Virtu Financial @ Goldman Sachs Financial Services Conference
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Alex Blostein: Good morning, everybody. We're going to get started with our first session of the day. I'd like to welcome Virtu Financial CEO Doug Cifu and CFO Joe Molluso. Virtu, as many of you know, is one of the largest electronic market makers in the world. The firm recently closed on the acquisition of KCG and made significant progress towards freeing up capital, taking costs out of the run rate, and starting to focus on several revenue synergies that I think we'll get to talk to both of you guys about today. So thank you both very much for being here.

We're going to keep it as a fireside chat as usual and then we'll have some time for Q&A from the audience. But I guess to just kick things off, a couple of months into the merger, obviously complicated transaction for you guys, can you level set us on some of the upside that you've seen so far from the business as well as some of the things that have proven to be a little more challenging?

Doug Cifu: Sure. First of all, thank you very much for having us. We've talked a lot about like the capital synergies and the operating synergies and we put a lot of disclosure about that into the third quarter earnings that we put out, we did monthly financials so people got a sense of where we are in terms of the expense rate, and we actually gave guidance on the expense side for 2018 to 2019. So I think people kind of understand that and those are the things as an outsider are kind of apparent. What was not as apparent, even to me in doing due diligence, but once you get in there our excitement level has really amplified, is the great strategic fit between the two firms. If I could just describe Knight briefly, Knight comes from a very different DNA from the Virtu firm, the legacy Virtu firm. It's a customer facing business, had a fantastic customer franchise, all the retail brokers, and a real kind of quantitative research simulation style environment. Virtu on the other hand, legacy Virtu was very much obviously a market structure based financial technology firm, because we didn't have a customer base. What both firms really needed was a combination with each other. Because what Knight did very, very poorly was understand financial technology, be really efficient, and be a really great smart order router firm. And what Virtu was not great at was having marketing making strategies that were just a little bit smarter.

So what we tried to give, and I'm not sure I did a great job, what we tried to give in the third quarter was guidance and also just a level of excitement around potential revenue upside. And so we disclosed already, and that earnings call was in early November, a couple of months' worth of revenue synergies that totaled already a $14 million kind of run rate. And what I said on the call, which I will reiterate today, and I've said many times, is that we think that the upside from that is many multiples of that. And so there was a real strategic rationale for combining these two firms. Virtu was able to move upstream if you will to get close to all this noncorrelated order flow. And Knight really needed the efficiency scale and financial technology of Virtu. So it's a great combination.

Alex Blostein: That's a great intro. I guess unpacking some of these trends, as you highlighted, you guys provided a lot of color around the capital side of the story and the expense side of the story. Let's focus a little bit on the synergies on the revenue side which were some of the things you were mentioning. And the way I'd like to maybe break is down is, as you look at the two businesses today, maybe spend a couple of minutes on the opportunities you see via combining your order flow with KCG's order flow kind of on the market maker side. And then as a second question to that, and this is a different synergy opportunity, is more on the execution front. You guys obviously made some progress in licensing your technology out directly to a few buy side firms. This significantly enhances I think the footprint that you can cover with that and perhaps you can talk to that too. So tie it all up together for us and maybe talk about --

Doug Cifu: Sure, I'll do the second part first just because it's in my brain since you just said it. Legacy Virtu, as I've said many times, was a great smart order routing firm. We did it on a proprietary basis. The story has been told before why we got into the agency business. My friends at T. Rowe who have talked very nicely publicly about us came to visit us and convinced me that there was a real opportunity and a real solution for the buy side where we could leverage our understanding of market structure financial technology provides an agency offering, which was compelling. And there were a number, premerger, a number of large institutions that were using us for order routing. The problem with that business is that you need scale and you need a salesforce and you need the trust and relationships with hundreds of buy side firms. That's what Knight has, historically Knight had, a large institutional sales business. And so what we now have is effectively I think a great product, our agency algos, and a distribution mechanism for it, i.e., the salesforce in the United States and in Europe, which we retained as part of the transaction. So it just gives us a conduit. You obviously mentioned, and it has been much talked about, one of the knock-on benefits of MIFiD II is unbundling. I was over in London a month ago, that was all everybody wanted to talk about, unbundling, what's going to happen to the research analysts of the world. And to me it's a great opportunity. I think people are going to skinny down their broker lists, best execution is going to be focused on, and a firm like Virtu that is all about best execution, transparency and more importantly, post trade tools and transparency. We have our own TCA product that we can offer to people and not charge separately for it but to say to the buy side, here, this is why your order got routed where it got routed in real time. We're not a conflicted broker, we're not routing for rebates. We can answer all the critics, all the reg artists. That's what Virtu is all about. So to me, there's a real opportunity.

