requirements Directive 4, otherwise known as CRD4. When we completed the acquisition of ICAP, the FCA granted us a ten year waiver from supervision under CRD4 on a consolidated basis. Instead, the Group only has to comply with the financial holding company test under CRD4. You can find details of our compliance with this test in our Pillar III disclosures on the website.

The FCA allowed us this exemption in line with other limited licensed firms like ours because the terms of the consolidated test are onerous and we currently have a technical deficit. That deficit arises because goodwill does not count as eligible capital for CRD4 purposes. And, on completion of the ICAP transaction the goodwill balance increased substantially.

Since the waiver expires at the end of 2026, we're in the process of building tangible capital to be compliant by then. The capital requirement on a consolidated basis under CRD4 is made up of three aspects. Credit risk exposure in relation to our cash, financial assets and receivables on the balance sheet, market risk exposure, which is minimal as we do not take positions and fixed overhead exposure which makes up the vast majority of our CRD4 requirement and represents 25% of our fixed cost base.

Capital resources, equivalent to 8% of risk weighted assets must be held against these requirements.

The Group will eliminate this capital deficit through retention of earnings, though we only need to set aside a modest amount of retained earnings over the ten year period to be compliant. There are other conditions of the waiver, but these are all in line with our current banking covenants. You can see them on the slide.

We report our progress on eliminating the deficit to the FCA every two and a half years to give them assurance that the Group's deficit has reduced below agreed limits.

So let me turn now to cash. As you know this is a cash generative business, where we generally convert underlying operating profit into cash over the year. We also hold cash for working capital, liquidity to meet margin calls on match principle business and for our regulatory capital requirements. This regulatory capital is generally met by net tangible assets held mainly as cash.

In addition to this we hold cash for ongoing capex commitments and bolt on acquisitions. Over the course of this year and next, the business will have some increased demands on its cash resources. Integration costs are expected to be 1.3 times the synergy savings and this will mostly be spent up front, this year and next.

We are also investing in new offices in several markets, including London, New York and Singapore in order to co-locate our business. Brexit and MiFID II may also require cash resources, especially if we have to increase capital in one of our European subsidiaries, Frits will talk more about Brexit later.

Despite these demands we are in a strong cash position. We also have the ability to drawdown on our £250m revolving credit facility to meet any short term funding requirements or for M&A.

So let me turn now to our dividend policy. When we announced the acquisition of ICAP in November 2015, we wanted to ensure that dividend payments were sustained on a significantly higher share count. We knew at the time that the business would have to pay for integration costs and also retain some net tangible capital for regulatory purposes. As a result, we said that we would maintain a full year dividend of 16.85 pence during the integration with an ambition to grow the dividend over time. This is something we remain committed to.

Clearly as we come to the end of the integration process during 2019 we will review this policy and give you further guidance.

Finally, I'd like to talk about how we are restructuring our legal entities. When we completed the ICAP acquisition we became a group with over 200 separate legal entities. Over the next two to three years we plan to reduce this by more than half to a more manageable number. This will facilitate synergy savings in many of the integration work streams and there are some additional benefits. It helps streamline liquidity management making the flow of funds up to Group easier and more efficient and there is also a potential to free up a modest amount of regulatory restricted cash but we don't yet know the size of this opportunity as work is still ongoing.

So to summarise, we are focused on managing our resources in a disciplined manner in order to deliver value for shareholders. We are in a strong cash position that will get even stronger once the integration is complete. We are making steady progress to comply with our CRD4 capital waiver by 2026, and we are committed to sustaining dividends at the same level throughout the integration. We will review this in 2019 as the integration nears completion.

Thank you very much, I'll hand over now to our Chief Operating Officer, Iain Plunkett, to talk in more detail about the integration process.

Integration and Corporate Services
Iain Plunkett, Chief Operating Officer

3.0 Integration and Corporate Services

Thank you very much Robin, I wish this was a little bit smaller. So by way of introduction, I've been with the firm now for six months and the start of my career was all about technology. I was a computer science graduate in Glasgow and I've spent 25 years working within and around financial services in a number of large firms, 16 years of that at UBS as a Group Managing Director. My last role was with Aberdeen Asset Manager as the Group COO and Member of the Management Board, working with Martin Gilbert.

So why did I join this firm and what do I bring? So what I've learnt over my career is that technology is a means to deliver change, as is data, analytics, organisational transformation, looking at processes, supply chain and all of the difficult engineering disciplines that you require to change organisations. So that's what I do.

And when Phiz called me and said - do you want to have a conversation about this role it ticked so many boxes. I have worked sell side, buy side, I've done Energy, I do change technology. And the vision for this organisation that Phiz outlined this morning and the reality of where we've come after a year is too compelling not to do it.

So I wanted to talk for a second a little bit about the business model. So I think we need to just be very, very clear why we're doing what we're doing. There were two parts to our story, the first part we are a multi-brand business and you saw the announcement this morning and I don't want to steal Sam's thunder but we closed on Coex, but our strategy is to add more brands onto our platform.

The second half of our story is we're creating a set of services that allow the brands and the business to scale at marginal cost. We seek to create a platform to enable us to extend out without having to invest capital. So that will be the primary driver of our enhanced operating leverage and our operating profit development over the years.

I put some words on this slide which I think are important, the top half, the first brand story is about differentiation, it's about customers and products and agility, and the services are all about leverage, scale efficiency, process. So we're doing two things. So whilst we have taken money out of both aspects of the strategy so far, we've taken a load of opportunities to rationalise the leadership teams, to get organised in the front and all of the groups will go through that in the presentations today. The core of our overall transformation is about the services, it's about creating scalable services that allow us to scale at marginal costs.

I think you will also acknowledge, we are all engaged in MiFID in one sense or another and we'll all be engaged in Brexit. We think that this platform and this story around services will enable us to attract brokers onto our platform to enrich the number of brands that we have over time. We think we're putting a platform in place that will allow us to be completely differentiated.

So what have I seen since I've joined the firm? I've been sitting on as many desks as I can and I'm a technologist at heart, I was the CTO of UBS, I was the enterprise architect at Barclays, I've built technology solutions in many aspects of financial services, and I also thought tech was winning. But when I sit on these desks and I listen to brokers and I look at the way they use technology and I listen to the conversations with our customers and I look at the data and analytics we use, it creates an incredibly sticky immersive experience and one that is very, very difficult to replicate.

So yes, absolutely platforms will emerge and technologies will continue to come into the market and slightly change the model, but we have absolute conviction that hybrid broking technology, data analytics, great relationships, amazing knowledge will differentiate us over time.

We are seeing a change in landscape within the ecosystem of finance, there's a lot of capital looking to disrupt this industry; private equity, VC money, the tech sector, and absolutely we need to be engaged in that ecosystem to look to co-innovate with those participants. We are having conversations with our customers around how we can be more connected, how we can create deeper and broader relationships. We are looking with the tech sector as to how we can think about analytics and data services so we are engaged and that will be critical.

Ultimately, and very critical for this audience, cost discipline is absolutely critical for us. Our service model and our point of massive differentiation in thinking about our platform absolutely require us to demonstrate discipline and it's at the core of what we're trying to achieve on the integration.

So on the integration I think the first and most important thing to say is we remain fully committed to the £100m synergy number. And absolutely as Robin went through, we've made great progress in the first year of our integration and that has been about getting organised, taking out the very clear points of duplication, taking out redundant management structures and getting ourselves lean and organised.

The next two years of our story is complex, it's about the transformation of our services, it's engineering, it's about fixing our processes, addressing our technology, moving all the real estate together and it's looking at all of our suppliers and our supply chain. So this is hard work, but we're up for the task.

So I've put one slide together that shows all of the detailed levers that we're pulling. When I reviewed the slides with the team, they said oh look too much tech, too much jargon, but I want to just be clear what this really delivers, we're looking for in IT - we want to increase the productivity of technology and I'll do one slide after this around what ICAP were doing that we wished to capitalised after the deal was closed.

We wish to reduce costs, clearly two businesses, same services, same asset classes, there is a load of duplication, we will take the duplication out. We want to create a more simplified architecture for the firm, we want to be fast, we want to be agile. And that makes us differentiated and being opportunistic and being fast in time to market.

And I think the last thing is, we want to continue our pivot to Belfast. We have 70 people in Belfast now, which from a standing start has been a tremendous achievement by Andrew and the IT team in building that group out. But our ambitions are broader, we're planning to put aspects of our operational processes there and we're going to examine running some of our other corporate services there, such as compliance monitoring.

But again, all of these things, all of these levers are about both taking out cost in IT, but making us fit for the future.

Within Operations and Corporate Services, when I look at the process we operate we are a little bit behind the investment banks, we're a little bit behind even the buy side. So we've got a lot of opportunity to automate processes, drive further STP, straight through processes, and deploy some commodity solutions. We're rolling out Workday for HR; many of your company will be on HR. Andrew has done a super job at rolling out with Robin the Oracle architecture to make sure that we can manage all of the financial processes. So again, doing these standard IT things well, and changing our operations is critical. And again, fixing the data and reducing manual effort.

And then on our third party costs, one of the things we've accelerated in the last three months is looking at all of the money we spend with our third parties. Again, as you can imagine, these two businesses were ostensibly identical and we spent money with the same suppliers, on the same things, and there's natural synergies and scale that we can gain out of our third party spend.

So just to focus for a second on what agile means. Ultimately modern IT organisations are highly agile and very entrepreneurial. ICAP had invested in Fusion, and Michael spoke about this in many of his presentations in this type of environment to talk about how he was repositioning broking and how he was thinking about supporting customers.

A load of those assets and services, whilst never completely embedded within ICAP are absolutely available for us to embed within the broader organisation and that is exactly what we're looking to do. We're going to capitalise on some of those investments and I've put in here some of the statistics, these are large industry samples, however, through adopting these techniques you can drive material increases in productivity, faster delivery, better quality and ultimately be faster to market. So we view this type of change as critical to us positioning ourselves in the future.

So just to summarise, firstly we've made very good progress in the first year of the integration and we have good momentum. The next two years will be complex, it's about engineering and change, but we have a plan and we're fully committed to the delivery of the benefits.

Thirdly, hybrid broking is immensely sticky and the aggregate of people, data and analytics and technology is a very, very differentiating capability. We have massive differentiation, Eric will talk the data, but when I look at the data having worked in this space for a long time we have a massive opportunity. And I'm with Eric, we should be aiming to flip the story to make data a far larger part of our overall revenue story.

We're building a technology platform to enable us to win and ultimately and most critically we're a customer business, so we need to deepen and broaden our customer relationships of which John will cover later on.

So at that point I'll invite Robin to come back up and we'll take Q&A in the first stage of the session.

Q&A
Finance and Integration and Corporate Services

4.0 Q&A – Finance and Integration and Corporate Services

Arun Melmane, Macquarie: The question I had was just on the pace of investment versus savings you're making. So I think you're talking a lot about cost improvement in tech, if you take straight through processing, etc. What is the baked in sort of cost trajectory of this investment, if you could give us guidance, you've got your saving number, what's the investing pace and also what does that mean for your cost base as we go through the next three years?

Iain Plunkett, Chief Operating Officer: So we're going through the financial planning for 2018 right now. We will be clearly using the restructuring number, which Robin can talk through around where we've got to on our CTA. But a lot of the work we're doing to develop will also be clearly using some balance sheet for capitalising some of that investment. So I can't give the detailed numbers for '18 or '19 and give you sort of detailed guidance on that at this point. But we do believe we can operate within the envelope that was broadly outlined previously.

Arun Melmane, Macquarie: And sorry is there a broad idea of what you would put through the balance sheet and what you would do through the P&L?

Iain Plunkett, Chief Operating Officer: We're still working through that.

Robin Stewart, Interim Chief Financial Officer: I mean on the integration programme and the journey that we're on very much the first stage of that, as Iain indicated, are dealing with duplicative management structures and it's very much a story about headcount. Very much at the heart of the synergy savings that we're going to make - I think we've said before that around about 40% of the savings that we'll make in the organisation are very much badged towards technology. And that is something which is very much being worked on now.

It's clear that when we go into the year end, and we'll obviously give you some more details at the prelims, the costs that we're incurring in the initial phases are outstripping in effect the actual savings that we are annualising through. But that's inevitable that the timing will be front loaded as I mentioned in my discussion earlier.

Arun Melmane, Macquarie: The other question that I had was on the capital growth, I mean if you take out intangibles there about £100m of capital sitting in the business. What is the sustainable level that you need, you know if you go past CRD4 waiver?

Robin Stewart, Interim Chief Financial Officer: In terms of the waiver?

Arun Melmane, Macquarie: If you take the waiver out in 2026 what is the sustainable level of capital you need to hold within the business?

Robin Stewart, Interim Chief Financial Officer: So the waiver journey that we're on, which as I mentioned is a ten year journey to eradicate the deficit that we currently have, we've never disclosed the numbers, but it's clear that some of the analysts have had a go at working out what our requirements are and I think the range of requirements of between £350m to £400m are pretty much in the ballpark in terms of what we need.

From a resources perspective you can pretty much work that out as well, it's very much predicated on our fixed overhead exposure and you can sort of see that as that's the predominant issue for our - sorry that's a requirement - from a resource perspective we kind of are running upwards around about £200m. So we have a gap to fund over the ten year period, which is very manageable, which inevitably we may eradicate the deficit in advance of the ten year window, but it's something which we continue to manager under the guise of the terms of the waiver.

Arun Melmane, Macquarie: You said that in terms of process automation you are behind the investment banks and even the buy side firms. Can you please give us some details about what kind of process you are talking about and what is the reason that you have been behind, and what will be the levers that you are going to pull going forwards to kind of catch up with them?

