A Supplement to
Securities Industry News
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Securities Technology 50

2006 Ranking of Front Office Solution Providers

Integration, product diversification are supplier priorities

Globalization, mobility, messaging fuel growth strategies

Introducing a New Metric

WELCOME TO THE SECURITIES TECHNOLOGY 50, OUR INAUGURAL EFFORT TO SCAN THE DYNAMIC, innovative, ever-expanding world of financial markets and identify its leading providers of technology solutions. *Securities Industry News*, the publication that sets the news agenda in covering the operations and technology of capital markets, has joined forces with the financial industry research experts at Financial Insights, an IDC company, to develop and refine a methodology and set of metrics that will serve as a benchmark for gauging the size, growth and future prospects of leading solution providers–and of the capital markets technology sector as a whole.

For this, our first cut at the vast financial technology marketplace, we focused in on the front office, the engine that drives financial market activity, where technology solutions are essential to keeping pace with marketplace demands for throughput, analytics and efficiency–but where the importance of solution providers has not been well documented or measured in a macro perspective. Quantifying that impact required close consideration of available and attainable data from any and all suppliers of technology to the capital markets front office. That encompasses systems and services conglomerates with global reach as well as small, niche specialists, not to mention the many broker-dealers with big development shops that are catering to an increasingly demanding set of institutional clients, notably hedge funds.

Such a broad range of suppliers and products posed an additional challenge: defining the metric itself. All things considered–as explained in more detail by Financial Insights' Gene Kim–we decided to rank the technology providers according to their number of desktops, or seats. It's a quantifiable statistic on which many providers base their pricing (whether in soft or hard dollars). It's also a fairly accurate reflection of the providers' influence on the industry, as desktop penetration should more or less correlate with market shares or trade volumes.

Filling in the blanks, broadening beyond the front office and refining the methodology are on our agenda as we look ahead to the next Securities Tech 50. We hope you enjoy our inaugural entry, and we welcome your input and feedback.

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The Securities Technology 50

Capital Markets Front-Office Solution Providers

			User Mix		Growth	
Rank	Name	# Seats	Buy side	Sell side	04-05	03-04
1	Reuters	346,000			6%	3%
2	Thomson Financial	208,000			1	18
3	IPC Systems	106,000	15%	85%	2	4
4	Pershing	87,029		100	24	16
5	Jabber	78,000	0	100		
6	BondDesk Trading	65,000	0	100	129	182
7	BT	60,000			20	
8	i-Deal	30,006	0	100	24	365
9	GL Trade	30,000	25	75	6	-1
10	Nexa Technologies, a division of Penson Worldwide	22,900	0	100	198	18
11	Murex	16,000				
12	Laserfiche	12,189	80	20	30	25
13	Odyssey Asset Management Systems	9,390	0	100		
14	Fidelity National Information Services	8,792	0	100		
15	Fidessa	8,700	10	90	20	18
16	FXAll	7,134	31	69	35	15
17	Linedata Services	6,311	100	0	60	24
18	Charles River Development	6,275	100	0		
19	Pivotal Corp.	5,570	25	75	143	228
20	Wall Street Systems	5,000	0	100	10	15
21	Pyxis Mobile	4,500	80	20	245	788
22	LatentZero	3,850	100	0	40	15
23	ViewTrade Securities	3,450	5	95	1,900	1,100
24	Sophis	2,900	20	80	39	25
25	Micro Design Services	2,500	5	95		
26	Eze Castle Software	2,450	95	5	40	36
27	Orc Software	2,000				
28	**Scivantage**	**1,726**	**0**	**100**	**160**	**37**
29	Instinet	1,500	100	0		
30	Progress Software Corp.	1,500	20	80	66	80
31	IMTrader	1,400	10	90	400	100
32	FEA Financial Engineering Associates	1,000				
33	Lightspeed Holdings	850	0	100	20	10
34	Wipro	650	40	60		
35	ClusterSeven	550	100	0		
36	CGI	500	100	0		
37	Wombat Financial Software	500	0	100	33	275
38	InfoReach	458	70	30	15	17
39	LiquidPoint	315	0	100	32	37
40	Golden Market Management	85	5	95	70	
41	Mercado Abierto Electronico	50	80	20	100	0

The Methodolgy

Focusing on the front office—and the issues that arise in the research process

By Jin-Chul (Gene) Kim

Gene Kim

IN EXAMINING HOW TO APPROACH any ranking within the securities industry, there are many different aspects to consider. The front office warrants a different look than the back office. There are, as well, both similarities and differences between the buy side and the sell side. There is the institutional market as well as the retail market.