The other thing that people don't really talk about enough with regard to our firm, we're the only firm in the world that has a central risk book of retail order flow, prop flow, and now institutional agency customers. So if we can get the trust of the buy side to say, hey, if you really want to actually interact with tens of thousands of shares of large, medium and small cap companies, we have them, that flow is there. So there's a real opportunity to be a real internalizer between the buy side and the retail side.

Alex Blostein: Makes sense. Focusing on a couple of more I guess MIFiD related items, as you look out, you mentioned unbundling and that's obviously telling for kind of the agency side of the business. There's a few others that I think might be helpful for you guys. So when I think about the opportunity for ETFs, that's obviously been a big focus in the US and many would argue that Europe is several years behind. So as that unfolds, perhaps that could be an interesting element of the kind of organic growth part of the story. And then secondly, when it comes to being systematic internalizer, which again, something new that came out of the regulation. So can you talk about both of these things and how you're positioned?

Doug Cifu: Sure. People always talk about unbundling, but as a profit market making firm, the SI regime and the ETFs becoming covered instruments that people have best execution on, those are huge benefits for our firm. And SI, very simply, I mean what they did in Europe was say, okay, the exchanges were annoyed that transactions were being done in dark pools and in broker crossing networks. So broker crossing networks as of January 1 are not permitted in Europe and there are caps on volumes in dark pools. So the exchanges I think naively thought, well all that flow is going to move to an exchange. I think everybody in this room would agree that nobody particularly wants to execute on an exchange if they don't have to, because it's expensive and you have to share your hand. So there is this provision in MIFiD II for a systemic internalizer which is really a nice way of saying a single dealer platform. So I can take my market making prices and I can stream them directly. I can't cross them with people internally, that's a BCN thing, but I can send them out to hundreds of people. That's a huge win for Virtu. So that's what we do, that's all we are. We've been doing it in the United States for years.

Knight had a product called Knight Link, they've been doing that for years, it's part of their retail offering So for us, it gives us the ability to distribute now our prices either directly because we have a salesforce where we've already announced partnerships with Instanet and Quant House and other places where buy side folks already have either an LMS solution and/or a TCA solution and like an algo solution. Virtu is now going to be a destination on the Instanet platform. And if you're an asset manager in Europe or a pension fund manager and you need to satisfy best ex, how do you ignore a quote from Virtu if it's got size and it's at or near the inside? So to us, it's a huge opportunity. I mean I think people have overblown it and say 40% of all transactions are going to be offered on exchanges, but I think it's a meaningful opportunity for us. The same thing with ETFs. As you've talked about publicly, 65%, 70% of all ETFs are transacted either in OTC or on a voice chat or an RFQ system. A lot of that is going to move to alt/alt solutions, either an SI or to an exchange. That's good for our business. We've got a very scaled, fully automated electronic market making business for ETFs around the world. We already are pricing a 1,000 ETFs in Europe. About 200 of them actually trade, the other 800 kind of trade by appointment, but we are pricing them where they are two sided, so to us, that's an opportunity.

Alex Blostein: If you were to I guess take a stab at how much of the flow could migrate over to SIs as the rules kind of unfold, whether looking at what's currently being transacted on the cross networks versus what's in the dark pools and thinking about the revenue market share for you guys, how would you think about that?

