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# Intercontinental Exchange, Inc. (ICE)

Q3 2014 Earnings Call

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**Scott A. Hill**

*Chief Financial Officer*

**Jeffrey C. Sprecher**

*Chairman & Chief Executive Officer*

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*Barclays Capital, Inc.*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning and welcome to the ICE Third Quarter 2014 Earnings Conference Call. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Kelly Loeffler. Please go ahead.

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### Kelly Loeffler, CFA

*Senior Vice President, Corporate Communications, Marketing & Investor Relations*

Good morning. ICE's third quarter 2014 earnings release and presentation can be found in the Investors section of [theice.com](http://theice.com). These items will be archived and our call will be available for replay.

Today's call may contain forward-looking statements. These statements, which we undertake no obligation to update, represent our current judgment and are subject to risks, assumptions and uncertainties. For a description of the risks that could cause our results to differ materially from those described in forward-looking statements, please refer to our 2013 Form 10-K.

In addition to GAAP results, we also refer to certain non-GAAP measures, including adjusted income, adjusted operating margin, adjusted expenses, adjusted debt to EBITDA and adjusted EPS. These measures adjust GAAP results for extraordinary items, including non-operating impacts of our acquisitions. We believe our non-GAAP are more reflective of our core performance.

You'll find a reconciliation to the equivalent GAAP term in the earnings materials and an explanation of why we deem this information to be meaningful, as well as how management uses these measures. Net revenue refers to revenue net of transaction-based expenses. Adjusted net income refers to adjusted net income from continuing operations. And adjusted EPS refers to adjusted diluted continuing operations earnings per share.

With us on the call are: Jeff Sprecher, Chairman and CEO; Scott Hill, Chief Financial Officer; and Chuck Vice, President and Chief Operating Officer.

I'll now turn the call over to Scott.

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### Scott A. Hill

*Chief Financial Officer*

Thank you, Kelly. Good morning, everyone, and thank you for joining our call today. I'll begin on Slide 4, where you can see our performance for the first nine months of 2014.

ICE's adjusted earnings per share rose 5% year-to-year to \$6.53. Through September, our adjusted operating margin stands at 50%. We have generated record operating cash flows of \$922 million and consolidated net revenues were \$2.3 billion. Notably, we delivered these results despite low volatility, which resulted in futures volumes declining 17% year-to-year.

Regardless of the challenging volumes, open interest levels are up. Revenues have remained stable. We are on track to achieve nearly 50% of our synergy target in 2014. We've expanded margins from 45% to 50% and we've

grown earnings. In addition, the record levels of cash we have generated, combined with the divestment of non-strategic businesses, has enabled us to sharpen our strategic focus, delever, and return over \$700 million of capital to shareholders. And, importantly, our October volumes demonstrate, once again, what happens when open interest levels are increasing and volatility returns.

Please turn to Slide 5, where I will highlight our third quarter results. Consolidated net revenues were \$745 million. Adjusted operating expenses were \$377 million. And adjusted operating margin for the quarter was 49%. Adjusted net income was \$245 million and adjusted earnings per share rose 9% to \$2.15 per share versus \$1.97 in the prior third quarter. And of note, we have now repurchased 2% of the total shares outstanding at the time the NYSE acquisition was closed.

Let's move to Slide 6, where I'll detail third quarter revenues and expenses. On the left side, you can see that net transaction and clearing revenues totaled \$447 million. Market data revenues, as expected, bounced back from a dip in the second quarter, largely related to the Euronext separation and totaled \$105 million. Our data revenues also benefited from continued growth in our subscriber base and additional value capture from our enhanced data offerings.

This sustained demand for market data indicates continued interest in our diverse markets, despite a cyclical downturn in trading volume. Our listings revenues generated a record \$86 million, which was up 11% compared to the prior third quarter on a pro forma basis. And finally, Other revenues contributed \$107 million in the third quarter.

The right side of Slide 6 shows our expense detail. Third quarter adjusted expenses were \$377 million. We came in better than our prior expense guidance, primarily reflected in lower compensation expenses due to three factors. First, compensation expense was lower by roughly \$3.5 million due to some clean-up related to the Euronext separation.

Second, we recorded a year-to-date true-up of about \$3.5 million related to our performance-based bonus accrual to reflect our expectation that, despite continued growth in earnings, we will come in slightly below our 2014 targets. And finally, and most importantly, with realizing the cost reductions associated with our integration efforts faster than anticipated, not only did this help us outperform in 3Q, but it also helped improve our full year expense guidance and, importantly, we expect that momentum to carry into 2015.

Turning now to Slide 7, I'll detail our derivatives revenue and volumes for the third quarter. Total futures and options revenue was \$320 million with our oil and ag complexes each generating solid growth. Despite a 13% decline in daily volume compared to the prior third quarter, open interest increased 2% from the end of the year to 76 million contracts. Both Brent and [ph] other oil interests (6:20) are at record levels, up 26% and 21%, respectively, from the start of the year. Ag and equity derivatives open interest were up 3% and 33%, respectively.

Interest rate open interest was flat through the end of September, but increased in October. While activity in our North American natural gas markets remains muted, total natural gas revenues were basically flat, thanks to the solid trends in our European natural gas markets.

Moving next to Slide 8, we highlight the notable improvements in our October volumes. While one month does not necessarily indicate a trend, you can certainly see what the combination of increasing OI and a return to a more normalized volatility environment can do to improve trading activity.

Total volume for the month was flat year-over-year, with continued significant declines in Euribor volumes, offset by strengthen in Brent, Other Oil, Sterling, Gilt, other ag and equity indexes. Brent ADV was up 28% over the

prior October, driven by oil price volatility as oil prices fell to levels not seen since 2012. Other Oil ADV increased 20% in October, benefiting from both volatility and new products we continue to introduce to complement our Brent complex. Our Sterling and Gilt average daily volumes were up 62% and 60%, respectively, compared to the prior October, due to improving economic sentiment in the UK.

Other ags were up 10% and equity indices were up 50% compared to the previous October. In addition to the growth across many of our derivatives products, our U.S. cash equities volumes also grew 32% in October, driven by volatility in equity markets with market share up nearly 2 percentage points to 23.9%. We'll provide more details in our October volume release, which will be issued tomorrow morning.

Let's now continue with our credit derivatives markets on Slide 9. CDS revenues were \$38 million in the third quarter, including clearing revenues which increased 3% to \$23 million. Over the first nine months of 2014, we continued to enhance our cleared product set, including clearing for the Markit iTraxx Senior Financial CDS index and various sovereign CDS instruments.

It's worth noting that through September, 40% of the \$4.9 trillion of buy-side gross notional cleared comes from European buy-side customers clearing through ICE Clear Credit, our U.S. CDS clearing house. This trend is happening as a result of: the regulatory uncertainty in Europe; the breadth of products that we uniquely offer, including all major indices, all constituent single names, and a multitude of sovereign CDS products; and the capital efficiency that we are uniquely able to provide via our portfolio margining capabilities. Importantly, this business is now on track to deliver just under \$100 million of revenue in 2014. And it is contributing meaningfully to our bottom-line.

Please turn to Slide 10 and I'll walk through our NYSE business. On the trading side, we are peeling back layers of complexity and opening up the exchange for the benefit of issuers and investors, which will ultimately benefit the trading environment. And amid these efforts, NYSE's market share has notably strengthened and our revenue capture remains solid. We continue to work to enhance our Equities Trading business to better serve customers and to operate more efficiently in order to generate increased profitability and cash flows.

We are also making investments to improve our Corporate Services offering to leverage the strength of the NYSE brand and our strong customer relationships. Stacey Cunningham, formerly a leader of our Equities business, has been appointed as President of NYSE Governance Services to help lead our efforts. And, just last week, we acquired a small, innovative technology business to further enhance our role as thought leaders in the governance, risk, compliance space.

Moving to the bottom of Slide 10, the lower left graph clearly reflects the New York Stock Exchange's continued leadership in global listings. In the third quarter, we had a record 29 IPOs and raised a record \$37 billion. And even without the Alibaba IPO, the capital raised on the floor of the New York Stock Exchange was greater than the next four listing venues combined. The NYSE's hybrid market model and transparent IPO platform continues to attract companies of all sizes and industries from around the globe. Our IPO pace is trending well above 2013 and we remain on track for our third consecutive record year in technology IPOs. We are making solid progress at the NYSE and we are optimistic about 2015.

Now, let's talk about our strong cash flows and capital structure on Slide 11. Operating cash flows grew to a record \$922 million in the first nine months of the year. At September 30, we had over \$650 million in unrestricted cash and short-term investments, excluding the \$1.2 billion set aside for the repayment of our euro notes in June 2015.

