BEST MINDS KEEP IT SIMPLE

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Every year that I have covered this industry, *Futures* and now *Modern Trader* has been taking the pulse of the futures brokerage community once a year. This has covered many important changes in the industry. For the last several years, it has all been about handling the regulations from Dodd-Frank and fallout from the MF Global and Peregrine Financial debacles. It has been a tough several years for futures commission merchants (FCMs). But now we seem to be entering a "post-history" era for FCMs. The markets are now nearly completely electronic, additional capital rules are in place, cleared over-the-counters trading is not as desirable and non-bank FCMs are not really players.

In "Top 30 Brokers: Mean, lean and ready for what comes next" (page 34) we talk to several heads of brokerage firms that are not interested in re-litigating the fights of the past but are busy trying to automate and ensure they have the efficiencies to thrive in the future. Several have made the point that the attrition in the FCM space may be a net positive because the industry will be safer and more solid going forward.

In "Market makers and shakers" (page 14) we talk to three market leaders that appear to be ready for what comes next. Virtu Financial CEO Douglas Cifu discusses how Virtu has become one of the most successful trading firms by keeping things simple. It is not that Virtu doesn't have leading-edge technology or smart, quantitative talent, but at its heart Virtu is a market-making firm that earns money the old fashioned way: by providing two-sided markets in nearly everything that trades.

We found a surprising meeting of the minds with the folks we talked to. IEX CEO Brad Katsuyama, who broke onto the scene two years ago with Michael Lewis' book "Flash Boys: A Wall Street Revolt," is taking his fledging Alternative Trading System, IEX, to a full exchange. Katsuyama has a relatively simple idea of the roll of an exchange: Providing a venue were people can trade. He says, "We have a lot of people come into our market who have a real intent to trade."

Perhaps that sounds strange, but so much of the current high frequency trading is about trying to find were others are in the market and using speed to get in front of those traders.

We had thought that perhaps Katsuyama and Cifu would be natural foils in the current market structure but that turned out not to be the case. There is a similarity in the simplicity with which they approach markets. Both understand the role of the trader and market maker and both have found success in the simple approach.

Finally, we talked to Intercontinental Exchange Chairman and CEO Jeff Sprecher shortly after ICE announced the acquisition of Interactive Data Corp. Once again, Sprecher is making a move with his eyes on the future. Concerned about the regulatory changes in Europe, Sprecher says data will become an important value driver and is placing ICE where it can best take advantage of this. Sprecher voiced concern that regulatory differences could create additional market fragmentation. I am not sure how many times Sprecher used the word "fragmentation" in our brief conversation, but it was a lot. It is a concern of Katsuyama as well.

"Our goal is to have one exchange," Katsuyama says. "NYSE has three, Nasdaq has three, BATs has four. With the goal of an exchange to match buyer and seller you'd think the best way to do that is to only have one."

He adds, "There are definitely some forms of HFT that benefit from 11 stock exchanges."

While there is common ground on the problems with market fragmentation, there is also some disagreement on the solutions. As we go to press, the NYSE has filed a comment letter with the Securities and Exchange Commission where it questions IEX's plan to include a 350-microsecond delay, its so-called speed bump. NYSE claims IEX's plan lacks clarity and raise questions regarding the soundness of the application.

Katsuyama, in our discussion, indicates that the IEX structure will promote participation by brokers seeking to fill orders and market makers seeking to provide liquidity, and discourage participation of HFTs who use speed to get in front of legitimate orders.

This is a complex issue but we agree with Katsuyama's aim to try and fashion a market-based solution. We also agree with Sprecher's long-term battle against payment for order flow.

Special pricing models and order types will always be exploited, so the best solution is to create a market with clear and transparent rules for all players.

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