

FO W W E E K

FUTURES & OPTIONS WEEK THE ESSENTIAL NEWS SERVICE FOR THE GLOBAL DERIVATIVES INDUSTRY

VOL 11, NUMBER 46
20 NOVEMBER 2006

All systems go

Adrian Weekes joined Exchange Systems Technology (EST) as CEO earlier this year. Coming from a background of managing director positions at a range of technology firms, including Cisco Systems and Dell, he was nevertheless new to the derivatives space. He talks to *FO Week's* **Emma Davey** about the issues facing the industry and vendors such as EST



You have now been involved with the futures and options industry for just over half a year. As somebody relatively new to the business, what has been your initial impression?

The growth is so huge and the industry is so innovative and fast moving. The financial industry is viewed typically as a good adopter of technology once it is proven. So, given that, it surprised me that our direct competitors in the back office area are still deploying technology which is literally decades old.

So how does this industry compare to others that you have been involved in?

I think it is pretty exciting. I don't see any significant differences from other places I've been, other than it has clearly been something of a global village in terms of personalities and that the same people have been in this space for a long period of time.

What have you identified as the key issues facing the industry?

I came across a quote from JPMorgan's Richard Berliand which stated: "With the

number of transactions at futures exchanges worldwide increasing at more than 20% per year, the need for efficiency in transaction processing could soon become one of the biggest obstacles to growth for the futures industry." I think that's true. The fact that volume growth is so huge and at the same time margins are declining and costs are under pressure, I would say that there is an industry challenge to deploy new technology that allows these efficiencies to be achieved. For technology providers such as ourselves, that is an opportunity in many ways because we can be the facilitators of change.

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I think one specific example of how the industry has evolved has been to have back office systems for each asset class. So there is a huge amount of stove piping - one system for this, one system for that. That clearly has significant cost implications as you've got to have people skilled in each bit of technology and each system.

How does this impact EST?

We're challenging that as the accepted way of doing business. Since its foundation, EST decided multi-asset was the way to go. We have aimed to provide a single system that users can access which provides a single statement across all asset classes. A credit to the founders of EST is that was their vision right from when it was launched in 1995, to write, from the ground up a new, multi-asset-based derivatives package.

What other trends have you noted?

The number and complexity of instruments being processed continues to grow. And this is compounded by the emergence of new markets, such as China and India which have put much focus on the commodities sector. In addition, we continue to see a convergence between ETD and OTC instruments. And once again, as our solution is multi-asset, we feel we are at an advantage. Another significant piece of multi-asset capability was completed last year with our acquisition of equity systems provider SAM, which added equities processing to our solution.

How easy is it to sell into the FCM space which is constantly ▶

◀ **complaining of pressure on margins?**

Eclipse was built from the ground up as a multi-asset system, using technologies such as Oracle and Java. Therefore we are able to develop the product more efficiently as we only have one core application to develop and maintain. This means we can pass on our efficiencies to our clients as fair value pricing

Our cost of entry is also going to be lower because we can sell individual modules as well as the complete Eclipse back office solution.

I think it is easier today for firms to change their back office systems than it was in the past. In fact it is probably harder now to unplug the front-end than the back-end.

Where are you seeing growth?

There are many areas. For us, the emergence of cross asset processing, convergence of listed and OTC markets and expansion of commodities trading are high on our agenda. The purchase of our full cross-asset platform by ODL (see *FO Week* Vol 11 No 42), which we announced recently is a milestone, and we expect to see more sales of this type.

Platforms such as B-Clear and many others all point to the listed and OTC convergence and for many years we have had extensive OTC functionality. Our success in the CFD space further points to OTC convergence.

We are also seeing demand for our CFD solution, which mirrors the overall market activity in that space, and we have been commissioned to write a new module to address spread betting.

Global economic factors have given the commodities markets a huge boost. We anticipated this two years ago and decided to write Eclipse Metals specifically for London Metal Exchange (LME). To date we have been very pleased with the interest not just from the traditional firms but from the banking sector too, and from new clients attracted to the new 'mini' contracts at LME.

What about your geographical reach?

We are currently London-based, but geographic expansion is a medium term goal for the company.

However, the term global can be very misleading. Currently, we service clients across the world with a central operation, which means we can keep cost to a minimum. The cost of a number of offices worldwide is substantial and someone has to pay for it!

What about the types of clients you are seeing? You talked about the new products like CFDs and spread betting and new people looking at mini metals. How are you approaching a new client base?

We were pleasantly surprised by the LME minis launch recently and finding that there were many metals producers and users attending. These are companies who will be looking to use minis for their own activities and will be also looking for products to manage that activity. These are a group of potential new clients for us. And we are seeing significant interest in our CFD and spread betting solutions from a variety of new institutional clients

Consolidation is happening everywhere in the industry, from exchanges to FCMs. What impact does that have on your business?

There is a huge amount of consolidation going on everywhere, that is true. And with other changes, such as Mifid, the boundaries get redrawn. For us, it is a time of opportunity because things are going to change and we are an enabler of change.

But does consolidation at the FCM level lead to a narrower client base?

The consolidation is happening primarily in the tier one space, and we have a few clients there and we are adding some more. But outside of that space, more new entrants are being drawn into the markets and we have a unique

proposition there because of our offering in the equities space, metals, CFDs and so on. We don't have an over-reliance on one type of customer because of our broad offering, which is good.

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Between the exchanges and the FCMs, the creation of different liquidity pools may give us opportunities on the back of that consolidation. Also, we are often providing solutions to the clients of the FCMs. So compared to the main competitors, we are relatively insulated against that consolidation.

Outsourcing is another trend that will benefit us. One of our clients is a leading custodian and working with them has opened the doors to a technology partnership where Eclipse is a central offering to dozens of the custodian's customers.

What does the future hold for EST?

The growth of multi-asset trading means a growth in cross-asset processing and clearing. And that can only be a good thing for a firm like EST, as we are ideally placed to provide such a service.

But how will EST develop to service that demand?

We are looking at various options. We are doing a very good job of growing organically. However, we have the technology platform to be significantly bigger than we are, so we have been looking at ways we can massively accelerate our market penetration and the deployment of our technology. Strategic partnering might be one route, aligning ourselves with a larger entity another, and using M&A to accelerate our growth yet another. ***FO Week***

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