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CEO Perspective: Electronic vs. Open Outcry

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As Eurex makes plans to launch a new electronic US Exchange, and as I have been asked to share my thoughts on this topic in the past, I thought this was as good a time as any to set the record straight on Electronic vs. Open Outcry.

I believe that if (a big if) Eurex US is serious and puts out a first-class product (low fees, reducing the window between price updates, broad product offerings, etc.), Chicago will be all-electronic in less than two years. The core reason is that in an environment of low fees, it will be impossible to support two venues without going broke. Again, Eurex US will have to bring first-class functionality. If Eurex US comes first class, the floor will have to shut down for economic reasons.

If Eurex US doesn't put out a first-class product (a la prior perceived competitors), there are enough people that prefer open-outcry that there is no telling how long, maybe even a hundred more years, that open outcry survives.

Due to my Trading Technologies (TT) affiliation, some people have surmised that my opinion is biased with the Electronic vs. Open Outcry subject. Well, I grew up on the floor, love the floor, and left the floor in 1997 at the peak of my trading career (at that point in time). Ten to fifteen years ago, I thought I would spend my entire career on the floor. It is a very romantic venue. I think it would be ironic if open outcry whipped electronic. My heart says it wants pits forever, but my mind says otherwise.

When the Chicago exchanges speak to how much more costly fill slippage is compared to high fees, they're correct. That's exactly why I'm in the order entry business, as TT is all about providing software to its customers that facilitates best-order execution. The problem with the Chicago exchanges' fill slippage argument is that, with a first-class electronic environment (low fees, reducing the window between price updates, broad product offerings, etc.), it is easy to mimic both tightness and size of market. The final piece of the puzzle is top-of-line front-end software, which allows traders to put products from different markets side by side and manually or automatically create spreads, which makes it simple to mimic an incumbent exchange. Therefore, if Eurex US puts out a first-class product, there will be virtually no fill slippage difference between the exchanges.

Sincerely,

Harris Brumfield

CEO, Trading Technologies International, Inc.