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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Virtu Financial conference call announcing our 2016 second-quarter results.

(Operator Instructions)

As a reminder, this call is being recorded. I would now like to introduce your host for today's conference, Andrew Smith, Head of Investor Relations. Please go ahead.

Andrew Smith - *Virtu Financial, Inc. - Head of IR*

Good morning. As you know, our second-quarter results were released this morning, and are available on our website. Today's call may include forward-looking statements which represent Virtu's current belief regarding future events, and are therefore subject to risks, assumptions, and uncertainties, which may be outside of the Company's control, and our actual results and financial condition may differ materially from what is indicated in these forward-looking statements.

It is important to note that any forward-looking statements made on this call are based on information presently available to the Company. We do not undertake to update or revise any forward-looking statements as new information becomes available. We refer you to disclaimers in our press release and encourage you to review the description of risk factors contained in our 10-K and other filings with the Securities and Exchange Commission.

In addition to GAAP results, we may refer to certain non-GAAP measures including adjusted net trading income, adjusted net income, adjusted EBITDA, and adjusted EBITDA margin. You will find a reconciliation of these non-GAAP measures to GAAP terms included in the earnings materials, with an explanation of how management uses these materials. When used on this call, adjusted net trading income refers to our trading income, net of all interest in dividend income and expenses, and all brokerage clearing and exchange fees.

Speaking and answering questions today are Mr. Douglas Cifu, our Chief Executive Officer; and Mr. Joseph Molluso, our Chief Financial Officer. They will begin with prepared remarks and then take your questions. Now I would like to turn the call over to Doug.

Douglas Cifu - *Virtu Financial, Inc. - CEO*

Thank you very much, Andrew. Good morning, and thank you for joining our call this morning to discuss Virtu's second-quarter results. I will begin the call by discussing the results of our business, and then report on important progress on various strategic initiatives.

Overall, the second quarter was characterized generally by low levels of volume and volatility across all global markets, which presented a challenging environment. The quarter did, however, end on a strong note, with the results of the UK referendum on the EU producing heightened levels of activity in the final two trading days of the quarter. While Brexit certainly had a positive impact in the final week of June, it did not change the overall tone of the volume and volatility of the quarter.

Despite this challenging environment, Virtu performed well throughout the quarter, and generated $102.3 million of adjusted net trading income, an average of approximately $1.6 million per day. I will review some of the highlights of each of the various categories we report.

Our Americas equities results were down 17% versus the prior quarter against a backdrop of a 15% decline in share volume, and a 14% decline in notional value traded in US equities. Implied volatility, as measured by the VIX, was down 24% during the period. Notably, implied volatility continued to outpace realized volatility, with the ratio between the two measures declining to 87%.

As I have noted in prior calls and in other public remarks, realized volatility is a better predictor of the opportunity of a true market-making firm such as Virtu. Realized volatility is a useful metric, as it captures the intra-day volatility in the US equities market, which typically will reflect the bid-offer spread investors are willing to pay for liquidity. Against this backdrop of volume declines and muted realized and implied volatility, the Firm performed as anticipated during the quarter in our US equities segment.

Our European and Asian-Pacific equities businesses continued to perform well, comprising 24% of our adjusted net trading income for the first 6 months of 2016. Taken together, these businesses were up 15% and 2% compared to Q2 2015, and the first half of 2015 respectively. European equities performance was strong on a relative basis, as results were down 6% versus the prior quarter, while consolidated European equity volumes were down 8% on a share volume basis, and 13% on a notional value basis.

Asia-Pacific equities performance was even stronger, as results were up 15% versus the prior quarter, while volumes overall were down 16%. We continue to benefit from growth in many of the unique marketplaces in Asia, in particular in Japan, and we believe that the need for the Firm's market-making services in the region will continue to grow, as evidenced by the strategic investment we made in July in a key Japanese market center that I will comment on later.

During the second quarter, our global commodities business underperformed some of the benchmark metrics. Overall, results were down 30% versus the prior quarter, while volumes on selected benchmarks on the ICE and CME declined between 8% and 14%. In addition to the decline in volumes, we would also point to reduced volatility as a key reason for the decline in results.

As is the case for US equities business, realized volatility is the key, commodities market was down significantly. For example, the CBOE energy sector volatility was down 29%, and the CBOE oil ETF VIX index was down 28%. Finally, each of the key publicly-available volume benchmarks for spot and futures foreign exchange market volumes -- markets, showed declines in volume during the quarter from the low to mid-teens in terms of percentages.

It's important to note that this decline includes the impact of the somewhat unexpected outcome of the Brexit vote at the end of the quarter, which resulted in record or near-record volume days for some of these futures and spot FX platforms. Compared to the prior quarter, CME futures ADV was down 11%, and the notional value of CME futures was down 10%. HotSpot ADV was down 11%, Reuters was down 9% and EBS was down 17%.

Overall, our global currencies results were down 18%, and given the lack of volatility in most of the quarter, we would consider this in line with market metrics. We continue to believe that our global currencies business will be a driver of growth for the firm in the near to medium term future, as we saw favorable trends in certain segments of the global commodities market, most notably in the overseas NDF marketplaces.

