

General Session:

Welcome Back

Alan Line, Director/Head of Dealing, F&C Management Ltd, FPL Global Steering Committee Co-Chair

Impact of Electronic Services on Broker Dealers

Moderator: **John Goeller**, Senior Vice President and US Head of Connectivity, Lehman Brothers, FPL Americas Committee Co-Chair

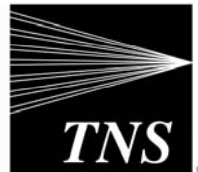
Rupert Fennelly, VP Advanced Execution Services, Credit Suisse First Boston

Rob Flatley, Managing Director and Head of ETS Marketing, Support and Strategic Alliances, Bank of America

Scott Stickler, Executive Director, Morgan Stanley

FPL Americas Conference 2004
Wednesday, November 17th, 2004
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General Session:

Buy-side Electronic Trading Needs

Moderator: **Joseph Sack**, Executive Vice President, The Bond Market Association

Michael Hoover, Senior Trader, American Century

Adam Jaffe, Chief Operating Officer, Level Global

Tom Driscoll, VP Sales & Marketing, Charles River Development

Buy-side electronic trading needs..

Mike Hoover - American Century Investments

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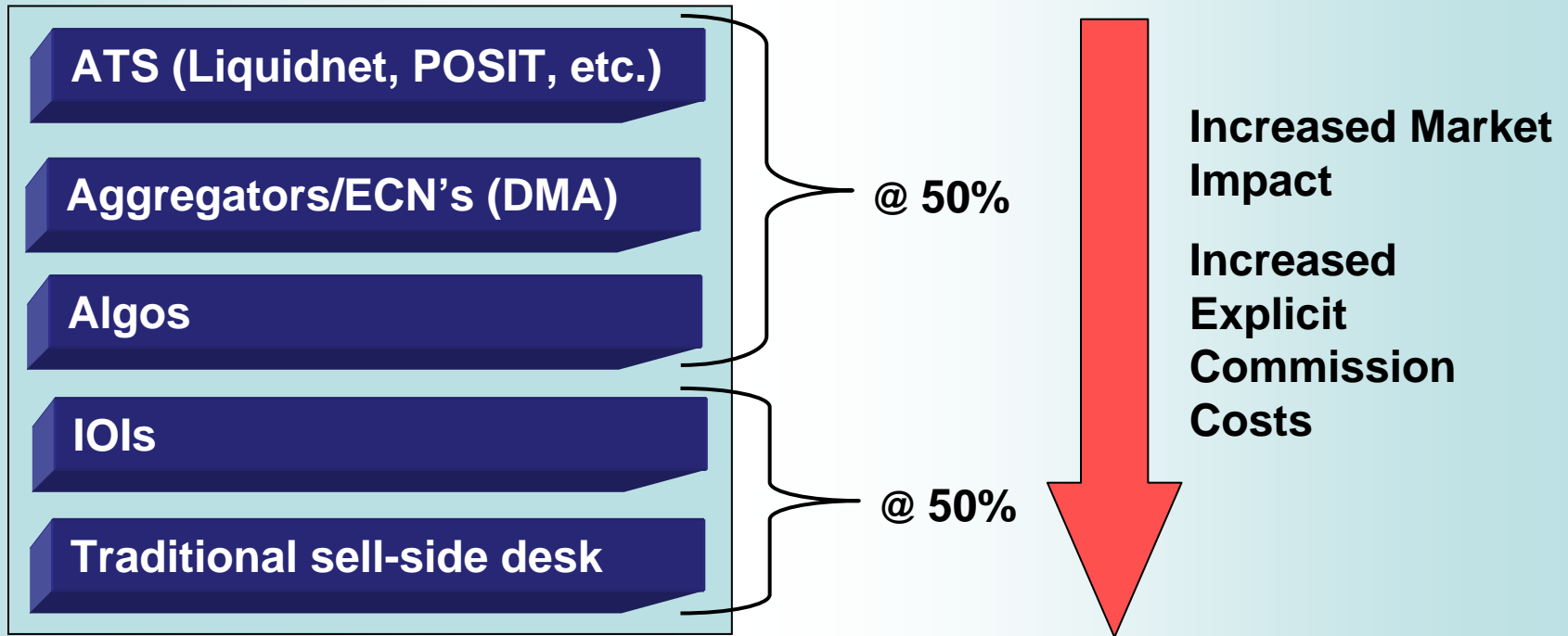


American Century
Investments
Genuine. Results.

