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Intercontinental Exchange, Inc. (ICE)

Goldman Sachs U.S. Financial Services Conference

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CORPORATE PARTICIPANTS

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

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Alexander V. Blostein
Goldman Sachs & Co.

MANAGEMENT DISCUSSION SECTION

Alexander V. Blostein
Goldman Sachs & Co.

Okay, we will get started with our next session. I would like to welcome everyone to a conversation with Jeff Sprecher, the Founder, Chairman and CEO of ICE. 2015 marked another successful and quite a busy year for the business.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

Yeah.

Alexander V. Blostein
Goldman Sachs & Co.

Integration of NYSE is progressing quite well. Revenues were up nicely. Margins are up and the stock had a pretty good [ph] rush (00:18) recently as well, up about 20% for the year. Of course most recently, ICE's announcement and plans to acquire IDC and TradePort caused significant interest from investors, and I think is opening up a new avenue for growth for the firm. So I think we will spend some time talking to Jeff about that. So thank you for being here today.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

Great. [indiscernible] (00:39).

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QUESTION AND ANSWER SECTION

Alexander V. Blostein
Goldman Sachs & Co.

Q

So to kick things off, I would like to spend a couple of a minutes I guess on the data business. Over the last couple of years, you have definitely become a more vocal around importance of data and how you are thinking about data within the context of ICE, which obviously had led to your most recent two announcements. So taking a step back before jumping into too many specifics, spend a couple of minutes on the secular themes which makes market data an attractive part of business for ICE. And then more importantly, as you look out for the next couple of years, which sources of your market data businesses are you most excited about?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

Great. Well, good morning and it's nice to be here, everybody. So we've been in the data business exchanges sort of by default [ph] during the (01:24) data business because we produce data and we noticed this tremendous trend over the last few years where the number of users using our data have been growing, the demand for data that we see is growing, the revenue capture that we've been receiving from data, sales has been growing. And so in looking at and thinking about it, we really came to realize some macro trends that do exist in the market as you are suggesting. One is that regulation really in a number of ways is demanding that data be consumed. You all are having to mark your books to market more often. Your auditors and boards want those marks to be independent and transparent and verifiable. So no longer is it acceptable just to call some third-party trading desk and ask where does this thing trade. You really need validated, verified data.

Secondly, capital efficiency is top of mind for many people. And the way that people can manage capital better is to have more data in real-time. I think you and I, as just consumers, are consuming more data. If you think about your own data plan on your smartphone, more data is available. Generally, we're more comfortable consuming it. There are more apps and applications that are being developed that can take in data, so just buying raw data, if you will, is a trend that's going on.

And lastly, and it's a theme that you and I may talk about over the next half hour is that, markets are becoming more fragmented. As regulatory mandates are moving markets to become more transparent, the global exchange groups including myself are listing each other's products, regulators are forcing global products to be traded regionally, and the combination of those trends is fragmenting markets. And when markets fragment, the demand for data goes up as people try to put those markets back together.

So all of that is – this kind of macro trend in the consumption of raw data and then the processing of raw data into valuation data. And so we did buy this company, IDC, which is deeply embedded in the valuation space in bonds and fixed income. Last year, we bought a company called SuperDerivatives, which is deeply embedded in the valuation of certain exotic derivatives and foreign exchange options and few other things. And we run seven clearing houses and really what a clearing house does every day is do valuations. So my company – we took – we stepped back and looked at the businesses that we were in and we are in the data dissemination and valuation business in a macro environment that's demanding more and more of those services. So we've been investing accordingly.

Alexander V. Blostein
Goldman Sachs & Co.

Q

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When you think about the organic growth between all of the data services you provide and there's other – you didn't mention the Benchmark Administration business, which is another one, where I think investors are trying to grapple with it and understand what [indiscernible] (04:49).

Jeffrey Craig Sprecher A
Founder, Chairman & Chief Executive Officer

Yeah. And maybe I should mention a macro trend that many of you in the room are keenly aware of, is the passive investment trend that's going on. So basically, using data against Benchmarks which we're moving into as well.