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Now, I would like to touch on progress that we have made on several key strategic initiatives during the quarter, each of which will contribute to the growth and diversity of our overall business. As you know, we announced a strategic minority investment in SBI Japannext. SBI Japannext is a thriving Japanese PTS venue, or alternative marketplace, and Virtu is an active market-maker on the platform.

We decided to make the investment for several reasons: We were invited by Japannext to do so in the context of an overall enhanced relationship, and we were honored to be selected by this leading platform to be a key strategic partner. We believe that this reflects well on the market-making services we have historically provided to this platform, and our reputation as being a firm that enhances markets globally. This transaction also brings us closer to Japannext corporate parent, SBI Securities, a leading online broker in Japan, and a key participant in that country's financial markets.

SBI also provided us financing at an attractive rate to complete the transaction, and we believe Japannext will be a key participant in the evolution of market structure in a very important part of the world. As a result of the transaction, we will own approximately 29% of Japannext, and have one Board seat, which I will occupy. While we are not in the business of making financial investments, this investment is important to the Firm, as Japannext is a key strategic partner, and we also believe we made this investment at an attractive entry point for firms like Japannext. We believe firmly that this expanded relationship with Japannext will result in continued growth in our APAC business, which is already highly successful.

Let me turn next to our JPMorgan partnership, which we announced today. JPMorgan has been an important and valued business partner of Virtu since our founding. JPMorgan is well-acquainted with the Firm as our prime broker and clearing partner in a variety of asset classes, as a lead underwriter of our initial public offering, and from Virtu serving as the designated market maker for JPMorgan's stock on the floor of the New York Stock Exchange.

We believe, therefore, that this strategic partnership with JPMorgan Chase, whereby Virtu will provide technology and market access to JPMorgan, is a natural evolution of our relationship, and we are greatly humbled by the trust they have placed in Virtu. Specifically, JPMorgan will use Virtu's technological capabilities to access and trade dealer-to-dealer markets in US treasuries. The agreement is for a minimum of three years.

This is important to Virtu for several reasons. First, it's an opportunity for Virtu to scale its robust and efficient technology and connectivity business in fixed income, long an asset class we have endeavored to grow, with one of the preeminent global banks. Second, we believe it's a win-win for both firms, as Virtu's technological prowess and micro market structure knowledge will be paired with JPMorgan's US treasuries trading acumen.

Finally, we believe that this validates further Virtu's strategy of partnering with financial institutions by providing leading technology that allows those financial institutions to be more nimble and responsive while reducing costs. While we do not expect a material impact to our financial results in the near term, we seek to make this initial phase part of a longer term and growing relationship with a key strategic business partner.

Finally, I'm pleased to report on the progress of our agency execution services initiative. During the second quarter, we connected to one client who began using Virtu's order routing technology. The early feedback has been extremely positive, with Virtu's generating efficiency and reduced market impact for the client. We are onboarding additional blue chip buy-side firms in the US, and are putting in place the mechanisms needed to begin providing similar services in Europe.

We are excited about the prospects for this business, and have a backlog of buy-side firms in the US and Europe ready to onboard. As we have said in prior calls, we view this as a velvet rope offering, that leverages Virtu's existing technology without adding to technology, personnel, or overhead costs in any significant manner, and in this way, we will continue to build this business out.

While we are not ready to provide estimates as to the potential size of this business, in a previous call, I mentioned we would undertake this initiative to demonstrate the leveragability and scalability of Virtu's technology and to contribute meaningfully to Virtu's revenues over the long-term. I mentioned that 10% of our 2015 adjusted net trading income was an ambitious benchmark that we would aspire to, and we continue to maintain that as our goal.

The technology and trading partnership with JPMorgan and our execution services initiative are very exciting to Virtu as they demonstrate the scalability and applicability of our technology to various uses, and importantly, will provide sources of revenue to Virtu that are not wholly tied directly to market volumes and volatility. I'll finish my remarks by noting how the Firm performed on the trading days where the market was reacting to the Brexit vote in the UK. Given the market volatility and volume surrounding the Brexit vote, Virtu had trading days that were quite strong.

More importantly, our systems performed flawlessly, and there was no strain in terms of performance or capacity. We do not disclose the specific adjusted net trading income results of any given day. As I have mentioned in the past, the analysis of any single day, be it Brexit, August 24 of last year, or the Swiss Bank de-pegging is not necessarily indicative of the impact that a particular event had on our overall results.

The days that followed Brexit were also active, and resulted in above-average adjusted net trading income, and given our global operations and diversified platform, the impact of an event like Brexit, while extremely positive, cannot be measured as a single event. In terms of the longer-term impact of Brexit, there obviously remains significant uncertainty about the UK's role and ultimate relationship with the EU.

As you may know, we access the European markets through our wholly-owned subsidiary in Dublin. We have no offices in the UK. We do not anticipate any meaningful impact on our ability to conduct business in Europe or the UK. However, as I have mentioned, it remains early days. Now, I will turn the call over to our CFO, Joseph Molluso, to review our financial results for the third quarter. Joe?

Joseph Molluso - *Virtu Financial, Inc. - CFO*

Thank you, Doug. I will review a summary of our results and point out some figures with regard to expenses before we open it up to questions.