Doug Cifu: The way I look at it, I mean I just look at the US as a proxy. So in the US, off-exchange trading is about 60/40. It varies, and the exchanges get cranky about that, but there's a reason why it happens. There are wholesalers like Virtu and Citadel, there are dark pools, and there are single dealer platforms. We offer secrecy, if you will, where we trade, so you don't have to openly put your position. And we offer most importantly a fee discount because we're not charging, we're actually paying for it. So that's why people want to interact with us. And we're also offering price improvement for a market order. So all of those same characteristics are true in Europe. So it wouldn't shock me if between dark pools with their caps and SIs, that it was around a 60/40 split as well. BCNs, you probably know the numbers better than I do as to what they have. They've got double digit market share. So there's going to be a huge opportunity for not just Virtu, obviously there's going to be other automated firms that will have the opportunity. But we'll have our share of that. So it's a big opportunity for us.

Alex Blostein: Makes sense. Shifting gears a little bit but I guess staying with the revenue, on the revenue side of the questions, you guys provided a lot of really useful color I think in the last quarter in terms of just breaking out monthly kind of how the business has trended since you closed the deal. Obviously pretty big dip in July and then things kind of normalized in August, September, October, kind of the next 3.1 million, 3.2 million per day. I guess, Joe, this one is probably split between both you guys, but I guess A), we've been in this really low-vol environment for quite a long period of time. So is it fair to think that this kind of 3-ish number, pretty close to trough and not sure if you can cover the whole thing? And any comments you guys can have kind of on the environment in the fourth quarter.

Joe Molluso: The environment hasn't really changed much is the message. There's been a handful of days I think that have been different, better. I think overall it really hasn't improved dramatically from what we showed in sort of September,

VIRTU FINANCIAL

October, November. So the environment has been pretty similar. But I agree with you, I mean hopefully when you look at, I think one of the numbers in our chart in our supplemental material showed like a realized volatility of like 4.9. These are pretty low numbers.

Doug Cifu: I do think, because I'm the glass is half full guy, Joe, as you know. I mean we did show some nice progress from August, September, October. Volatility went down, our average P&L went up, so that's a positive trend. So we obviously are not going to disclose November and December until they're done and we have our quarter done, but I'm very optimistic about a lot of the revenue things we did. And I would like to thank publicly ABC News for messing up last Friday. That created some nice intraday volatility for the firm. I'm being facetious, but events like that actually are very helpful to a market making firm. So more fake news please.

Alex Blostein: I guess shifting gears a little bit, you guys made a lot of progress on the expenses front. And again, I think laying out the pretty explicit kind of dollar numbers as you progressed through the integration was very helpful. I guess the concern that the market might have is, look, you're taking a lot of expenses out of the run rate, how is that not impacting revenues at all? So help us connect the two in seeing, look, we were given where you're reducing costs, what is the risk to revenues if at all?

Joe Molluso: We reduced costs, when you look at what the KCG business had when we entered was less than 10% of their revenues outside the US and enormous amounts of costs there. So the Singapore office is gone, the London office is downsized, so a lot of the initial headcount reductions and cost reductions were in areas where there were no profits certainly and there weren't even revenues necessarily. There were businesses set up where there was literally no net trading revenue, or negative net trading revenue. So in some ways, that was addition by subtraction as opposed to -- we haven't even come close to cutting into muscle which is what I think you're asking. If not, anything that is connected to or touches the core franchise, the client service franchise that KCG was known for, hasn't been touched. And as Doug was saying, has been enhanced. So I think the cost cuts have been a lot of overseas where there was no revenue. And in the US it's been in areas where there was just redundant layers, typical synergies and traditional kind of back office functions like operations and overhead and marketing and things like that.

Doug Cifu: I'll give you a statistic which I don't know if I've said publicly before or not, but when we did our due diligence, the reason I got really excited and I knew that we could really make this work, is depending on what the business line is, somewhere around 94% to 95% of all transactions at KCG were executed automatically and electronically. So you don't need, I mean that's Virtu, right? 100% at Virtu. So the firms were very similar in what they needed to do. It was just the I say very different philosophy around how to actually execute on that.