Iain Plunkett, Chief Operating Officer: Sure, so we have - let's start with data, so how we manage data has basically been behind how the investment banks have through about instrumenting customer data, legal entity hierarchies, so we haven't created all the right masters and embedded them all across the whole of the firm. So when you get inefficient, data processes are therefore inefficient because they've got lots of manual work. So I would say that data is one.

Generally the processes I'm talking about are post trade processes, so these are where we're clearing and settling trades and managing instructions and making sure that we can reconcile the data and move the assets. So I would just say that the investment the investment banks have gone through to take out a load of cost and get lean we're a little bit behind. But it's the same set of processes.

So you know we're working with automation companies, we're very actively doing proofs of concept; we're highlighting how we would change our process models we're operating. So it's a pretty standard set of levers that you pull to be quite honest. Fix the data, run process excellence design, run automation processes. So we're just going to play the same playbook that the investment banks and asset managers have already played to be frank.

Justin Bates, Liberum: Good morning, just going back to the point about capital and dividend, it might well be too early to talk about dividend policy from '19 onwards, but if we look at Tullett's dividend cover it used to be a little below two times and much lower than that at ICAP. Would it be fair to assume that a cover ratio of about two times would be realistic, or could you push it beyond that, or is it too early to say?

Robin Stewart, Interim Chief Financial Officer: I think it's too early to say. I mean as I mentioned earlier we'll be in a much better position as we get towards the end of the integration to evaluate where we are, very much in line with our disclosures in our prospectus we expect to be looking to grow the dividend over time, but the focus at the moment is very much on getting over the hump of the integration and then we'll review that in 2019.

Justin Bates, Liberum: Okay, thank you.

Daniel Garrod, Barclays: Good morning, just one quick question on the Fusion project that you had a slide up on, although ICAP did you used to talk about it a lot but it was never sort of regarded as a huge success. So I wondered, what are you doing differently in taking over that project? You mentioned there are aspects of it that you have incorporated, but aspects that you haven't. So what have you jettisoned as it were that gives you the confidence that you can make that a success?

Iain Plunkett, Chief Operating Officer: So I think - not to sort of drill into the past, but Fusion was set up as a completely independent IT organisation outside of the rest of IT and it comprised a number of services, components that were rendered to customers, front end components, it involved how to use something called infrastructure as software and so it was a very, very modern design, but it was a complete stack of services.

We are less wed to the front end models, right, to how you render all of this stuff to customers. Because actually one of the things that critical is - I mean you guys may have heard of APIs, but plugging raw data in, not just giving people screens is how we're increasingly integrating with market participants.

So we are planning to use the services that relate to cloud, to automating the process of testing and developing software and to turn our infrastructure into what is effectively software. So that is our focus, but we will not be using the full set of services and we will absolutely be placing it at the heart of the technology organisation, not as a completely standalone entity.

So that's why the Fusion brand for us is not going to be in the top box. I think if you would have heard Michael's and I've read some of the old speeches about this, Fusion was a brand that I think was very customer relevant. We don't view it ultimately as a customer relevant brand; we view it as a set of capabilities to enable the whole of TP ICAP to be more effective.

Daniel Garrod, Barclays: Thank you.

Iain Plunkett, Chief Operating Officer: Okay, good thank you.

Global Broking

Nicolas Breteau, CEO TP ICAP Global Broking & David Perkins, Global head of Electronic Markets

5.0 Global Broking

Nicolas Breteau, CEO TP ICAP Global Broking: Hello everyone. I'm Nicolas Breteau the CEO of TP ICAP Global Broking division. I have joined the firm almost two years ago after having worked for the exchange Euronext, Fimat the broking arm of Société Générale and, more recently I was the CEO of the largest listed derivatives broker Newedge.

So I'd like to start this presentation by giving you a snapshot of the Global Broking division. Then I will explain how we are organised and I would like to provide you with some examples of the different protocols that the clients could use to transact with us. I will talk about the actions we are taking to drive our business forward and then I will make a few comments about our key asset, our brokers.

First of all, our vision in Global Broking division. We aspire to be the largest and most respected professional intermediary in wholesale financial markets, leveraging the expertise of brokers and e-solutions.

But let's look at a few facts. The TP ICAP Global Broking division is the number one IDB and we have won many industry awards over the years to prove it. In the first half of 2017 we made £670m of revenue which accounts for 72% of the Group's total. We employ a little less than 2,000 brokers across the world. We have a full range of voice, hybrid and electronic assets across the full execution spectrum. We have a truly global reach as you can see in EMEA, in Americas and in Asia Pacific. The way we organise is that we set the strategy for Global Broking globally but to reflect the original characteristics of our businesses we have a head of Global Broking in each of the regions. We have an e-market division running across the whole global Broking business and also other divisions and we are supported by our global corporate functions.

We have I think the largest selection of asset classes of any broker in the wholesale financial markets, as you can see reflected on this slide. We have around 30% share of the IDB market. In fact I would say that in rates, FX and emerging markets we're probably higher than that.

We execute through our two brands, Tullett Prebon and ICAP, and a portfolio of sub brands, all of which are separate and competing. ICAP is the leader on rates, number one also on equity, while Tullett Prebon is in pole position on FX, money markets and credit.

Now I'd like to talk about the different ways that our clients could interact with us. This slide shows the protocols that we provide. The message I would like to get across is that TP ICAP offers the full range of execution services from pure voice through IOI, the indication of interest, or RFQs, the request for quotes, up to fully electronic execution.

So the client could actually choose the protocol it wants depending on their preferences but also depending on the structure of the market, the product itself. Sometimes regulation as you know is driving the way clients have to execute, but there are a number of key factors that will define the protocol used, anonymity, liquidity, size, the desired speed of the transaction and complexity of the transaction itself, for example when a client wants to execute a multi-leg strategy.

I am going to give you a few examples. So let's start with the CLOB methodology and let's consider the euro interest rate swaps. In this market you can see different degrees of liquidity. It will depend on whether you are trading a benchmark point of the curves like two years, five years or ten years for example, or if you are trading an off the run broken dated swap. In our ICAP business you know that we have the i-Swap platform. On this platform we can see the very highly liquid part of the curve being traded automatically so the clients are streaming directly into the central limit order books. So that's an example where you will have little interaction or limited interaction between the client and the broker because the prices are streamed directly into the CLOB. I would say this is how the exchanges would work. But away from these instruments you could have some less - you have less liquidity and for these instruments or for a multi-leg strategy our clients would like to have more interaction with their brokers to help them with price and to help them with size discovery and also to manage their orders discreetly in a hybrid process.

Let me give you another example. We've been very successful this year in rolling out our volume matching platform, for example on the gilds or on the high yield bonds desk. How does it work? We would select a time window let's say between 10 and 10.05 every Monday morning where we will run an auction. We will run an auction where buyers and sellers will gather. We will define a guide price and interest and liquidity will concentrate and it will result in a high likelihood of matching. It's a bit like speed dating if you want, and it has been very, very successful because our volume of execution with this protocol has increased by 40% year to date.

If we move across the spectrum we have the request for quote protocol. Let's imagine that you wanted to trade an FX options product. These products are varied and they are less standardised so finding the right price is not straightforward. So this is where the RFQ protocol will come into play. A client will send a query to three or five counterparts and they will execute against the best price received back. So our FXO desk will interact with the clients using our RFQ protocol.

So as you move on this slide from the left to the right you can see an increase in electronification. What's also very interesting is that all our platforms, voice, hybrid and electronic, are great harvesters of data and this data is feeding our data and analytics division but is also used by our brokers to improve their knowledge of the market.

We would like now to show you an example of what we call a hybrid transaction. I'd like to get David Perkins to show that to you.

David Perkins, Global Head of Electronic Markets: Morning everybody. Before I start, my name is David Perkins. I am globally responsible for electronic markets at TP ICAP across all the brands. Just before I look at the slide if anyone is interested in volume matching or in the RFQ protocol we've actually got a demo in the foyer which hopefully you'll find interesting.

So the view I think of Tullett Prebon and TP ICAP has always been that we're somewhat electronically challenged and that we're over here on this side of the screen, that we're voice brokers, voice brokers trading on phones, writing tickets on a scrap of paper. That's actually not true. Where we are is in the middle here, which is hybrid generally. But before we speak about the hybrid venue we need to talk about electronic. So everybody wants to have an electronic exchange, everybody thinks there's a lot of value, a lot of stickiness in trading purely electronically.

So broadly speaking for the majority of the products in which we operate, TP ICAP operate electronic venues. Now there's a big surprise, we operate electronic venues. Every element of these components of an electronic trade we actually offer to our clients electronically already. What happens is we choose to add the voice brokers into this stack to add value and help them source liquidity. Just very quickly, so you understand what these elements are, order capture is potentially in the electronic stack. The electronic capture of all of the commercial data required for the commercial reasons behind how you would trade. The price volume distribution is electronic dissemination of pricing which could be via a user interface or via an API.

Trade capture is when there is actually a trade. You capture the trade electronically, you then send it for trade enrichment internally so that could be for example at TP ICAP, we could send off to our brokerage department an electronic service to receive back what the brokerage should be on the ticket, or we could send information to our invoicing department electronically to send electronic invoice to our customer.

And then finally we do external messaging. External messaging is a message to a swap data repository, to a CCP or back to the client so that they can actually consume that information back. That is exactly how a CME, an ISA or an exchange operates. And we operate like that in the majority of products.

What we do have are voice brokers. Now the voice brokers, if we sprinkle the magic of voice brokers in the top two boxes we actually benefit from the ability of these voice brokers in liquid products aiding liquidity by bringing discretion into the execution process, by helping discover size and let me explain that. If you look at a screen as a client, you'll see on an exchange there's a price on an instrument, and the price is 50.51 in 1 million. That's fine. If you speak to a trader at one of the larger banks he'll speak to one of our voice brokers and say I see the price is 50.51, where do I buy 200 million, how can I get hold of 200 million? He doesn't care about the 1 million offered on the exchange, he cares about either A, buying a large size, or maybe buying that bond to sell a different bond or buying that bond to sell a derivative. And that's the value of our voice brokers.

So our voice brokers are - they're adding value not in a transaction sense but in a solution sense and that's what we do that exchanges can't. So these guys are adding market colour, they can explain via the analytics that we provide, pricing, comps in the marketplace, what they're hearing on the street. And of course all of this is now post MiFID II going to be recognised as an OTF and therefore this becomes a regulated venue. So we've prepared a video, hopefully a nice snazzy video, which explains exactly what I've just said.

[Video Playing]

Nicolas Breteau, CEO TP ICAP Global Broking: Thank you David. I think this definitely deserves an award.

[Laughter]

David Perkins, Global Head of Electronic Markets: The only problem with that video was I wasn't in it, that's the only thing, that's the only weakness.

[Laughter]

Nicolas Breteau, CEO TP ICAP Global Broking: You should call your agent.

Now I'd like to turn to the strategy that we are pursuing to grow our business and our revenues. We are looking to increase the quality of our earnings focusing on targeted segments with a constant attention to conduct and culture.

So I'll explain that. We seem to hire experienced brokers to fill in gaps in our coverage and increase our market share but we are doing that in a very systematic and disciplined way. We have studied every product that we cover or that we aspire to cover and we have ranked it based on clear criteria including the size of the wallet we can target, the growth prospects, the investment required in technology or the regulatory requirements or the infrastructure requirements, our ability to compete and win on this segment. And therefore we direct our thoughts to investments where the opportunities will provide the most bang for our buck.

So we hire, we grow organically but we also do bolt on acquisitions. These days several smaller firms are knocking at our doors and are interested. They've got good reputations, they have good brokers, but they are interested to join a larger group to benefit from the investments that we've made in risk, in legal, in infrastructure, in technology. It's much more difficult for smaller firms to do. And we've done a number of those successfully recently and this clearly demonstrates the scalability of our operating platform.

As well as strategies to increase the quantum of our revenues we also want to make our revenues stickier. First it's to enhance the tools and technology we give to our brokers to make it easier for them to provide a service to their clients and for the clients to transact with us. With technology into the broker's workflow the broker is better informed and the client could have a more intuitive experience in the execution. But that's a sophisticated business because as you will understand we are not dealing primarily with very listed products like equities or very standardised products like spot FX, so we need to accommodate the diverse characteristics and the different way our clients want to transact. So we are investing in various components in market connectivity, API or GUI, the graphical user interface, matching engines, and we deploy the modules in the right solution for each product. So we invest in execution technology but second we also look at the entire client experience and see how we could simplify their workflow. So that goes beyond trade execution, and see what additional services we can provide.

I mentioned earlier the FXO platform. On this platform we have added automatic trade affirmation, meaning that a trade goes automatically into our middle office, the client's middle office and the client's risk systems to streamline the workflow and reduce the chance of errors.

We also look at areas where we can make our clients more efficient. And you've heard about our tpMatch service, it provides value here. tpMatch service it's an algorithm driven matching system designed to reduce secondary exposures in interest rates and FX. Its success is based on its ability to offset a large proportion of individual positions within multiple portfolios in a multilateral run. We are refining this service and in recent years we have decided to instead of running weekly sessions to develop the concept of so called big push, so we are concentrating our run on the monthly basis and it's been proven very successful. In June for example we had a record run exceeding $2tr.

Now I'd like to talk about our brokers. I think it's clear from my explanation of how we execute that brokers are our number one assets and they are highly skilled professionals. They are part archaeologist, part detective, mathematician, negotiator, counsellor and innovator. They have a very high level of IQ to trade with our clients and they are some of the most entrepreneurial people in financial services. They work in markets that evolve all the time and they constantly adapt. So retaining our broking talent and ensuring that TP ICAP is the place to work is one of our top priorities.

