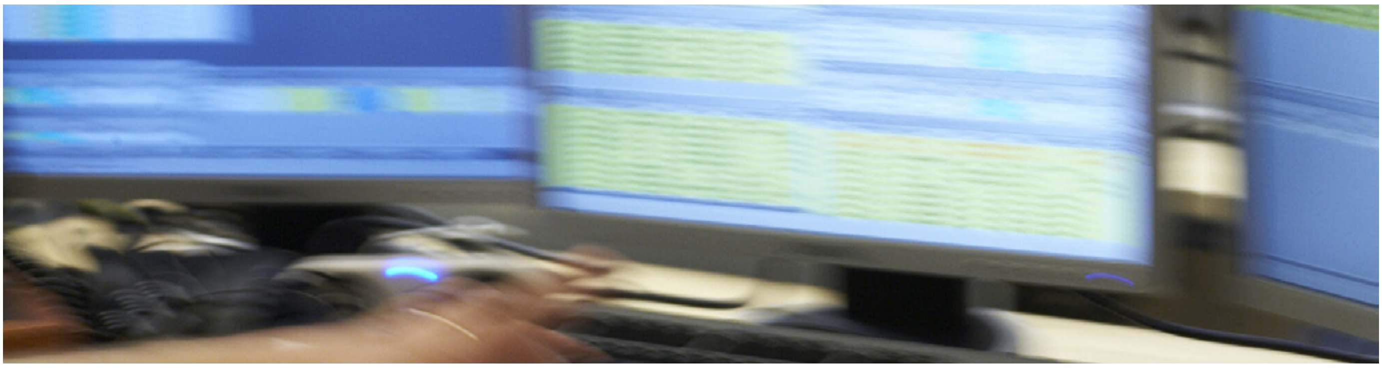

EQUITY EXECUTION SERVICES EVOLVE TO MATCH URGENT NEEDS OF SELL-SIDE FIRMS

The equity execution business is rapidly changing and sell-side firms across Europe are struggling. Market regulation and rising fixed costs have transformed execution into a commoditized volume business. Small and medium-sized firms have been forced to scale down, divest or simply shut down their brokerage operations. However, there are other options. Firms that turn to third parties for equity execution can benefit from a new generation of tailored service offerings and innovative pricing models that can help them to stay in the game and to be competitive.

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Volumes continue to decline on many global markets negatively impacting brokers and other in-termediaries that rely on commissions to sustain their businesses. At the same time, fixed costs for trading are rising, a consequence of both, a new and more complex regulatory framework and a greater demand for more sophisticated, high-performance trading infrastructure.

The present downturn experienced by broker-dealers is not a typical series of events in a cyclical market, but rather the result of fundamental and lasting changes in the finance industry. In the past, efficiency and quality of execution were often considered secondary to companies' overall businesses. Profits were made through differentiation higher on the value chain and execution was simply the means to reap some of profits. Exchange membership was a foundation of well-esteemed firms; you were a member in order to be part of the trading community.

Regulations were enacted to safeguard the interests of investors in the name of price transparency and Best Execution, as well as to open up local and monopolistic exchanges for competition by introducing Multilateral Trading Facilities (MTFs). The actual result of MiFID and its Best Execution requirements is a substantial fragmentation of the equity markets and a progressively more complex trading landscape. Thus, substantial investments in a state-of-the-art, sophisticated technological infrastructure are required to offer Best Execution across a multitude of lit and dark venues. Furthermore, firms that formerly traded only on exchanges where they were members, now need the tools to trade on as many as ten different trading venues.

Additionally, continued declining commissions levels are contributing to margin contraction in the industry. In the past, DMA commissions were seen as different from classical, research or other value-added commission. Traditional equity trading and DMA trading are now moving closer together since DMA technology is required to fulfill overall regulatory requirements. In fact, there are many people in the financial services industry that believe that traditional commission-based brokerage business models are no longer viable.

The more we trade together, the greater the value becomes for all.

So as sell-side firms continue to struggle with low volumes and sliding commissions, they are forced to decide how and if they are able to substantiate considerable investments required for MiFID-compliant execution and sophisticated execution technology. Certainly, more companies are evaluating their overall businesses models and are becoming more open to new solutions that could help them to realize cost savings and at the same time provide them access to sophisticated, MiFID compliant trading technology. Thus, they are posed with the ultimate question of whether they should maintain in-house execution capabilities and if they should retain their exchange memberships.

Neonet's synthetic membership offering addresses today's urgent broker dealer needs and provides a viable alternative to investing and maintaining an expensive trading infrastructure and exchange memberships. By partnering with Neonet, clients can receive top execution quality while realizing a cost savings in execution, clearing and settlement, technology and overhead, thereby allowing clients to shift more focus on growing and maintaining their core businesses and new initiatives.

The synthetic membership offering provides clients with global market access, configurable Smart Order Routing Technology, algorithmic trading and a full services trading desk. For those clients that choose to maintain their own memberships, market gateways will continue to provide the ability to execute in the clients' own memberships.

Under the synthetic membership structure, Neonet utilizes a Cost+ fee structure which are fully transparent cost-based fees with an agreed-upon mark up. This fee schema is superior from a fairness perspective and eliminates a basic conflict of interest between the agency broker and the client. The more we trade together, the greater the value becomes for all.

By making the actual costs more transparent along with a service which offers a managed SOR engine, the client can optimize trading decisions to find the proper balance between the cost of trading and preferred execution. Clients are provided tools that go beyond a classical DMA setup. Our solution includes a dedicated SOR, fully configurable by the client, and with comprehensive connectivity options. The client thus gets an execution service with the same capabilities and benefits as having one's own membership and in-house trading technology.

As an execution service provider, at Neonet we breathe the same air and share the same concerns as our clients. We are opening up our infrastructure, technology and fees, for others to join and benefit from economies of scale. With a history as a pure DMA provider, we are well positioned to be the aggregator of sell-side execution. We offer an innovative and reasonable alternative for firms that are searching for a road ahead, a road where they can focus on their clients and their value proposition. ■

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