Alexander V. Blostein Q
Goldman Sachs & Co.

Right. So when you're thinking about integrating some of these data services together, and the reach that you have to your current client base, is that one of the situations one plus one equals three, where there is enough things you think on the revenue synergy side that could come through that investors are [ph] not really comprehending (05:25) today by just looking at the individual pieces of the data business?

Jeffrey Craig Sprecher A
Founder, Chairman & Chief Executive Officer

That is our theory as managers. When we do acquisitions, we justify them to you all as cost synergies and not revenue synergies, but my company really is a growth company focused on earnings growth, and we only do deals where we think there are dramatic revenue upsides where we can do something that changes the underlying business. And it's the – I think you are implying it really, it's the combination of all of those things having a pretty broad encompassing business that we can cross-sell and getting positioned for this trend that we see that many of you may only yet be starting to realize because this regulation force and fragmentation force is still somewhat early and people are still adjusting their practices and workflows around it, but it's here, it's permanent we think and it's growing.

Alexander V. Blostein Q
Goldman Sachs & Co.

Yeah. So to continue along the same lines, when you think about the organic growth across all of your businesses and you've become incredibly more diversified over the last two years, three years, obviously with the integration of NYSE and things that you guys have done outside the U.S. Over the next 12 months to 24 months, not asking the obvious question to predict volumes, but from an organic growth perspective, which part of your business are you most excited about? Is it data or is it futures, is it clearing, is it cash equities, is it listing? The list is fairly long. So if you were to prioritize, what would be the order?

Jeffrey Craig Sprecher A
Founder, Chairman & Chief Executive Officer

Yeah, we just spent two days together as a management team internally getting our budgets and forecast together for 2016. And honestly I hate to be flip, but it's kind of all of those things. We have a lot of levers going on right now that are trending in our favor. Our volumetric-based business, in other words, our trading and clearing business on our key products is doing really well right now. In other words, record trading volumes, in some cases record open interest which is open positions that means people are coming into the market. That's a really healthy sign. Our data sales, like you say, have never been higher.

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We have some networking and access businesses that are doing really well. Valuation clearing businesses more demand, both from regulatory standpoint and just people capturing the trend. So it's very hard for us to say which one of your children do you like the best, but right now they all are pretty fair-haired and getting good grades. So...

Alexander V. Blostein
Goldman Sachs & Co.

Q

Got it.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

...nice position to be in.

Alexander V. Blostein
Goldman Sachs & Co.

Q

Right, a good place to be. So, let's spend a couple of minutes on the trading business. Oil has obviously been very topical last year, and remained very topical all of this year. And to your point, you had tremendous success this year with record volumes, record open interest in a number of oil contracts. So, thinking through what's happening underneath a little bit, lower for longer oil prices for both consumers and producers and the core user base of ICE, what does that really mean? Because I do think a lot of investors are still grappling with the fact that look, once you get a lot of people out of the market that longer-term could be a negative for volumes?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

Right. Well, first of all, oil which is really the flagship product in the energy and commodity space, is going through a fundamental global change right now that we're all aware of. And there is a lot of disparate view on where the future price of oil may be. I spent some time yesterday with your President at Goldman, who had a view that prices were going to go low, I spent some time on Monday listening to an economist who thought just the opposite by end of 2016. It's those kinds of views that they create a market, and I think it's why we're seeing tremendous open interest growth, as people – people that are trying to buy oil or trying to lock in low prices and people trying to sell oil or trying to lock in what they think are high prices and there you have a market. But the one thing you can look at it in the oil business is that, it is a truly global market. So, this – and this is supply and demand driven, which is why we're seeing these low prices.

And the delivery infrastructure for oil is fragile and changing, and so we just feel like we're going to go through a pretty long period of volatility here. We don't really care what the absolute price is, we've run this business during a period when the absolute price of oil was like $30 a barrel for many, many years, and every year we set a new volumetric trading record. So, that is not the dispositive driver for us, it's really is there volatility, is there a difference of view, are there macro supply and demand trends that are creating imbalance, and we see that now.