But our aim is also to increase the productivity of our brokers. We want to increase the revenue per capita so that the brokers will take on more while we are controlling our comp ratios. And the company has more to invest so we can create value for all our stakeholders. If I look at year to date we have managed to increase the revenue per broker by £40,000 so that's what I would call the win, win, win. Achieving this involves enhancing our technology as I mentioned to make our brokers more effective. It means also managing the team dynamics on the desks, opening up new relationships and providing robust risk systems.

We also want to hire new generation. We want brokers to be here in 20 and 30 years. So we have developed a Group wide recruitment programme to hire new talents. These new joiners do a structural training programme with on the job training, classroom training but also e-learning. It covers technical skills but also focuses on personal development and very importantly conduct and culture. These trainee brokers work towards the professional qualification, the Chartered Institute of Securities and Investment Diploma.

You've heard from Phiz that the TP ICAP Group puts culture and conduct at the heart of everything we do. And being the largest IDB in the world we have a leading role to play in setting the standards in the industry. So what are we doing practically about this?

Well we have a clear set of values which govern conduct and culture; honesty, integrity, respect and excellence. We have a structured learning programme for all employees which outlines the type of conduct and behaviours that we expect in our organisation. And for the brokers we also have a regular performance conduct and behaviour assessment that is conducted by desk heads on a quarterly basis prior to the payment of any bonus to the brokers.

I also want to mention that in growing our revenue and improving the quality of our earnings one very important element is to institutionalise the relationship that we have with our clients. And to do that we have developed extensively the usage of the CRM. John Abularrage will talk a bit more about this later but basically what it means is that we are meeting our clients front to back at various levels of seniority. We provide them with information but we also act on the feedback they're giving to us.

So I'd like to sum up with a few key points. In Global Broking we add value to our clients across the full spectrum of execution protocols and related post trade services. We innovate all the time, working in close partnerships with our clients. Our broking talent is key to our success and we are focused on retaining existing brokers but also bringing in new. We pay constant attention to conduct and culture and most importantly we are very positive and enthusiastic about what we will achieve in the future.

I would like now to pass the floor to Frits Vogels who is going to talk about MiFID and Brexit. Thank you.

MiFID and Brexit

Frits Vogels, CEO TP ICAP EMEA

6.0 MiFID and Brexit

Frits Vogels, CEO TP ICAP EMEA: Thank you Nico. Good morning everybody. I'm Frits Vogels and I service the European CEO for TP ICAP. As Phiz mentioned in his introduction I'm going to talk about two matters that have a big impact on us in 2018 and beyond in our EMEA business, MiFID II and Brexit.

Let's start with MiFID. This is the largest piece of regulation for the financial services industry including brokers like us in Europe for many, many years. Many of you will be familiar with it because you cover the industry but for those who are not I will give you a quick summary of what MiFID actually is and I will then try to talk about what it means for how we are organised at TP ICAP and how we are preparing for it, and then what it means for how we transact with our customers.

There is no doubt that MiFID II has presented us and frankly many of our clients with lots of challenges. And I think it's widely known that many parts of the financial industry thinks that the regulation perhaps underestimated the complexity of the market it addresses, maybe was not particularly well suited to particular features of those markets. However we are in a good position to be MiFID II compliant by the 3rd of January 2018 and we also believe that there are actually opportunities for us in the post MiFID environment.

First let me put MiFID II into context. It's a stream of regulation that is aimed to provide greater transparency to the securities markets, enhance investor protection and to create better functioning markets. That's what it's aiming to do. We've had a precursor in 2007, MiFID I changed the way the equities market operated in Europe and now in 2018 it is doing it for non-equities markets in which we largely operate so it is really material to us. It covers most of the asset classes in which we're active. The only major exception that it does not cover is spot foreign exchange.

MiFID II introduces new requirement that multilateral activity in certain securities has to be done on a trading venue. So this captures much of what we do in Europe. And the two types of venue that are relevant to us are multilateral trading facilities, MTFs, these already exist, and then organised trading facilities or OTFs which are new, they don't exist yet today and they will come into play in January 2018.

So as you can see on this slide we have organised our business in these to create these venues and we expect on the 3rd of January to have six OTFs and five MTFs across the TP ICAP business.

For our activities that are highly electronic such as central limit order books in interest rate derivatives and some volume maxing activity where there's no need for broker interaction or not much need for broker interaction, trading will take place on our MTFs. For those activities which involves hybrid broking and much more broker discretion often combined with electronic or which used match principle as the mode of execution, which will occur on our OTFs. And we have allocated each of our broker desks to the relevant venue. In fact one of the things that MiFID II does is to formally recognise hybrid trading, i.e. transactions where there is a requirement for discretion which is required in order to achieve execution outcome that the client seeks.

The process of getting MTFs and OTFs approved has been a major work stream for us this year. We've been involved in shaping how the regulation should be applied. As you will understand from Nico's presentation the products we broke are generally more complex and less homogenous than equities, so the regulation that governs them has to be more nuanced and sophisticated. We and others in our sector and in the wider financial services industry have engaged in a constructive dialogue with the regulators to ensure that this is reflected in how MiFID II is actually applied. We've prepared rule books for each of our venues and we have applied them to the FCA for approval.

We have undertaken substantial investment in IT and operations to ensure that our venues are compliant and so that we can fulfil all the pre and post trade transparency requirements that come into effect on January 3rd, as well as ensuring our broking groups have all the tools necessary to optimise the service provision.

So as I said before we expect all our 11 venues to be MiFID compliant by the 3rd of January 2018 so we can provide a seamless transaction to our clients, so all the hard work will actually be worthwhile. And we see this really as a competitive differentiator. One thing that has become very clear to us in our dialogue with our clients which has been extensive is that we want to be certain that they are transacting on compliant venues and within the rules. They frankly expect us to deliver. We have the resources to ensure that we can meet these requirements because of our skills in operations and technology and because TP ICAP size which is in a formidable position vis-à-vis smaller brokers who may not have the resources to be MiFID compliant. MiFID II complexity creates barriers to entry for new entrants and quite frankly we've been able to make the investment that others in our sector may not have been in such a good position to do so.

One of the requirements of MiFID II is that each venue publishes publicly its venue rate card which details the commissions and fees charged to the client. The rates applied in the venues are the same for all clients that participate. So this is really completely new to our industry because in the past we've had bespoke fee arrangements with each of our customers and they have been a matter of private and often extensive negotiations between us and them. They're often very complicated with volume discounts, ratchets, thresholds, cross asset class fees etc.

So we've been reviewing our fee arrangements with clients during the year and working out fee levels and fee structures that we want to apply to all of our venues. We started the process of communicating these to our customers. The revenue standardised rate cards will be somewhat limited in 2018, however over time we will start to see more liquidity migrate over to the venue rate cards which will result in increased pricing power from 2019 onwards. Some customers will be in the same place where they were before MiFID, some will be winners and inevitably some will be losers.

All forms of trading systems are included within MiFID II such as voice, hybrid and electronic. And this is the first time voice and hybrid execution have been recognised as trading systems and been brought into the scope of regulatory oversight. Market structure changes allow additional opportunities for cross asset class trading opportunities.

TP ICAP will support all MiFID II asset classes currently traded and any new products on our new MiFID II trading venues. MiFID II also brings in new rules on transparency and reporting of trades. Transparency covers pre trade, so the trade - before a trade is executed and that's about price and level of interest that's being investigated. And then there is a requirement for post trade transparency which means that details of the trade have to be made public within a specified time of execution and more information has to be reported to the regulator. Adapting our systems to capture all this data, package it up and be made to publish or report has been a heavy lift. We've undertaken many systems and IT enhancements as I mentioned before.

Elsewhere in our business we can monetise this data and Eric Sinclair will talk about the opportunities that MiFID II presents for us in our Information business for new products for our clients and incremental revenues.

And on the next popular topic, Brexit. I'd like to talk a little bit about Brexit because that is of course very much in our minds now that we've only got 16 months left to go until the UK actually leaves the European Union. And as Phiz said to you before the TP ICAP business already has a significant presence in the EU. We have offices and transact from Frankfurt, Paris, Madrid, Amsterdam, Copenhagen, and we have brokers on the ground there and they talk to customers in the eurozone. So we see no need for interruption of those activities and the clients that are serviced there.

However Brexit will mean changes for our business. We have to be prudent there so we are working on the basis of no deal. No transitional arrangements, no passporting to other financial services and no equivalents. We want to avoid a cliff edge scenario which the service provision becomes unauthorised overnight and therefore we need to put in place some contingency plans and that will involve some additional investment in 2018.

And against this backdrop we will move beyond scenario analysis and start to take actions early in 2018 to ensure that we are ready for March 2019. At the moment we believe our large clients would like to remain their trading presence here in London. And if that does remain the case our brokers who serve them will remain here. However we do need to be aware of the possible migration of some of our London based risks to European offices and we believe that most of our support provision can be provided by our UK entity to our EU entities. However we need a hub in the EU alongside our London hub, and we will shortly decide where that is going to be. It's likely to be one of Frankfurt, Paris or Amsterdam. We will need to increase the governance in that hub and that will involve hiring people.

We are in informal discussions at this point in time with a number of financial regulators in the EU and during 2018 we will submit formal applications. That is when it will become clear what they will actually require from us.

If there is a two or more year transition period then we will make very few if any changes before March 2019, however we will need to know that this is actually going to be the case and that there is not going to be a change of mind before we can suspend the actions I have talked about. And in the meantime we have to continue to be prepared to be ready for March 2019. Thank you very much.

I say thank you very much but I will summarise. So the important points really to emphasise is that we will be compliant with MiFID in 2018. As Phiz pointed out we believe this is going to be a competitive advantage to us. We will see opportunities to monetise the reporting data that we have to collate under MiFID II and our Brexit planning is on track.

With that I will hand over to John who is going to talk about CRM. Thank you.

Customer Relationship Management
John Abularrage, CEO TP ICAP Americas

7.0 Customer Relationship Management

John Abularrage, CEO TP ICAP Americas: Thank you Frits. Morning, I'm John Abularrage, I'm the US Head for TP ICAP and I'm very pleased to be with you today. I'm going to speak to you about client relationship management and then move on to talk to you about some findings of a survey we conducted with market participants which is going to help us guide our strategic decision making.

First to CRM. Some of you might remember that when we gave our investor day in June of 2015 that Phiz said one of our strategic initiatives was to set up a proper system of CRM. Now that might have been a surprise to most of you because CRM has been in place in banks and other financial institutions for no less than 25 years, but the fact is in the broking industry it was a very new concept and not something anybody had successfully put into place. We're constantly surprised when our clients tell us that no one in our space is doing this and they tell us this often. I'm very pleased to tell you now that two and a half years later we have a fully functioning CRM system using Salesforce which has transformed the way that we interact with our clients and them with us. It's enabling us to change the nature of our relationships with some of our largest clients from merely transactional to something more akin to a partnership.

We're very clear what we're seeking to achieve in CRM. We have a mission statement which you can see here, and our goal is to grow revenues and to guide the commercial decision making and the strategy of the Group.

One of the challenges that we faced when we set up CRM was that relationships in our sector have typically been held by the broker directly with the trader or the execution desk. It was a very personal relationship and not something that the organisation owned. And obviously the broker was very protective of it. We didn't want to lose that and we didn't want to lose our strong bonds of trust that have been built up over a number of years and which we all recognise have enormous value so we had to tread carefully and not destroy what we already had, but we also want to institutionalise our client relationships so that we can harness them better for the Group.

The first thing that we did was map our clients at each and every individual desk. That showed us where we have good contacts and where we have gaps that we needed to fill. Over the first few months we were able to fill in the names of the people that we needed to contact and remain more visible with. We set up a central database that contains all of our CRM information and which is easily searchable. We then insisted that everyone in the organisation in all our divisions and all our functions record on that database their meetings with each client and the relevant information that they receive. There was some understandable concern from some of the brokers about this so we rolled it out first in the US as a trial, developed and embedded it there, and now in Europe we're gaining momentum and the next challenge for us will be in Asia.

The richness of the CRM information that's been provided to us has been surprising even for those of us who have done CRM in previous jobs. Clients tell us who they like in the firm and oftentimes who they don't like in the firm. They tell us where we rank with them among all the brokers they use and what share of the wallet we have, and sometimes that matches up with what we knew and sometimes it doesn't. They tell us when they're going to open new desks or launch new products; they tell us about their competitors, they give us recommendations for good brokers who they think that might be better served working for TP ICAP. They tell us what they want from our electronic offering and technology and like all good relationships they're very candid with us. Where they don't like the broking service that we offer them or where they think our straight through processing is cumbersome we certainly hear that feedback from our clients.

As well as ensuring that our CRM covers our brokers' direct contacts with the clients we've also built our relationships with people in different roles. So we have regular contact with chief risk officers, global heads of trading, asset allocation heads, chief operating officers, chief investment officers, strategists and of course right to the top of the sea sweep. The nature of this dialogue that we have with each of them is different but it feeds into a very broad overall picture of the client organisation, its priorities and the problems that need solving. It allows us to target our efforts in the most productive manner. We have told them about our investment in compliance, in transaction surveillance, in culture and training and how this benefits them as much as it benefits us. In an environment when industry commentators, regulators and the sector as a whole is very focused on these matters this is a very useful dialogue for us to have.

CRM has been invaluable for us in having an open discussion with our clients about how they're implementing MiFID II, it's also been very helpful to us in explaining what our clients are planning to do about Brexit and how they're going to organise themselves, and therefore it gives us a view on how we should organise ourselves. It brought us insights into where we can take our data business and what data requirements our clients have following MiFID II or in anticipation of the fundamental review of the trading book rules which will come out shortly.

We can point to a direct link between our CRM efforts and the incremental revenues that we've earned as a Group. We've seen this across the business but by way of an example our electronic corporate bond auction division came directly from client interactions, demand and suggestions. In the last two and a half years CRM has been central and integral and will remain so for the future of TP ICAP.