Our GAAP net income, before attribution to non-controlling interest, was $39.3 million, which equates to $0.21 per share of diluted GAAP EPS. Consistent with the financial presentation in our 10-K and 10-Q, we provide non-GAAP financial information to supplement our presentation. On a non-GAAP basis, our adjusted net income, which excludes the impact of stock-based compensation and vesting of stock-based awards granted at the IPO, was $45.8 million for the second quarter. Assuming a normalized tax rate and 139.7 million fully-converted shares outstanding, this equated to $0.24 per share in adjusted EPS. Our adjusted EBITDA, which again excludes the impact of stock-based compensation, was $65.8 million for the quarter, with a corresponding margin of 63%.

Let me touch on adjusted net trading income. We spent time last quarter outlining the circumstances around the unallocated bucket. As you will note, this quarter's unallocated amount is lower. The unallocated amount results from a difference in how we report US GAAP results for trading income and how we track and allocate those results among the various categories internally.

As an illustration, if we make markets in an equity security listed on a European exchange, and we also make markets in an ADR tied to that European security, this could result in an unallocated amount. The reason is that the markets in Europe close at 11:30 AM Eastern time. From 11:30 AM Eastern time until the markets close in the US at 4:00 PM Eastern time, we will continue to make markets in the ADR.

For financial statement purposes, we will use the settlement prices in New York at 4:00 PM, however, because the underlying security on the European exchange naturally did not trade between 11:30 AM and 4:00 PM Eastern, for GAAP purposes it may appear as if we had a trading gain or loss. However, because we are always hedged, in reality, there is no gain or loss.

On the expense side, we focus on communications and data processing, employee compensation, and overhead as our key core expenses. I will touch on all three here. For communications and data processing, year-to-date 2016 versus year-to-date 2015, we are up 0.5%. This essentially flat expense growth in a key technology expense line item is a result of our overall aggressive cost management and deployment of scale across our markets. Similarly, our operations and administrative expenses are down meaningfully year-to-date.

Turning to our compensation accrual, for the second quarter, our employee compensation expense is $20.8 million. Excluding the impact of non-cash amortization of options granted and valued at the time of the IPO, GAAP compensation expense for the quarter is $19.3 million. Including stock-based comp, this is 18.4% of net revenues. Excluding stock-based comp, this is 14.3% of net revenues.

For the full year of 2015, these figures are 16.1% and 13.1% respectively. We will continue to manage our expenses aggressively, including our compensation ratio, in appropriate response to market conditions, while continuing to attract and retain the most talented employees.

As mentioned earlier, our Board of Directors has authorized the distribution of $0.24 per share, payable September 15 to shareholders of record on September 1. Looking back over the past five quarters since our IPO, our payout ratio based on adjusted EPS is 81%, consistent with our promise to target a 70% to 100% payout ratio at IPO. Finally, looking at our Company as a fully taxed C-Corp with all the shares converted to the public company, our fully-taxed adjusted net income for the quarter would have been $32.9 million, or $0.24 per share, assuming 139.7 million shares outstanding.

Now I will turn the call back to the moderator to begin the Q&A part.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Rich Repetto with Sandler O'Neill. Your line is open.

Rich Repetto - *Sandler O'Neill & Partners - Analyst*

First question -- first, congrats on this partnership or agreement with JPMorgan, and I just wanted to get some more detail on it. Doug, if you could walk through, how did it develop? Have they tested it with your -- on the fixed income side with you? How will you get paid? And then, I know it starts with treasuries, but what's the potential to get to other fixed income instruments, or even beyond fixed income?

Douglas Cifu - *Virtu Financial, Inc. - CEO*

Sure, thanks, Rich. Well, as I said in my remarks, we are really, very, very humbled to be doing business with a global bank like JPMorgan. It's truly a great reflection on the Firm and the result of not just the last 6 months of testing, which I will get into and whatnot, but really Vinnie's 30-plus year relationship with JPMorgan and our, as a Firm, our eight-year plus relationship with JPMorgan.

They were there at the beginning of the formation of the firm and were a key business partner for many, many years in a lot of asset classes, and more recently we became their DMM, as I mentioned on the floor of the New York Stock Exchange. And as part of that review of their DMM capabilities and understanding the market structure, we gave them some in-depth analysis of how the equities market worked, and basic stuff that we do at Virtu around market structure, and that compelled them to a further discussion of how our technology works, and this was a very long due diligence period, I guess I will call it, of over six months.

We began a proof of concept to see how we would route their treasury market orders and could we be compelling and more efficient, and whatnot? It's not like we are both flying into this blind. There's been a long, detailed review of our technology, and how it would work with their trading DNA. And really the most significant thing, we are marrying their years and years of fantastic trading DNA with our very efficient, we think, scaled market access and technology. We think hopefully a one plus one equals three win-win type of situation.

It's structured as a technology and trading partnership, where as I mentioned, it's a three-year term but effectively, we are providing them with market access and our order routing capabilities, if you will. And they are obviously providing the capital and the market expertise, if you will, of trade and treasuries. And then there's an incentive component to it, based on the profitability of how their trading does, being routed through Virtu. It could potentially be an important contributor to our fixed income business, which as you know historically has been a very small part of what we do.

