



## Securities Industry News

### FTen Trading Tech Draws Bulge-Bracket Investments

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**By: John Hintze**

Capital may be tight on Wall Street, but four bulge-bracket firms have found the funds to back FTen, a technology vendor that provides risk and trading products designed for high-frequency, low-latency strategies.

On Oct. 30, FTen said that Credit Suisse, Goldman Sachs, JP Morgan Chase & Co. and Merrill Lynch & Co. have all made investments of undisclosed size in the New York-based company. The new capital will be used primarily to expand FTen's overseas infrastructure, including collocation facilities that enable clients to shave critical milliseconds off execution times by placing their trading systems in close proximity to market centers' matching engines.

"Collocation is a very important factor," said Dmitri Galinov, head of liquidity strategy at Credit Suisse's Advanced Execution Services (AES). "It increases speed and can enhance performance for high-frequency trading models."

FTen currently has five collocation facilities in U.S. trading centers including New York and Chicago, allowing firms that employ strategies such as statistical arbitrage to execute trades more quickly. It has also set up facilities in Frankfurt to facilitate trading at the Deutsche Borse, and in London to speed executions at the London Stock Exchange, Turquoise, Instinet's Chi-X and others, according to Ted Myerson, president and founder of FTen. "This investment furthers the company's strategic plans to accelerate global growth in response to unprecedented client demand," Myerson said, adding that FTen is considering additional collocation centers in Asia.

That geographical expansion may come soon. The Tokyo Stock Exchange, for example, announced in late August that it plans to launch a collocation service by early next year. Large broker-dealers and other vendors have also established facilities close to exchanges and alternative trading venues in the U.S. and Europe.

Limited collocation real estate has kept down the number of providers. FTen, which has aggressively sought that scarce physical space, also provides low-latency routing to send orders to exchanges, as well as several risk-related products. Its VelocityXpress lets prime brokerages monitor high-volume customers' orders before they're executed; RiskXposure aggregates positions across multiple prime brokers and asset classes to provide buy-side firms with real-time risk limits and profit and loss.

"What's interesting about FTen is it offers the full package: collocation real estate, fast trading technology, fast market data and risk management tools," said Galinov. Few if any other U.S. vendors offer a complete solution, he said.

"We have been working closely with FTen for almost two years and have made their risk management technology an integral part of our global equity electronic trading and prime brokerage offering," said Jarrod Yuster, head of global electronic and portfolio trading at Merrill Lynch. According to Yuster, Merrill's use of FTen products extends to Europe and Asia as well as other asset classes.

### **Sponsored Access**

The ability to monitor the orders of high-volume customers--mainly hedge funds and proprietary trading shops--is especially important for prime brokers, who provide sponsored access to matching engines where they are members. "With the sheer amount of business that AES transacts, it is very important to have advanced risk controls," Galinov said. "The risk tools that FTen has developed make Credit Suisse AES comfortable providing sponsored access to clients." Credit Suisse has been using FTen products for eight months.

Sponsored access is common in the U.S., but Chi-X Europe--a trading platform backed by agency brokerage Instinet--became the first European institution approved to offer the service when the U.K.'s Financial Services Authority (FSA) gave the green light in early October. The largest multilateral trading facility (MTF), Chi-X Europe executed more than 26 million trades in the third quarter, up from 12.6 million in the previous quarter.

U.S.-based clients of Chi-X's broker-dealer members will now be able to trade directly on the MTF. "Before they would have had to send orders through their broker-dealers' systems, typically from the U.S., where the broker-dealer is located, and that adds latency," said Hirander Misra, chief operating officer of Chi-X Europe. "This approval will eradicate all that."

A rule from the FSA regarding sponsored access is anticipated later this month. It is also expected that the regulator will soon approve BATS Europe--the MTF launched last week by Kansas City-based BATS Exchange--to offer the service.

### **Inherited Relationship**

JP Morgan inherited its relationship with FTen through its March acquisition of Bear Stearns and its highly esteemed prime brokerage unit. Antonio Reyes Miras, head of electronic client services for cash equities, futures and options at JP Morgan, called the FTen capital infusion part of the bank's investment strategy: seeking returns, nurturing key partnerships and taking an active role in shaping the industry's future.

"The market-leading technology solution FTen is providing, coupled with JP Morgan's prime brokerage product, will provide our clients with a turnkey execution and financing solution to access global markets," Miras said.

Prime brokers are interested in having a real-time, global view of their risk exposures to clients, he noted, especially those high-frequency stat arb firms that typically tap their primes' financing and use black-box trading models. "One of the key products that FTen brings to the table is its RX RiskXposure suite, which provides the prime broker with a global view of everything that is going to a specific venue or destination in the name of a particular client, irrespective of who the executing broker is," Miras said.

Myerson explained that the investments were structured as minority interests to strengthen FTen as a competitor while maintaining its independent governance. The company, he said, will be able to continue working with clients to achieve their specific business objectives, whether they are investors or not. Myerson added that independence is one of FTen's major strengths, permitting clients, for example, to use multiple prime brokers while employing FTen software to aggregate positions and view measurements such as P&L across their brokerage relationships.

"This investment was really all about facilitating a global, independent solution for the market as a whole, to protect the prime brokers, the hedge funds, the exchanges and most importantly the market in general," said Myerson.

Credit Suisse's Galinov pointed out that FTen's ability to support trading across primes is especially important in today's environment, where hedge funds and other buy-side firms are diversifying their risk by using multiple custodians. However, Galinov's firm views FTen as providing less of a competitive edge than a broker-neutral solution to improve risk management in the industry. "We'll compete with other primes on the level of services to clients and our overall relationship," he said. "We're open to that competition."