I'd like now to take a moment to talk about what we learned from a survey of market participants on our execution protocols. We did this survey as part of an exercise to understand our market better. We wanted to get a truly independent view so we asked TABB Group, who are a leading OTC consultancy, to survey market participants without revealing our name. The sectors that they covered were emerging markets, Power & Gas, US Corporate Bonds and US Treasuries. They spoke to people worldwide but with a strong concentration in the US. We don't know the names of the people to whom they spoke but we do know that they were banks, asset managers and hedge funds.

These participants were asked how they currently prefer to execute. In Emerging Markets and US Corporate Bonds you'll see the hybrid and voice protocols are most frequently used. In Power & Gas and US Treasuries electronic was more popular. But all asset classes used both voice and electronic methods, and it shows that the traders mix and match depending on what's best for them.

The participants were asked which protocols produced the best liquidity for certain types of trades. And here you see for round-lot trades which are trades in standard size voice protocols were preferred. Whereas for odd-lot trades which are non-standard in size the electronic method was preferred.

For block trades, which are the larger trades often negotiated bilaterally, voice was strongly preferred. This is to be expected. If you have a large block of securities to place you need to do that confidentially and discreetly to prevent others from getting a sense of what you want to do and to avoid the market moving against you.

During benign market conditions in Emerging Market bonds and US Treasuries there was a clear preference for voice whereas Power remained highly electronic. Most interestingly in stress markets there was a shift across all asset classes back to voice.

Market participants placed importance on knowing their counterparties even in those markets which are most electronic such as power. This suggests that trust and confidence in the counterparty is an important factor no matter what execution protocol is used.

The survey then asked market participants about getting price guidance pre trade. Voice and hybrid protocols were effective here, which is not at all surprising because this is what we think our knowledge and experience plays an essential role in the market. Because price discovery is a skilled art where you have to take into account current price, historic price, the depth of the market, sentiment and other factors, the subtlety and discretion that hybrid methods provide is most relevant here.

So what did the participants think were the values of the different protocols? First, voice based protocols. People value their information and protect it highly. In Power & Gas people liked the fact that they can get market colour. In US Corporate Bonds people value the information and trust in the counterparty was their main factor. In US Treasuries size and protection were most important, and being able to do large transactions without the market moving against you. For Emerging Market bonds it was information and sourcing most valued, with protection coming behind it.

For the electronic protocols people valued most speed, efficiency and anonymity. In the Power & Gas market efficiency was a very key advantage, and in US Corporate Bonds efficiency and anonymity were at the top of the list. In US Treasuries it was efficiency and speed as you might imagine.

We asked what we thought should be done hybrid and there was a view that round-lots, blocks and complicated products such as esoterics, options and spreads should be done with hybrids. So you can see that there's some tremendous data in here.

To summarise what we've said CRM is absolutely a competitive advantage for us that gives us a leg up on our competition and increases greatly our collaboration with customers. As I said before we find it interesting that our clients tell us on a consistent basis that no one else is doing it and we believe this is core to our strategy going forward.

The findings that we've had reaffirm our confidence that TP ICAP has a bright and prosperous future ahead of it. And with that I think the four of us will take any questions.

Q&A
Global Broking, MiFID and Brexit and Customer Relationship Management

8.0 Q&A – Global Broking, MiFID and Brexit and Customer Relationship Management

Simon Kirton, BAE Systems Pension Fund: Thanks. Just on broker comp, I know it's a difficult subject in some ways to discuss particularly in terms of an average not being that useful, 55 to 50 to 45, and I also know it's a collaborative exercise in getting to where you want to be. But where is the balance of power in negotiations with the brokers that you have and how does it vary across the broker base? Obviously you provide an umbrella in terms of compliance and systems that allows them to do their job better and make more money, but how much of a collaborative exercise is it ultimately and how practically over time can it be reduced to an average of around 45 say? How does it work in a contractual sense? Just be good to get a lot more detail around those dynamics.

Nicolas Breteau, CEO, TP ICAP Global Broking: It's a very good question because it's at the heart of what we are doing in TP ICAP and in the Global Broking division in particular. So you've seen the trend over the previous years, it's been a constant reduction of broker compensation ratios. We continue to monitor that very, very closely. I could not disclose numbers but you've seen the numbers last year and the media's numbers.

You're asking the question about the negotiation between the brokers and it's clear that the more - the stronger the franchise is the easier it is to reduce broker compensation. So it's important to offer a suite of services, have the right technology, being recognised as the number one or number two in the market by your clients to be able to achieve these long term or medium term objectives. So I would say that while we're building strong franchises, while we're embedding technology, while we are also hiring new talent and brokers who are somehow more tech savvy the better it is to go in that direction. So that's really our objective and we'll continue to do that in the years to come.

It's also important to see that there is a natural consolidation of the market, of the players. So TP ICAP is clearly the number one and that speaks volumes for the brokers who know that they want the right technology, the right compliance, the right risk. But also they know that their clients are very, very - takes a lot of importance in those points. So I think the alignment of the planets, if you want, are heading in the right direction.

Having said all of that we also have to be cognisant of the pressure of the markets. So we are living in a very competitive world so we also want to make sure that we protect our strong assets and we keep our very strong producers. So therefore I would say it's more an art than a science to achieve that. But I think we are heading in the right direction.

Simon Kirton, BAE Systems Pension Fund: Can I just ask, are broker comp percentage ratios written into contracts and how long generally are contracts? Is it a percentage figure that's actually written into a contract with a broker?

Nicolas Breteau, CEO, TP ICAP Global Broking: In the contracts you will have a definition of the compensation methodology, not a percentage of compensation ratio as such because you've got several elements coming into play like deduction of direct front office costs for example for the brokers. So that's usually - brokers are usually contracted between three to five years.

Sorry just to finish on that, it happens sometimes that we renegotiate during the life of a contract in order to improve the situation if we think that there is not a fair balance of a split of value between the firm and its investors and the brokers.

Steve Keeling, Liberum: Look I'm sorry to bring up MiFID again because we've all got MiFID fatigue as I'm sure you'll know. I'm very curious Frits; you said that each venue will publish its rate card. I mean we've all struggled in Equities how to price research. What's your methodology around price discovery for these rate cards? And you mentioned there'll be winners and losers, obviously the big guys that can pay then maybe the rate is lower, they're going to win, smaller guys that don't have enough business maybe lose. And then you alluded to increased pricing power. Can you just elaborate for us because we know commissions generally are wafer thin in your industry and how you feel this is going to affect your revenue pot?

Frits Vogels, CEO TP ICAP EMEA: Sure, with pleasure. The amount of brokerage agreements in place is a product of many, many, many years and it's really as different as the ability of customers to negotiate prices, volumes that they bring to us, many factors. And so it's a huge scale of different agreements. And we have MI to tell us what the average is, it's not very difficult to work out, but the art is to work out what you're going to charge in a particular asset class whereby you maintain your revenues or ideally slightly increase them without upsetting too many of your clients. And so that's what it is.

Now we have done this before, we have had to do this in the ICAP business in the US when we moved our business inside a SEF where we had to do this. We actually did it back in 2010 on a voluntary basis when we started with i-Swap which is our central inventory book for European interest rate swaps, and what we did there is rather than be led by regulation decide for ourselves that on this central inventory book we were going to have consistent prices to our customers which was the same. And what we learned back in 2010 was very interesting. The direction of where brokerage levels are, over as long as I've been in the industry and I've been there for 25 years, has really been one way and one way only and that's down. And it's not really necessarily a result always of increasing volume. Sometimes it is but sometimes it is because the customers are going through a bit of a rough patch, sometimes it's because of competitive pressures, it can be all sorts of reasons. But I've never seen it go up with very few exceptions.

When we introduced a level playing field in 2010 for European interest rate swaps from that moment on nobody has come to us to try to bilaterally renegotiate the price because they know they couldn't. Now that doesn't mean to say that competitive pricing aspects are not there because of course if we are only having value rate cards then organisations versus organisations will have to compete and they're fairly public so you know the dynamic will change. But the ability of our customers to come to us and demand bilateral changes, and make no mistake these negotiations sometimes are along the lines of we are going to change our rates in a particular product and we have to politely remind the customer that it's not their rate, it's our rate. But it gives you a flavour of our pricing power in the past in setting our rate cards, and we believe that by making it much more structured and taking the bilateral aspect out of the negotiations we will be having more control over our pricing in the future going forward.

Steve Keeling, Liberum: So I take from that you're using the previous example that pricing certainly would stabilise and as your market share grows in product you have more clout over your clients in terms of pricing?

Frits Vogels, CEO TP ICAP EMEA: Listen, we will always be in a competitive space. We will not be alone in IDBs, there are other competitors, there are trading venues, and there are exchanges. We live in a much bigger landscape than that. But I think we will be less at the mercy of what customers want to do on a constant basis.

Anil Sharma, Morgan Stanley: Morning. Just a question around the execution slides which you showed. I'm just curious as to how much of your volumes or revenues is hybrid, electronic and voice? I think Phiz mentioned at the beginning less than 10% is now pure voice, how is that evolving? So is it going from hybrid to electronic? How quickly?

And then your competitors in the electronic space, are they the same as what you see on the voice space or are they different?

David Perkins, Global Head of Electronic Markets: So I think from a customer experience - on the whole the clients want us to electronify the post trade workflow because that ticks their efficiency box, their safety box, the risk box, and also the general regulatory box under MiFID and we saw that as well the experience with SEF. So the biggest concern and the focus for us historically has been at TP ICAP an investment in the systems that do the post trade connectivity and reporting to the clients.

We are seeing a big move of volumes from central order books, indication of interest whiteboards into some of these new methodologies such as RFQ and volume matching. I think I can safely say without giving any secrets away, any secret source away, volume matching revenues year on year between the brands is up circa 40%. So seeing a movement away from putting stuff onto screens into volume matching, and that's just the nature of I think illiquidity in a lot of the markets. So volume matching is very popular for example in illiquid bond credit markets. So we're definitely seeing that movement.

Perhaps what didn't come through entirely in my presentation and what Nico spoke about was with example of the FX option platform although we talk about the voice brokers being involved and you can see it in the foyer, the connectivity to the clients although there is a broker involved is absolutely via API. So when we send an RFQ to a client that RFQ is actually done electronically without even the trader knowing that we've gone in and asked a price in his pricing system in the bank. They price back to us and then we can actually either A, electronically execute, but we don't. What happens is in actual fact in the FX option market the banker always wants to get on the phone and just make sure that it's got the very best price before he clicks a button or does the trade. So that's one of the nuances. It's actually - the whole workflow is very electronic.

The other thing actually in the example of the video as well is that we saw very much interaction between a client and a broker. What perhaps didn't come across in the video is whilst that conversation is going on traders themselves who choose not to talk to a broker because maybe they're just putting a price in and just want to electronically do a trade, they don't want the discretion of the colour, will electronically be trading themselves without using a voice broker. So hybrid is quite rich.

The reason we find it difficult to explain volumes and revenues is because on the whole every trade we do touches one of our electronic components so we'd have to have a conversation around defining what really is electronic and what's not electronic. If a trader phones up and says to the broker put a 50 bid on the screen and it goes on the screen, the broker goes for a coffee, the 50 bid gets hits on the screen and then the trader to trader electronically builds that trade up and trades 250 million. Is that an electronic trade, is that a hybrid trade, is it a voice trade because a voice broker was involved initially. So they are some of the issues we have to deal with.

The direction of travel is we are moving very much across every asset class to an electronic workflow but there are going to be fewer and better voice brokers who aid liquidity.

Anil Sharma, Morgan Stanley: Thank you and just one quick follow up. Presumably the rate card if you will on electronic is already pretty standardised so how much of an upheaval is it for the business to move everything onto a rate card if you're doing a substantial amount of stuff already, hybrid or electronic?

David Perkins, Global Head of Electronic Markets: So I would say over the last three to four years there's been a massive convergence in pricing between voice execution and electronic execution. So that difference is somewhere between zero and minimal. So if I look when we launched our credit platform at Tullett Prebon probably seven, eight years ago generally there was a 50% reduction if you trade electronically versus the price point of trading over voice. I would say on the whole there is no difference at all now, that is exactly the same commission if it's an electronic trade or a voice trade. So it's actually the standardised fee conversation is the same for voice, hybrid or electronic.

Nicolas Breteau, CEO, TP ICAP Global Broking: Maybe one more question and then we'll go for a break.

Jonathan Goslin, Numis: Just one quick one then. Just a quick one on the competitive landscape., obviously we've heard a lot about the European market and it's consolidating and you've touched a lot about the electronification of trading, could you give us some colour as to what the smaller brokers are doing and whether or not they're implementing or trying to implement similar sort of electronic trading platforms or hybrid trading platforms or whether or not they're sticking with a phone and a pen and paper? Thanks.

David Perkins, Global Head of Electronic Markets: I'll say one thing on that point because it wasn't my place to talk about the broker comp story. But one thing I do know is that our brokers recognise the value of the investment we're making in our electronic services. We strongly believe that we have a hybrid platform called Nova that we use globally and it's very functionally rich and we know it's very well-liked by the brokers and by our clients. And we think that's a bit of a differentiator. It's technology which isn't readily available to any other smaller brokers and becomes a barrier to entry for those smaller brokers. My understanding from talking to some of those guys, I'm the council member at the Brokers Association for the firm, is that they are struggling and finding it very difficult to compete.