One of the other – we also trade – in addition to flagship oil, we trade a lot of oil products. So, these are either grades of oil or the things that come out of a barrel of oil in different delivery locations. There's a lot of volatility when you look at the price of deliver – in various jurisdictions delivered oil, and because where it's being produced and where it's being refined and delivered and how it's being delivered has just fundamentally changed over the last few years. So, anyway, all that is good for being at the middle of the hedging activity, which is what we are.

Alexander V. Blostein
Goldman Sachs & Co.

Q

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Yeah. Focusing on another piece of your trading business, European financials products, rates in particular, have been a big headwind, obviously, for you guys for the last couple of years. Finally starting to see really some nice volumes coming through over last month or two. Is the worst behind us, what do you guys see on the ground from the type of users that are coming in and starting to trade a little more?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

Yeah, so, in context, we have products that are the short-end of the European interest rate curve, so highly sensitive to the European Central Bank action. And if you don't follow our volumes, we're up – our open interest this year right now has like doubled and our volume growth has doubled, 100% growth year-over-year. So, it does feel like the market is starting to signal to lock in what they think are maybe historically low rates or to signal that there is some perception of change or to signal the arbitrage between the actions of the European Central Bank and the U.S. Fed, as their actions diverge. But long story short, it's creating new volatility in trading that if you were to graph it, you would see it looks like we hit a low last year and things are dramatically on the upswing. It's always hard to predict volumes because it's highly related to volatility and government action, but – and particularly in rates. But it does feel like we are at a low. We bought this franchise when we bought the New York Stock Exchange three years ago. At the time that we did that deal we thought we were buying an interest-rate franchise at a historic low. We sort of maybe missed the absolute bottom, but I think we caught the relative bottom, if you will, which we feel pretty good about.

Alexander V. Blostein
Goldman Sachs & Co.

Q

Yeah. Sticking with the trading business for a minute. I was hoping to spend a couple of minutes on the CDS business and that partially relates to some of the structural challenges that you alluded to when you talk about data. So, you have essentially single name CDS market, and it's still not existent and the SEC hasn't really finalized the rules and that might be one of the reasons why we haven't seen more of it. But the demand is clearly there and we've heard a number of large asset managers very openly talking about the necessity for single name CDS, clear single name CDS product and the dealers obviously would like for that product to exist as well. So what do – you guys would be the natural beneficiary, of course, if that were to happen in size. What are you doing to facilitate this transition before anything comes out of the SEC? And I guess, what kind of appetite do you see behind [ph] this news (13:26)?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

Yeah. So if you don't follow us specifically, the SEC got the mandate under Dodd-Frank to determine the clearing timing of securities and single name CDS as a security. Whereas the CFTC got the mandate to – put the clearing mandate in for commodities, much of which it's already done. So the SEC is taking more time, if you will, to put that mandate in. But what we're seeing is the buy side has said, look, let's just go like we don't need a – we don't need government to set a date or deadline, we really want this market to exist. We think it will grow and do better if it's standardized and cleared. And so we are sort of the dominant clearing franchise, if you will, for credit default swaps around the world. And single name CDS would include individual sovereign names, so people that are trying to hedge or speculate around various government bonds around the world. Those are very complicated things to clear. They have a lot of wrong way risk in them. When you stress test them, they are highly complex in how you margin for the potential default of a government.

But we've done a lot of work there, we've gained a lot of confidence and so people have said, let's continue building out that franchise with individuals names that are representative of various things in the sector for credit. There is a lot of potential for stress in the high yield area and people want to hedge or speculate around that, which is really

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– it's good. I mean, one of the frustrating things about government action is that you can never really predict the timing or the outcome, and some of these underlying trends that we're talking about of standardizing contracts, having more transparency in clearing are happening on their own after the Lehman collapse, people just want a more, a better more mature market, if you will, and so those trends are there. And so it's great that the businesses moving on without waiting for government we see it as highly positive.