We view this, and I think JPMorgan views this as hopefully the first step of a longer term relationship. They have talked about how they want to get more nimble and leaner in terms of how they access the markets, and hopefully we can be their valued partner in a lot of asset classes, where it works. That begins by developing trust within the organizations and demonstrating to them that we can add value to their business. We have done that over the last six months, and hopefully, the relationship will grow from US treasuries where we are starting it.

We are putting some of our best folks on it, and they have got some quality, very, very talented folks that they have had over here at Virtu, and we really opened up the kimono to show them how we operate and whatnot. We are very, very optimistic here at Virtu that this is going to be an important long-term relationship, as frankly it has been, Rich, for the last eight years. And it's important to note, this is not a transaction or a partnership, if you will, at either side, entered into lightly or not at the highest levels, so I think there's buy-in on both sides to try to make this work, and expand it beyond US treasuries.

Rich Repetto - *Sandler O'Neill & Partners - Analyst*

Got it. That's helpful. Great vote of confidence for the technology there. I guess just one follow-up question. The investment in SBI Japannext, I guess definitely demonstrates your emphasis on that area of the world. And the trading or the net trading income results were strong. Is there any connection between the -- I know the investment didn't close until July, but how you did in the second quarter versus this investment?

Douglas Cifu - *Virtu Financial, Inc. - CEO*

Well, not really. I mean, we have been a market maker on Japannext since its founding. We owned a small piece of equity which we earned effectively through an equity jump at Japannext, and we are very big supporters of their senior management team there. A fellow by the name of Chuck Chon who runs it is a real high quality executive. We are connected to hundreds of venues around the world, and I would put Chuck in the upper decile, if you will, of folks that we interact with.

We have worked with them on a variety of different initiatives throughout the years. This was, again, much like the JPMorgan relationship. We built trust with them, and they were very impressed with the services we provided, and our market share, and how we are trying to make the markets better and more efficient there, and how we interacted with the regulators. And so therefore they invited us into this, into their partnership, and I had the pleasure of interacting with Kitao-san, who is the CEO of SBI as well.

And so, there's definitely not a direct causation or a relationship if you will between how we performed this quarter, but that being said, going forward, this is not just a financial investment for us. This is the second largest platform in Japan, it's a meaningful platform, and there's certain regulatory initiatives that they are pursuing around margin financing for equities trading that could be very, very significant, and so we viewed it as a very important strategic relationship in a very significant marketplace in the world, and the largest marketplace that we access in Asia. So we are very optimistic that it will both be a rewarding financial investment, because this is a great platform, but also a very key strategic initiative, as they try to evolve that marketplace, both on the equities and on the futures side.

Rich Repetto - *Sandler O'Neill & Partners - Analyst*

Okay, thanks. That's very helpful, and congrats again on the agreement and the investment. Thanks.

Operator

Alex Blostein with Goldman Sachs, your line is open.

Alex Blostein - *Goldman Sachs - Analyst*

A couple of questions around some of these strategic initiatives. I understand you probably don't want to get into the economics too much, but helping us understanding just the timing of when the JPMorgan arrangement could become a little bit more of a needle-mover for the business as a whole would be helpful. That's my first question.

Douglas Cifu - *Virtu Financial, Inc. - CEO*

Yes, look, we have purposely started this venture, this partnership, I would say, on the dealer-dealer US treasuries market making side, and that's obviously, you know the platforms and the scope and the scale of the business. It's not the -- it's the sub asset class. In terms of needle moving, obviously you would have to define what that means, but certainly for the next couple of quarters, it's not going to be significant at all as we get going.

I think in the longer term, it could be meaningful. Obviously JPMorgan wouldn't be entering this initiative, nor would we, if we didn't think we could get meaningful positive operating results from this. I'm being intentionally vague, because I can't sit here today and say it's going to be X, or it's going to be Y, it's going to be Z. I know that's going to be a challenge for you, all in terms of how you value the relationship.

Obviously I look at this more in the medium to long-term. This is continuing the theme, Alex, that large financial institutions, whether they be big buy-side institutions that are looking for more efficient ways to route their equity orders to the marketplace, both here and in Europe, and large sell-side institutions that are looking for more efficient cost-effective ways to access marketplaces, we're starting in US treasuries, and again, we are optimistic that hopefully we can expand those other asset classes. They are coming to a financial technology firm like Virtu, that has the advantage of having great financial technology, but also being a very active participant in the marketplace. We understand market structure.

We are not a financial tools technology company, we don't have a commoditized product, we don't have algos that we sell. We really want to partner with these institutions that have to access the market in a more efficient way. We see real evolution, and confluence, if you will, of two sides of the marketplace that need to come together and cooperate, in order to access the market. So, again I apologize, I can't give you a definitive it's going to be X or Y or Z, but I think medium to long-term and in the short-term, this is a very significant and important strategic initiative for our firm.

Alex Blostein - *Goldman Sachs - Analyst*

Understood. And then maybe a little bit of a bigger picture question. The number on some of these strategic initiatives seems to have picked up over the last couple of quarters for you, and whether it's the buy-side arrangements on the order routing side with a few lux firms, as well as the JPMorgan and obviously the Japanese announcement as well.

