EMERGING GLOBAL LEADERS

THE FUTURE OF DERIVATIVES MARKETS

Electronic markets and competition are transforming the business of trading. Rosenthal Collins' CEO provides insights.

BY JEANNE COTRONEO DARROW

Derivatives are undergoing a seismic shift, from the competitive landscape in which these financial instruments are traded to the regulations that govern them. So how does all of this affect market participants? *NYSE magazine* spoke about the implications with Scott Gordon.

Scott Gordon

CHAIRMAN AND CEO, ROSENTHAL COLLINS GROUP

Gordon's futures industry career spans more than 35 years as a trader, a floor broker, a clearing firm executive and an exchange official. He was chairman of the Chicago Mercantile Exchange from 1998 to 2002, guiding it through its transformation to a for-profit stock corporation. In 2004 he joined RCG, the second largest privately held futures broker in the U.S.

How has the advent of electronic trading transformed markets and enabled your firm to excel as a global market leader?

Electronic trading has been one of the most transformative events in our industry. When the U.S. markets allowed electronic trading only after regular trading hours, its potential was limited. But when around-the-clock access and connectivity to multiple markets were within reach, volume really took off. Liffe's decision in 1999 to go all-electronic certainly had a global impact, and Rosenthal Collins Group was an early adopter of electronic trading. From building a technological infrastructure more than a decade ago that could support dozens of platforms to later developing our own highly advanced electronic trading platform, we made a fundamental decision to invest heavily in technology significantly before electronic volume became the real driver of growth in the industry. As a result, we were well positioned when electronic trading became the vehicle of choice for so many products.

Why is competition so important to markets?

Just as competition among brokers keeps us innovative and efficient, competition among exchanges is also highly valuable. In the history of markets, all markets and customers benefit from choice of venue and provider. It is our philosophy not to tell our clients — even our own brokers and traders — where to trade. Our clients tell us they want choice, and the ability to choose trading venues keeps those venues innovative and cost-efficient. While we are neutral with respect to exchange venues, we have been very pleased to see the innovative offering NYSE Liffe U.S. has provided in interest rates, and the early results are promising.

Tell us more about your company and its growth.

Our diverse global client base includes individuals, institutions, corporate treasurers, commercial hedgers, professional traders, commodity trading advisers (CTAs), hedge fund managers and introducing brokers. We have been very fortunate to experience continuous and significant growth over the years. As of March 31, we had $1.6 billion in customer-segregated funds compared with $1 billion at year-end 2008. RCG volume in 2010 was more than 147 million contracts, of which 74 percent was traded electronically. Much of the remaining open-outcry volume is attributable to options on futures, which still trade largely via open outcry. This 2010 volume represented a 28 percent increase over volume the previous year. Our year-to-date volume in 2011 is running close to 30 percent above the same period of 2010

To help readers understand what you do, please provide an example of a recent major initiative.

One of our most significant recent initiatives was the development and deployment over the past couple of years of RCG RiskHunter™, a truly innovative system we developed for real-time risk management based on complex event processing, or CEP, technology. Sometimes referred to as pattern recognition technology, CEP has been used in the military and in critical applications such as credit-card fraud detection. We undertook the endeavor to ensure that the firm is protected and that our clients would have reassurance that their money is safe.

The technology was designed to "hunt" out and highlight any trading pattern or behavior that deviates from a client's or trader's historical behavior, allowing us to flag any prospective risk issues in real time across exchanges, products and the 24-hour trading day.

As we continue to see unprecedented volatility across the financial and commodities markets, in which a market can take an unexpected turn against a client in short order, RCG RiskHunter gives our risk-management officers a powerful vehicle for mitigating risk by finding potential issues before they can have a significant impact on clients or the firm. The system complements our long-standing pre- and post-trade risk-management processes, and we continue to find valuable new ways to put the technology to use as our people apply it on a daily basis.

COURTESY SCOTT GORDON