We've cleared I think – to give you a sense, we probably cleared – if I had to guess a number, which is really a guess, maybe $70 trillion worth of index CDS, and we've cleared so far about $7 trillion or one-tenth of the size of single name CDS. So there's lot of room for growth, if you will, in that single name arena that we're working with the industry on. It's partly, by the way, reflects the frustration that people have in trading outright bonds. You've heard many of the same large buy-side firms wanting to better structure the bond business, have standard dates, standard contract terms, more transparent trading platforms, more liquidity and so on and so forth, I think themes that are familiar. A lot of that stress can be alleviated if you could get an active derivative market trading, which by its nature is standardized, typically more transparent standard terms, typically [ph] now (16:50) cleared. So that frustration, if you will, at the what I would call the cash market is spawning much more interest in having an active derivative market.

Alexander V. Blostein
Goldman Sachs & Co.

Q

Right. And other interesting growth initiatives you guys embarked on is Singapore, and you launched both a trading and clearing venue in Singapore just early I think this quarter. Talk to us a little bit about what the market's response has been so far. And I guess more importantly, how meaningful of a contributor do you expect this venture to be for ICE over the next two years to three years?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

So we launched this new initiative just a few weeks ago, and I looked at this before we – I came in here, and look like we were going to set a record day in terms of trading and clearing there. So it's been a nice, successful, solid launch, which knock on wood is the most important thing for us. One of the products that we've listed there that it's getting a lot of attention and a lot of trades is Brent crude oil, so the global crude oil marker. And there is a press report out today that said Shell Oil Company has probably said that it may move some of its trading business to Singapore out of London because of its increasing frustration with the regulatory structure called MiFID II that's being promulgated in Europe.

We have been hearing that from our customers. We have been hearing from a lot of our global players that they are – they were frustrated at some of the provisions that law makers were looking at, particularly in Europe. Europe had enjoyed for many, many years the ability of the East and the West to come and meet in Europe because of the recognized rule of law, and the time zone that spans between East and West. But increasingly regulatory frustration is vulcanizing business, and so we wanted to be in Singapore. It's really hard as a manager for me to know how quickly it will grow and what its sort of long-term projections are, and hence for you, Alex, as an analyst, much more difficult even. But we do see customer demand and depending upon how regulation is rolled out globally, these regulations tend to change and be somewhat flexible and soften over time. It may or may not turn out to be a big winner, but we're confident right now that we've got a great franchise with a great launch in a great location. So, it is not easy to start an exchange in Asia, in fact, it is incredibly difficult. So, knock on wood we think we've really got quite a neat long-term business there.

Alexander V. Blostein
Goldman Sachs & Co.

Q

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Right. How – the example you just gave with a client considering to move, how – A, I guess, do you anticipate there will be more, even though it sounds like MiFID II rules are getting pushed out a little bit? And then B, how easy it is for someone like that to just switch jurisdictions?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer **A**

Well, what – I like probably many of you and certainly Goldman, we've for years been talking to politicians and regulators about the flow of capital and that – our business are increasingly global. And the way and even the style of investing today is much more global. And so, money moved so quickly, that I really believe it can happen quickly. I mean, just – and the kind of participants that we deal with people that are sophisticated and actually using risk management tools to hedge that already sort of connotates somebody who has got pretty good analytics and pretty good thought about markets. Those people seem to be willing and able to locate their businesses accordingly.

And, it's not for – just to be very clear, it's not for the avoidance of regulation per se. But it is people that have legitimate – in my mind, legitimate hedging and risk management needs that are finding that staying in certain jurisdictions may impose too much risk on their businesses, and that they can mitigate by being elsewhere in the world. So we talk a lot and we've all read a lot about the coordination of global regulation over the last few years. But the reality is that there are different – some different regional conversations that are going on and some – and our customers are telling us. We tend to be the messenger, right, we're the ones that – we're the neutral counterparty, we just want to be where our customers are going to go. But we started seeing this trend toward the possibility of relocating business to Asia years ago, and it seems to be manifesting now, particularly around MiFID II in Europe.