Taking a step back, as you think of capacity for Virtu, as you try to venture out into some of these new initiatives, how should we think about spending for them? Historically it sounded like you were not planning to add a ton more head count or resources, in order to support these initiatives. Should we be thinking about these potential revenue stream as a fairly high incremental margin business for you?

Douglas Cifu - *Virtu Financial, Inc. - CEO*

I have always said on these phone calls, and I have said internally and externally, we take great pride in the fact that we run a very efficient high-margin business. You see our adjusted EBITDA margins, they fluctuate, but they start with a 6 in front of them and my goal as a CEO is always to maintain that. So yes, it's certainly going to be a question of scale. For our agency execution business, you all know that Steve Cavoli joined us about a year ago from Morgan Stanley, not just for that role, but for other roles. Other than that, we haven't added any incremental personnel, we're using our existing technology, our existing algorithms.

What has really become apparent to us is, as I just said two minutes ago, we are a great financial technology firm that really understands market structure. Right? And so we have these great assets that we think we can leverage and scale, without adding incremental costs.

I'm not a believer in managing sales forces, not that there's anything is wrong with that. I didn't start this firm with Vinnie to be a guy that's managing T&E and 100 different sales people. We don't need to do that. We think we can have high-end clients, customers, business partners that really understand what we are offering, understanding it's a premium product, and they are willing to pay for it.

So we're entering into the strategic partnership with JPMorgan, and might there will be other institutions we partner with down the road? Absolutely. We are open to that. We have had some preliminary discussions with other financial institutions, not surprisingly, about seeing along these lines.

Look, the world is getting more efficient. It's not getting less efficient. The world is looking for a way to access markets in a more cost-effective manner. That's what Virtu is.

As I always tell people, we access 236 markets in 36 countries, and 12,000 financial instruments, and we do it with 150 people, because that's the advantage that we have. We recognize that scalability, automation and using technology was our advantage. Not a market structure advantage. We are not smarter than anybody, we're not faster than anybody, but we can scale and use technology in a way that is very efficient to access the markets.

I think that's compelling to people, and we're going to pick and choose our partners the right way, to obviously generate financial results for us. It has to be compelling to us. I'm not going to be in the business of selling tools or algos on a commoditized basis. That's not what we're going to do.

I'm not going to change the whole nature of this firm for that purpose, but we think, Alex, that this is a way to grow our business, in a way that is not wholly dependent on market's volumes and volatilities. It's attractive, and it behooves us to continue to explore these opportunities.

Alex Blostein - *Goldman Sachs - Analyst*

Great, very helpful, thank you.

Operator

Alex Kramm with UBS. Your line is open.

Alex Kramm - *UBS - Analyst*

I wanted to start with the dividends. I think Joe mentioned at the end of his prepared remarks, a little bit. The 70% to 100% payout ratio.

Now, obviously this is the first quarter post-IPO that you did, EPS matched your dividend, but we also know that Brexit helped and the quarter so far, the third quarter is looking pretty tough again. Just maybe talk a little bit more about how safe you think the dividend is, if we trade into a weaker environment, if you have some other opportunities to keep it here, if we earn less going forward.

Joseph Molluso - *Virtu Financial, Inc. - CFO*

Yes, look. We view the dividend as very safe. We are conservative from a cash flow standpoint, Alex. If you look at our CapEx year to date, it's mid-single digit millions if you exclude what we capitalize in terms of software, and that's down meaningfully from last year. You know, it's actually running less than half of what was last year. So our cash flow profile, looks very good, and as I said, we look at this on a long-term basis, as well. You look at 81% as a payout ratio, tallying the five quarters that we have been public, and given our cash flow profile, we feel pretty comfortable with that for the foreseeable future.

Alex Kramm - *UBS - Analyst*

All right, great, and then just maybe secondly, maybe you can talk a little bit about market share. I think from us, looking from the outside, it's sometimes difficult to see if you're still having the same opportunities to engage in the market that you had previously? I know you probably don't see a lot of other competitors in the market either, but does anything feel different than it was previously? For example, in FX, we hear other firms non-bank firms building up their capabilities in FX, for example. Are you seeing that, or are you still feeling like you had the same trading opportunities that you had previously with the volume you're getting.

Douglas Cifu - *Virtu Financial, Inc. - CEO*

Yes, good question. We obviously track market share minute by minute, hourly, daily, monthly, in every one of the categories and sub-asset classes, and sometimes within symbols. We are very, very cognizant of that. We don't disclose it for competitive reasons, but I can say US equities, Asian equities, European equities, all of the equities categories, our market share has been -- it fluctuates, but it's been consistent, it goes up and down.

Sometimes you will have an ETF that will do a reverse stock split. Instead of trading 50 million shares a day, all of a sudden, it's trading 5 million shares a day, and you can track, your market share goes down, because you were a big market maker in that ETF. So you have things like that, that make sense, but we are obviously very, very focused on it.

In terms of FX, it's a little more difficult. Obviously, as you know, because there's not some central repository that minute by minute gives you overall market volumes, and depends on how people report them, and whatnot. Obviously, we look at the ECNs, and we look at what the CME is reporting. Certainly, right.

Look, there's been new competitors, but our market share and capture rate have been consistent with the volume and volatility in the marketplace. You're seeing new entrants, but you're also seeing new opportunity i.e. a lot of the banks have gone from being principle market makers to more agency or market centers, so we can make markets to them. There's been new opportunities in NDFs, so it's really, particularly in currencies, which I think was your question.

