

INTERCONTINENTAL EXCHANGE/TRAYPORT MERGER INQUIRY

Summary of hearing with Marex Spectron on 24 May 2016

Background

1. Marex Spectron (Marex) said that as well as being a broker it was also an active independent software vendor (ISV) offering its front-end screen, EasyScreen.
2. Marex had several hundred clients who used EasyScreen to trade listed futures options, including ICE and CME energy futures and options. Marex said that its clients used the EasyScreen platform to carry out trades, in products such as metals, and foreign exchange but not in the energy market.
3. However, Marex could not connect its EasyScreen platform with the Trayport platform; Marex noted that Trayport's closed access programming interface (API) system prevented Marex from adding prices to EasyScreen from Trayport's back-end matching engine, which it currently used. As a result of this, clients who wanted to participate in trading energy products where Trayport was strong were not able to access those products through Marex's platform.
4. Marex said that similarly it was not able to offer all the functionality available through ICE on its EasyScreen platform. In addition, there were certain things that ICE would only publish via its front-end screen.

Front-end screens

5. Marex said that currently, due to Trayport's closed API, the only front-end screen option in the energy markets was the Trayport Trading Gateway.
6. Marex said that if an ISV wanted to provide a front-end access screen to a customer in the energy trading space then that customer would need to purchase a licence to the Trayport Trading Gateway and separately contract to use an alternative ISV's front-end which would need to be built on top of the code to the Trading Gateway. The customer would need to see incremental value in doing so given the double-cost.
7. Marex understood that the Trading Gateway was currently supplied mostly on a deployed or separate instance basis and, therefore, in order for a rival ISV

to have multiple clients in the energy trading space it would need to connect its front-end screen multiple times which effectively made entry impossible as a result of the cost. In particular, if Marex only wanted to use the Trading Gateway to aggregate data from three or four different venues, it would still need to take the full package, even though it did not intend to use the other functionality.

8. By way of an alternative example, Marex said that a different platform, such as Exeeta, which had a cloud-based platform was able to provide access to multiple customers on a single server with local access on their premises.
9. Marex said that EasyScreen could be used as an alternative on the power and gas markets but this was not possible because of Trayport's closed API. It had a relatively high market share on the metals market for the London Metal Exchange with full access to all functionality. EasyScreen did not operate with any limitations on any of the other listed markets that Marex actively traded on and the closed API was specific to Trayport and the energy trading markets.

Interaction between the front-end and the back-end software

10. Marex said that pre-trade, voice orders were typically input by brokers manually on the Trayport screen that Marex used, this then went into Marex's broker trading system (BTS). In addition, customers could enter orders via the Joule screen or other front-end software that went into a trading gateway, which was either hosted at the client or by Trayport. This then ended on Marex's BTS or another broker's BTS. Post-trade all data then went back out and up into the Trading Gateway to go into a risk management platform that the end-customer then used.

Competition between brokers and exchanges

11. Marex said that brokers and exchanges competed with each other to some extent because both parties aimed to facilitate trade execution even if the service was dissimilar.
12. Marex said that with ICE national balancing point (NBP) orders, brokers had a choice of trading ICE NBP over WebICE, or over Trayport. Marex believed that approximately half of NBP executions occurred via WebICE and the other via Trayport screens, but that because of the existence of choice, the levels of trading between WebICE and Trayport had varied over time.
13. Marex said it was not aware that any other broker had negotiated an open API with Trayport in the past, however, in its view the merger would reduce

Trayport's incentive to allow brokers open access to its API because previously its only incentive to open up the API was to prevent it from losing business to ICE.

14. Marex said that there may be some brokers who currently only used WebICE because, perhaps, they were only trading a product, or products, which were available on WebICE and, therefore, they did not need the Trading Gateway. However, there were brokers for whom the Trading Gateway was essential because they traded in products across multiple venues, such as NCG, GASPOOL or UK Power, and without the Trading Gateway aggregating the data it would be necessary to open several screens at once. It was much more efficient to have all the information available on one screen.
15. Marex said that it competed with ICE for execution on NBP and title transfer facility (TTF), as well as for German Power once ICE launched. However, Marex said that when considering competition a distinction should be made between ICE as a venue and ICE as a technology supplier. Marex said that it competed with ICE as a venue, but not with ICE as a technology company; ICE as a technology company competed with Trayport. The competition between ICE and Trayport was one for 'desktop real estate', that is, competition to provide screens to end-users, similar to the competition that took place between Reuters and Bloomberg. In addition, from a back-end perspective there was competition between ICE and Trayport to supply other post-trade services such as supplying trade data that complied with European Market Infrastructure Regulation (EMIR) regulations.
16. Marex said that ICE through WebICE may sometimes be the only competition for Trayport, particularly in ICE NBP trades and to a lesser extent, TTF, Dutch Gas.
17. Marex said that there was a dynamic aspect to competition which took place over time as between ICE and Trayport, where the two competed in order to alter the trading habits of customers in the longer term.