Frits Vogels, CEO TP ICAP EMEA: So one of the things that I'd say on that is that a lot, not all of the smaller brokers in that space they're quite niche and they often rely on quite strong relationships between particular brokers and particular customers in particular products. As a result of that these brokers command very high payout ratios. And in a world where you have to invest in regulatory reform and where electronification is taking place and technology advances, if you pay out 60%, 70% of your commissions to a broker and you have to invest in all the changes that I just mentioned, there just isn't much more money available to build in technology. And if you recall this morning Iain Plunkett talking about the complexity actually that sits behind a technology build suite it's not cheap. And so I don't want to talk about every single small broker out there but by and large that is the story that we're hearing both from the people that work at these companies and our customers.

John Abularrage, CEO TP ICAP Americas: It's slightly anecdotal but I've been running the US for almost six years now and the incoming calls from the smaller niche brokers asking to have a conversation about us taking them on our platform has never been as frequent as it is now.

Nicolas Breteau, CEO TP ICAP Global Broking: Just one final word on that is that for once regulation is helping us because we are going post MiFID II to be the largest venue operators in the world and many conversations with these small firms in EMEA at least is about we don't have a solution OTF or MTF, how could we branch into your solution, how could we leverage the investments you've been making recently. So it's helping us in this consolidation effort.

Well thank you very much. I think now we have a break, it was supposed to be until 11 so I guess we'll push that - for ten minutes. Thank you.

Coffee Break

Panel Discussion

Frits Vogels, CEO TP ICAP EMEA

9.0 Panel Discussion

Panellists:
Andrew Morton, Head of Global Markets at Citibank
Charles Bristow, Co-head of Global Rates at JP Morgan
Andy Challis, Head of Principal Investment at Barclays Bank

Frits Vogels, CEO TP ICAP EMEA: Good morning. I hope you enjoyed the break, had some coffee. Still good morning - yes, still good morning.

So, we talked this morning about what we thought about our business and what our plans are, our strategy on various aspects. And we thought it might be valuable to hear what our customers think of us, what our customers think of our industry. And for that we are delighted to have three important customers and very distinguished gentlemen in our industry. From left, Andrew Morton, who is Head of Global Markets at Citibank. In the middle, Charles Bristow, Co-head of Global Rates at JP Morgan and Credit, and Andy Challis, who is Head of Principal Investment at Barclays Bank. So, thank you very much for joining us. Welcome.

And a very obvious question, I guess, really to all of you - and I'll start from left to right is - what is your view of our industry, and then TP ICAP specifically? How relevant are we to you? And what do we need to do to remain relevant? Andy, do you want to kick that one off?

Andrew Morton, Head of Global Markets at Citibank: Okay. Well, I suppose in some sense everybody is somebody else's cost base. So, you know, when we deal with asset managers, they look at us as just a cost and they're trying to get it down. And in a certain sense when we deal with the brokerage industry or the futures industry or any of those other industries, in a certain sense we look at it as a cost.

But on the other hand, we're all in the intermediary business, and I personally believe that the intermediary business is here to stay and it's a dream to imagine that end users are just going to magically connect to end users in some fashion. And it's a matter of being efficient and delivering a service, and having some scale. And in our business, we see that certain banks are doing that and have some scale and some efficiency, and others are trying other strategies that don't have those features. And I think it's going to be clear which way is going to win.

So, I think we believe that there will always be a wholesale market; there'll always be an interdealer market; there'll always be a market in which people in the wholesale industry try to transact with each other as efficiently as possible. At least in our space, in rates and all to all framework, I don't think it's going to work. And I think that kind of market environment is going to suit TP ICAP very, very well.

Obviously, the sort of leading provider, and the other, I guess, phenomenon that I would observe again from our side of the street, is that there's disproportionate rewards to one and two providers. You know, when we service our clients, we find that if we can get the one or two spot, we do just an order of magnitude better than if we happen to be fourth or fifth. And so obviously a market leading platform is going to provide sort of disproportionate benefits to its shareholders and constituents.

Frits Vogels, CEO TP ICAP EMEA: Charles, do you want to have a shot at the same one?

Charles Bristow, Co-head of Global Rates at JP Morgan: Unsurprisingly, I agree with a lot of that. A couple of thoughts about it - it is true when you run a business-like Andy and I do, you may be prone to look down the expenses list and see this as a cost. One thing that's worth mentioning, though, is that if I were to walk out on to our trading floor and talk to one of the line traders about what they think about brokerage, the way they would think about brokerage is much more about opportunity or missed opportunity. So, if you said - how do you think about paying brokerage, they are like great - because that was part and parcel of getting in to the thing I wanted to do. So, when you get down into the level of the troops, they certainly don't see it as a cost. And if you said to somebody - could you cut your brokerage, they would say, well, I can cut my brokerage, but then I'd have to cut my revenue.

So, from a line trader perspective, there's always that mind-set of the - you know, they want to do what they want to do. And a lot of the time, the only way they can do it is through the brokerage network.

The other thing which sprung to my mind while Andy was talking was - I think it's very important when you think about fixed income markets to remember that there are a lot more products than there are clients, and that's, you know, quite different to, say, equity markets where there are a lot more clients than there are products. And simply put, that kind of leads you to a place where a lot of these products don't exist until someone makes them exist.

So, when Andy makes a statement of, you know, do we see these sort of in fixed income, these wholesale markets and interdealer networks required to continue existing, the answer is they absolutely have to, because a lot of the time, until the product is envisaged or requested or asked for, it doesn't exist anywhere.

And that sort of bespoke creation of liquidity, you know, is something that's actually incredibly difficult to automate and, you know, maybe - certainly it's not this year's business or this decade's business to automate all of it. So the bespoke nature that you can create with a voice network will remain very important.

Frits Vogels, CEO TP ICAP EMEA: Thank you. Probably from a slightly different angle, Andy, because your role is somewhat different and we have in the past had the pleasure of dealing with your firm and others in terms of partnership on some investment. So, from an investment perspective, how do you view the industry?

Andy Challis, Head of Principal Investment at Barclays Bank: So, my background is electronic trading, so I've been part of - from the Barclays perspective - part of the i-Swap journey, in particular from 2004, 2005, I think, when the technology was first made available to your customers.

I think what's important for us is - and there's been a lot of talk about electronification of markets and electronic trading. And it is an evolutionary process. I think for us what's important - and to Andy's point as well about the ongoing need for intermediaries and partnership. The market structure in that regard is not going to change fundamentally, so I share the views of the other two panellists in terms of the structure of the wholesale markets and the forward of that.

But what will and does continue to play a significant part is technology, and the evolution of technology. And in my mind it's a little bit like the debate that's happening around AI at the moment, and we hear lots of people talking about how AI is going to replace X thousands jobs in the industry over time.

I think the firms that will be successful when embracing technology will be those that find the optimum mix of the human and the technology. That's, you know, clearly a direction of travel that I believe in with respect to AI. But I also think that if you look at electronic markets specifically as well, the hybrid nature, in particular of the wholesale rates markets, that we've seen, you know, fully exploited by the likes of iSwap, is the clear direction of travel.

We need to drive structural costs out of our businesses, so efficient back-end processing and plumbing that optimises and ultimately reduces our structural costs is key. And then from a front-end perspective, that balance between human and technology is critical.

And when I think about the journey that TP ICAP have been on along with us, the progressive approach that you've had to technology evolution does stand you out from your competitors.

Frits Vogels, CEO TP ICAP EMEA: Thank you. So, let's talk a little bit about voice then in all of that. So, the picture that has been painted to people in the room and the picture that I want to get across is voice. It's embedded with all these technology aspects, and you mentioned AI - we're very excited about the possibility of AI, which is really intelligent data gathering and machine learning and trying to understand and get more patterns as to where we might expect the offload to happen.

But then price discovery, indication of interest and then in the post room, trade. Now, as I was explaining this to somebody, you know, when is that bit of voice then going to disappear out of - why do you need that bit of voice in the middle somewhere?

Is that something you could maybe talk a little bit about? What is it about voice that it makes it still be there?

Andrew Morton, Head of Global Markets at Citibank: In a certain sense it's hard to fathom. You would think - in a theoretical world, you would think everybody would be just trading with computers. I think the reality is traders are human and they want to talk to another human. We have a lot of sales people and, again, the exact same question could be asked. But we know in our business, if we move a client from a mediocre sales person to a much better sales person, the revenue's going to go straight up. As so I just don't think we're practically, in 2017 - and I would even say in probably 2027 - we're at a stage where people want to interact with a computer the way that they interact with a human.

Sales people in every industry make a difference, and you think of a broker as a sales person. They defend your interests, they're smart, they're aware of what's going on, and giving a price to a broker has just a completely different feel than sticking a price into a computer. And in a way the experiences that people have had with HFT I think and the awareness of algo's and so on, I think in the mindset of a trader, you're giving a price to a broker - a trusted broker that you have a permanent long-term relationship - and as you all know, probably, the relationship between individual traders and brokers is quite deep and longstanding and goes across trading firms. If the trader moves to a different firm, typically they keep the same broker.

That trusted relationship is worth something because the trader knows he's going to be defenced to a certain extent. It's a completely different feel to putting a price into an electronic venture or an electronic entity lie a futures contract where you're much more to feel that you'll sort of short the option.

So, in the infinite time, who knows, maybe there'll be bots than can have the same kind of behaviour pattern, but I think it's not in the foreseeable future.

Frits Vogels, CEO TP ICAP EMEA: Charles, do you want to - ?

Charles Bristow, Co-head of Global Rates at JP Morgan: Yeah, a few things. Don't forget - even computers are sold by people. I mean, if you think about the paradox of the thing. Apple keep opening stores with people in them that people that are buying computers want to go and speak to. So, you know, that human need for the interaction is great.

I was going to pick up on trust as well. You know, if you really abstract why the interdealer network, interdealer broker network performs a necessary function is - you have a bunch of wholesale banks and dealers who both can't trust each other, don't trust each other and aren't - especially more and more these days - aren't allowed to talk to each other, end even if they did trust each other, because of anti-competitive legislation.

So, what you need to break down a situation where there are two people that can't trust each other is someone in the middle that's inherently trusted by both parties. So the whole thing is predicated on that concept of trust. And humans trust other humans with whom they have a long-term relationship. So, it's really, really simple at its core.

So you build up that trust. It's very easily broken, and I think really good interdealer brokers recognise that and they recognise that the relationship is for the very, very long term. I mean, my day job, back when I had one, was trading options, and I certainly knew there were a number of individuals who I could trust to interpret my interests the right way and to do the right thing through the cycle. And that was really important.

And Andy's absolutely right. Trust exists between human beings and therefore it's somewhat more portable. So, you know, it's sticky in a way that if you're acting through an API or something, your relationship is only with the protocol - it doesn't last.

Frits Vogels, CEO TP ICAP EMEA: So, Andy, you come from an eMarkets background, so you're there working to try to increase technology in the space. And it's often seen, I know, by people in banks and perhaps by people in brokers, as the man that is taking it all away from voice. What's your view on the same question? Why is there voice and why is it still relevant?

Andy Challis, Head of Principal Investment at Barclays Bank: Well, I think it goes to the point that's just been made, that there is - when you're transacting, particularly in large size financial transactions - a degree of handholding is needed, whether it's the smallest client, you know, provincial client trading a very simple transaction, through to a large wholesale transaction, perhaps a bit more esoteric in nature - even with market professionals there is a degree of need to kind of know the other side and it not just be an anonymous screen.

And certainly, as I've worked through the evolution of electronic markets, both from a deal to client perspective as well as interdealer, that has always been there thematically. If you look at the nature of eSales people, they're more of a solutions sale than a product or transactional sales person. But it's still an important relationship, you know, that going who is the other side of that screen, who can I speak to if something goes wrong or I'm struggling to get the right transaction done at the right level or with the right parameters, who can I talk to? There is a relationship component to it.

The notion that people are happy to be at risk and file risk into a black box and not have any, I guess, safety net or circuit breaker from a human perspective, on the other end, is a misnomer. I think people need human interaction. I think, as Andy and Charlie have said, I think that's a crucial part of it.

So there's never - as you say, my focus has been on electronic trading, but our aspiration has never been to 100% electronify markets. It's to find the optimal balance that works for both us and our customers, with respect to the balance that they need between the efficiency of electronic trading and the higher touch engagement they need from a voice perspective.

Every market finds a natural balancing point. I don't think, even with some of the regulation, it hasn't driven markets 100% electronic. Every market finds its natural sweet spot between voice and e, which reflects the need for efficiency but also, as I say, the balance for a higher touch model.

Frits Vogels, CEO TP ICAP EMEA: Yes. Flash crashes tend to happen less or not at all when there's a large voice component. That's just a little lesson of history.

I'm conscious of time. Rebecca, are we still good? Just wanted to pick on something totally different and to the issue of trust, and maybe if you think about your own firm, your relationships between your firm and our firms and how that used to be, where we are today. It may be interesting to emphasise that TP ICAP is the only IDB that's a signed-up member of the FICC Markets Standards Board in which we take a very active role and in which I know all of you take a very active role, which is a self-led industry to improve practices in the marketplace in all aspects.

Could you talk a little bit about that? Culture, trust and does that matter to you? And how do you see the industry in that respect? Maybe, Andy, you can kick off with that one?

Andy Challis, Head of Principal Investment at Barclays Bank: So, I think markets evolve best when it's thoughtful and carefully developed. You know I think when we see step changes in market structure in particular is when you see disruption, dislocation, vulnerability to events like flash crashes, etc. I think being able to work with people who have been on the journey with us, so you know whether it's intermediaries like TP ICAP or infrastructure partners like clearing houses and the like, having those people who have been on that same evolutionary journey with us and have that same high duty of care to the long term stability of markets I think is crucial.

So that's certainly why we feel that markets are evolving organically, you know even blockchain technology, yes it will in theory significantly upgrade market infrastructure, but we certainly don't feel it's going to replace the actual components of markets, i.e. the nodes in the network as it were, the clearing houses, the brokers, the dealers, the clients, it's an infrastructure upgrade. And that's, as I say, because I think primarily, most practitioners, if not all, have that longer term duty of care and that desire to not disrupt and cause dislocations in market infrastructure.