So in our retail business, it's all automated. It's not like we have human beings taking a phone call from TD Ameritrade 1,000 times a day. Sure, they may call 5 times a day because they sent us an order that was screwed up, absolutely. You need a service desk, you need sales people. But you don't need hundreds of them. We've got a great, great service desk. It's 6 people and the woman who runs them has been there 20 years. I'm not getting rid of her, she's not the issue. But it was an automated firm that didn't really understand automation and financial technology. That's really all we've done, to Joe's point. I haven't fired like quants that are developing models and whatnot. What we've done is eliminate a layer of management. An example I always give, even in their post trade reconciliation clearing and settlement, we built Virtu started in 2007, we automated all that. So we had 2 to 3 people processing and clearing everything we did in the entire world. At KCG, Joe, I don't even know how many -- 30 to 40 people probably? So we're just Virtu-izing the firm. It really needed to do that. It was a firm that was built sort of in the legacy Wall Street mentality.

Nothing wrong with that, but this isn't Merrill Lynch circa 1995.

Joe Molluso: And the other reason we can do that is just harmonizing systems. And when you have multiple technologies, multiple frontend systems, multiple backend systems, you need different people to support each one of these systems. So we kind of bundled and rationalized that. You just don't need all those people. That doesn't come close to --

Doug Cifu: When you do due diligence and you ask the question about the legacy get go system and the people in the room say I have no idea, hold on a second, let me get someone in Chicago, you know there's opportunity. At Virtu we have one system. Our CTO can answer any question about anything that happened in the world because it was one legacy infrastructure. So it's hard to overstate how important that is when you're a market making firm. We're not a bank. We're providing a service. We've got to be efficient and scaled. Much different mentality than that prior management team.

Alex Blostein: Makes sense. I guess a follow-up around expenses, so again, Joe, I think this is for you. When you guys talk about kind of $450 million to $460 million in total expenses in 2019, I guess what kind of the underlying organic growth in the expense base are you guys assuming? And given the fact that you do see considerable revenue synergy opportunities, is there a lot that you need to invest to kind of get you to where you want to be on the revenue side?

Joe Molluso: Yeah, I think that's a great question. We always guided publicly to a low to mid-single digit fixed cost increase in expenses. And the 2019 guidance that we put out there reflects that. So we hope to be done cutting and having the expense rationalization in the platform in place by the end of 2018. And then 2019 is more of a clean run rate where we're back to looking at managing to a 2%, 3%, 4% increase in fixed costs. In the past, we've talked about our big buckets of expenses. Compensation for us has always been good yet there's a variable component to it, but it's also not something where we're a traditional Wall Street firm where we focus on a payout ratio. There is no trader P&L, there's no individual payout deals. Everyone gets paid well, but they get paid kind of the way of their contribution to the overall firm. And then the communications and data processing line, the technology line, that grew. That was kind of flat for a couple of years at Virtu. It's probably growing a little bit in the low to mid-single digit range in the long run. We still look at it that way. We've got a joint venture there, we'll see how that works in the long run. And then the rest of it is just overhead and stuff we do well, so we feel pretty good about that.

Doug Cifu: I think the good news and the point we should make is that Virtu, legacy Virtu was everyplace that Knight needed to be. We're in Japan, we're in Canada, we're here, we're there. We're in 36 different countries with a Virtu style setup. So one of the great benefits from a revenue but also the expense side is, if we want to try something that Knight has done exceptionally well in the US, in Japan, which is literally what I was doing this morning, we have an office there, we have a setup, we have a flexible enough infrastructure that we could launch KCG style strategies in Japan which is literally what we're doing next week. It was impossible for them to do that in the old regime. They didn't have the connectivity, they didn't have the setup, the technology was different from New York, from London, from Asia. It was just kind of a mess to be candid with you. That's really where we're going to see a lot of the revenue pickup. But it also is on the expense. To answer your question, we don't need to invest to roll all this stuff out. In fact, we're actually de-investing because we decommissioned all of their gear and their entire setup in Asia because it was worthless to us.

Joe Molluso: There's no change in the nature of how we enter a new market or achieve any of the revenue targets that Doug mentioned. Before we did this transaction, we used to talk about entering a new market requiring machines in a data center and a relationship with a prime broker and that really hasn't changed.

Doug Cifu: Yeah, I think culturally, the great people at Knight are just astounded candidly as to how we operate. I mean one of the first days I was down there, I was taking to a young man, he had this idea, he said I really want to try it in Canada. I said to Andrew, I called Andrew, he was in Austin, and I said let's get this going in the next two weeks. And two weeks later we were up and training in Canada. He said I've been trying to do this for two years. I said well welcome to Virtu. It's just how we operate. Because we have the gear there and we have the technology there and the platform is flexible enough, it's not that hard to launch new strategies and new initiatives.