We used our strong cash generation for strategic growth investments and to return over \$700 million to our shareholders through October. Year-to-date, we have paid \$225 million in dividends. And this morning, we

announced a fourth quarter dividend of \$0.65 per share. We repurchased over \$500 million in ICE stock through October and have over \$500 million left in our current repurchase authorization.

We also announced two strategic acquisitions in the quarter, SuperDerivatives and the Holland Clearing House, which will accelerate our growth initiatives related to clearing and data services. We closed on SuperDerivatives in October and expect to close on the Holland Clearing House during the fourth quarter.

Total net debt, which reflects cash set aside to repay the euro notes, was \$2.9 billion and our adjusted debt to EBITDA leverage ratio was 1.6 times. As we mentioned during last quarter's call, we may move around our leverage target temporarily, based on the cash flow of the business, credit rating considerations, the timing of strategic investment opportunities, and our capital return program.

I'll wrap up my remarks on Slide 12 with an update on our financial reporting and guidance. As ICE continues to build its earning power and expand its cash generation, we want to provide our shareholders with greater clarity regarding the financial strength of our business. Therefore, starting in the fourth quarter, we will report our adjusted earnings per share, excluding expenses related to the amortization of acquisition-related intangibles.

To help with the transition, we have provided you with the first three quarters of 2014 on this basis on Slide 26 in the Appendix of the presentation. In addition, as we had disclosed previously, we will continue to provide an annual view of the return on invested capital metric to demonstrate the impact on shareholder value of the capital we've invested. We believe the combinations of the new adjusted EPS measure and the continued use of ROIC as a key metric will further enhance the transparency of our financial reporting. Also, please note that we have provided separate guidance related to SuperDerivatives.

As you can see on the chart, we expect SuperDerivatives will contribute between \$15 million and \$16 million to revenue, which we expect to be primarily in the market data revenue lines. And it will add \$12 million to \$13 million in expenses during the fourth quarter, including roughly \$8 million to \$9 million in compensation expense. We are already collaborating with the SuperDerivatives team to integrate common corporate functions and, far more importantly, to develop the strategic initiatives that will generate revenue growth across our clearing and data businesses.

Finally, I want to provide an update on our NYSE expense synergies. By the end of 2014, we expect to achieve approximately \$265 million in synergies, 10% better than what we showed you during our last earnings call and nearly 50% of the way towards our total \$550 million synergy objective.

So in summary, despite a double digit decline in volumes over the first nine months of 2014, synergy realization has accelerated. Earnings have grown. Operating cash flows were at record levels. We returned significant capital to our shareholders and we've made solid progress on key integration and growth initiatives. We remain focused on the needs of our customers. We enhanced our product mix and diversification and we delivered record listings and market data results.

I'll be happy to answer any questions during Q&A. And now, I'll hand the call over to Jeff.

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## Jeffrey C. Sprecher

*Chairman & Chief Executive Officer*

Thank you, Scott, and good morning. The solid results that Scott just reviewed are the result of significant progress on the NYSE integration and on executing across many growth initiatives. In the third quarter, we grew earnings despite double digit declines in futures volumes, so you can see that trading volume alone is not a proxy

for our earnings performance and that our expense discipline continues to drive solid results. Through our strategic focus, our mix of business is improving, as we right-size the company and position it for the future.

Since Scott just provided an update on synergies, I'll begin on Slide 13 with an update on our timeline for further integration. We've accomplished a lot in just three quarters. And we continue to execute at or a head of schedule. Since closing the NYSE transaction, we divested technology businesses, operationally and financially separated Euronext and Liffe, and divested Euronext through a successful IPO. And we're on track to end the year with nearly 50% of our synergy expenses achieved. Four of the five scheduled phases of the Liffe exchange transition have already seamlessly been completed, with the last one scheduled to occur in a few weeks. This European initiative follows the earlier transition of the Liffe U.S. markets to ICE's futures exchanges over the summer.

In addition to migrating customers from one trading platform to another, we developed a new matching engine for our interest rate markets, which is based on Liffe's popular trade matching algorithm. Completing the move of Liffe products will further enhance our progress on synergies, which we expect to be fully reflected in our first quarter 2015 run rate.

We've received positive customer feedback regarding the transition. And we continue to expand our client-facing team to better serve these customers. I want to thank our Liffe exchange customers for their engagement in the successful transition and for their helpful feedback.

Let's move to Slide 14, where I'll discuss our European interest rate complex. Low interest rates across the Eurozone continued to negatively impact Euribor futures volume in the third quarter. Excluding Euribor, which comprises about one half of our interest rate volume, average daily volume was down only 3%. And open interest in these contracts actually rose 47% year-to-date, which is represented by the green line in the chart.

Contributing positively to this trend was a 14% increase in Gilt's average daily volume for the quarter, which seems to be driven by improving economic sentiment in the UK. So while average daily volumes in European interest rate contracts declined 31% in the third quarter, the related revenue decreased only 17% on a pro forma basis, as you can see in the chart on the right-hand side.

Finally, with October interest rate volume down only 8% and our open interest moving up, we continue to believe that we acquired our interest rate franchise at the bottom of an interest rate cycle.

Turning to Slide 15, you can see that in addition to the secular trends that have produced annual growth in ICE's Brent crude volume, more volatility due to economic and geopolitical uncertainty also drove volume growth and record open interest.

In the third quarter, ICE's Brent average daily volume increased 8% year-on-year. And open interest reached an all-time record of 3.2 million contracts. In October, Brent volume grew nearly 30% year-to-year, to 817,000 contracts per day. So we've started the fourth quarter at a very solid run rate. And based on the growth in Brent volume, even in light of lower volatility we saw early in 2014, and the payment for order flow schemes offered by our competitors, the long-term relevance of ICE Brent continues to rise.

Importantly, in October, ICE's Brent open interest has surpassed NY MEX WTI open interest for the first time in the history of these contracts. This is largely driven by the increased adoption of Brent by commercial customers. We've also seen a pay-off from our focused marketing efforts to make Brent a larger component than WTI in most commodity indexes. The Commitment of Traders Report continues to show increasing volumes in our energy markets being held by commercial customers, as we see our competitors adopt the incentives that attract the type of algorithmic trading that typically drives commercial users away.

Combine that with the capital efficiencies in our clearing house across our oil products totaling more than 400 related futures contracts and you can see why the customer benefits that ICE provide is increasingly being determined by the cost efficiency of customer collateral, rather than simply the price of trade execution.

Turning to Slide 16, North American natural gas volumes remained muted in the third quarter, given low volatility and range bound prices. However, I want to note that North American volumes in October increased 30% from July's average daily volume and were down just 10% over the prior October. So we're seeing improving activity to start the fourth quarter. On the right side of the chart, you can see the European markets. And they're driving a favorable mix shift in our gas business overall. With the shift of ICE Index exchange onto the ICE platform last year, price transparency has increased, as has liquidity, due to this virtuous trend which attracts more market participants.

As you'll recall, Index is a business we acquired in the first part of 2013. And it's a great example of how our strategic M&A enables us to stay in front of emerging growth opportunities. In the third quarter, European gas volumes nearly doubled year-to-year and open interest reached 1 million contracts. And we continue to add new products to serve our base of European utility customers, who now trade electricity, natural gas and emissions on our integrated trading and clearing platform.

On Slide 17, I'll walk through some of our new initiatives for the coming quarters, all of which relate to offering more risk management tools and building on the value of our data. Starting with our announcement this morning, we expect to launch ICE Futures and ICE Clear Singapore in March of 2015, with a range of locally relevant products which we'll further announce in the coming weeks. We've operated an office in Singapore for the past decade, so we're well established there with a very strong team.

Demand continues to rise in Asia for risk management and new products and we're increasingly hearing that our customers want to hold risk under various understandable and manageable

regulatory frameworks. We expect to serve their demand, ranging from commodities to financial contracts, all built around the desire for liquidity, clearing, flexibility, global distribution, and the capital efficiencies that ICE can uniquely offer.

During the third quarter, we announced the acquisition of a 75% stake in the Holland Clearing House, which we expect to close by the end of this year. This transaction gives us a clearing footprint in Continental Europe, which matches nicely with our similarly Amsterdam-based ICE Endex Exchange. The Holland Clearing House provides clearing services for the Dutch options MTF, known as The Order Machine.

The Holland Clearing House will enable us to leverage our clearing platform across yet another jurisdiction and can offer flexibility to our customers if the rules around Eurozone-based clearing ultimately differ from those in other jurisdictions.

Last, but not least, I want to highlight our acquisition of SuperDerivatives. We've longed worked with SuperDerivatives, as have many other exchanges and clearing houses, to support our settlement and clearing activities. We've come to understand and appreciate the breadth of their quantitative valuation services, and how this can contribute to improving ICE's already strong risk management capabilities. SuperDerivatives also provides a very robust, low-cost desktop, with extensive data across virtually all asset classes. There are a number of avenues to leverage our combined capabilities to expand our risk management infrastructure and our data services.