Alexander V. Blostein
Goldman Sachs & Co. **Q**

Okay. Shifting gears a little bit, I want to spend a couple of minutes on the M&A environment. You acquired New York Stock Exchange a few years ago, you integrated it well and quickly, and obviously you just announced another sizable transaction and you're closing it also rather quickly, sounds like it's going to close next week.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer **A**

Yeah.

Alexander V. Blostein
Goldman Sachs & Co. **Q**

Spend a couple of minutes on thinking about how important M&A is going to be for ICE going forward relative to your appetite for deals over the last couple of years. Are there still pockets and capabilities that you're trying to build out? And I guess given the focus on data and more on the recurring part of the business, is that – are those the type of deals we should be thinking about going forward for ICE?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer **A**

So, we hold ourselves out to be a growth company and by that we mean earnings growth, consistent, reliable earnings growth. And I'm judged by my board in delivering that. I judge my peer managers on whether we can deliver that. And so – and we've been amazingly consistently for the 10 years we've been a public company able to deliver year-on-year growth regardless of the price of oil, regardless of whether or not we've been in a recession

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and all these other global macro trends that we've been hinting at, we've been able to grow the business. And we've done that by identifying trends that really are affecting most of you in the audience and then trying to position ourselves so that we have the solutions for those businesses.

And if we can build them ourselves we prefer to, but we're always open to opportunistic M&A. And for us it's not just buying a business that's in a certain area, it's convincing ourselves that we can do something to these existing businesses that will really accelerate its growth or sort of supercharge it, and that's the ethos around my company. And so, just stepping back in the case of IDC, which is – which is this provider of bond data, we can see the stress that's going on in the way bonds are traded, the changes in Goldman's, for example, ability to hold inventory, the demand by the buy side to have more transparency and access to these markets.

And the fact that you, the buy side, need to mark – your positions to market with an independent valuation. We think, for example, IDC should be using the algorithms that it does for pricing to do more real-time valuation, because we think that you're no longer – it's no longer going to be satisfactory for you to look and wait till end of the day to see what a portfolio is worth. People are going to want to see their portfolio during the day. The front-office is going to want to have some indicative pricing as it tries to find – a buyer tries to find a seller because a Goldman Sachs may not be able to be in the middle to do that as much they used to. And so those kinds of trends, if you will, we think are going to drive top line revenue growth.

When we buy a company like IDC, we justify it to you all that there are synergies there that are predicable and that show that we didn't overpay for those businesses. And so, really having some predictable savings or ability to have synergies is what justifies the deal to the Street. But we only buy things that we really think we can top line grow.

If we can't find the kinds of things that help us top line grow, we analyze how we return capital. So, my company, which is in the unique space that we're in of exchanges trading and clearing, there has tended to be not a lot of discipline on pricing your capital and what your return on invested capital is. We have always fundamentally done that and we've always sought the best return on capital, which is why our earnings have sort of predictably grown year-over-year. And I get that, my management team and board get that, and so it's hard to say exactly where we'll deploy capital, but we'll always deploy it efficiently and not squander capital.

Alexander V. Blostein
Goldman Sachs & Co.
Q

Makes sense. On that topic, M&A environment is going to be obviously somewhat unpredictable, it's tough for us to see exactly what kind of deal you guys might be interested in doing next. But from a capital-return perspective, obviously, the first order of businesses de-lever back after you integrate IDC. But as far as just payout goes in absence of M&A, should we be thinking about similar type of payouts as we've seen prior to the IDC transaction?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer
A

I can't tell you the future, but I would just tell you that theoretically I believe and my board believes that really good companies can consistently grow earnings. And if you can consistently grow earnings, you should be consistently growing your dividend or your capital return. And that is an aspiration that – if I look at great companies that have been built over many, many years, they sort of have that fundamental trend. And so we – we're really a start-up growth company that just a couple of years ago started to pay a dividend and we've now been trying to continue to grow our dividend as our earnings have grown. And so that's kind of at the root of our thinking. We generate a lot of cash and it is the nature of the businesses that we're in. And so the question then is what do you do with the excess capital? Do you special dividend, raise the dividends, buyback shares, are there opportunistic M&A that have high returns on invested capital. And that is the mix that we look at every day. So, I