There's multiple markets and overall market share. It's not like US equities, you can say okay, well we have got X% single double digit market share in overall FX. You really have to look at it pair by pair, and in some instances, ECN or platform by platform. We have seen no material changes other than the normal ebbs and flows based on volume and volumes and volatility.

On a day like the Brexit and the few days after, our market share will actually go up, because there are some entrants or participants in the market, excuse me, that maybe can't handle the flow or have more, don't have the same technology and systems that we do, so they pull back from the marketplace. You have days that are a lot quieter where our market share might be a little lower than a Brexit type of day, because there are more participants.

Overall, I'm very bullish about that business, I continue to think that's going to be a growth area of business for us. Unfortunately in FX and in these other categories, we need the marketplace to cooperate. If you pro forma it out, the Brexit period, it was really a very low volume, and very muted volatility period, which as I mentioned in my prepared remarks, is not ideal for a market maker, but I think we performed well, given the market opportunities.

Alex Kramm - *UBS - Analyst*

That's helpful. Thank you.

Operator

William Katz with Citigroup, your line is open.

William Katz - *Citigroup - Analyst*

On the agency side, you mentioned your aspirational goal of 10% of 2015 net trading income. Can you walk through your latest thinking of what the time line might be to reset the aspirational goal?

Douglas Cifu - *Virtu Financial, Inc. - CEO*

Sure. Let me recalibrate. We went through this experimental period.

We decided, hey, we may have something here that started late last year in the first quarter, we continued it, and we said, we may actually have something here, and the counterparty we were interacting with was giving us positive feedback. So we went quote-unquote live, if you will, during the second quarter, and got great feedback from the institution that we were working with, very, very smart guys, that helped us understand the market better, in a way that we thought made the service and the routing algorithms we were providing more effective.

During the same time period, obviously, we know a lot of buy-side institutions. A lot of them happen to be shareholders as well, and we have known them for years. And so because of some of the publicity around being a public company and the fact that details of this experiment somehow appear in the paper, we got a lot of inbound calls, and we developed a queue or backlog, if you will, of buy-side institutions that have gone through credit and compliance and whatnot, and they are ready to start to go live.

I don't feel any pressure to ramp them all up and get them on immediately. As the expression goes, you only have one chance to make a first impression, and we didn't really want to make a bad first impression. We have a list here internally of half a dozen institutions that we're gonna onboard in the next, call it, three to six months, and then we have got other institutions behind that, and then there's Europe and whatnot.

I would say, over the next 6 to 12 months, this will become a growing business, and I don't think we will reach that 10% aspirational goal that I mentioned. But certainly over the next year or two, and we will talk about how we report this separately, or how we disclose it and whatnot, when it becomes more significant, so you fellows can track it more in earnest. We think that, based on the feedback we have received thus far, we think this can become a significant contributor to our business.

I think the most important thing, which I mentioned in response to Alex's question, we think we can do this without any significant incremental spend. We are using existing resources and employees, and existing algorithms, which obviously we have tweaked somewhat to deal with a different type of market, and more importantly, also, I should have mentioned earlier. We have got great analytical tools here at Virtu that we developed over the last eight years, in order to enable to us to access the market.

We are making those tools available to these buy-side institutions as well, so we are providing them with great execution, great analytical tools, and I think most important, see real transparency in market structure understanding. That's what is the most compelling thing to them. I think it's a product, a service offering, that ultimately will be very compelling to people.

William Katz - *Citigroup - Analyst*

That's helpful, and then just maybe a follow-up. And I think it's a two-part question. I apologize, two different things in there. But I just am curious of your thoughts.

Maybe it's all in the volume and volatility dynamics you're talking about, but it looks like your capture rates in both global commodities and currencies fell a lot more than the volatility declines were? Just wondering if you might able to talk to that. And I was a little confused on your discussion on comp to revenue. Should we be thinking about the first half of the year or 2015 as more of a guide post as we think of the second half of year? Thank you.

Douglas Cifu - *Virtu Financial, Inc. - CEO*

Thank you for your question. I will do the first part and then I'll ask Joe to do the comp to revenue thing, because I screw that up all the time. I'm not great at math. Joe is a lot better than I am.

In terms of capture rates, you're right, obviously, we had declining capture rates in those categories during the quarter. It's hard to always say, hey, we are in line, we are not in line with volumes and volatility. I think a lot of it does have to do with volatility, I have always said that volatility, particularly realized volatility, is our friend. It's really the measure of what marketplace participants are willing to pay for our services, our liquidity, and when it declines, the bid offer spread, which is obviously the capture rate, what we live and breathe and eat off of, if you will, declines.

So I don't see any systemic or long-term trends that are of concern to me. Over the last eight years, we have had ebbs and flows of our capture rates that we track daily, weekly, monthly, and they have always come back when the marketplaces respond, and come back. Are we focused on it? Yes. Am I concerned about in the medium to long term? Absolutely not.