Charles Bristow, Co-head of Global Rates at JP Morgan: I think the culture agenda, culture and conduct as it often comes out because, quite rightly, there is a view that one leads to the other, or a lack of one can lead to poor behaviour, has become incredibly significant both to regulators and to all of the firms. And I think part of it is you know we have a - versus say 10 or 12 years ago there's a slight changing - a handover of generations if you like, sort of running businesses and operating in financial services. I think there is across the industry, whether it's banking, asset management, client interdealers, etc, a real desire to get back to a period where you could be very proud to work in the industry and you know you'd sort of hold your head up and say we honestly believe we're doing things better today, acknowledge that in the past there were some behaviours that we're weren't super proud of.

So I think an acknowledgement of it, is both mature, but it's also an indication of a real commitment to the industry for the long time, like you know you really - the point when you're willing to invest in the way an industry is perceived you must be by definition thinking about it for the long game, investing in it for the long term.

So I think it's great, I mean I sit on the Rates subcommittee for FMSB, and it's great to see you guys there because it really shows that you have a view of the long game. You know that by investing in the industry - you recognise that without the industry being respected and successful, you know nobody in it can be successful. So you know I think it's a great statement.

Andrew Morton, Head of Global Markets at Citibank: I think we're at the stage now where both management and obviously the employees, probably the employees even more than the management are frankly terrified of some of these conduct issues. You know they read the papers, they see people in jail, they see people fired and kicked out of the industry and so they are - for the most part terrified of these issues. Management you know wants to do the right thing and lead them the right way.

So I think sort of the industry is more or less aligned, but what's good and everybody has talked about FMSB, I've been involved in it as well, what I like about it is it's an industry venture to kind of make it all pretty concrete. So you know rather than just talking about we must be good and we must behave properly, etc, etc, you know what does that mean when you have a closing order, when a client has left you a large order to be executed at four o'clock at the close. What are you allowed to do? What are you not allowed to do? Let's get specific, let's get clear, let's put it on the table. And you know as mentioned, you know ICAP is a member of these discussions and helps to contribute, because many of the potential issues around conduct involve the wholesale markets and interaction between dealers and banks.

So I'm sort of proud that the industry has gone beyond just - okay let's get rid of the bad apples and let's have better behaviour and let's all be saints, more towards - okay what does that means in these, you know, 50 specific situations and let's get the experts in the room to talk about what should be the standard of good conduct in each of these situation and putting it up on a website so people can read it. And young people can click through and read the example, read the standard, and learn to be better their very specific area.

Frits Vogels, CEO TP ICAP EMEA: Time always flies by, I knew this would happen, and there's plenty very interesting things that we could talk about, but I'm conscious of time. Thank you very much, maybe we want to open it up to some questions from the audience, anybody - any questions for our distinguished panel? Yes please in the back.

Question: Hello, I just had a quick question in terms of market structure, one of the things that we've seen, or I believe we've seen, so please just correct me if I'm wrong, in the US has been that you still had DIDBs (?), even though the rules mandate and all tool market between buy side and sell side, you still had the sell side market. So I just wanted your opinion on that? And do you think the new MiFID rules basically mean the same thing, that the reason market structure can exist the way you guys are articulating, is because you can have those separate liquidity pools?

Frits Vogels, CEO TP ICAP EMEA: Charles do you want to have a shot at that one?

Charles Bristow, Co-head of Global Rates at JP Morgan: Yeah, so look I think you have to look at it on a case by case basis, but in many cases the reason for the bifurcation of market structure is that actually there are requirements, pretty much in all cases in fact, there are requirements for participating in a certain venue that really only the dealers can fulfil, such as you know in some venues you have to be a clearing member. And the reason for that is maybe there is no credit checking process, or the venue doesn't have the ability to take credit risk. In other venues, say in European GovIS, specifically there are primary dealership obligations. So venues exist specifically for the purpose of people fulfilling their primary dealership obligations. And again it wouldn't make sense to co-mingle, people that operate in a venue for that purpose with people who are liquidity takers from a client perspective. So a lot of the time the bifurcation exists for very, very good reason.

I think the other thing to remember is that people will create venues where they trade with peers because there is a degree of reciprocity. You know and it’s not organised reciprocity, but you would expect to be sort of treated symmetrically with the way that you treat yourself.

So I don't think there's anything in MiFID that rapidly changes that, clearly there will be all to all venues, there already are in many markets, but whether or not they succeed will be a function of whether or not the people choose to show their liquidity there. And I think that is generally going to be an evolutionary thing.

And certainly what we don't see in the US where those venues exist is a tremendous acceleration towards using them. I think most people feel like they are better to be in venues of peers rather than mixed venues.

I'm not sure that the equity experiment was particularly successful; I mean it didn't feel like everybody necessarily got a particularly great deal there when that first evolved.

Frits Vogels, CEO TP ICAP EMEA: Any other questions from the audience, great well thank you very much, thanks for taking the time it's a real pleasure to have you here.

[Applause]

I'll hand over to Sam who is going to talk about Institutional Services.

Institutional Services

Sam Ruiz, CEO Institutional Services

10.0 Institutional Services

Sam Ruiz, CEO Institutional Services: Thanks Frits, and thank you to our guru panel as well, that round of applause was not for me it was definitely for them.

Right, good morning everybody, my name is Sam Ruiz and I joined TP ICAP just over a year ago and I'm responsible for the Institutional Services division. My background is from the sell side, having spent nearly 30 years at Lehman Brothers and Nomura where I was most recently Head of the Equities division, also managing the firm's sales trading, research, and prime brokerage businesses.

As you heard from Phiz this morning, it is a new division; it's one of the four product verticals within the firm and focused on the buy side client base.

Today I'm going to talk briefly about the challenging environment for the sell side, the buy side client needs, the agency model, and the opportunity that this represents for TP ICAP.

First of all let me tell you what I mean by the agency model. There are four key drivers to explain the evolving need in capital markets for a high quality agency sales and execution services business. As we all know and you heard earlier from Frits, the regulatory burden for the industry is enormous, and with the implementation of MiFID, Basel, CVA and so on it will continue to be so. And those rules affect and impact the banks, brokers and asset managers alike.

From the sell side perspective and I don't really need to tell all of you here that the increased cost of holding risk assets, the unbundled and I'm wary of saying this in front of a room full of analysts, somewhat occasionally unprofitable research, coupled with the cost of regulatory returns means the profitability of the banks is under constant pressure with ROEs, now firmly anchored in single digits.

For capital markets specifically to adequately manage those costs and generate a reasonable return, the banks have had to focus their risk capital and the human capital to their larger and more profitable account, off-boarding their smaller clients. For example, and this was widely reported, since 2014 Barclays have cut 17,000 of their least profitable accounts. And least December announced plans to cut another 7,000. At the same time Deutsche Bank also decided to reduce their client base by 3,500.

These are just the public announcements and the buy side clients that we speak to are feeling the change in service levels across the board.

For the buy side liquidity is the issue, it's what the buy side wants and needs but it's getting more expensive for the larger asset managers, due to the cost of the banks who are providing that risk capital and getting more fragmented for the smaller asset managers who simply cannot afford to connect to all of those new liquidity providers.

It's interesting that Paul is here, and take note, that we experienced almost exactly the same regulatory and revenue pressure in equities in the early 2000s. Those pressures force a complete reengineering of the equities model and led to many of those smaller and less profitable accounts, the tail, being cut off and the growth of the agency execution business models, like our friends at Numis and co here.

Those firms benefited by taking on those off-boarded clients and as we can see became very successful in their own rights. I'll come back shortly to the role of the agency broker.

Now moving on by 15 years, the regulatory environment is forcing the next wave of change in OTC fixed income markets. And while the asset class may be different the role of the agency broker is not. To help inform our base strategy, we did a detailed piece of work earlier this year reviewing client needs, the available fee pool, how and where to compete and the most compelling value propositions for us and for our clients. This all helped to formulate our buy side strategy.

So what is an agency brokerage and how does the agency model benefit both sides of the street? For the buy side an agency brokerage provides a quality sales service, generating alpha rich ideas, offering best execution, no conflict of interest, and most importantly anonymity.

The agency broker sources its liquidity from traditional and non-traditional pools that are also not available to all buy side clients. For the sell side banks the agency model fulfils a very different role. Consolidating activity of those off-boarded accounts allows the sell side bank to access the flow, but without having the expensive human capital costs of maintaining those account. The agency broker effectively becomes the outsourced sales desk.

Let me elaborate now on the anonymity and why it is so important. In contrast to named give up transactions, my experience with the buy side is they are very reluctant to disclose their identity to the other side of a transaction, as it can lead to information leakage and increased execution costs. Agency intermediaries act as the buffer in the transaction, maintaining confidentiality on both sides of the trade. The agency broker does all of those in a cost efficient manner, without taking any conflicting facilitation or proprietary risk.

Now turning to the available fee pool, as you can see the total capital markets wallet for Europe and the US is about £110bn. Once you strip out corporates, sovereign wealth funds and other asset managers that we're not intending to service that fee pool reduces to about £60bn. As an agency business we're focused on pure commissions, excluding spreads, excluding risk and we're definitely not trying to compete with the banks here. And that fee pool now reduces to about £20bn.

On the assumption that we are only addressing those smaller asset managers, which represent about 50% of the fee pool, we estimate our addressable wallet to be about £10bn.

As we draw further down into our initial client base, the hedge fund community, we can see that nearly 90% of AUM is based in the US and Europe. So we decided to focus our time and attention on those regions. Interestingly nearly 50% of total hedge funds' AUM are managed by funds that are themselves sub a billion dollars. And those are the size of funds that we're targeting.

So without having to do the numbers, you can see how this is a really exciting opportunity for both the Institutional Services and TP ICAP.

We're at the very early stages of developing this business, so with the market structure evolving at such a rapid pace we need to be really flexible in our approach and also really quick to respond. To date our strategy has been to gain a foothold in Europe and a narrow product range of FX options and listed derivatives, focused on those smaller and off-boarded accounts, sourcing equity directly from the banks not from Global Broking.

As we look more to the future, our goal is to establish a meaningful presence in the US and to broaden out the client base and the asset classes in both regions, whilst recognising the time and financial resources needed to gain traction in both.

Our experience so far is that our client base favour a one stop shop approach, which means the ability of our sales people to generate value added ideas and then sell and execute across asset classes is key to our success in a high touch business.

So far we have found that a good source of sales people with those skills and relationships is also from the sell side. And with the banks still reducing their trading and sales footprints so we've been able to attract some really high quality individuals from that talent pool.

A reasonable question would be - why trade with Institutional Services and not one of the smaller agency brokers? What makes Institutional Services so attractive as a counterpart for a buy side client is our solid regulatory and compliance framework, supported by the financial strength of TP ICAP.

The challenge that many of our smaller competitors face is the cost and burden of new regulations and governance, whilst we have the opportunity to leverage the breadth and depth of the Group's corporate structure. Saying that, building this business entirely organically will take many years, so we're actively pursuing opportunities to acquire businesses that enable us to accelerate the strategy whilst delivering the returns that we require.

To illustrate that point we're pleased to announce today the acquisition of Coex Partners, led by John Ruskin and Alex Gerskowitch, two experienced and well-known individuals. Coex is a high calibre team of sales professionals that offer trade advisory and execution services to a range of sophisticated buy side clients in FX, listed derivatives and fixed income. To enhance their execution offering they add value through political analysis, FX and macro strategy and have offices in London, New York and Paris.

Organisationally Coex will sit along our existing buy side business, Mirexa, as competing brands within the Institutional Services division and there are no plans to merge the teams.

TP ICAP has had a close working relationship with Coex through and authorised representative arrangement and we're thrilled to now make the relationship concrete. As a result of that we have been reporting Coex's revenue numbers within our results and the business has been growing strongly from the £11m of revenues reported at the half year. Now we have acquired the business we will be recognising those profits.

The acquisition is the latest step down the path towards building a world class, multi asset agency business and I'm really excited to have them joining the team and working much more closely together in the future. A big step in the right direction.

So in summary we did a detailed client review earlier this year confirming that there is a clear and present opportunity for Institutional Services to service a new client buy side client base for TP ICAP in a manner that does not conflict with Global Broking's sell side clients.

Feedback from the buy side highlighted the need for an agency counterparty, but stressed anonymity, no conflict of interest and a solid credit rating as must haves. Clients also highlighted the need for more value added services and pure execution, to include alpha generation, electronic access and post trade analytics. And so our target is to build a high touch, multi asset, agency sales and execution brokerage to a new and increasingly underserviced client base.

And finally we will be building organically, but where it makes sense also through acquisition. I hope that gives you a flavour for the goals of the division and how we aim to get there. But more importantly a sense of the significant opportunity that we can see and why I am so pleased to join TP ICAP.

So thanks for your time and I'm happy to take any and all questions. No takers. Okay, with that I should pass you over to my colleague Andrew Polydor.

Energy and Commodities

Andrew Polydor, CEO TP ICAP Energy and Commodities

11.0 Energy and Commodities

Andrew Polydor, CEO TP ICAP Energy and Commodities: Hi, good morning, I'm Andrew Polydor I'm the CEO of Energy and Commodities at TP ICAP. Today I'm going to take you through my business, how we work, the opportunities and prospects and how that fits into the TP ICAP business model.

So before we go onto this slide, I think a few of you were asking about who the actress was on the video before, she's actually a broker in the PVM brand that does fuel log, but by the looks of the video she probably should be doing corporate bonds or something like that, she was pretty good.