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think we'll get through this acquisition pretty quickly because we're so cash accretive, get our debt paid down. We want to because we want to keep investment grade rating because we run clearing houses. And a lot of people import our parent company rating into sort of their thinking on how we operate clearing, whether or not that's valid or not, I won't argue, but it is the case. So we want to keep that investment grade rating, but I do think that we'll be in a position now to figure out what to do with excess cash relatively quickly because of the luxury that we're in right now.

Alexander V. Blostein
Goldman Sachs & Co.

Q

Yeah. Well, that makes sense. Well, we've got a couple of minutes left, so I want to make sure we turn over to the group. In case there are any questions, just raise your hand and somebody will come around with a mic. One right here, please. Just come around.

Q

Jeff, I'm just curious, this whole fracturing of markets, I mean I guess I grew up in a time when centralizing liquidity was a good thing, not a bad thing and yet it seems – the world seems to be going the other way. Do you think that, that trend over time likely continues? Do you think there is any chance that at some point regulators or others might want to move back the other way because they don't see that serving the public interest? And I'm just curious if that doesn't happen, does that ultimately cause you to want to be more focused on businesses away from the exchanges and trading to find your growth?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

So, let me tell you my thinking and hopefully it's not too pedantic, but some politicians – well-intended politicians came and asked you all in this audience, would you like to be able to trade wherever you want and clear wherever you want and you said yes. And they asked you, would you like to be able to buy execution and not have to pay for research if you wanted that, and you said yes. Would you like to be able to buy all the research you could, and not have to have it all bundled with their other services of the banks, and you said, yes, because all that sounded pretty good. Somebody came and asked you the question, would you like to have complete flexibility to do whatever you want, whenever you want to? And the answer to that question was, yes. And so politicians went and started to put rules into place. And in the case of Europe, it's this thing called MiFID II, which just says, we are going to unbundle trading and clearing, we are going to unbundle execution and research. That's what the politicians think is going to happen. I don't think that's what's going to happen. I think once we unbundle that, the market, including my company, we are going to continue to unbundle. And if you look at what an exchange does, we used to just do a match between a buyer and seller and charge a rate per contract and give you all kinds of other services that you just implicitly thought was part of that, those are all going to become unbundled.

What does an exchange do? First of all, you have to get access to the exchange, so you need to get in on a network today because it's digital, you might want to be in my data center. You need to get the data to see what's coming in and out of the exchange. You're going to make a match. There is going to be regulatory oversight, there is position limit management. You're going to want us to – somebody is going to have to create the settlement price and give that to the clearing house. There are contracts that go to delivery that somebody is going to have to manage a delivery. So when we unbundle, we are going to unbundle like nobody's business. And what it's going to be like is, if you decide that you want to buy a Chevy Tahoe, you are going to go to the parts department and ask the guy to give you all the parts for the Chevy Tahoe and put it back together. And I honestly think you'll have tremendous choice, then there will be competitors for all those parts, but the overall spend that you have is going up.

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In other words, nobody asked you would you be interested in having lots of flexibility and paying a lot more for the privilege. And so what is ICE doing and what are my competitors doing? We're going in, we have our own data centers, we have our own networks, we have our own data distribution businesses, we have matching businesses, we do oversight. We have all these things, and you're watching us unbundle them. And so, while Alex asked me questions about moving into the data business, and I answered my question, we've been in the data business. What you're really seeing is, we're making the pricing of the data business more transparent and separate.

I think the market would like to have that bundle put back together. We're seeing this in the cable television business, by the way, right? We all – none of us want to pay $100 a month for cable, we'd like to buy all the shows we want, I suspect we're all going to spend $150 by buying all the shows we want. So – and you're going to pay a lot more for research and execution. And what you see a company like Shell Oil Company publicly coming out today and saying wait a minute, there are knock-on consequences of this. And what will happen when we unbundle is that the match, which is what the exchange does, loses a lot of value, because the competitors will come into the space and they will actually give away the match for free or even pay for people to trade. And regulators will say, wow, we really accomplished a lot, we drove the price of the exchange match to zero or even negative.