In considering these and other issues, Financial Insights and *Securities Industry News* decided to focus this inaugural Securities Technology 50 ranking on the primary business engine across all parts of the marketplace: the front office.

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Rather than making distinctions between types of solutions or business functions, we decided to approach the marketplace in the broadest, most inclusive manner. Looking at front-office applications across the entire securities industry then posed the challenge of how to measure the solution providers. Because of the disparity in types of individual solutions, as well as the increasing interdependence between solutions, we chose to count the number of users–desktops or seats–in place for each provider firm. We felt that this would provide a reasonably objective and accurate view of the reach and scope of any given provider serving the industry.

We wished to recognize the many different types of firms offering front-office solutions–from large, multi-solution organizations to small, specialty shops; from traditional technology vendors to broker-dealers. Since a ranking of providers based on number of seats would, of course, primarily recognize the largest players, we also decided that recognizing a few firms that had shown exceptional growth over the past two years would balance the view of the industry that we were presenting. Thus we have, in addition to the Securities Tech 50, the Fast Five.

We anticipated, in our first time out, that this process would not be without challenges. Our initial discussions with provider firms and broker-dealers elicited a broad range of reactions and feedback. There were many firms that were very open and enthusiastic about this effort–and there were many that were somewhat skeptical of the exercise. The skepticism seemed to stem from a few different perspectives, and as the precursor to what we hope will begin a constructive dialogue with the industry to focus our efforts for next year's Securities Tech rankings, we would like to examine those perspectives here.

The first area of concern that we encountered in the marketplace was that we were looking at too large, and too disparate, a slice of the industry. It would be very difficult, we heard from a number of firms, to draw meaningful conclusions from any ranking that mixed providers of trading analytics with order management systems, and mixed market data firms that span the entire industry with providers focused on only one subsegment. Another area of concern was that many firms did not consider the number of seats to be a true measure of their market reach. Some favored total volume of transactions, others preferred the number of transactions, and still others viewed total revenues as the more appropriate benchmark. Some believed that to evaluate providers of front-office solutions by number of seats would not be applicable when a ranking process would be applied to the back office.

The last area of concern that we found in the marketplace speaks to a potentially fundamental shift in the industry. A number of firms that we spoke with stated that they were not concerned with the number of users, as their distribution model was based upon a more enterprise-level view of the front office. Whether through server-based pricing or business-activity-focused integration, these providers felt that the value that they provided to their clients–and thus the way that they accrued revenue–had an only tangential relationship to the number of users of their solutions.

We would agree with all of these points to some extent, but are also not yet convinced that counting the number of seats is the wrong metric for a ranking of this kind. As we neared the end of our data gathering and analysis, we determined that it was important in this initial year to show what we had found and to recognize the different viewpoints we encountered in the industry. We believe that this initial ranking does show some interesting results and sets the stage for discussions on how to evolve this ranking, and develop additional ones, to best serve the interests and needs of the securities industry. ■

Gene Kim is consulting manager at Financial Insights.

Transformation in the Capital Markets Front-Office

By Randy Grossman

IN 2006, THE MARKETPLACE FOR front-office solutions and technology in the capital markets is robust, with both existing players and new firms emerging to tackle the issues of automation and integration. There are, however, a few broad themes that seem to be inextricably interwoven. Increasing automation, new regulatory regimens and accelerating adoption of service-oriented architecture (SOA) will play out across global firms. The drive to create new efficiencies is certainly not new to the capital markets arena, but the ever-increasing pace of change is being driven by the combined weight of regulatory, economic and technological factors.

As the broad economy suffered after the Sept. 11, 2001 terrorist attacks and the dot-com bust, many firms began to shed trading staff and invest heavily in trading automation and market-participant connectivity. Those investments paid dividends, allowing most firms to return to profitability by last year, and many are seeing profit increases in 2006. As firms' financial pictures have strengthened, technology projects that had been shelved for lack of resources are being dusted off. Many key beneficiaries of this improving financial picture have been in front-office and client-facing technologies.