Turning now to Slide 18, you can see a range of growth drivers and how they fit with the new initiatives that I've just described, all of which support our long-term growth. The takeaway from this slide is that there are a range of opportunities for growth across all of our asset classes and geographies, based on the increasing role of clearing, a return of global volatility to trading, new services to support our clients in meeting their regulatory requirements, and the demand for our Listings and Data businesses. And we have the unique opportunity through our synergies to create additional significant value and solid margin expansion.

ICE has grown earnings consistently for the last decade and remains a growth company. We have continued our strong commitment to product development and expansion of our clearing services by launching over 100 new energy contracts year-to-date. For context, since 2008, when we made significant investments to be in control of our own vertically-integrated clearing capabilities, we have introduced more than 1,000 new products.

In addition to our geographic reach, we've expanded into benchmarks, and into intellectual properties. ICE Benchmark Administration was launched last February, taking over the supervision of the LIBOR benchmark and, most recently, the ISDA fixed benchmarks. ICE Benchmark Administration has worked closely with the industry to evolve these key benchmarks to support confidence and innovation in these products.

As we look to 2015 and beyond, we continue to believe that we can no longer sit in one jurisdiction to serve customers around the world. We've invested to serve local and global markets from the U.S., the UK, Continental Europe, Canada, Singapore and Brazil. The challenge of differing regulatory environments has resulted in a demand for increased flexibility of jurisdictions when listening to our customer's reactions to the regulatory barriers that they are facing. We continue to anticipate shifts in customer preferences as they respond to regulatory differences across these jurisdictions.

As Scott just pointed out, we've seen a recent uptake of European customers increasingly moving their swaps clearing to the U.S., so it's important for ICE to maintain flexibility in the location of our infrastructure. As always, we're evolving our business to support our customers' requirements.

The New York Stock Exchange continues to lead in global listings, which is yet another growth driver for us. In the past year, I've had the opportunity to work with many business leaders and entrepreneurs, either in their offices around the world or when they visit the New York Stock Exchange at 11 Wall Street. I've experienced firsthand, and I've also heard from many new public company managers, the emotion that one feels when standing on our balcony and ringing the bell and what it means for their company's ability to invest higher and grow by accessing the best capital markets in the world when becoming a U.S. listed company. This is why we remain a leading voice in driving further improvements in U.S. market structure.

The equity markets fundamentally exist for capital raising and the protection of that capital. And it's our mission to ensure that a company's stock trades in a fair, efficient and transparent manner. As you can see, both our market share of secondary trading and our related revenue capture are doing well.

We believe that the NYSE will be a more attractive business with our planned technology enhancements, right-sizing the expense base and by taking a leadership role in market structure change. And I commend SEC Chair White's leadership for helping to focus the current market structure discussions on driving liquidity and transparency back to markets, while reducing the inherent risk that is caused by structural complexity. One year ago, after completing the acquisition of NYSE, we detailed our expensive integration and strategic plans. Today, we've either completed or shown significant progress on these objectives.

On Slide 19, you can see that progress on the plans we set out for you, with the green checkmarks indicating the items that we've completed since our last call. During the quarter, we also completed two acquisitions and

announced a third, in what will become the company's seventh clearing house. At the same time, we returned over \$700 million to our shareholders through dividends and share repurchases. And we have largely completed the successful transition of the Liffe exchange. As you can see, we've had a very productive 2014.

I'll finish my remarks now on Slide 20, with our commitment to consistently focus on earnings growth and creating value. We're in the business of risk management where there's growing demand around the world. We maintain our focus on being customer-centric and results-oriented. And these results include earning growth, increased cash generation, and industry innovation.

Before I close, I want to give a special thanks to Edwin Marcial, who is retiring from ICE after leading our technology team. Edmond (sic) [Edwin] (29:27) was one of the seven original employees that built ICE into the leading global exchange operator that it is today. Among many other accomplishments, Edwin attracted a very strong technology team here to ICE. And this team has been a critical part of our success and it continues to drive our business forward. All of us here are grateful to our friend Edwin for his many contributions.

And finally, on behalf of everyone at ICE, I want to thank our customers for trusting us with their continued business and for collaborating with us on the many industry changes that are underway.

I'll now ask our operator, Kate, to conduct a question-and-answer session.

## QUESTION AND ANSWER SECTION

**Operator:** We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Rich Repetto from Sandler O'Neill. Please go ahead.

Richard H. Repetto  
*Sandler O'Neill & Partners LP*

Q

Yeah, good morning, Jeff. Good morning, Scott, and team.

Jeffrey C. Sprecher  
*Chairman & Chief Executive Officer*

A

Good morning.

Richard H. Repetto  
*Sandler O'Neill & Partners LP*

Q

Good morning. The question is for Scott first on expenses, and I'm just trying to get my arms around the different moving parts here. Because you've got SuperDerivatives. You've got an increase in the synergies. So I don't know how to frame this, but what do you expect expenses – you put out the guidance for 4Q, how do you expect that to now to be, look like in 1Q? Will it go down by the synergy amount, the \$350 million minus \$265 million divided by four? But then you've got SuperDerivatives and you've got the bonus accrual. So I think we're getting lost a little bit in the moving parts in the expense picture.

Scott A. Hill  
*Chief Financial Officer*

A

Yeah, Rich, look, there are a lot of moving parts. And I'll acknowledge this year has been a little bit bumpy as we've tried to get our arms around it as well. I think that the high level picture is what I said in my remarks. The synergy realization is accelerating. You see that in the third quarter. You see it in our improved full year guidance. You're going to see it in the first quarter and you're going to see it in 2014. So we've talked previously about being on a run rate as we hit the first quarter of \$350 million. I think that's going to now be north of \$380 million.

I think if you look on an absolute basis in 2015, we're going to realize another \$135 million or so of synergies. There'll be some incremental investments. I mean, we are going to restore the bonus. We are going to have an increased program with some of our employees, but even if you net out maybe \$30 million of incremental investment, that still means our expense base will come down by over \$100 million in 2015.

As you mentioned, we do have some acquisitions, but any expense we add there is going to be more than compensated by revenue. And that's before we even start to talk about the synergies we think we can generate around those businesses, predominantly growth-related synergies and top-line synergies.

So as I look at the expense in the fourth quarter and into 2015, we're feeling really good. And frankly, even as we think about our exit rate, we've talked previously about \$450 million as we move into 2016, I think we're going to be ahead of that number as well. So the headline is expenses are going to be better. We'll certainly give you more guidance as we enter into 2015 on our fourth quarter earnings call, but I think for now we've given you a good view of what we think fourth quarter looks like and I've given you a few pieces to work with in 2015.

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Richard H. Repetto

*Sandler O'Neill & Partners LP*

Q

Okay. Thanks, Scott. That's helpful. I guess my one follow-up, Jeff, would be on the broader picture on, I guess, energy and Brent. And you gave a lot of good information on how strong the bench, you know, the increasingly strong the benchmark is, but I guess my question is with oil prices coming down below \$80 a barrel, is that a good thing longer-term if it stays there? I mean, certainly if you look at the cash equity markets when you see prices hit low, you see plenty of volume and volatility just sort of like you experience with Brent volumes in October, but it generally isn't good if it stays that way for an extended period of time. So I'm just trying to see what you think of this \$80 price and is it good in the longer-term if crude stays there for your volumes and so forth?

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Jeffrey C. Sprecher

*Chairman & Chief Executive Officer*

A

Well, the interesting thing about physical commodities, including oil, is that there are always supply and demand consequences. And the market is always reacting to those. And then you throw on top of it acts of God that tend to impact delivery and so you have natural volatility, which is why our customers hedge. The last time oil prices came down, we set volume records. The market does better for us when there is just volatility in the market. It doesn't matter whether it's volatility to the downside or volatility to the upside. And as you pointed out, when you get in sustained periods at price lows or price highs and without a lot of volatility, the market kind of settles down again and we don't see as much trading activity.

So long story short, we've sat for quite a long time around the \$100 barrel level, plus or minus, and we seem to be resetting, so this is a very good trend for us. You lay on top of that macro trends that I mentioned to you, which is just the increased use of Brent. Ever since this company has been a public company and, in fact, in our public company road show, we talked about how we were going to go out and really market Brent. And we've been doing that for the last decade and it's paying off. It's growing in the indexation of the business.

The options business, which there was none for Brent, is now a growth driver for us. We've been able to shift commercial customers increasingly to use Brent for hedging, including customers in the U.S. that used to not really think of Brent as a natural hedge. And so all those macro trends lay on top of the volatility in pricing, which bodes well for us. Last, but not least, open interest is growing. That's always a good indicator when the markets are operating. And so it's a good predictor for future volumes for us under these conditions.