American Century Investments

- Multi-disciplined, global asset management firm
- Manages approximately \$90 billion in assets for more than 1.5 million shareholders
- Approximately 1,800 employees
- Headquarters in Kansas City, Missouri
- Live with FIX since April 1996
- Progressive users of alternative and electronic execution services for over 15 years

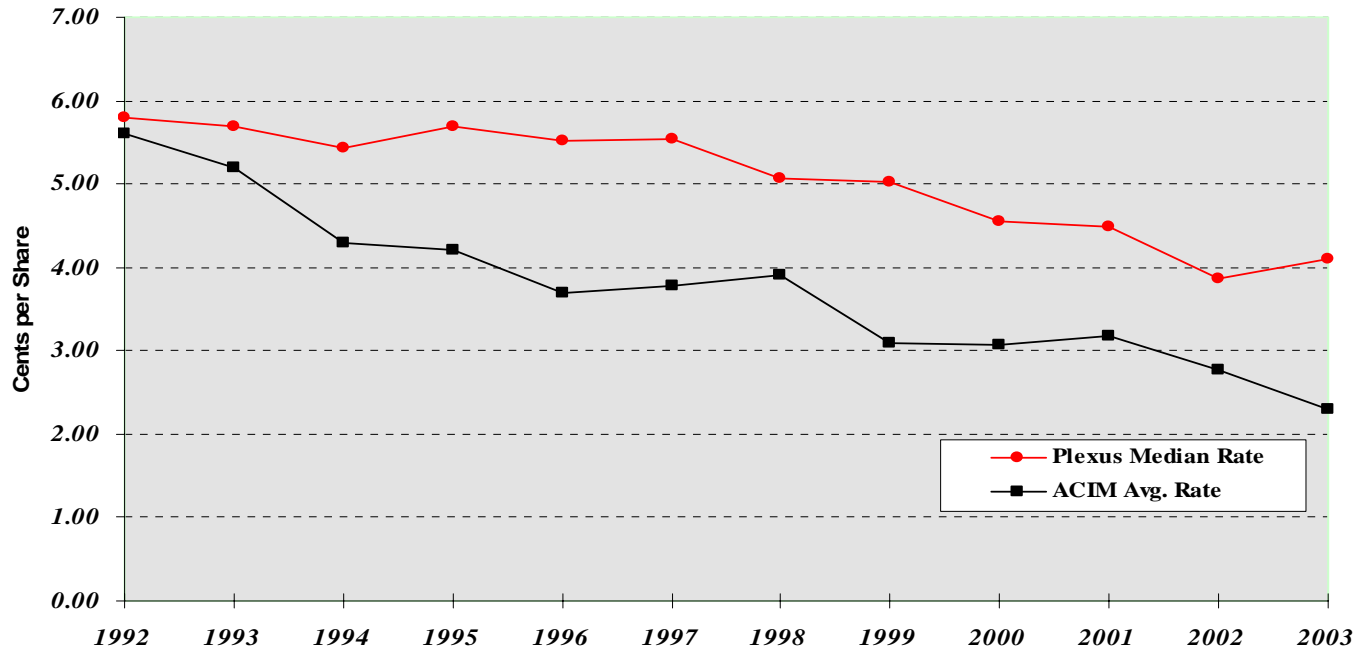
Our primary goal has been Best Execution,
long before it became avant-garde



Avg commissions of 2.4¢ / share thru 3'04

ACIM Commission Rates vs. Industry Average

**American Century Mutual Funds
 Average Commission Rates**



Average rate reflects commissions on U.S. listed securities only beginning in 1993.
 ACIM data as of 12/31/03. Plexus data as of 12/31/03.

Commissions are one thing – What about execution quality?

Two different transaction cost measurement services – Abel Noser and Plexus – using different methodologies show ACIM trading to have less impact than others with similar asset size.

– *Last year American Century's transaction costs were 75% below the median for comparable firms, according to independent consultant Abel/Noser Corp. All in all, American Century saved nearly \$540 million on trades.*

- "American Century's secret weapon," Money Magazine, September 2004

Algorithms...