Alex Blostein: Another important part of the story has been around capital. And again, pretty impressive progress you guys made so far. I think when we look out into the sort of some of the things that are left for you guys to do, and you can put BondPoint in the run rate I guess already. But I think you talked about something like $240 million or so left in kind of internalizing some of the things and deriving capital that way. So can you walk us through I guess where the capital relief is going to come from in terms of this kind of synergies with Virtu? Perhaps the timing and anything that could make that number higher or lower.

Joe Molluso: Well it's $190 million now, because we just did another $50 million. It's going to come from a handful of places. I think I mentioned rationalizing the non-US operations. There was a substantial amount of capital in London, a substantial amount of capital in Singapore, in India. So when you look outside the US, just kind of pulling that in, was one bucket. And the other bucket was we pointed out on our call for the third quarter, this GQS business that was $1.25 billion long short risk book that we've essentially folded up and folded into kind of the core operations. It was using over $100 million of capital. So you kind of look at those two buckets and then you just kind of rationalize businesses, put some desks together, reduce your regulatory capital requirement, and we wound up with the $440 million that we announced and we've already done, we've got $190 million left. I mean I think the bigger answer to that question is just the difference in philosophy. I think the KCG firm was run publicly with stated targets for returns on capital and return on equity. When I hear return on capital, return on equity, I think of a bank, I think of a broker dealer, traditional kind of you've got a lump of capital and you're leveraging it and you're making a return on it. We don't see the need to have nearly as much capital as the legacy firm had because we don't view this as a 10% ROE business. We view it as a service business. The amount of capital that KCG was holding was appropriate if you're running a $1.25 billion long short book, but if you're trying to run a service business, you don't need that much capital because you just don't have the risk appetite that requires you to hold that.

Doug Cifu: I think, Joe, this has been completely misunderstood by some of the analysts and the street. KCG did not need $1.4 billion or whatever it is of capital to properly run as a service firm. That's really a market maker. So what we told people, and we put it in our third quarter guidance, is the combined firm will be $750 million to $850 million of capital. And even that I think has a big fluff factor in it. So it was something as an outsider I looked at it and said, my God, what are they using all this capital for? I know where they trade, I know what we do, and we have a much broader footprint. They just aren't managing the firm correctly. And we were 100% right. So it's a lot of excess capital that we're going to use to pay back debt and it gives us a lot of flexibility around investments and around the dividend. I said on the call that the dividend is not changing for the foreseeable future. I've been saying that for the last year and no one believes me, but I guess some of you guys must believe me that are long. It's not going to change, we've got plenty of capital, the firms are incredibly synergistic. And those folks out there that think that the old KCG firm needed billions of dollars of capital because it was a bank, just don't understand. It was mis-portrayed I think publicly and we've rectified that.

Joe Molluso: It had nothing to do with the business they were running.

Doug Cifu: No, they were basically running a hedge fund, and we shut down the hedge fund. It wasn't making any money. It was a poorly run hedge fund.

Alex Blostein: I want to hit on the competitive landscape for you guys as well. This is a topic that comes up quite a lot. I guess taking a step back, the legacy Virtu side of the business, obviously seen pretty challenging revenue backdrop for last year and half to 2 years. And some of that, as you and I talked about, is pretty clearly explained by the low-vol kind of low volume environment and there's pretty strong correlation for some of the metrics and less so for some of the others. So when you think about the nature of who you guys interface and the nature of market marking landscape, has there been a change? And I guess if I think about some of the more nontraditional market making firms, where the lines get a little blurry, like you're a hedge fund or you're a market maker, so like the two sigmas, etc., like how is that impacting the opportunity set for a firm like yours?

Doug Cifu: It's obviously a very important issue and we measure it very day in terms of market share and capture rate. And look, it's no surprise that when volatility is really muted the way it is, it has a real impact on bid offer spread. And it's hard to overemphasize how impactful that is to a market making firm. There's nothing fundamentally broken in the legacy Virtu model. I wish you all could have been at legacy Virtu on Friday when ABC News did its tweet or its article, whatever it was, because it felt like it was 2015 again for that one shining moment. So the firm works exceptionally well, the bid offers in that instance widened, and we made a lot of money that day. So there's nothing fundamentally broken about the firm.