Richard H. Repetto

*Sandler O'Neill & Partners LP*

Q

Understood. Thanks and that's all I had. Thank you.

Jeffrey C. Sprecher

*Chairman & Chief Executive Officer*

A

Thank you.

**Operator:** Our next question is from Kenneth Hill from Barclays. Please go ahead.

Kenneth W. Hill

*Barclays Capital, Inc.*

Q

Hey. Good morning, everyone.

Scott A. Hill

*Chief Financial Officer*

A

Good morning.

Jeffrey C. Sprecher

*Chairman & Chief Executive Officer*

A

Good morning, Ken.

Kenneth W. Hill

*Barclays Capital, Inc.*

Q

Good morning. I just wanted to talk about the Other revenue line. It seems like it's becoming or has been your second biggest line item there. I was just wondering if there were any plans to kind of break out – you've got a number of pieces moving there, whether they're fees or the technology business and how we could kind of think about those going forward or at least what your outlook might be for the technology business and particularly going forward?

Scott A. Hill

*Chief Financial Officer*

A

Yeah. It's a fair question, Ken. The challenge is there are probably six or eight different things that make that \$100 million up. So in the scheme of things, \$100 million of our \$3 billion of revenues is relatively small. And if I broke it out in a lot of detail, we're talking about even smaller numbers. It's network connectivity fees around safety. I talked a little bit in my prepared remarks about the Corporate Governance Services that we provide. That's embedded in there.

So I think we've tried to give you a little bit of guidance in terms of our expectations. Other revenues are going to be relatively stable. We'd certainly come out and be transparent if we thought there was going to be a material up

or down move in that line, but, generally speaking, there are a number of smaller items that make the amount up and I don't think it would provide a whole lot of value to investors to provide a lot of additional detail.

Kenneth W. Hill

*Barclays Capital, Inc.*

Q

Okay. Fair enough. And then on the market data side, you know, we saw a nice bounce back here in the third quarter. I think some of that was expected, given some recovery of the Liffe market data revenues from 2Q that declined, but was any of that related to beginning to monetize more of the Benchmark Administration segment as well?

Scott A. Hill

*Chief Financial Officer*

A

It wasn't. The market data revenues are really, you know, it's what you talked about, so we had a little bit of a blip as we worked through the Euronext transition in the second quarter. As we mentioned on the 2Q earnings call, we did expect that to come back and it did. What you're really seeing in the market data is we continue to see more people that want IDs, more people that want our screen. That trend line continues up for us. And as I mentioned in my prepared remarks, I really think it's indicative of the continued interest in our markets. And so people tend to focus on volumes down 17% or flat volumes, but if you step back and you look at market data trends, if you look at open interest trends, if you look at the number of people who are wanting access to our markets, that's why you get an October when volatility returns and Brent volumes are great and sterling volumes are great.

So it really is about interest in the markets. It's about the data that we're growing and have the ability to package up and sell. And that's another area where, frankly, SuperDerivatives is going to contribute in the future, is the ability to distribute even more data in a more seamless manner. So those are the kind of things that are going to drive that growth volume. Make no mistake, the Benchmark, the IBA business, is certainly one that as we move in 2015, we do expect to grow. And I expect you'll see that helping the market data fees as well, but in the quarter, it's really more about the growing interest in our markets.

Kenneth W. Hill

*Barclays Capital, Inc.*

Q

Okay. Thanks for taking my questions.

**Operator:** The next question is from Ken Worthington of JPMorgan. Please go ahead.

Kenneth B. Worthington

*JPMorgan Securities LLC*

Q

Hi. Good morning.

Scott A. Hill

*Chief Financial Officer*

A

Good morning.

Jeffrey C. Sprecher

*Chairman & Chief Executive Officer*

A

Good morning, Ken.

Kenneth B. Worthington

*JPMorgan Securities LLC*

Q

I would like to ask on pricing. So you continue to highlight the difference between volume and revenue growth. And pricing seems to be going higher across a number of products. And, obviously, there are some mix changes in FX, but it does seem like the price per contract and the price per share are increasing beyond that. So can you talk a little bit about what's going behind the scenes, particularly in equities where pricing and share are both increasing, which doesn't happen very often, and then on the Liffe side where the rate RPC and financial RPC also seems to be on the rise?

Jeffrey C. Sprecher

*Chairman & Chief Executive Officer*

A

Hi, Ken. This is Jeff. Yeah. Well, you know, I've been pretty outspoken that I don't really believe in payment for order flow schemes. I think they're value-destructive for shareholders, but, beyond that, as a regulated exchange, if you want to pay people to show up in the market, in other words, expand the market by attracting traders that really don't want to hold the risk of your products, but just want to pay to get paid to be there, it creates an incentive, unfortunately, for people to do wash trades, in other words, to buy and sell without ever actually holding any risk. And that's a disservice to the market. And as self-regulated organizations, that's a policy that we need to prohibit. And so to actually be creating incentives to do that, at the same time that you're trying to prohibit, seems counter-intuitive and counter-productive.

So what we have done in the new businesses that we have acquired is brought our philosophy on how to operate markets to those. And we're making subtle changes in the way we compensate market makers, who do provide a valuable service to the market, and getting rid of pricing schemes that we don't like, that we don't think are helpful. Obviously, at the New York Stock Exchange, we've been quite public about it, because of its stature in how we've been eliminating order types and simplifying the business. And I think at the end of the day, as I mentioned in my prepared remarks, the people that actually want to hold risk are attracted to those kinds of markets. They want to participate in markets where they're fair and they're transparent and they can get business done and that they're not subject to a lot of predatory practices that are really there because of economic incentives.

And it's why, frankly, you hear us not talk a lot about market share or trying to use ICE's absolute volumes as a predictor of our earnings per share. We're a growth company. And when we talk about growth, we mean earnings per share growth and shareholder value creation and not just growing top-line volumes, which we could easily do by having payment for order flow schemes. But it's just really not in our DNA.

We have other actors in the market that do do those things. It allows us to differentiate ourselves. And when we differentiate ourselves, it gives us a selling opportunity to customers. And that's what I mentioned is happening, we believe, in the Brent market and it really creates a virtuous circle for us because these kinds of commercial users of markets really are quite sticky and appreciate the kind of service that we provide.

Kenneth B. Worthington

*JPMorgan Securities LLC*

Q

Okay, great. And as the follow-up, has your philosophy fully permeated the pricing at Liffe or is there more to go there? And then same question separately on the New York Stock Exchange, is there more to go there as well?

Jeffrey C. Sprecher

*Chairman & Chief Executive Officer*

A

I think it's fair to say there's more to go in the sense that all the new businesses that we acquire have legacy contracts in place and legacy pricing systems and other things that either through regulatory action or through letting contracts run off take time to change, but we have our teams focused on exactly these issues on simplifying markets, making them better, more transparent and I think that work will continue well into 2015.

Kenneth B. Worthington

*JPMorgan Securities LLC*

Q

Great. Thank you very much.

Jeffrey C. Sprecher

*Chairman & Chief Executive Officer*

A

Thank you.

**Operator:** The next question is from Christian Bolu from Credit Suisse. Please go ahead.

Christian Bolu

*Credit Suisse Securities (USA) LLC (Broker)*

Q

Good morning, everyone.

Scott A. Hill

*Chief Financial Officer*

A

Good morning.

Jeffrey C. Sprecher

*Chairman & Chief Executive Officer*

A

Good morning.

Christian Bolu

*Credit Suisse Securities (USA) LLC (Broker)*

Q

Jeff, a bigger picture question on strategy, you are building a franchise, an impressive array of services across clearing, post-trade service and data. And you've spoken about your desire to offer value beyond trade matching, but given trade matching still accounts for the vast majority of your revenues, I'm curious to how your overall plan on how you monetize these services, should they drive more volumes? Is it better pricing or something else we're not thinking about?

Jeffrey C. Sprecher

*Chairman & Chief Executive Officer*

A

Well, it's a good question. First of all, I think actually if you look at our pricing schedule, the bulk of our earnings probably today come substantially due to clearing and post-trade services, which is a big shift for the company, given that in 2007 was the first time we even had any kind of clearing infrastructure. And we really started expanding it during the financial crisis and shortly thereafter. But what we're hearing from our customers, particularly due to regulatory uncertainty, which exists in almost every jurisdiction around the world, is that people need solutions. And the rules are still being written, so that it's not fully clear to everybody what solutions are needed and where they are needed.

And so it's just been our goal really since the financial crisis, to have assets geographically located and up and down the value chain, so that we can provide those services. And we've been surprised, as I mentioned in the prepared remarks, you know, it's surprising to see the European business leaving Europe and coming to the U.S. That isn't something we really could've predicted even two years ago. We have a strong sentiment that business is going to continue to move to Asia and we're making investments there. We see our competitors following us oftentimes in those areas, so I think there's obviously a trend going on there.