Our business continues to be robust. Our market share continues to be there. But you're right, when volumes were muted, we tend to struggle in terms of capture rates. And you see where, you have got major platforms like EBS and HotSpot that are down double digits, and you have got the CME futures as well, down significant double digits, that's going to -- it makes it more challenging for us to generate the types of capture rates and the types of adjusted net trading income we historically have. Joe, do you want to answer that compensation question?

Joseph Molluso - *Virtu Financial, Inc. - CFO*

Sure. Here's how we look at comp to net revenues. We are looking at the employee compensation on our financials, and I'm subtracting the IPO vesting of the option grant, to get a net compensation number. And then I compare that to net revenues, which we look at as our adjusted net trading income, plus the technology services.

If you look at that number for the full year of 2015, the ratio, including stock-based comp, so fully loaded, was 16.1%. And if you take out stock-based comp, it was 13.1%. Year to date, we are running at 18.1%, including stock based comp, and 13.7%, excluding stock-based comp. So we are slightly higher than last year.

I would note that on a nominal, just dollar basis, if you annualize our net compensation through the first two quarters of this year, the nominal number is actually lower than full year of 2015, and naturally the reason for that is our annualized net revenues are lower than last year as well. What you should expect going forward, I have always guided that this number is going to bounce around a little bit, including stock-based comp fully loaded. It should be in the mid-teens, upper teens on a -- excluding stock based comp in the low teens.

We are very comfortable with where we are in the middle of the year here. I will remind you, we connect to more markets than employees, and when we look at our comp to net revenue ratio and look around at some peers, we are very, very comfortable with where we sit. This number reflects the fact that our net revenues are down a little bit, but we are managing it aggressively. Nominal dollars are down, and if you -- what can you expect for the second half of the year. Hopefully net revenues are higher, so we will be closer to last year's percentages on a full-year basis.

William Katz - *Citigroup - Analyst*

That's very helpful. Thank you for the commentary.

Operator

Ashley Serrao with Credit Suisse. Your line is open.

Ashley Serrao - *Credit Suisse - Analyst*

I guess first question is, can you just help us understand what the impact of an appreciating dollar is on the business? It feels like some of the impact here manifests itself through the capture rates, but I just want to get a sense of, when we look at everything, revenues and expenses, how should we be thinking about that going forward?

Douglas Cifu - *Virtu Financial, Inc. - CEO*

You want to try that one?

Joseph Molluso - *Virtu Financial, Inc. - CFO*

Sure. In terms of an appreciating dollar, it's really hard to pin down, just because we trade 35 countries in 235 market centers. So we have got, on our GAAP financials, we have other comprehensive income, which flows through, which is the literal GAAP impact of an appreciating dollar. So you can see that the foreign exchange translation adjustment net of taxes is negative $1.2 million for the quarter, and for the year, it's positive $1.3 million. So it's hard to give you some guidance in terms of what that is going to be in the future, just because we trade so many different asset classes in so many different countries and so many different categories that are hedged against each other, that it's not going to be something that you're going to really be able to reliably forecast.

Douglas Cifu - *Virtu Financial, Inc. - CEO*

Ashley, that's a very good question. As Joe mentioned, we are in so many different countries. So it can be a headwind, it can be a tailwind. The good example is like the Canadian and the Aussie dollars have declined significantly. I don't remember the exact numbers and whatnot over the last two or three years. The Canadian penny and an Aussie penny, if you will, is worth less in US dollar terms today than it was worth four years ago, but that's still the bid offer increments in each of those marketplaces.

So in a way, if you look at our Asian equities results, we are probably -- we're doing better in Asia than we may even get credit from you for because our Australian results on a notional basis, US dollar adjusted basis, have actually improved, but the notional amount has gone down, because the Australian dollar has declined so severely. The same thing in Canada, with regard to our Americas equities segment. And obviously, that can cut the other way depending on what is happening with the US dollar comparative to these other currencies.

It's one of the strengths and the challenges of running a multi-asset class, multi-geography business, and obviously, we are cognizant of it. When we look at our Australian P&L, I don't panic if it's gone from X to 10% less, when the currency has gone down 30%. I say on a relative basis we are actually capturing more when you translate that to US dollars, unfortunately it declines. Did that answer your question?

Ashley Serrao - *Credit Suisse - Analyst*

Yes. Thank you for all the color there. My second question is, can you talk about the interplay between your core market making business built off your great technology, and then licensing your secret sauce out. When everything is said and done, should this ultimately help you grow some of your core market businesses as well, market making businesses, as well?

Douglas Cifu - *Virtu Financial, Inc. - CEO*

That's a very interesting question, as well. I have thought a lot about that. Just to be clear, we are not providing anybody on a permanent basis our secret sauce or our technology, like obviously on the buy side institutions, they have the ability to use our algorithms, but they don't have access to the code, if you will. We obviously have traders here that are monitoring the orders and whatnot.

But look, on that side and then on the experience we have had with JPMorgan thus far in the proof of concepts, we are learning a lot, just on how these institutions look at these markets. Obviously, big buy-side institutions that are making directional investments in stocks in large quantities look at the marketplace very, very differently than Virtu Financial does. That's the power of the marriage, if you will. Because we look at the markets on a micro market structure, tick by tick, microsecond by microsecond basis.