It's hard to talk about -- I don't know what another firms are doing. I know there's been a lot of consolidation in the industry which to me means that other firms are struggling. You had a bunch of these "HFT" firms going out of business. They were all kind of one-trick ponies that were relying on either speed or relying on some quant model. The business of providing bids and offers doesn't go away as long as you do it efficiently. And so that's fundamentally legacy Virtu.

One of the problems I think we had was, we created these 6 buckets for our business to try to provide granularity and it wasn't like a single proxy other than maybe US equities that really worked very well. I think people misunderstood the opportunity. I gave the example of when a UWTI does a reverse stock split, to an ETF, our NYMEX volumes go down dramatically as ours do because there's a lot less UWTI traded. That's got absolutely nothing to do with what the overall NYMEX volumes are. It disproportionately impacts us as a market maker and it's hard, unless I bring you into Virtu and show you every strategy we're doing in every position, it's hard to make that judgment. And so we're very, very comfortable with the legacy business. I think you'll see some real meaningful growth from the combination because I think there is, as I have said many times, the whole philosophy of the transaction was to move upstream, to get closer to the custom workflow. It's kind of hard to overstate how important that is to us. And again, I don't want to focus too much on Friday, but that had -- those types of days and increased volatility, it's not a linear progression to our P&L. It really has a significant impact on our ability to generate profit.

Alex Blostein: Another thing I want to hit on before we turn it over to Q&A, is there's been obviously a lot of hype around Bitcoin. We saw announcements from CME, we saw announcements from CBOE, I guess NASDAQ is talking about launching bitcoin futures next year at some point in time. As a market maker, as a participant in these markets, I guess how do you think about that? How do you think about the opportunity set? Are you excited? Do you have concerns?

Doug Cifu: I love it. I have zero concern. Once it's on a regulated exchange in a clearinghouse, I'll trade it all day. What I won't do is take counterparty risk. So you're not going to see Virtu on Mt. Gox II, whatever it is because it would be irresponsible. We don't trade anything directionally. What I've told the critics is, I trade a heck of a lot of WTI, I'm pretty sure Terry Duffy hasn't gone to Cushing to see if the pipeline is really there or not. But I still trade WTI because my risk is to JPMorgan, to the clearinghouse. If I can trade a future on the CFE, which is the CBOE or on the CME or on NASDAQ or an ETF if the SEC approves them, I'll do that all day long. That's what I do as a market maker. I'm making zero fundamental judgments as to cryptocurrency, I'm not Jamie Diamond, I sort of don't care. Because at the end of the day, it's just a widget. Give me more widgets, I'll trade them all day. I'm thrilled.

Alex Blostein: All right. Well with that, any questions from the audience?

Unidentified Participant: (Inaudible - microphone inaccessible)

Doug Cifu: It's all about efficiency and scale. You have to be the inside price, you have to be the most efficient participant in the market. I think one of the problems that Knight had was a scale issue. They had 90% some odd of their revenue came from US equities. When volumes and volatility went down, they got swallowed by their expense base. At legacy Virtu, we never had that problem. I think our worst margin quarter was like 58% adjusted EBITDA. So we still were a very profitable firm. So what we're doing with the combination with Knight is just bringing the power of that scale, that global scale. 19,000 instruments, 240 markets, 36 countries, do it with one fixed cost plant. And on some days there's more widgets coming through the system, that all drops to the bottom line. No surprise, Friday was a better day than Monday.

Joe Molluso: Power that scale to a longstanding sticky client franchise.

Unidentified Participant: According to the ATS data that's reported to the SEC, Knight Links, the ATS, has seen its market share go from 5% in January this year to recently about 2.5%. So they've lost about half their market share. Can you comment on why that is?

Doug Cifu: To be honest with you, it's a completely immaterial part of our business. So I guess people just aren't routing, which means we're doing a better job internalizing, so we're probably making more money. The ATS has nothing to do with our profitability. It's just a way to internalize. So if we can internalize in a single dealer platform and not put it on the ATS, my guess is we're making more money.