So long story short, during these times of uncertainty, it's been good for us to have a lot of assets. And we'll see how they play out. Honestly, we just want to provide solutions and charge appropriately for them. And our customers will largely dictate where that value will be created and what part of the value chain they're willing to give to us.

Christian Bolu

*Credit Suisse Securities (USA) LLC (Broker)*

Q

Okay. On LIBOR administration, you've had a few months now to assess the customer base and the likely impact of charging for that product. It would be helpful if you could share with us any lessons learned, any statistics at all on likely demand for the product.

Jeffrey C. Sprecher

*Chairman & Chief Executive Officer*

A

Sure. Well, you know, the first thing is we are amazed by the breadth of the use of LIBOR around the world. Just the sheer number of people that will need a license from us is somewhat overwhelming. And so we've been having a lot of conversations with industry trade groups and other ways of talking to a lot of customers at one time through one voice and one venue about how we go about actually signing people up and ultimately charging for an appropriate value. Everyone wants LIBOR to be improved. Everyone wants LIBOR to be more predictable and based on auditable transactions. And so there's a strong interest in having us continue to invest in that product. And then the real question is how does the market pay for that and reward us for taking the risk.

We spent a number of quarters having those conversations. We've now really settled on a plan that, as Scott mentioned, will start seeing economics roll through us in 2015. We do want to make it easy for people to sign up. I think as we continue to integrate SuperDerivatives into the company, we'll have a platform by which it will be easier for our customers to access the LIBOR, if they don't have an easy way to access it already. And so that's directionally the plan we're going. You know, I think you're going to see it play out in 2015 and beyond as the market gets used to the fact that this is a benchmark that has value, that is transparent, that they do rely on and they're willing to license as we market it to them.

Christian Bolu

*Credit Suisse Securities (USA) LLC (Broker)*

Q

Okay. Thank you very much, Jeff.

**Operator:** The next question is from Chris Allen with Evercore. Please go ahead.

Chris J. Allen

*Evercore Partners (Securities)*

Q

Morning, guys.

Scott A. Hill

Chief Financial Officer

Morning, Chris.

A

Jeffrey C. Sprecher

Chairman & Chief Executive Officer

Morning.

A

Chris J. Allen

Evercore Partners (Securities)

You'd mentioned earlier that bonus accrual expected to go back up next year and just wondering about how you guys are thinking about the growth opportunities from a top-line perspective looking into next year, because I mean the feedback right now from the buy-side is pretty challenging outlook, given where the ECB rate environment is, oil prices sub \$80 and U.S. natural gas volatility remaining subdued. So just wondering where are you most optimistic about growth into next year?

Q

Scott A. Hill

Chief Financial Officer

I think it goes back to what Jeff said, Chris. I'm most optimistic about our ability to grow earnings. And we are in a difficult volume environment, but I step back and look at all the other levers that we've got in order to generate growth. We've got a very strong market data business. We've got a business in listings that had a very good 2014. And, as you know, that largely flows through into revenues in 2015. We've got – I just basically gave you a 2015 guidance that we're going to take out over \$100 million of expenses next year. We've repurchased 2% of our outstanding shares since when we closed the deal.

A

So as I look towards 2015, even in a difficult volume environment, I'm very confident we'll grow our earnings double digits next year. So I feel – look, and then again, I look at an October that had huge Brent volume growth, again, OI has been trending up. Here comes volatility. There goes volumes. The UK sentiment is improving, as I mentioned. There goes Sterling and Gilt volumes in October. I look at equities indices, that I think I mentioned were up 50% year-over-year in October, continued strength in the MSCI contract, continued strength in the [ph] Footsie. (51:02) So I think when the buy-side you're referring to talks about challenges, they're thinking about Euribor and nat gas. And we're more than Euribor and nat gas, and I think that's what gets missed.

Chris J. Allen

Evercore Partners (Securities)

Got it. And then just a quick follow-up, just on the increase in synergy realization, just in terms of the pace and then first quarter being north of \$380 million, I'm just kind of curious what's driving that?

Q

Scott A. Hill

Chief Financial Officer

Yeah, Chris, I think there are a couple of things. I think number one, it's we've had to merge finance and forecasting systems and all that over the course of the year. And we're just getting better at getting the information up into a consumable fashion. But I think the other thing that we're really focused in on and we've talked about this a lot, we historically at ICE have had about 5% of our population in consultants, give or take a little bit. NYSE was closer to 20%. And we've mentioned on at least two or three occasions, that that's an area where we've been focused and where we're starting to see some yield from those efforts.

A

I think as you look into fourth quarter, you're going to see professional services expense start to trend down a little bit related to the exit of some of those consulting resources. So it's really it's just us executing our plans, getting our arms around a little better the data that's coming up through our consolidated systems. And then it's really been a laser focus on trying to get back to the resource model that we've driven historically at ICE.

Chris J. Allen

*Evercore Partners (Securities)*

Great. Thanks, guys.

Q

**Operator:** The next question is from Alex Kramm with UBS. Please go ahead.

Alex Kramm

*UBS Securities LLC*

Good morning, everyone. I don't think this has been asked yet, but can you talk about the buybacks a little more? It seems like post-Euronext IPO, you did a big chunk and then it's been fairly consistent, maybe \$50 million, \$60 million per quarter. And it sounds like October \$64 million again. So \$150 million to \$200 million per quarter, is that a good run rate to use until we extinguish that \$500 million that you have left?

Q

Scott A. Hill

*Chief Financial Officer*

Yeah, Alex, look, first of all, I think you have to remember that we were effectively precluded from doing buybacks until we got delevered. And so the big burst that you saw after Euronext was us taking Euronext proceeds, getting delevered and, I would suggest to you, catching up a little bit from the fact that we hadn't been in the market earlier in the year. You know, I wouldn't change the way we characterize our thinking about share repurchases now. We've got strong cash flows. We pay our dividend. We're able to make acquisitions. And then we look at what's the capital that we have left, what's available to us and what is the highest value investment that we can make? And right now, looking at our share price and where it's been and where it's trending, that looks like a pretty good deal. And I think that's reflected in what you're seeing as kind of a steady participation by us in the markets.

A

Alex Kramm

*UBS Securities LLC*

Okay, great. And then secondly, maybe just on synergies again, but not on the cost side, I think somebody asked earlier around some of the pricing changes you've made or appear to have made on Liffe and NYSE. Can you expand a little bit beyond the transaction side? And if you look at the NYSE today, how much time are you spending on looking what they've been charging for things like market data, for listings, for transactions, obviously, and some of the other things that they've done? And maybe talk a little bit more where there have been changes and where there's been maybe revenue synergies that you've realized. If you have a dollar number, that'd be great, and maybe where there could be other opportunities as we look into 2015. Thank you.

Q

Jeffrey C. Sprecher

*Chairman & Chief Executive Officer*

Well, Alex, as you know, I think you know, we now have Tom Farley, who's been a long-time colleague of everyone in this room, who's now fully ensconced in the exchange and really is eyes and ears to be the envoy to take the kind of operational mentality that we've had at ICE that has worked successfully for us and to put it into the exchange. So I think the NYSE is a great business and a great franchise and a great brand and has a lot of respect

A

in the marketplace. And I think that it can be differentiated from others that want to provide services on more of a commodity basis. And what we have seen is there certainly are areas where people want to pay more to be affiliated with us and to also take advantage of the systems that we've put in place.

I mean, it shouldn't be lost on anyone that, for example, the Alibaba IPO, which was one of the – was not only the largest IPO in history, but it was one of the most complicated transactions in terms of the number of firms on Wall Street that were involved, the distribution of their systems around the world, the pressure on the entire capital raising platform around U.S. listings, to manage that kind of demand in a single moment in time where we pushed millions of shares serially through these systems without a glitch. And so that was owed to a lot of testing, a lot of communication, a really improving relationship, I think, we have with the Street and the market distribution system, all of which people are willing to pay for. So it's in that scheme that we're thinking about the New York Stock Exchange and what else we can continue to do there.

You lay that on the fact that I think matching a buyer and seller of a U.S. equity is about the most simple market in the world. I mean, it's amazing how overly complicated the world has made what really should be, in my mind, the most simple market in the world. And we've gotten to a point where the average transaction size, regardless of who's buying, is 200 shares of stock. It really has gotten to a point where you can no longer tell the difference between a large institutional investor, an ETF buyer, you and I as retail investors or anyone else. And so it's become incredibly homogenous and egalitarian in a sense. And so it just sort of demands simplicity. And it seems like the simpler we try to make it, the more we're being rewarded. And so we're going to continue on that trend.