Additionally, the emergence of SOA technology, which has the potential to more easily integrate many of the diverse systems and processes in use by capital markets firms today, is also beginning to impact developers and vendors of front-office solutions. In years past, vendors looked to offer front-to-back-office functionality in an integrated environment, but that is beginning to shift: With SOA, the dream of systems made from best-of-breed components is starting to become reality. Certainly many of the vendors in this first edition of the Securities Technology 50 are planning for this eventuality by "componentizing" their applications. The promise of SOA is that the coming years could actually see many firms living in a true plug-and-play, best-of-breed environment.

In the Securities Tech 50 ranking, we have captured a broad cross section of front-office technology. What is both interesting and striking at the same time is the convergence of many technologies into integrated solutions that can solve many business problems at once. These technologies are truly transformational.

Take, for instance, telecommunications. The emergence of VoIP, or Internet telephony, over the last several years has radically redefined the modern trading workstation. No longer is a trading turret simply a glorified telephone. Traders now have the ability to see consolidated views of their clients with the touch of a button when a phone is answered or a call is placed.

Regulatory Impetus

Regulation, particularly in the equities arena, is playing a major role in transforming both the marketplace and its technological underpinnings. The Securities and Exchange Commission's Regulation NMS and Europe's Markets in Financial Instruments Directive are having an effect on both exchange consolidation and automation. Although electronic linkages had certainly been improving rapidly, those regulations will now supercharge growth by essentially mandating automation. For instance, five years ago, direct-market access (DMA) and algorithmic trading were almost nonexistent in the lexicon of the Street. These technologies were born of the automation boom in the equities market, and now one can't open an industry publication without seeing those terms and the firms that cater to them–which are well represented in the Securities Tech ranking.

As algorithmic trading, DMA and the general velocity of trading have grown and accelerated, they have created an insatiable appetite for data to feed these applications. Analytical tools such as transaction cost analysis now constitute an important, emerging business. So it is no surprise that market data vendors appear high on a ranking of desktop real estate. Just as the need for data in the equities world has grown, the growth in derivatives trading, fueled in part by the hedge fund industry, is demanding more in the way of data and analytics in those markets as well.

Technology Proliferates

So what is a small fund management firm or hedge fund to make of this ever more automated world of institutional investing and brokerage we are entering? Can these firms' trading operations compete with those of their much bigger brethren?

The answer is a resounding yes, because front-office trading technology is also being heavily marketed by sell-side firms to all their clients–not just the largest institutions. With their huge, captive IT departments, the sell side can afford to absorb development costs with the promise of larger volumes of trades.

As you review the 2006 Securities Tech 50, you will see many familiar names and some that may be new or lesser known. Each in its way is contributing to transformation in the global capital markets. This transformation occurs almost always in the form of more efficient business processes, but also in the whole look and feel of how business is managed and transacted in our industry. Although many of the large firms highlighted in this ranking are important industry leaders, additional value in this ranking may very well reside in spotlighting some of the emerging transformational-technology providers that have been toiling more in the shadows. ■

Randy Grossman is research manager for global capital markets at Financial Insights.

Powers of Integration

Today's technology action centers on the front office, but its impact is felt from front to back

By Jeffrey Kutler and Alexa Jaworski

Across the securities industry, all eyes–and much information technology strategizing–are focused on the front office, the client-facing, transaction-focused engine of customer relationships and financial market activity. It's the most visible and hotly contested battleground not just for brokerage business and profits, but also for the brand stature and market shares of the industry's most innovative and competitive technology suppliers, all taking place amid unprecedented change in market structures and an explosion of processing and connectivity alternatives on a global scale.

Those vying for systems and services supremacy in the front office are the focus of the Securities Technology 50, the first, joint effort by Framingham, Mass.-based Financial Insights and *Securities Industry News* to identify and rank the industry leaders. The ranking is according to desktops, or seats, at year-end 2005 (see page 11). It's a who's who of data distribution, software, transaction processing and networking that starts with Reuters Group, Bloomberg and Thomson Financial and encompasses computer industry powerhouses, leading broker-dealers and dozens of niche players.

However, no such discussion can be just about the front office anymore. It only takes a glance at the numbers, and a few conversations with executives in the field, to realize that what's happening is both driven by, and has effects on, a far broader set of operations and technology considerations than the definition of "front office" implies. That definition was perplexing to some of the companies that the Financial Insights researchers approached; some questioned the use of this benchmark, others simply couldn't provide it. As a result, 41 suppliers, from which useful data was received, are ranked, and we recognize a larger number in a separate, non-numerical listing (page 12).