Unidentified Participant: (Inaudible - microphone inaccessible)

Doug Cifu: Yeah, well very simple, if you want to transact on NASDAQ and you want to move liquidity that someone like Virtu is posting, you're going to pay $0.30 per 100 shares. Same with the New York Stock Exchange. When you come to Virtu and do it, if you're an institutional investor, you're going to pay a lot less than that. If you're a retail investor, I'm actually going to pay you. And I'm going to give you price improvement on a market order. So it's why folks want to trade off-exchange. In addition, obviously if you're an institutional investor, you don't want to post 100,000 share order on the exchange because then the entire world knows that you are posting that order. It's no different in Europe.

Unidentified Participant: Could you give an update on deleveraging? And looking forward after you've de-levered from the Knight transaction, is M&A a potential source of growth in the future? Are there any areas that you'd like to be more involved with?

Doug Cifu: I can do that real quick. We already paid back $250 million, we had $1.650 billion, we paid $250 million. We agreed to sell BondPoint to ICE for $400 million. I hope the corporate tax rate is 20%, then you can do the math. Our basis is pretty de minimis. So it's somewhere at least $260 million to $320 million depending upon what our congress does, of additional proceeds. And then as Joe said before, we have at least $190 million additional de-leveraging we're going to do in the first half of 2018. So that brings us to --

Joe Molluso: We'll be under $1 billion of funded debt and at our target of 2 to 2.25-ish times EBITDA by the end of 2018. And yes, that will give us plenty of flexibility to do something that makes sense.

Doug Cifu: We already announced a repricing, so we're reducing the interest rate on debt because we've delivered so quickly. So the capital markets are being very helpful and efficient and nice to us.

Alex Blostein: Just a quick follow-up on that I guess since you mentioned taxes. Given you guys are an UP-C structure, how should we think about I guess the effective tax rate on the business the way --

Doug Cifu: It would be very helpful. It would be a -- right now we're at 36.5% effective rate. If the rate goes to 20%, we'll be something like 21%, 22% effective rate.

Joe Molluso: And one of the great things about our structure, forget about the UP-C, is that we're in Singapore and Dublin. Both have corporate tax rates that are lower than the effective US rate. So our rate will always be whatever the US rate is plus whatever state taxes we have to pay. Depending upon what happens with the offset of state to federal. Because remember, Ireland is 12.5% and Singapore is 15%. So all over, we'll have effectively a foreign tax credit for all of that. So we'll never have to pay a higher tax rate than whatever the US and state is.

Alex Blostein: I'll do one more. So one of the beauties of your model is you only trade in liquid exchange products, like very clear, very transparent. When you went public, you carried almost all your inventory in level one. Earlier this year you switched so you carry most of your inventory as level two. Why the change?

Joe Molluso: There's no change in any instruments that we trade. That is a month end accounting convention where we use, because we trade in different jurisdictions, we will, if we're trading an instrument in London and an instrument in New York that are the same instrument, an ADR for example, in the past we use to mark both of those instruments at a settlement price and then we'd have an artificial gain or loss at month end. What we did is, and then we would have this bucket that confused everyone called unallocated. And it would be loss or a gain depending on whether the price in New York from noon to 4:00 went up or down. So now what we did is we adopted a policy that says we're going to use the earlier price. We're going to use the Singapore price or we're going to use the London price for instruments that are the same instruments we've always traded, same fungibility, same exact thing. And our accountant said, that's really fine, you can do that if you want, it's a better presentation, it's more accurate, it smooths out that unallocated bucket.

Doug Cifu: Absolutely nothing has changed.

Joe Molluso: Nothing has changed.

Doug Cifu: Zero. I will say it publicly. I will swear under Sarbanes-Oxley, nothing has changed with how we run the firm. Whoever is touting that is just full of crap.

Joe Molluso: Our accountant said you can do that, you just can't count them as level one assets. I said I couldn't care less, fine, I'd rather have the better presentations.

Doug Cifu: It's just another BS. Nothing has changed.

Alex Blostein: Great, well I think we're out of time. So thank you guys very much. Appreciate it.