Maybe US treasuries are slightly different, right? Because it's not really a microsecond marketplace all the time, but certainly -- and these institutions look at the market very differently. That's the incremental benefit of the knock-on effect, if you will, of partnering with these great institutions that can add a lot of value and DNA to what we do. Does that have application around the rest of our firm? Of course it does. Obviously, cognizant of our contractual and confidentiality concerns and all that stuff, and we keep the order flow from the buy-side institutions separate, in a separate broker-dealer and all that.

So we're very cognizant that we want to be the non-conflicted broker that doesn't -- that isn't looking for any incremental business. We are obviously not an IPO calendar research kind of broker. We are purely about execution in a non-conflicted very efficient cost-effective manner, and we think that's what the firm can offer to these large institutions. So thematically, as I talked on the call, that's -- we think an important component of how we're going to grow this firm long-term.

Ashley Serrao - *Credit Suisse - Analyst*

Thank you for taking my questions and congrats on the partnership and investment.

Operator

Ken Worthington with JPMorgan. Your line is open.

Ken Worthington - *JPMorgan - Analyst*

One of the things that Virtu highlighted on its IPO was that it didn't have any customers, and that meant really no obligations and lower risk. And a number of the initiatives that you have been working on are really about servicing clients. So with that in mind, how do we think about how this changes the risk profile of the firm?

Douglas Cifu - *Virtu Financial, Inc. - CEO*

Yes, I think that's a good question, it's a very fair question. When we talked about not having customers, it was less about risk and more about the, how should I put this in a nice way? Managing a sales force, and keeping our head count down, and not changing the DNA of the firm. In answer to a prior question, I made it very clear that is certainly our intention, not to add dozens and dozens or hundreds of employees to grow this into a large institutional business.

Certainly there is, when you're executing on someone's behalf, right? You have got responsibilities to that person, and you can have outages and all that stuff, and I think we talked about that in the context of the issues that Knight had in 2012, in their order routing business and their inability to manage that risk in an efficient way, which obviously led to their significant loss. We are not getting into the payment for order flow business, we're not doing retail execution.

We are going to a have a handful of buy-side institutions that are sending us these discrete orders, I think that's manageable from a risk prospective. I'm obviously very, very focused, obviously, on maintaining our margins and being very efficient around the firm, and as I have said a number of times on this phone call, and I have said internally and we have shown by our actions thus far, we are not going to change the head count to the firm in a meaningful way or a significant way to deal with dozens and dozens of customers. We really want this, Ken, to be a real value-add relationship, and between a handful of institutions and Virtu that we think we can add a lot of value to.

Ken Worthington - *JPMorgan - Analyst*

Great, thank you. And then, in terms of the JPMorgan relationship and maybe other relationships like this, how do you go about charging for it? Is it subscription based? Is it volume based? What is at least the methodology for your compensation here?

Douglas Cifu - *Virtu Financial, Inc. - CEO*

Yes, it's a good question. We have one existing relationship partnership, which we talked about, and we had it in the IPO, and it continues. And that's purely or largely just a licensing fee, I guess you would call that a subscription-based model, and that appears in our P&L under technology services, right, Joe? Is that what we call it?

Joseph Molluso - *Virtu Financial, Inc. - CFO*

Yes.

Douglas Cifu - *Virtu Financial, Inc. - CEO*

That's essentially just a subscription model. Not just, it's a very significant subscription model, but it's a subscription model. The partnership with JPMorgan is going to be more of a hybrid, where there's going to be an element of a subscription fee, if you will, to offset the fact that we have spent a lot of time and money over the last eight years building this technology, but it also is going to have a significant, what I will call incentive or trading upside, if you will, component to it.

These transactions obviously can take both forms. It can be a hybrid like this one, it could be pure trading, it could be pure subscription based. We are obviously in this business, and willing to partner with folks, because we want to make a win-win situation. We want to make money, and we want to make sure that the counterparty that we are interacting with feels good about the relationship, and is making a bunch of money.

I think in this particular instance, not to speak for that wonderful institution that you work for, but I think they probably wanted us to have some skin in the game, a significant amount of skin in the game, and the more money that this venture, it's not a separate legal entity, but this partnership, if you will, generates, then the better Virtu does. So there will be more in focused and more inclined to make it successful.

Obviously we are, because I have said a dozen times already on this phone call, we view this as a very important strategic focus of this firm going forward. I think the model is, it could be a mix of both, and Ken, as we proceed with other institutions and talk about other partnerships, we will weigh both models and negotiate terms that we feel we will be fairly compensated for the technology we have, and the time and energy we are going to have to put into the endeavors.

Ken Worthington - *JPMorgan - Analyst*

Great. Thank you very much.

Operator

Thank you. That does conclude today's Q & A portion of the call. Would like to turn it back to Virtu's CEO, Douglas Cifu, for any closing remarks.

Douglas Cifu - *Virtu Financial, Inc. - CEO*

We know we went a long time here, but we felt we had a lot of strategic initiatives, and particularly the JPMorgan partnership that we needed to talk about. We look forward to our continued interaction with our shareholders and with the analysts on the sell side. And as always, if there's any follow-up questions, feel free to give me a call, or Andrew or Joe, at any moment in time. We are happy to try to answer all your questions. Again, thank you, everybody, and have a great day.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Everyone, have a great day.