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Alex Kramm

*UBS Securities LLC*

Q

All right, very good. Thank you.

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**Operator:** The next question is from Niamh Alexander of KBW. Please go ahead.

Niamh M. Alexander

*Keefe, Bruyette & Woods, Inc.*

Q

Hi. Thanks for taking my questions. If I could just look at the cash and the CapEx, the real estate, I think it's pretty much in line with what you expected. But it still seems elevated for what you need to do. Just help me think about is this a good run rate for next year, the year after? Is this how we should we think about the level of CapEx and real estate spend that this business needs or is it kind of just post-deal and it should come in?

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Scott A. Hill

*Chief Financial Officer*

A

Yeah, so, Niamh, thanks for the question. I do think that you can look at that 2014 as kind of a marker for where we would expect to be in 2015. The major investments that are embedded in that are the ones that we've talked about before. It's CapEx. It's real estate, as you noted, largely around us consolidating our real estate footprint in our major cities, particularly in New York, here in Atlanta, in London, et cetera. Obviously, with the addition of SuperD, we'll have some additional real estate and some additional consolidation work that we'll need to do.

So I do think that what you're seeing in 2014, in terms of total levels of CapEx, will be pretty consistent as you move into 2015. A big part of that investment, frankly, is enabling the synergies that we're achieving in the cost line. And so, I mentioned earlier, 2015 I think is going to be another good year in terms of synergy realization. And I think as you get out into 2016 and 2017, you'll start to see those CapEx levels come down.

Niamh M. Alexander

*Keefe, Bruyette & Woods, Inc.*

Q

Okay, fair enough. Thanks, Scott. And then on the – I guess on the cash, too, with respect to kind of the changing how you want to present your earnings a little bit, it's like – certainly the cash earnings have exceeded the GAAP earnings at ICE for some time and even more so since the deal because of the elevated D&A. So help me think about just, look, why now were you going to strip out the intangible amortization of the deal? Is it not just a gimmick to help your stock or why now and what's the rush now?

Scott A. Hill

*Chief Financial Officer*

A

Yeah, so, I think, Niamh, it's not a gimmick. The rationale is simply what you said, which is we believe that excluding the amortization of intangibles will give investors a much better view into the cash-generative power of our earnings. Frankly, it's something that you see a lot of technology-oriented and particularly acquisitive technology-oriented companies doing in order to highlight, again, the cash-generative trends embedded in their EPS. So this is really an effort on our part to continue to provide increasing amounts of transparency to shareholders. Importantly, though, we're not walking away from the investments that we've made. We're going to continue to focus on our returns on invested capital. That is a meaningful metric.

Even as we're kind of working our way through having that full investment embedded in that metric and the profitability still impacted by some of the integration costs, our ROIC remains above those of our nearest competitors and, again, we're at the bottom now. And the trend is only up from here. So I think the move to the adjusted EPS, excluding the deal-related intangibles, is common to acquisitive companies. It's more transparent for our shareholders. And we'll continue to focus on our return. And, Niamh, I know you follow the space well. Another company that just, for example in our industry, does it is the London Stock Exchange. And, again, I think Xavier does it for a similar set of reasons.

Niamh M. Alexander

*Keefe, Bruyette & Woods, Inc.*

Q

Okay, fair enough. Thanks, Scott. I'll get back in line.

**Operator:** The next question is from Michael Carrier of Bank of America Merrill Lynch. Please go ahead.

Michael R. Carrier

*Bank of America Merrill Lynch*

Q

Thanks, guys.

Jeffrey C. Sprecher

*Chairman & Chief Executive Officer*

A

Good morning.

Michael R. Carrier

*Bank of America Merrill Lynch*

Q

Two questions just on the recent acquisition, so first for you, Jeff, on the Holland Clearing House, if I think about the number of clearing houses that you guys have now globally, you're fairly well positioned. But when you think about over the next, I don't know if it's two, three, five years, when a lot of the regulations are finalized, do you think you're going to need that network or will you get more consolidation, meaning clients are going to want to

put more of their positions into a few clearing houses versus kind of sporadic around the world? And then just on the SuperDerivatives, so when I think about the opportunity there, is there an opportunity, obviously, for you guys to use some of the risk management analytics internally? But on the client side, is there any way to like size what clients would be using this service, what they use currently, any way to like try to size that opportunity over the next few years as you map that out?

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Jeffrey C. Sprecher

Chairman & Chief Executive Officer

A

Well, those are both good questions. First of all, on clearing, we don't really know where the market's going to go. One thing you can see is that the well capitalized exchange operators are increasingly building clearing infrastructure and opening new clearing houses around the world. I think the clearing business is going to take well capitalized operators because these are very complex businesses. And the barrier to entry is rising as a result of the capital needs of these clearing houses. We don't know what the Basel rules yet are going to do to many of our customers in terms of their ability to lend collateral and hold collateral and rehypothecate collateral on behalf of customers, whether or not it's going to make sense geographically to separate that or whether market forces will try to consolidate clearing in a small number of venues. We literally just don't know.

And the nice thing about the Holland Clearing House is that it is an established clearing house with a customer that is providing revenues to cover the operation of that clearing house. It gives us a footprint in Continental Europe. There's a lawsuit, as you may know, that's going on between the UK and the EU over whether or not euro-denominated products should be cleared in the Eurozone. We don't know the outcome of that. I don't – as a manager, I'm not willing to speculate on it. I just want to make sure that our customers can seamlessly operate with us, should the lawsuit go one way versus another.

So it gave us really good reason to keep diversity. We put all those clearing houses on a single platform. We have a small group of highly talented quantitative people that, increasingly, our customers are coming to know. We have a small group of really highly talented regulatory people that are providing a lot of advice to our customers. And so we're in a position to move positions around the world on behalf of our customers very, very seamlessly. And you've seen us do it many times before. We understand how it's done. Our customers have confidence in our ability to do it, so we just want to maintain that flexibility for them.

I wish I knew the answer to it, because we'd bias our behavior one place versus another, but right now, what our customers are telling us is – regulatory reform has not yet rolled out. The Basel rules have not yet rolled out. And until we all have a pretty good view of what it ultimately looks like, people want to have a lot of flexibility.

With respect to SuperDerivatives, one of the interesting things that has happened to this company is that, with the result of moving into various asset classes now, we have a very, very large and diverse data business. It's all been embedded at the various exchanges largely, but increasingly now with ICE Benchmark Administration creating benchmarks with our swaps data repositories, holding positions and with all of the clearing and execution venues that we have, both futures and OTC around the world across various asset classes, we have quite a data package. And, you know, SuperDerivatives gives us an opportunity to think about how we can best provide that directly to our customers for those that may want to take it that way.

And, in addition, we are producing a lot of risk management data and tools inside the company that we use in clearing. And increasingly, our customers want access to those, so that they can do pro forma calculations and risk management ahead of trading, particularly I think that's going to increase as customers are faced with limited collateral and multiple choices from global exchange operators on where and how to do business.

And so it's hard to size that opportunity. I think it's a business that came along at exactly the right time for us, because our customers are telling us that these are the kinds of things that they need access to and I think the people at SuperDerivatives are better prepared to build a lot of that than ICE is itself. And so we're already integrating that company quickly. And we're turning over a lot of responsibilities to them. And I think we'll see how it pays dividends on the top-line, but I know it's going to increase customer satisfaction a lot.

Michael R. Carrier

*Bank of America Merrill Lynch*

Okay. Thanks a lot.

Q

**Operator:** The next question is from Alex Blostein from Goldman Sachs. Please go ahead.

Alexander V. Blostein

*Goldman Sachs & Co.*

Great, thanks. Good morning, guys.

Q

Jeffrey C. Sprecher

*Chairman & Chief Executive Officer*

Good morning.

A

Alexander V. Blostein

*Goldman Sachs & Co.*

So just a quick follow-up on SuperDerivatives, but, I guess, a bigger picture question on the interest rate swap clearing opportunity for you guys in Europe, that marketplace, obviously, seems to be a little bit more crowded than what it is in the U.S. And I'm just curious how you guys think about what ICE's differentiating strength should be in that market that will set you apart from other players that are planning to compete in that space?

Q

Jeffrey C. Sprecher

*Chairman & Chief Executive Officer*

Well, it's a good question. I do think that, as I mentioned before, what the market is sort of shaping up is the well capitalized exchange operators are really investing in clearing technology and innovation around clearing technology. And I think you're going to see sort of the usual suspects have very, very broad offerings across multiple asset classes and multiple jurisdictions. And it's ultimately then going to be the ability to market to customers, the ability to provide the right tools to give people the most capital-efficient way of doing business.