Anyway the Energy and Commodities business started in the US primarily servicing the power and gas markets back in the mid '90s. And as you can see from this slide our portfolio has expanded rapidly across all the businesses and across the globe. We broker both the physical and derivatives in all these products, both domestically and globally. And this diversified portfolio gives us a natural head across all our businesses.

We operate three main competing brands, that's Tullett Prebon, ICAP and PVM, with the Tullett and ICAP businesses spread across all the product base and the PVM business being the premier oil broker in the marketplace. We have 567 brokers operating in 22 locations globally as you can see. We operate 182 desks across 62 separate product sets, offering competing desks across the brands. The ICAP acquisition recently added another 11 locations, 83 desks and 23 products to our portfolio.

We have a broad range of customers and this reflects one of the most appealing things about the energy asset class. 87% of our current revenue comes from non-banking client and Energy business adds important diversity to the overall TP ICAP Group in terms of the customer base.

I want to take you through the different types of customers and why they need to trade commodities with us. Corporations are a major part of it and they consist of a number of different client bases, but essentially they are led by generally consumers, producers or refiners of the underlying commodity. They need and want to trade both the physical commodity and to hedge their exposure and with more sophisticated corporations taking positions in these products.

For instance a client like EDF who generate power want to hedge the price of the fuel that they use to generate the power, be it fuel oil, coal, or gas. And they'll also want to trade the outputs, which are the electricity, or the carbon emissions. And then they'll also want to buy the underlying commodity to balance their portfolio if they're short power, or long, whatever they need to do.

The trade houses such as Glencore or Vitol, they take positions and look for trading opportunities across the energy complex. Some of them own actual assets which gives them information and assets to trade around. And there are also banks still active in the commodities market, although a number of them have pulled out over the last few years due to capital concerns and regulatory concerns. But they still do provide important market making and research and financing services to the marketplace. And the main banks still active are Citibank, Goldman, JPMorgan and Morgan Stanley have recently re-entered the marketplace. And more recently we've successfully marketed hedge funds, governments;

local authorities and asset managers in an effort to further expand our customer base and revenue stream.

Nico has already spoken to you on how we give our customers a wide range of ways to trade with us and it's also the same with the energy and commodities asset class. For example if you look at this spectrum over here, way over on the left hand side you have voice, which is predominantly how we do all our oil business. As you move along you go to hybrid which is mainly power, gas and coal. We also have a little bit of pure electronic revenue, it's not a lot, it's about 5% where there's no interaction at all by a person in the trade, but we do have some revenue there. And then we have the post trade services and then information sales towards the end, which would include some of the reports we product like the PVM Daily report which touches about 3,500 people and we also do a good LNG outlook report every month.

Now I'd like to take you through an example to illustrate how we work across the spectrum on the previous slide. In Europe the power and gas markets are mature markets and they are traded on a platform called Trayport. Trayport is a software platform that brokers and exchanges use to host a venue and where clients execute a wide range of these trades on those asset classes.

The clients see and aggregate the screen in front of them showing a price for the broker and engages, best bid best offer and they're able to execute either electronically, just click and trade, hybrid where they'll speak to a broker and then execute on the screen once they've had some colour, or where they speak to the broker, negotiate and the broker executes for them on the screen.

We have been using Trayport for the last 15 years in Energy and Commodities and as you can see there is a bit skew towards voice and hybrid on there. And this profile hasn't really changed at all in the past 15 years; it's been like that the entire time. And our previous CEO used to say there must be a lot more electronic revenue if you've had the screen for so long. And I used to say to him, well the only way to find out is to send the brokers home and see what happens on the screen. He never took me up on it, but not a lot would happen.

So the reason they use - the traders use us and use the Trayport screen is because you know as we previously alluded to it's good for price discovery but you don't know what's behind the price, where the volume is or where it gets set. The brokers can manage the order when the trust is there; we manage the order much, much more effectively. There is no slippage on the price, when you negotiate you get your price, it's not like you get a quote, you go back and you don't get filled on it. And then the brokers as we've all spoken about add that market colour that a computer or a screen can't give you.

Next I'd like to take you through where commodity markets are right now even though you're all analysts and I'm pretty sure you know where's it's all kind of going at the moment, but the key trends of the markets going forward. And I think it's reasonable to say that the commodity markets this year have been challenged and all commodity markets are generally cyclical and we're at a low point of those cycles at the moment. That being side the combined Energy and Commodities was only down 2% H1 this year and Q3 was only down 1% off the back of a very, very strong 2016. So we're kind of outperforming what's going on in the market at the moment.

And that's primarily due to the fact that we're so diversified that you know there is always something moving, so we're kind of covered when the markets go a little bit quiet or a little bit stagnant.

We're using this slide to illustrate that, the Bloomberg Commodity Index, which is the one on - well both of these screens, one is a price index the other one is a volatility index, it's a good proxy for what the market looks like because it's got a vast basket of commodities in there, it covers everything, oil, power, gas, softs, precious metals, base metals, everything, so they're not weighted the way we're weighed, but it gives you a good look at what's going on in the marketplace. And then you can see since mid 2016 it's been all in a downward kind of trend with prices being range bound and volumes being quite low.

And this has led to a difficult year for most of our customers and most of them have reported the worst H1 since 2016, particularly the banks and it's generally a reflection across the entire market. The only real bright point has been the oil markets, where there has been good activity through the year, the hurricane season in the US is also quite good for us, even though it's not good for the people obviously in the hurricane. But it has brought a lot of liquidity and volume into the market. So they have been okay.

Gas and power markets across EMEA and the US have been quite, that's due to moderate temperatures, structural changes in the market, including the impact of renewables and they've reduced the volumes and the trading volatility in the market. It's also worth noting this year that the coal markets have continued to suffer with the year to date volumes down by about 60%.

As we look forward there are some key macro trends I would like to talk to you about, global GDP is expected to double over the next 20 years with energy demand expected to grow by 30%. Oil, gas and coal are expected to remain the dominant source of energy; however, renewables, hydro and nuclear power will provide a higher proportion of demand going forward.

With the oil demand increasing we expect a gradual increase in oil prices, provided there is a healthy dose of OPEC production discipline during this time. The rapid expansion of shale gas and LNG production is likely to also lead to a globally integrated gas market.

One particularly interesting trend is that the world economy is continuing to electrify with a large part of the increase going to the power sector. The expected increase in popularity in electric cars and the broader mobility revolution driven by self-driven cars is going to have an important bearing on the future of oil and electricity demand.

To be a little bit topical as well, we can't really ignore the digital currencies, at the current levels bitcoin mining takes around 30 terawatt hours of electricity per year, that's a lot of electricity, that's more than the total consumption of Ireland or Nigeria, it's 65% of Portugal, it's something to watch in terms of trends of where things are going.

Given where we are in the cycle I want to give you a view of some of the initiatives we have underway to continue the growth of our revenues and best position ourselves to take advantage of any upturn in the markets going forward.

The key advantage we have over our competitors is our scale and this is what these initiatives aim to take advantage of. In terms of market share we're already the largest interdealer broker in energy commodities and Phiz alluded to earlier. However our coverage of all the markets is not complete, there's gaps we can fill and we've done all the work behind that to fill those gaps and see where they are.

We plan to do that by maintaining the three brands that we have, TP, ICAP and PVM and adding to them through selective acquisitions and also hiring the best people available in the market.

Regionally our European business currently generates 60% of our revenue and is mature so we don't see a lot of opportunity here. We have though been focusing more recently in the US, which currently accounts for 30% of our revenue, we've been growing headcount and coverage and we continue to acquire brokers and are increasing our geographical coverage as the markets there continue to consolidate.

And in the near future we are going to focus on Asia and in particular China, which is the world largest consumer and producer of commodities. At the moment we do service these markets but it's via our Singapore offices. But we are planning and onshore presence in the near future.

Currently we have a very successful JV in Shanghai via our Global Broking side of the business and we hope to replicate that model for the Energy and Commodities while bearing in mind that operating in China is challenging and any strategy will have to be long term.

With technology we believe that there are significant opportunities in investing in technology to make our brokers better and more efficient, delivering greater value to the clients and a higher revenue to the firm.

I'd like to take you through some of the projects that we are working on to illustrate how we're thinking about technology. First is the platform called iCapture, which is a deal management system developed in house by the ICAP Commodities team, which we are in the process of rolling out across all the brands and all the regions.

For those of you that don't know, the deal management system captures trades and processes them through billing and reporting, etc. This system is going to replace six legacy systems across the brand with a single state of the art system and will eliminate a significant amount of inefficient practices, as well as providing management and brokers with a greater insight into trading and any issues we have with any of our processes.

The second systems we've spoken about already is Nova, this is a whiteboard application which has the ability to be a fully electronic trading system. We're currently using it as a deal capture system and we've rolled it out on a few desks and it's made those desks more efficient, they're sharing liquidity much easier across the desks and across the globe and the uptake has been very, very good, the brokers are very excited about using it. It also has an additional benefit of being able to harvest the data in a consistent manner across all our brands across the world, which then we can use in analytics and in data sales. So it's a big deal for us in the Energy and Commodities space.

And the last technology piece that I'd like to talk about is AI; we think its time has come in the broking world. I think what the gentleman said earlier about the balance between using AI with the brokers and making them smarter, quicker, faster and more efficient and in getting information for them quicker is where we're going with it. And I look forward to being able to update you a little bit more on that in the future.

And we've all touched upon people, which is the most important part of our business and we're running a number of initiatives and programmes around our staff. As part of the growth strategy we are reviewing our locations, where we have multiple offices in one city we are looking to merge them. For example we're moving 350 brokers across the three brands to the new office in Victoria early next year. And that's beneficial as the majority of our clients and are now based in the West End and by consolidating our brands obviously there are cost savings, but there is also an ability to share ideas across the brands and get in front of things that are happening in the market.

We also think there's an opportunity in Houston where we feel we're a little bit underweight, we currently have about 50 brokers across three brands, we're moving them all into one building as well and we anticipate building that business out to 100 brokers over the next 24 months to give us a little bit more heft in Houston.

And from a management perspective, I've been very lucky to have inherited a very deep and experienced management team running the brands across the regions. After the PVM and ICAP acquisition we've been able to give talented managers more responsibility and more things to look after, resulting in reducing the size and cost of our management team by over 50% this year.

We obviously continue to focus on retention of our key brokers and key revenue generators, as well as developing the next generation of brokers through the early careers programme. We've taken, I think about 30 young careers brokers this year and they're all - or probably 80% of them are already generating revenue for us.

Lastly on regulation, commodities are impacted by MiFID, but not as much as the other businesses. The rules around commodities are a little bit more complex and in particular require certain position limits. It's a challenging environment, but we've been seeing our customers, we're being told we're the only ones seeing our customers and talking to them about it and we're prepared for the changes and we don't expect an impact on our revenues through it.

As for Brexit, as Frits alluded to, I think it's a little bit too early to tell what the impact would be, but we expect to say that it won't have a big impact on us and most of our bigger clients are international in nature so they're not really that concerned about it. We obviously are, but we're talking to them continuously.

So to conclude we are an award winning commodities business, who already has a number one in the marketplace and we continue to see strong opportunities to grow our business. So thank you for listening. I'll take any questions if anyone has any?

Q&A
Institutional Services and Energy and Commodities

12.0 Q&A Institutional Services and Energy and Commodities

Daniel Garrod, Barclays: You didn't get that lucky, good afternoon, a couple from me. The quietness in the power markets that you alluded to, we've seen that from other sort of competitors as well, anything you can point to in 2018 that could cause that situation to reverse?

And then the second question, the importance of oil to the overall sort of Energy and Commodities division, any colour of what percentage that is at the minute? You indicate 50 additional voice broker hires in Houston, is that all in the oil area? Thank you.

Andrew Polydor, CEO TP ICAP Energy and Commodities: Sure, we're seeing a little bit of a shift actually in the power market, particularly in Europe at the moment. The quietness I think has been due to the uncertainty around a lot of the subsidies that are in the market, all those things kind of flatten the curve out. A lot of those things are running off now, so we're seeing a little the incumbents coming back into the market and being a little bit more active. So I'm hopeful for the power markets next year globally actually, I think they're going to come back.

In terms of our dependence on oil, that was - we went into oil for two reasons, one was to diversify our client base more than what we had and the second thing was we could see what was going on in the power and gas markets which we were deeply dependent on prior to the oil thing.

What I'll say is currently I think our oil revenues are probably about 60% of our revenue, I think the power and gas revenues are about 25%, the balance is other things. That's the revenue view of it. In terms of coverage, our coverage is quite equal across all of those asset classes. So when one gets better and the other one gets slower we're kind of like covered. And so the dependence is there at the moment, but if oil goes quiet inevitably gas and power goes busier. So we're kind of like covered in that respect. So you know in a year's time, or two years' time we could be saying power and gas is 60% and oil is 25%.

And in Houston, yeah primarily it will be oil guys, the interest there for me is I think that there's probably a lot of auxiliary services and things that we can get involved in, but we're not in Houston listening to the chat and making the connections that we'll need to make. So we just need to get more people on the ground there and I think we'll grow into different areas once we're down there.

Daniel Garrod, Barclays: Thank you.

Question: Hi, I have two questions; the first one is what is the average broker headcount for the Energy and Commodities business?

And the second one is, what is roughly the revenue split between oil and power and the rest of the asset classes in the US?

And also could you please give us some more details on the market consolidation that you mentioned in your presentation in the US? Thank you.

Andrew Polydor, CEO TP ICAP Energy and Commodities: Sure, I don't know what the actual per head broker number is, I know it's higher than the Global Broking number; do you guys have it down there?

Robin Stewart, Interim Chief Financial Officer: Revenue per head in the energy markets is higher than the average that we publish in our Annual Report … [inaudible no microphone]

Andrew Polydor, CEO TP ICAP Energy and Commodities: That's globally and the oil is much higher than the other ones. The split in revenues did you say?