From top to bottom, from Reuters with its 346,000 desktops to vendors reaching a few hundred or even tens, the big consideration is becoming integration: the ability of disparate systems to connect and interact. It's a major challenge for an industry with a legacy of fragmented systems built for specific, "siloed" purposes and later having to be modified or reconfigured to fit changing needs and architectures. This applies to systems within the front office, and to the desired seamlessness of applications across the transaction life cycle from front to back and pre-trade to post-trade.

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"Until it all comes together, our customers are spending enormous amounts of money to get their desktops to work," Lou Eccleston, president of global sales, marketing and services at Thomson Financial in New York, recently told *SIN*. "That's money that could be going into purchases of content and product development. ... So the battlefield is on the back end as well as on the desktop."

Eccleston believes that "whoever really nails this concept of commercializing integration is going to be a big winner." Thomson, which reports 208,000 seats worldwide, is making its bid with Thomson One, the integrated desktop that Merrill Lynch & Co., Morgan Stanley and others have bought, and which incorporates a framework for combining internal, Thomson and third-party data and tools. It's a "truly powerful solution," Eccleston boasted, that extends across the buy and sell sides, but it's still a work in progress. "It's an industry problem," he said. "You can see us all in a race" to solve it first.

The client base, after all, is not one that has historically bought in to single-vendor solutions, preferring to play one supplier off against another. But arguments for integration, both economic and practical, are in the ascendant–and the biggest organizations are making them insistently.

"You can't go three months without seeing someone trying to come up with a new, innovative way of creating efficiencies for the desktop," said Michael Plunkett, North America president of global agency brokerage Instinet, a former Reuters subsidiary now majority-owned by private equity firm Silver Lake Partners. "End clients will force people like Instinet to work with competitors so that we all can try to maintain a position on the desktop. I think the modern desktop is going to look much different three to four years from now. ... This game is far from over."

Traversing the Cycle

Reuters' positioning has become apparent with a series of product announcements and enhancements across the trading cycle. In August, for example, it launched Reuters DataScope Tick History, a historical, cross-asset-class database that, combined with high-speed direct market data feeds, contributes the high-speed transactional analytics that in turn fuel algorithmic and quantitative trading strategies, which can be executed over Reuters' low-latency communications infrastructure. "Reuters, in effect, puts all the pieces together on the customer's behalf," said Kirsti Suutari, the company's global business manager for algorithmic trading.

Reuters archrival Bloomberg last year for the first time opened up the application programming interfaces on its B-Pipe market data feed so that other vendors and internal systems could better interoperate and integrate with it. That openness took an even more radical turn earlier this year, when work began on a connection between B-Pipe and the Reuters Market Data System, a further bow to marketplace demands for choice and flexibility. (Bloomberg was a nonparticipant in the Securities Tech 50 survey, but it has said its number of customers exceeds 250,000. As a desktop figure, that would place second, behind Reuters and ahead of Thomson.)

Low-latency and multi-asset-class trading requirements, and securities firms' need to integrate internally and with outside data sources, have been a boon to connectivity technology specialists such as Wombat Financial Software, which ranks 37th, with 500 seats. Danny Moore, COO of Incline Village, Nev.-based Wombat, said the company is "having a very strong year," with a client list that includes Merrill Lynch and Bear Stearns & Co. Two years ago, Wombat had about 25 direct feed connections to various exchanges. Today there are more than 80, and 20 to 30 more in the development pipeline. "Customers are going for much broader connectivity directly today," Moore said. "As those systems expand, we're looking to build out the distribution technology."

But will there still be room in the integration game for niche players as Reuters and its peers turn up the heat? Michael Powell, Reuters' global head of real-time enterprise information, acknowledged that various vendors offer powerful, submillisecond-latency feed handlers. But they address only a portion of system latency, and Powell contends that Reuters' network breadth and global presence give it an advantage. "People look at performance first, and then at what else you can bring to the table," he said. "We've been winning bake-offs against competing products."

Moore remains optimistic. "I think there will be two or three years in this growth cycle, because there are a lot of underlying changes in the industry and in electronic trading that are driving the growth, and it will take a few years for that to percolate down. The next several years should be very successful across the sector."

Sharing in the Growth

Memories of the late 1990s boom and early 2000s bust still linger, and Thomson's Eccleston sounded a common note about the financial technology climate: "I don't think it will ever return to where it was." But there has been a clear, upward turn in the cycle. "Our customers are again willing to invest, if, in fact, it will give them some kind of edge. ... There is still cost-cutting, and in some places more of an unproductive bias toward it than there should be. Eventually they will realize that they have to look at the value."