A

I think that ICE led the way, for example, in investing in our Risk Waterfall. That was not a common process earlier in the history of clearing. So we've got skin in the game that influences the capital needs of our customers; lowers them, for example, but also similarly increases the demand, if you will, internally for our own people to manage that business as if it was their own money, because it is, and do a better job. And I think little innovative techniques along the way will differentiate the clearing houses. But I do think we've pretty much seen who the main players are going to be and where they're likely going to be located.

Alexander V. Blostein

*Goldman Sachs & Co.*

Got it. Thanks for that. And then, Scott, a quick follow-up for you and, sorry, another one around expenses, but I guess when you take a step back, and I appreciate all the color you guys have given out, and there's a number of

Q

moving pieces, but you've demonstrated a number of times at this point that you were able to flex your expense muscle, not just when it comes to the integration of the business, but also when it comes to kind of legacy core ICE franchise. So as we think about beyond the synergies that are sort of still left, can you talk a little bit about what you think the normal like kind of core growth rate in the expense base is, assuming not a whole lot of change in the revenue environment?

Scott A. Hill

Chief Financial Officer

A

Yeah, it's a good question. And I think it's somewhat reflected in kind of what we've referred to as the investments as we entered into 2014. And I gave you kind of a brief preview of 2015. It's kind of in that 2% to 3% range. We mentioned coming into this year \$30 million to \$50 million and that's on an expense basis, give or take a little bit, \$1.5 billion, \$1.6 billion, you know, similarly based on our guidance, now we'll be around \$1.5 billion. I mentioned \$30 million-ish of investments next year, which is about 2%.

And I think if you go back and look historically, you know, that tends to be what you've seen from us. It's not a big expense growth. It largely is around us either hiring technology resources or continuing to pay competitively for our resources, but you don't see a lot of growth in professional services or SG&A or rent or any of those other lines. In fact, as we've consolidated real estate, rent has come down. As we've eliminated consultants, professional services have gone down. And so I'd say overall kind of 2% to 3% is a decent expectation bottom-line. That's probably a little more on the compensation line with some efficiencies generated out of the Other line.

Alexander V. Blostein

Goldman Sachs & Co.

Q

Great. Thanks a lot for taking the questions.

**Operator:** And the next question is from Dan Fannon of Jefferies. Please go ahead.

Daniel T. Fannon

Jefferies LLC

Q

Thanks. I guess just in terms of your customer mix, if you think about the energy segment, can you talk about October, there's a spike in volatility? Can you talk about certain customers that are being more active in that environment? Or where you're seeing even ex-that going back into the summer, where the most fall-off in terms of trading was in terms of your customers and how kind of your commercial segment has held up during that time as well?

Scott A. Hill

Chief Financial Officer

A

Yeah, I think that historically, we've tended to underperform when you see spikes of volatility, because we don't have the hedge funds. We don't tend to have more of the guys who are taking a speculative view on which way energy prices are going. But when you see a more sustained volatility, which we did see through October, it's a spike well to what we've seen in the year, but was fairly constant in the month. What you see is OI positions that have grown, which is indicative of the commercial customers who are trading in our market. They start to manage their positions around that volatility, trying the figure out what does this signal for where prices are going to be three months from now, six months from now, nine months from now.

And so I think it really gets down to the commercial customers that are in our base and the growth in open interest. And once the volatility returns, it's those commercial customers that are managing their positions that

can lead to the volume growth that we see. That's why with those spikes, you don't see big changes in our RPC. It tends to be pretty stable, because it's not the price-sensitive guys that are piling in with volume. It's commercial customers that are managing their risk positions.

Daniel T. Fannon

*Jefferies LLC*

Q

Thanks. That's helpful. And I guess just one more on the synergies, can you talk about what milestones are left in terms of kind of the big buckets as you kind of exit this year and into next year?

Scott A. Hill

*Chief Financial Officer*

A

Yeah, so, obviously, the big one as we exit this year, and Jeff mentioned, we're four out of the five transition cycles through the Liffe integration. We've got to get the fifth one done. That's the big one as we enter the year. As you look over the course of 2015, it's really some clean-up around some of the corporate functions and systems that we're integrating, Project Abby being an important one that'll help us rationalize the technology footprint at the New York Stock Exchange.

Clearly, real estate consolidation as we move later into 2015 and then into 2016; prior to the NYSE deal, I think we peaked at 11 different leases in New York. We had finally gotten down to one prior to the deal. We've now got a handful of leases in New York again. We'll look to consolidate those, and, again, that's latter 2015, 2016. And then the other thing we announced, I think it was earlier in October, was that we're going to be bringing the regulation of the markets at NYSE back in house. And so that's a synergy we'll be working on over the course of 2015. Frankly, embedded in the investments is the investment to build that function out at NYSE and then as you get out to 2016, we'll take that function on. So those are some of the bigger things. As you might expect, as we get deeper into 2015, the items start to shrink in size and it's a handful of smaller items, as opposed to one or two large items.

Daniel T. Fannon

*Jefferies LLC*

Q

Great, thank you.

**Operator:** And the next question is from Chris Harris of Wells Fargo. Please go ahead.

Chris M. Harris

*Wells Fargo Securities LLC*

Q

Thanks, guys. Really good year for you guys for CDS clearing, Scott, I think this is kind of tracking right in line with where you said it would be. How should we be thinking about the long-term growth rate for this part of our business? And then related to that, are there any catalysts to look forward to that could potentially get trading revenues growing again?

Scott A. Hill

*Chief Financial Officer*

A

Yeah, it's a great question. So as I step back and look at what's really driving the growth this year, the notional that's been clear this year has been about 70% from the buy-side. If you think about it two years ago, buy-side wasn't even in clearing. And last year, I think it was 26% of our notional. This year, it's 70% of the notional. And that's what's really driving the revenue performance. And I mentioned in my prepared remarks that European clients now make up 40% of the volume that we're clearing. Those European clients don't have a mandate to clear.

And they're showing up in our clearing house because number one, there is uncertainty in Europe with regards to what is the impact of MiFID II, what is the impact of EMIR. And I think customers are starting – European customers are starting to look for what's become a relatively more certain environment in the U.S. I also think that they are attracted to the fact that we offer clearing not just of the index products, which is interesting, but not particularly relevant if you don't also offer the single names. If you're long the names and short the index or vice versa, you don't want to be margined on both parts of that. You want to come to a clearing house that can offer you portfolio margining. We can do that.

A lot of the trading activity that is happening today where we are seeing grow in CDS is single names, and it is sovereign. We offer all the major single names. We offer all the major sovereign CDS products. There's a number that we still have to launch, but the ones where the trading is the largest, we offer those products for clearing. So I think all of those have been catalysts for the CDS growth. Frankly, we earned, I said \$23 million in the third quarter. We earned \$12 million of revenue in the month of October. So as the CDS conventions were changed and we saw the rule move into October, we had a fantastic October to continue that trend.

As far as where the market goes, I think the big unknown is the last thing you asked in your question. And that's what happens with the trading environment. And I really – my view is I think there are going to be two differences. I think from an index standpoint, the question is does the index product stay in the over-the-counter market as it is today or does it move into something that's more like a futures? And we're working with the market to figure out what that product design might look like. Frankly, I think the single name is unlikely to change. I think that as people are finding it harder and harder to get exposure to company's credit through the bonds, that we're seeing the pick-up in that CDS activity. I think that's a good trend as we look forward.

So I think there are a number of drivers. Even though the buy-side has started to move in this year in size, I still think there is a lot of buy-side clearing to go. So I think there a number of growth drivers. Being able to tell you that I think a business that's going to do just under [ph] \$100 million (78:00) can grow 10%, 15%, 20%, 25% a year, I think is hard to say without knowing the trading environment. But I certainly think the trend is up. I certainly think it's still a growth business for us. And, again, an important thing not to get lost is it's not just revenue. It drops meaningful profit to our bottom-line, so it's a good business for us. We expect it to continue to grow. And I think the big trends behind it are the buy-side and the global nature of the clearing house here in the U.S.

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Chris M. Harris

Wells Fargo Securities LLC



Thank you very much.

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**Operator:** The next question is from Jillian Miller, BMO Capital Markets. Please go ahead.

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Jillian Miller

BMO Capital Markets (United States)



Thanks, guys. So just following up on that last question, you mentioned that a lot of the European buys that are already kind of accessing your CDS clearing offering, despite the fact we don't have mandates yet, but I'm just trying to get a sense for whether we should be expecting some kind of step function when the mandates do come in in early [ph] 2016 (78:55) for the buy-side, or whether you think those folks are already clearing in advance or will, I guess, more gradually be moving into it throughout the course of 2015?

**Scott A. Hill***Chief Financial Officer*

A

Yeah, I think it's somewhere in the middle. I certainly don't expect some massive step function, because, again, we are seeing it. And it's not institutionally. Typically, it doesn't take a law to move people to clearing. It takes a realization that clearing really does reduce risk. So I think we are seeing the buy-side move in. I certainly think the mandates will help. We saw that here in the U.S.