Clearing

18. Marex said that it used several third-party providers to feed trades to clearing houses. Marex used the Trayport clearing link to clear coal. Marex said that, post-merger, it expected that the merged entity would provide straight through processing (STP) to multiple clearing houses. Marex said that ICE had always resisted having STP into its clearing house as a way of differentiating WebICE from Trayport, making WebICE the only click and clear experience.

19. Marex said that it used EFET to send trades to clearing in German Power - service called EXRP; it used LISA for most CME and ICE markets. The main difference between these clearing service providers and Trayport was the access to Trayport API. When using Clear Link, the trade ID would automatically update into Marex's BTS, which did not happen when using EXRP or LISA.
20. Marex said that it already covered multiple exchange markets and it was already using products such as Ateo's LISA internally. Marex said that it was unsure whether smaller market participants would be able to make use of multiple clearing service providers because the fees involved in their use would not make financial sense for them.
21. Marex said that it would be surprised if the merged entity took the step of saying that the only STP out of the Trayport back-end was into ICE for ICE products. Marex said that ICE had said that it did not expect any change and it expected to provide clearing connectivity out to multiple exchanges. However, Marex said that ICE had not indicated how much this service could cost in the future.
22. Marex said that it, and other brokers, used multiple clearing providers. When it used some platforms, such as EXRP, the broker paid to use the service. Whereas Marex did not pay when Marex used Trayport, possibly because the clearing houses paid Trayport.
23. Marex said when it carried out a block trade, the exchange rules kicked in at the point that two people said, for example, 'let us do an ICE block'. Each exchange had different block trade rules covering these off-exchange trades. For example an NBP block futures trade must be entered within five minutes, which would allow it to be cleared manually, but making STP of clearing far more attractive. Historically, US regulation had caused a shift resulting in most markets trading in block futures rather than cleared swaps.
24. Marex said that ICE had historically discouraged using STP access into its clearing. Marex opined that this may be to make the WebICE experience more attractive than Trayport which only offered STP.
25. Marex said that access to STP allowed a provider a complete selling option, for example, CME used the Trayport STP to compete with ICE on coal. Marex said that it was aware that Clear Link was used heavily to trade German power, for example, which was mainly cleared through European Energy Exchange (EEX). Though other providers existed such as Electronic eXchange Related Process (eXRP).

Post-merger effects

26. Marex said that it used Trayport's back-end system and that it was concerned that, as a result of the merger, Trayport would not be as incentivised to ensure that its BTS would be developed in line with end-customer expectation.
27. Marex said that ICE was now making functionality available on WebICE or another ISV, but which was not being made available, generally, to other ISVs. This could result in customers using WebICE rather than an alternative ISV, such as EasyScreen, which was connected to multiple markets.
28. Marex said that in competitive markets, clients would use a number of platforms. For example, in oil, ICE operated WebICE and CME operated CME Direct. Customers using WebICE could only trade ICE products, and customers using CME Direct could only trade CME products. Customers using EasyScreen, or a number of other ISVs, allowed a customer to trade CME Brent on one day and ICE Brent the next.
29. Marex said that, as a result, Trayport currently had an incentive to consider opening, or partially opening, its API to other ISVs if brokers wanted to digitally communicate their orders. Currently, they could switch to trading directly on ICE API rather than pay for the Trading Gateway. Post-merger, Trayport would lose the incentive to open its API as Trayport would lose the competitive pressure from losing business to ICE.
30. Marex was also concerned that the merger would result in reduced distribution of its products and reduced choice of access to the power and gas markets in Europe and, to a lesser extent, the coal markets. Marex said that, as a broker, it was concerned that for the gas and power markets ICE would have complete control over the access to products, and their respective execution services.

Concluding remarks

31. Post-merger Marex believed it was less likely that Trayport would open up its connectivity to its software infrastructure because it would engender technology competition.
32. Marex said that in clearing services it used multiple providers. However, it would be a bad situation if the only clearing house that could be accessed via clearing link was ICE.