Optimism, in fact, prevails up and down the list, especially among the leaders in two-year compound annual growth rates that show up as the Fast Five. With only a few exceptions, mainly at the top of the overall front-office ranking, all of the available percentage figures for 2005 growth were at least in double digits. Number four Pershing, the Bank of New York Co. clearing and brokerage services division that serves 87,029 seats, posted 24 percent growth last year on top of 16 percent in 2005.

Growth data was not available for number five Jabber (78,000 seats), whose instant messaging technology is embedded in trading systems at JP Morgan Chase & Co., Lehman Brothers and elsewhere on Wall Street, and, as of August, in the OTCtrader product of London-based vendor ePulse. The BondDesk retail fixed-income trading platform (65,000 seats) ranked sixth, and two years of triple-digit growth landed it in the Fast Five.

The leaders in trading room turrets, IPC Systems and BT Trading Systems, ranked third (106,000) and seventh (60,000), respectively. Greg Kenepp, president of command systems and EVP of product management at New York-based IPC, which was acquired last month by Silver Lake Partners, said that sales this year are on a double-digit growth pace, and next year is looking better. "The sophistication that clients are putting into these new trading floor architectures is radically different than what they've done in the past," he said. "The projects are larger, more complex and more meaningful and global in terms of what they will bring to the business."

Tim Furmidge, head of strategy and business development at BT Trading Systems, a unit of London-based telecom giant BT, agreed that "clients are spending more." The typical replacement cycle, which before 2001 ran about five years, was recently "extended to seven, eight or nine years" as the cost-cutting mentality set in, but now Furmidge sees firms "investing in underlying infrastructure" again. That includes the new generation of Internet protocol technology that improves business continuity and disaster recovery while enabling traders to access their systems from home and other remote locations.

Efficiencies and Outsourcing

New York-based Instinet, number 29 on the list, came out of the hard times retooled–and restructured under private ownership. "We had a lot of housecleaning to do three or four years ago," said Plunkett. "We reorganized the client-facing part of the firm and then delivered some new technology to the client desktops." As for client spending and investment, he said, "What the institutional clients try to do is minimize real estate on the desktop when possible, but at the same time be able to trade in an efficient manner, control their risk, their positions and their performance with every piece of technology they slap on the desk. It's important [for Instinet] to be somewhere in the center of that universe." Instinet has been trading 230 million shares a day this year, an increase over 2005, and has picked up market share, said Plunkett.

Eric Stoop, president of 10th-ranked Nexa Technologies, a subsidiary of Dallas-based clearing firm Penson Worldwide, bases his strong outlook on the demand for outsourcing and third-party solutions, even from "the largest brokerages and banks. ... A critical element to our business growth is that that continues in terms of external spending versus internal spending." Nexa is also a cross-border play, in that at least half its business is in Canada. "Our front-office solution is rolled out as part of a suite of Pension services in the U.S. and Canada and in some cases in Europe," Stoop said.

The replacement cycle is also kicking in. "You've got older, legacy systems in place, and pressure from Regulation NMS requiring better performance," he added. To raise their performance level in short time, even big firms "really don't have any choice but to look outside. It's just too hard to ramp up internally."

Paris-based risk and portfolio management systems company Sophis, number 24, credits both diversification to the buy side–including hedge funds–and derivatives market expansion for its average 30 percent year-over-year revenue growth over the last three years. It is focusing research and development on "hybrid products and service-oriented architecture," said Sebastien Roussotte, global head of strategic marketing, referring to a popular method for supplying new and reusable software applications as services on a network. "Our target is to empower 15 percent to 20 percent of the hedge fund industry with our solution. We estimate that we will add a minimum of 20 to 30 new hedge fund names to our customer base in 2006."

Number 27, Stockholm-based trading technology company Orc Software, which connects 400 customers around the world to more than 100 markets and trading venues across asset classes, has a particular strength in equity options and other derivative products. "Whenever you have the market markers using you, it shows that you truly understand how these products work and that you are a trustworthy supplier," said Peter Sibirzeff, managing director of Orc's U.S. division. According to a Danske Bank research report, "Orc's growth rates on a rolling 12-month basis are 23 percent in Europe, 147 percent in North America and 81 percent in Asia and Australia," pushed in part by the recent acquisition of FIX technology vendor Cameron Systems. ■