But the reason our competitors will do that is the minute you have two execution venues, now people have to get the data from both, because you're going to want to see the market. Now, somebody has got to create a settlement price, because you got two ending prices. Now, speed becomes a factor and HFTs enter the market and they're going to want access to the – to the co-location. And we increased the overall spend that you're going to have by doing this fragmentation. The bid offer, if you will, the price discovery is fragmented and is much harder for people to see and so consequently people will be trading off-market, and that off-market execution gets sliced up into all the rest of us that are providing all these services. So the reason I tell you that is, I advocate publicly that regulators should not do this, because I think it's bad for price discovery, I think it's inefficient for market.

As a manager, I'm setting the company up to massively profit from it. And so I know a lot of our investors sometime are concerned that it might be a negative for us. When in reality, I think it is probably a net positive from an earnings per share standpoint. It's just that it's – I'm an engineer by education and it's just frustrating for me to engineer something to drive inefficiency, and that's what's been going on. And I think it is a trend that's going to last for a while, because these rules tend to be easy to pass and then hard to modify as we are all seeing. Even though there is complete agreement to – I think in the wake of an Enron collapse, we passed Sarbanes-Oxley. I think as a public company CEO and you as investors in public companies can find fault with Sarbanes-Oxley, and I think we could all agree it. It's really hard to change it. So, I think we're going to live in this world for a while unfortunately.

Alexander V. Blostein
Goldman Sachs & Co.

Okay. I think we have one question on this side.

Hi, Jeff, during the last year, a lot of attention has been focused on block chain.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

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Yes.

Q

And two of the attributes that I understand [p] it could (38:53) possess are possibly peer-to-peer trading and the elimination of netting. And given the central role that your franchise plays in both the exchange and CCP worlds, I was curious as to what your thoughts are about block chain and what role ICE might have going forward in a block chain world?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

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Well, we're doing a lot of work on it and the whole – you'll see the whole financial services industry is really focused on it. And so, it's hard to imagine that anyone is going to be disintermediated because the people that now have picked up the gauntlet to advance this technology are the people that don't want to be disintermediated including myself. One of the things – and we work with a lot of young entrepreneurs that are incredibly smart on how these algorithms and distributed ledgers work and can work. But one of the things I would just say about financial services is that, we're in one of the most highly regulated businesses in the world because we handle people's money. And a lot of the regulation of the laws that exist, including a lot what we're talking about here, which is the movement towards centralized clearing, is embedded in the law to have independent actors act as gatekeepers for money laundering, for netting, for bankruptcy purposes, that don't lend themselves right now to a complete distribution. Like in other words, a lot of this stuff is against the law.

And you can come up with theoretical ways that you could use algorithms to settle contracts and liquidate contracts and debit accounts and other things. But they – you'd also have to say we're going to use algorithms for anti-money laundering and everything else and they take all human judgment out of the equation. And so much of our laws are built around having financial judgment in second lines and third lines of defense that it's harder to see it actually disintermediating the financial services market.

I think what it will do, however, is and what I think it's already started is, it is driving common standards on particularly the back office on do we call Goldman Sachs, Goldman Sachs, do we call it Goldman. In Europe, they would put an S on it and call the Goldmans. Do we call it GS and just driving some common standards that we could all use so that – and potentially put in distributed ledgers whether they're in the public domain or private, I think it's going to have tremendous benefits. So costs are going to come out of the system and I think that's why you see the financial services industry embracing this so much, because there are so much cost pressure on us right now that this looks like an easy thing that we could all get our heads around to drive some standards. And that's where I see it going in the near term at least.

Alexander V. Blostein
Goldman Sachs & Co.

Great. Well, I think we are out of time. So thank you, everybody. Thank you, Jeff.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

Thank you.

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