Question: In the US?

Andrew Polydor, CEO TP ICAP Energy and Commodities: We don't have a lot of oil in the US; we've got a little bit of a presence in oil in the US via the ICAP brand. Our main oil business is in Europe. So they're kind of like auxiliary desks that service the Europe desks, so it's not a big number in the US on oil.

And the third question was?

Question: Is on you mentioned …

Andrew Polydor, CEO TP ICAP Energy and Commodities: Oh consolidation, that's coming because of the regulation that's coming into the markets. We're seeing a lot of the smaller brokers coming to us. And as John alluded to earlier, there's a lot of people calling continuously particularly - even in Europe there's a lot of people saying - hey can we do a deal?

So that market is consolidating because you know - we didn't mention it earlier but to put all the stuff in place to be to operate forward I think to do it for TP ICAP the marginal costs for putting things on that is small, the smaller brokers have to spend a lot of money to get up to speed and it's an easier option for them to give us a call.

That's it, thank you very much, over to Eric for Data and Analytics.

Data and Analytics
Eric Sinclair, CEO TP ICAP Information Services

13.0 Data and Analytics

Eric Sinclair, CEO TP ICAP Information Services: Thank you Andrew and hang in there we're almost done.

So my name is Eric Sinclair, and I'm delighted to be here today and no I did not bring the weather with me, it was actually Iain Plunkett who brought the weather. So I just wanted to provide you - this is actually my third week on the job and I wanted to provide you will a brief background on my history and talk about some of the exciting opportunities we're discovering in TP ICAP's Data and Analytics business.

For 16 years I was a senior executive at Reuters where I was responsible for sales, product management, business development and technical operation. After that I was the senior partner in a wealth management software firm where I ran global sales. And most recently I spent 14 years at the TMX Group overseeing the information services division, otherwise known as TMX Market Insights, where we saw a fivefold build in the revenue base, with a 12% CAGR. And we also enjoyed taking the revenues as a percentage of Group revenues from 11% to 30%.

Four key drivers that helped to contribute to that was building out and revitalising the global sales team to expand the revenues, expand the client base to over 10,000 corporate clients. The second area was partnering and acquiring index businesses for proprietary indices as an asset for the organisation in a multi-asset world. The third area was adding content beyond the proprietary exchange content, in particular in the OTC space. And the fourth area would be building out a data science team to build cloud based analytics.

So why do I find the TP ICAP proposition so exciting? In short, many of those same drivers for growth exist at TP ICAP but have yet to be developed. Highly valuable proprietary OTC data which is scarcely available and which we have heard from my colleagues in Global Broking, Energy and Commodities, represents that broadest global coverage in the marketplace.

You will have heard the USP before that as an unbiased and impartial operator in the market people place their trust in our data. But in my view we have the opportunity to go further with leveraging our global neutral position in areas such as indices which I'll talk about later.

We continue to be the beneficiary of the changing regulatory environment as rules continue to develop, requiring financial institutions to undertake more rigorous risk and capital management. There is a significant amount of latent opportunity in this firm which makes me excited about the future growth of the business.

What do I mean by latency opportunity? Well today the information services business has focused on indicative pricing data, which is generated by our brokers and through the application of analytics to indicate where markets are traded. This pricing has traditionally been published via market data vendor display terminals such as Bloomberg Professional and Thomson Reuters Icon.

We are seeing a significant shift in the way clients consume our data to the consumption of pricing feeds and applications such as position keeping and risk management. In the market data world we call this non-display usage. To give you a sense of the change in consumption, in 2008 desktop subscriptions represented approximately 40% TP I revenues. By the beginning of 2017 it was approximately 6%.

In contrast non-display revenues rose from 14% to 43%. I think this is still a growth opportunity for the firm, my initial sense, less than three weeks in is that there will be ways we can increase the scope of use licensing and revenues streams to use this TP ICAP in indices, benchmarks and analytics.

Our indicative pricing discussed on the previous slide is about 25% of our proprietary data publishing opportunity. More interesting is the amount of data we have yet to monetise or commercialise by the firm. In this sense regulation has been a catalyst for the availability of pre-trade and post-trade data. As Frits mentioned in his discussion on MiFID earlier, for the first time pre and post trade transparency will be mandated in Europe and the Information Services division will be managing this on behalf of the 11 venues that you heard about earlier.

Not only does MiFID create the opportunity to procure and monetise more data it also throws out use cases that will drive demand for our services, whether it's within the requirements for best execution as Phiz mentioned earlier, or the determination, the systematic internaliser regime, companies across Europe, or transacting within it will require our data to find where markets are and have traded to discharge the regulatory reporting requirements.

With this level of data across the wide range of asset coverage by our broking colleagues, we will be in a unique position to build and create indices for different marketplaces. It also points that we will be able to leverage our global neutral position.

As we observed at TMX and part of the reason for the success of the index proposition was exploiting the conflicts that exist for primary dealers providing such services to their customers. These conflicts include seeking underwriting mandates for the issue that may qualify for index inclusion, relying on the trader for price in products that they hold a position in, and the index team participating in capital markets bonus pools.

Given the data assets of TP ICAP this is an areas of significant growth potential either by partnering or acquiring benchmark index and analytic capabilities.

So the cloud, as Iain mentioned earlier the Group seeks to leverage the opportunities presented by agile and public cloud. Expanding to the cloud architecture will provide the Information Services division with additional flexibility and data to include third party and client data, flexibility in delivery options and expand its product offerings in terms of cloud based analytic services.

We also provide the infrastructure to accommodate additional datasets we are seeking to acquire, while providing access to this data to an expanded client base through the development of more channel partners. Clients will be able to directly interrogate TP ICAP's full suite of data with dedicated client environments, enabling them to introduce their own positions, analytics and calculations in the partition environment against the TP ICAP data.

In conjunction with our clients we will create analytics to help them find alpha and meet compliance requirements.

I also see significant value propositions in the buy side and we'll be working closely with Sam to ensure we maximise this opportunities for the firm.

One observation I would make from a meeting earlier this week with one of our buy side clients is they are currently spending $8 on data management for every dollar they're spending on data licensing.

An example where all these opportunities come together is in fundamental review of the trading book or FRTB. Companies will need to have access to the hard to find OTC order and trade data for their internal model approach calculations in an aggregated, easy to interrogate environment.

So to summarise I think there's significant growth potential in the division and what will success look like? Well if you recall my first slide, the TMX we grew the business from 11% to 30% of Group revenue. At the moment TP ICAP's Data and Analytics business represents 6% of Group revenues. In the longer term we should be closer to the 30% mark on revenues, and as Robin would say a higher number on earnings.

As I described this will be achieved by more fully exploiting the untapped data sets of the largest IDB with the greatest depth and deepest liquidity. New regulatory drivers will continue to add to the demand for our neutral OTC data. Conflicts make dealers suboptimal owners of assets of OTC benchmarks, indices and data analytics. New technology will present new opportunities from the development of analytics to the potential to assist the buy side and data management. All this should be achievable while maintaining the high margin characteristics of the Data business.

Thank you for your attention. I just want to point out my very talented Chief Operating officer Chris Dearie is here as well and we're here to address any questions you may have now.

Q&A
Data and Analytics

14.0 Q&A Data and Analytics

Question: It might be unfair of me to ask you this but your 30% target you've probably got a timeframe in mind for that and I'm guessing it includes acquisitions. Do you have any indication as to what proportion that 30% might be represented by acquisitions, a rough guideline?

Eric Sinclair, CEO TP ICAP Information Services: Not yet no. But just to highlight the opportunities you saw in the presentation there are three slides. The first slide is business as usual, what we can do with the indicative data. The second area is some modest investments and how we can address the opportunities around regulation. And the third area with Iain's cloud initiative we can take advantage of that technology. But there's three growth areas where we'll have to look very carefully about whether we partner or acquire and that would include indices and benchmarks, analytics and the data management.

Question: The point you just raised there about the first phase effectively being business as usual, is there any scope to re-price the existing data revenues that you get?

Eric Sinclair, CEO TP ICAP Information Services: Well in fact we just implemented some adjustments that come into effect in January. One of the great things about the OTC market, it's not subject to the same kind of regulatory intrusion that you'll find in the exchange markets.

Question: So those price changes in January roughly you'll be talking low single digit, high - ?

Eric Sinclair, CEO TP ICAP Information Services: It will be single digit.

Question: What are the risks to you delivering your expectations and just looking particularly in terms of the data used by TP ICAP internally, divorcing that and delivering that sort of neutrality for external customers? Is there any peculiarities in that that might challenge you?

Eric Sinclair, CEO TP ICAP Information Services: Okay so my biggest personal risk here is crossing the street. And it's not the cars it's the bicycles that I have to watch out for so that's my biggest personal risk.

I'll put the answer a little bit differently to you. We happen to be a phenomenal franchise, the world's largest IDB and that gives us great capability in publishing more proprietary data. And you'll see in the presentation that there is a lot more to go on that front. I think the risk here would not be seizing the opportunity to diversify in other areas. I think there's enormous opportunities given our position in the capital markets to leverage that. And there are other market operators who have done a brilliant job in doing that that are doing things that have nothing to do with their traditional core business.

Question: Just a quick one from me. It might be also a bit unfair to ask this now but given this relatively new and rapidly growing part of the business where do you think the sort of operating margin could theoretically get to would be the first one? And if you could add some colour about maybe where it is now would be very useful.

Eric Sinclair, CEO TP ICAP Information Services: Well the details can come from Robin but today our gross margins are very much in line with our peers, and they're north of 50%. So this is a very profitable business if you do it right. There's lots of opportunities to make money, lots of opportunities to lose it so we believe that the initiatives we'll take will be in that range.

Question: What are the main differences between the Data business of an exchange and of TP ICAP?

Eric Sinclair, CEO TP ICAP Information Services: Well I'll speak on behalf of North America. The North American exchange business has been subject to massive fragmentation. Massive fragmentation which has really commoditised the product. In addition it's a highly regulated business so if the exchanges want to do a fee adjustment that you asked about earlier they have to file with the SEC. The SEC will put it out for public comment. It can take them months if not years to get a very modest policy change approved because of all the stakeholders who have the right to speak up. So it's very challenging in that regard and that's why the exchanges have diversified their market data business away from publishing their own proprietary data.

TP ICAP is in a completely different situation. The compelling event is we've created the world's largest IDB and it hasn't been the victim of the level of fragmentation that you'll find in the equities market. And liquidity begets liquidity so the data we have is extremely valuable and extremely important so we're in a very different space. I mean when you're at exchange it's very, very desirable to have the OTC data. The first data we added when I was at the exchange was live interbank forex rates, and then we added fixed income and other things. We already have that; we have got the best, most valuable data as a starting point and we can leverage that.

Question: The question I had was there is almost a balance between what data you provide free to get liquidities through your system and what you provide for a charge. How do you balance that?

Eric Sinclair, CEO TP ICAP Information Services: Well as a data guide we view free as a four letter F word.

[Laughter]

So we're not too keen on that. Being two weeks into it something I will be working with my colleagues in brokerage to remedy. There's also some regulatory matters about non-discriminatory pricing practices that we have to be respectful to so I think that will drive a common approach.

Question: And the issue about proprietary indexes. I mean how long can you keep hold of that IP and can other people not - I mean what is the value of that IP in your business versus your competitors? Can they not generate similar kind of data or…?

Eric Sinclair, CEO TP ICAP Information Services: Yeah the index business the barriers to entry are very low, anybody can get into it. The trick is to make money at it and making money at it is the challenge. Those that are successful it's like a winner take all environment, the margins are spectacular. So the highest margins at S&P Global is in their index business by far and that's from the 500 and other indices they've been very successful with. Similar story with the FTSE and MSCI.

So we think the opportunity is interesting because we'll either partner with a traditional index provider or other partners, but the dealers have been the ones who have taken the initiative in OTC markets. And what they've done has been another research department working with the capital markets group, they've created enormous analytics and they've created an index business on top depending on who it is. Some dealers are very rich on the analytics, and they have not been very successful monetising their index business. And others have been very successful on the index side. They're natural sellers of the business because of their conflicts.

I mean I acquired a fixed income index and data business from Scotiabank and it's fraught with conflicts, when you have a single dealer price, the buy side can't meet their global investment performance standards. I could go on and on about all the issues and so being in the hands of the right owner provides enormous value to the capital markets. TP ICAP has two roles, we're a neutral player which is certainly a step forward but also we have phenomenal content that can drive global OTC indices.

Phiz over to you. Thank you.

Summary
John Phizackerley, Chief Executive Officer

15.0 Summary

Thank you very much. So listen everybody first and foremost thanks ever so much for your time. It's been a very busy morning and I think you'll agree we've been through a journey of incredibly rich and varied content. And as I said right at the beginning one of the great things about working in this company is not a day goes by where you don't see a new opportunity or find something that we could do better.

Some of the key headlines are on there. The breadth of our opportunity. I hope you saw and felt as good as I do about this team. I'm incredibly proud of the people who stood up here today. Not only did they obviously work hard to put this thing together but they run incredibly good businesses, it's a globally competitive market and as I say I think they're the best in the business. Importantly everyone wants to know the integration is going well and it is and we'll keep you updated on that at the next set of results.

I hope we've once and for all knocked on the head any questions that people have about our commitment to embedding technology in our client experience, and we've got a new spokesman in the shape of Perky who is going to go on the road for us and do a series of movies.

[Laughter]

And obviously we're here first and foremost to deliver value to our shareholders and we thank you for your support and we hope that we can continue to garner that and grow together in the future.

Thanks for coming. I think there's some food. Everybody is still around to be picked off to ask questions with and again we are extremely grateful for your time and for your support so far. Thank you very much.

[Applause]

Disclaimer
Transcript

16.0 Disclaimer