We got some early participation from the buy-side, but once the U.S. mandates kicked in, we certainly did see an uptick in the revenue. So I think the subsequent mandates in Europe, which I'm now hearing could be pushed out all the way into early [ph] 2016 (79:42), will help, but I don't think it's a step function. I think the growth from that business, again, is going to come from an improvement in the trading environment, us continuing to launch more products and more people, more buy-side customers in particular, seeking out efficient portfolio margining that we can deliver in our clearing house.

**Jillian Miller***BMO Capital Markets (United States)*

Q

Okay. Thanks. And then just wanted to check in and get a progress update on the Brazil initiatives, BRIX and Cetip. I think back – I mean, it several years ago now when you first moved into the area, but I think you said that those projects would potentially become more meaningful to the bottom-line sometime around 2015 or 2016 and just wanted to see if that's still kind of generally the expectation and I guess just where we are with those projects.

**Scott A. Hill***Chief Financial Officer*

A

Yeah, look, I think I would characterize the Brazil relationship as continuing on a positive note, probably a little slower than what we would have anticipated, but I think importantly, we've got a bond platform that we've launched with Cetip that has started to pick up some meaningful share. It's certainly being noticed by market participants and that's one initiative that we've been very successful with. As you know, there's not a lot of clearing choice in Brazil. We have a strong clearing franchise, so you might imagine, there are other projects that we're working on with them.

So I did say two or three years ago that I thought as we got into 2015, that we would start to see a little bit of yield. I think that's probably still a couple of years away in terms of seeing a meaningful yield within our P&L. That notwithstanding, we do think it is a very strategic environment for us. I think Brazil is an important country. It's very commodity-rich. And so I think it's an important relationship where we'll continue to invest.

I think the other thing not to get lost is we do participate as shareholders in the dividend. And you saw, I think it was in the second quarter, where we got a meaningful dividend from that relationship as well. But on the more strategic front, I would characterize it as a little slower than we had anticipated, but still a very positive relationship, a strong relationship, and one that we do feel will bear fruit as we look out into the future.

**Jillian Miller***BMO Capital Markets (United States)*

Q

Got it. Thanks.

**Operator:** The next question is from Brian Bedell from Deutsche Bank. Please go ahead.

Brian B. Bedell

*Deutsche Bank Securities, Inc.*

Q

Hi. Good morning, folks.

Jeffrey C. Sprecher

*Chairman & Chief Executive Officer*

A

Morning.

Brian B. Bedell

*Deutsche Bank Securities, Inc.*

Q

Jeff, maybe you can expand a little bit on two of the acquisitions that you have [ph] in terms of (82:12) SuperDerivatives and maybe the Singapore effort as well. I appreciate on the SuperDerivatives, it's so difficult to size that opportunity, but maybe if we can think of how you think you can scale that business from a revenue expense perspective – and maybe that's a question for Scott. But then also on the Singapore side, what you see as the long-term growth outlook for that effort.

Jeffrey C. Sprecher

*Chairman & Chief Executive Officer*

A

Well, sure. It's very hard to put numbers on it. And I know that's what ultimately you need. And as an entrepreneur, what I see in the company is that we have a lot of content. And we have an amazing sales force and customer relationship footprint. And they had great technology and really good quantitative people. And so it looks to us like one and one makes three in this regard. I really do think that ICE will have a lot of content and the distribution capabilities that we can bring to their systems. And we're embedding their quants right away into our risk management infrastructure, and they're helping us with a lot of complicated multi-asset class derivatives that I think will pay dividends down the road in clearing and settlement capabilities, so it's all – much of it is forward-looking, but it's a very, very nice fit for us. And it was an entrepreneurial company. It is an entrepreneurial company. It fits well within our culture. I think it's a company that we'll be able to quickly deliver some results on.

With respect to Singapore, we've spent the last few quarters basically embedding the ICE clearing and trading technology into that Singapore exchange. We've put a whole new team around it, hired risk managers, and are working with the customers there and the regulator there to now move forward with this launch that we anticipate will happen in March of 2015. We just see a lot of demand in Asia. And ICE, if you look at us, we grew all through the financial crisis. And largely it was because the emerging economies were adopting risk management. And many of them were prepared to come and meet us in Europe to do business.

With the uncertainties about European regulation, it's not clear whether or not to us Asian customers want to come there, whether they would prefer to meet us in the U.S., or whether they want to meet in Singapore. And so I know that all of this new infrastructure for regulation and reporting and oversight is very, very complicated. And the further away you get from your own domicile, the harder it is to fully comprehend this stuff. And so it's why we really think there's a regional opportunity out there.

What business moves that way? It's hard to say. But we want to – if we're all going to be on the same platform and in the same systems and the same people involved, then I think, you know, we can provide that opportunity somewhat seamlessly to the market and we'll just see where the market takes us.

Brian B. Bedell

*Deutsche Bank Securities, Inc.*

Q

Okay. Okay, that's helpful. And then my follow-up would be, back to Brent, obviously, seeing very good momentum. I don't know if you can size what you think is the revenue contribution right now from the arbitrage that's going on with your exchange, you know, from the competitor payments for order flow. And then, Jeff, if you want to talk about the longer-term adoption of Brent as a benchmark, if you still think there's pretty good legs, you know, on that trend. We've already seen pretty good progress on that. Thanks.

Jeffrey C. Sprecher

*Chairman & Chief Executive Officer*

A

Yeah, it's hard to know what that arbitrage is. We know – we just look at the markets and people that are in the markets and we can see behavior that looks like somebody that's trying to get paid by moving trades back and forth on a competitive exchange, and then ultimately looking at us as the primary market to figure out where the real price is and laying off from time-to-time that risk back into the primary market, for which we charge [ph] whole (86:51) price and benefit. And it really is a transfer of wealth from one company to another. So we try to set it up that way. We try to charge people that way, so that we get some net benefit out of what our competitors do.

It's not something we can predict. We never know what our competitors are going to do, what schemes they may have, but, importantly, we have a pretty close eye on it. And we do monitor trading activity in our markets and adjust our pricing and response accordingly to try to grow revenues, which is really what we're all about here, not necessarily market share.

Scott A. Hill

*Chief Financial Officer*

A

Just to kind of put an edge on that point, market share has been pretty stable, at about 55% of the total oil anyway.

Jeffrey C. Sprecher

*Chairman & Chief Executive Officer*

A

Yeah.

Scott A. Hill

*Chief Financial Officer*

A

So you talk about the trading schemes and the buy one, get three free-type programs. The reality is the Brent market keeps getting bigger. I think Brent OI now, our Brent OI is now larger than the OI of the [ph] CME's WTI (88:02). And so as I look at total share, as I look at the nature of the volumes that we're getting, the revenue that it generates, we feel pretty good about where we are in our oil franchise.

Brian B. Bedell

*Deutsche Bank Securities, Inc.*

Q

Okay. And then just on the longer-term benchmark reduction of Brent that, I think, Jeff, you alluded to earlier?

Jeffrey C. Sprecher

*Chairman & Chief Executive Officer*

A

Yeah, well, one of the things that's going on right now is a consultation in Europe about oil pricing in general and the regulation of benchmarks more broadly. There's going to be some – there's the consultation going. There's an opportunity for the market to talk to the regulators about the commodities markets and, specifically, the oil markets on the need or lack of need for additional regulation. We're in the business of producing benchmarks now. And we've got the infrastructure to do it and the governance around it and a good relationship with regulators.

We're going to let that process play out. Our customers are going to have a strong say in it. As you regulate benchmarks, you're really pulling in the physical markets, the underlying markets, and the transaction in those markets which make up the benchmarks. So you're moving regulation further down the chain. And that impacts our customers. So we'll see what their response is. But broadly speaking, we're set up really for however the regulators come out and want us to operate that benchmark. The Brent Index is a benchmark that we do set and have set for many, many years internally. And those processes may become more transparent, I suspect, as the nature of benchmark price setting is trending that way generally.

Brian B. Bedell

*Deutsche Bank Securities, Inc.*

Q

Okay, great. Thanks for taking my questions.

Jeffrey C. Sprecher

*Chairman & Chief Executive Officer*

A

Thank you.

**Operator:** This concludes our question-and-answer session. I would like to turn the conference back over to Jeffrey Sprecher, Chairman and CEO, for any closing remarks.

Jeffrey C. Sprecher

*Chairman & Chief Executive Officer*

Well, thank you, Kate. And thank you all for joining us this morning. And we'll look forward to continuing to speak with you throughout the quarter. Have a good day.

**Operator:** The conference has now concluded. Thank you for attending to day's presentation.

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