- In general, as more order flow has migrated onto VWAP and other algorithms, the resulting **lack of depth** dictates that even pro-active traders **use algorithms to efficiently trade with** algorithms and **smart order routing to efficiently access reserve quantities**.
- For pro-active trading we use **sophisticated algorithms** to:
 - Stay up in volume as shares print in 100-200 share lots (given speed and lack of depth of the overall market)
 - Break up trading patterns (minimize impact)
 - Trade more efficiently at the inside market (given stat-arb activity)
 - Protect reserve when we want to participate lightly
- A trader cannot mimic the speed, intelligence and agility of an algorithm in a **tactical sense**.
 - i.e. bid, fade, float, take in multiple venues, Trade in line with the sector or market – in 10 stocks at a time...
- An algorithm cannot match the intelligence of a trader in a **strategic sense**.
 - the algorithm doesn't know that the order is the start of a new position or that you are moving out of an enormous position, that there was a recent secondary and xyz broker is holding up the stock, your appetite for crossing the spread, etc....

What we need? Agnostic interaction w/the market

ADVANCED MICRO DEVICES INC : 5

Last	19.45	Chg	0.86	%	4.63%	Open	19.00	High	19.80	Low
Close	18.59	Vol	89397	VWAP	19.4538					

Buy 10000
Buy 5000

NYSE	19.45	9
ARCA	19.44	1
PSE	19.44	1
INET	19.43	7
CSE	19.43	20
INET	19.42	8
ARCA	19.42	8
TMBR	19.42	8
NASD	19.42	8
INET	19.41	1

INET	19.45	1
ARCA	19.46	110
INET	19.46	50
PSE	19.46	110
INET	19.47	53
ARCA	19.47	18
NYSE	19.47	27
MADF	19.47	10
NASD	19.47	10
INET	19.48	1

Buy AMD 100 PRICE Sell
 NYSE Limit DISP DISCR
 MIN QNT Day Cancel START TIME END TIME
 RISK PREF VOL LMT

0.01 0.02 0.05 Bid Ask

NYLQ is not a BBO; NYLQ size includes NYSE BBO size.

ADVANCED MICRO DEVICES INC : 6

19.45	1900	19.40	4000
19.45	1900	19.45	1000
19.44	1300	19.46	3800
19.43	8400	19.47	2800
19.42	100	19.48	8900
19.41	12100	19.49	10000
19.40	14800	19.50	31400
19.39	4600	19.51	1000
19.38	1300	19.52	3000
19.37	2500	19.53	12200
19.36	4000	19.54	3600
19.35	8500	19.55	500
19.33	2000	19.57	1000
19.32	2000	19.58	9900
19.31	200	19.60	1100

Ready.

Impact

- Increased **efficiency** and **capacity** have broadened our ability to continue to trade electronically and anonymously - particularly in sensitive trades.
- Traditional salestrading desks, now more than ever, have to provide liquidity opportunities **to get our business**. The opportunity lies in their ability to revamp their high cost business model of leveraging customer order-flow.
 - **Utilize FIX** for its original intent & **develop smart IOI engines** that use discretion in marketing order-flow and sourcing liquidity.
- Algorithmic providers with **innovative, pro-active products will win** our discretionary order-flow.

Buy-side Electronic Trading Needs

Adam Jaffe, Chief Operating Officer, Level Global

FIX Impact on the Buy-side Vendor Perspective

*FPL Americas Conference
November 17, 2004
Tom Driscoll
Charles River Development*

FIX IMPACT

- FIX impacting trading broadly and globally
- Facilitates vendor integration especially as FIX migrates across asset classes
- Complicates product management with large number of FIX working groups
- Largely eliminates custom interface work
- Simplifies, lowers cost and accelerates functionality to users

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FIX PENETRATION

- Across all assets classes
 - Wide usage in equities, algo, ECN, ATS trading
 - Wide usage in staging in DMA tools
 - Auto routing a big benefit
 - Fixed income in the 1+ year - TradeWeb, MarketAxess
 - FX recently, multi-bank FX portals – HotspotFX, Currenex
- Varies Across Regions
 - North America
 - Europe
 - Asia
- Still some stragglers – vendors, buy-side and sell-side

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FIX BEYOND EXECUTION

- Allocations – challenges existing products
 - Workflows are not well defined, even if FIX message protocol is. Example is in FX – not clear consensus on when allocation info should be passed to bank (with initial trade or after)
- Settlement instructions, confirmation, matching – down the road?
 - Some pundits question SWIFT's cost as FIX moves into their space

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Next Sessions

Morning Break with Exhibitors

Fixed Income & FIX (10:45AM):

Leveraging FIX

Derivatives & FIX (11:45AM):

Extending the Reach of FIX

Location:

Salon C

Foreign Exchange & FIX (10:45AM):

Leveraging FIX

Algorithmic Trading & FIX (11:45AM):

Extending the Reach of FIX

Location:

Financial Ballroom

Lunch: Regulatory Impact and Electronic Trading (12:45PM)



Location: Salon AB