Securities Industry News

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News Desk

Former Nasdaq executive will head Dubai exchange; Hong Kong Mercantile Exchange has launch date and service providers. PAGE 3

Perspectives

GUEST COMMENT: Though the future of hardware technology is based on multicore architectures, write Intel's Rick Jacobsen and Rogue Wave Software's Patrick Leonard, "financial services firms cannot simply migrate to multicore the way they have with other technology." To implement concurrent computing for business applications, IT departments will need to adopt new approaches. PAGE 4

Departments

TRADING: Trading platform operators Napa Group and Restricted Stock Partners are finding opportunities in the collapsed auction rate securities market. "Our focus is to integrate all the broker-dealers that have information they need to share," says Napa CEO Peter Chatzky. "We are trying to move the entire market as a whole, not trade by trade." PAGE 6

DATA MANAGEMENT: Seeking to bolster transparency, RiskMetrics Group is providing hedge fund managers with a free service that lets them issue monthly reports to investors. PAGE 6

TRADING: Nasdaq OMX will help improve Ukraine's trading environment and post-trade services with new technology platforms. PAGE 8

COMPLIANCE: Chinese regulators have ended their moratorium on foreign brokerage investment. PAGE 8

COMPLIANCE: With beneficial owners often several layers removed from customers, some firms have adopted transaction monitoring as the ultimate defense against financial crime. PAGE 10

On the Web

SEC fines Scottrade $950,000; Icap in forex data deal with FX Solutions; and more.
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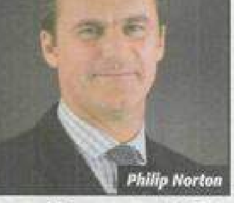

Philip Norton

Post-Merger BGC Plots Hybrid Course Across Asset Classes

By Shane Kite

BGC Partners is demonstrating its post-merger strategy with a series of initiatives as it works to integrate the offerings of predecessors BGC, a primarily voice-based interdealer broker, and electronic-focused eSpeed.

The ultimate goal, said Philip Norton, executive managing director of e-commerce at New York-based BGC Partners, is to provide state-of-the-art hybrid voice and electronic trading across products

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Latency Focus Missing the Forest?

By Tom Groenfeldt

Latency in order routing and market data distribution is under siege. Hardware and software vendors are joining forces with labs and performance gurus on both sides of the Atlantic to analyze performance in exacting detail and eliminate microseconds of delay wherever possible.

That isn't necessarily a good thing, says Vivake Gupta, London-based managing director of technology consultancy Lab49. Firms are focusing on the movement of market data to the trader, Gupta says, and overlooking other parts of the trade flow.

"Soon a bottleneck arises someplace different," he says. "People haven't been looking at the trades comprehensively." Firms that are spending large sums of money to get their internal latency down to microseconds may "forget about three seconds of latency from the market."

Stuart Breslow, CEO and chief information officer of execution management systems provider Townsend Analytics, agrees. One problem with discussing latency, he notes, is that the term means different things to different people. To address the issues effectively requires getting into the nuts and bolts of a firm's operations and understanding its interface to the markets—viewing latency from 20,000 feet down to the micron level.

J. Barry Thompson

Providing links to geographically dispersed markets, Townsend, a Chicago-based Lehman Brothers subsidiary, faces inherent latency problems, but it uses data centers in New York, Chicago and other points of presence in Europe to reduce connectivity time. "We don't spend time worrying about microseconds, because the latency be-

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NYSE Considers Fee Overhaul; Maker-Taker Is On the Table

Big Board wants to attract electronic flow while maintaining differences

By John Hintze

After proposing major changes to its market structure earlier this month, the New York Stock Exchange is looking at liquidity-drawing incentives that could bring it more in line with competitors' maker-taker pricing models.

NYSE has long charged $0.0008 per share for market orders, the lowest fee among U.S. exchanges and smaller than that of most alternative trading systems. Nonetheless, its share of overall volume has dropped markedly, hovering around 25 percent today compared to more than 80 percent a few years ago.

Unlike its rivals, NYSE has never offered a general rebate to broker-dealers posting liquidity in the form of limit orders. In recent weeks, however, exchange executives have sought input from market participants about introducing a maker-taker model—one potential schedule would charge market-order providers $0.0015 per share and rebate $0.001 to

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Harmonizing Accounting Standards No Easy Task

Uniformity could promote cross-border investment, but when?

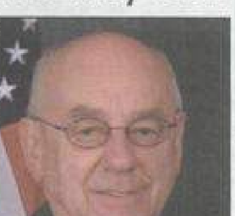
By Chris Kentouris

While U.S. regulators and their foreign counterparts have long cited the need for global accounting standards, it has been harder to find agreement on who would enforce them and how soon they could be implemented in the U.S.

Attendees at a June 16 forum told *Securities Industry News* that they were not able to prompt Securities and Exchange Commission officials to set a date for the move from U.S. generally accepted accounting principles (GAAP) to International Financial Reporting Standards (IFRS). The meeting, held at Baruch College in New York and sponsored by the U.S. Financial Accounting Standards Board (FASB), drew participants from the SEC, FASB and the accounting community.

SEC chief accountant Conrad Hewitt said only that the agency would rule on IFRS later this summer, though he agreed that the U.S. should not be left behind the international community in adopting the standards. About 100 countries are either using the international standards or altering theirs to meet IFRS policies established in 2005. The European Commission requires all public companies incorporated in the European Union to use IFRS.

On June 18, the SEC issued a statement noting the widespread global support for the creation of a monitoring group to oversee the International Accounting Standards Committee Foundation (IASCF)



Conrad Hewitt

and provide for "organized interaction between national authorities responsible for the adoption or recognition of accounting standards for listed companies and the IASCF." The foundation is the parent of Europe's International Accounting Standards Board (IASB), the standard-setter for IFRS.

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STANDARDS & PROTOCOLS

Accounting Standards – Continued from page 1

In the statement, the SEC said that it, along with the European Commission, Japan's Financial Services Agency and the International Organization of Securities Commissions (Iosco), welcomed the IASCF's upcoming roundtable, where a draft proposal to alter the organization's constitution will be discussed. The changes would allow a monitoring group to select and approve IASCF trustees, who would supervise the IASB.

Georgene Palacky

According to the SEC, the IASCF wants to "create a mechanism for interaction between securities authorities and the IASCF that approximates the historical relationship between securities authorities and national standard-setters."

The IASB has suggested that the proposed oversight group consist of representatives from the EC, International Monetary Fund, Iosco, Japan's Financial Services Committee, the SEC and the World Bank. The group would also approve IASB funding and its board of trustees.

Political Obstacles

While the IASB's raison d'etre is similar to that of the U.S. FASB, the international group's role as a supranational standard-setting body has been questioned by some European countries that want local or industry-specific exceptions to the IFRS. They also want local courts to have the final say in interpreting IFRS, which could throw a wrench into the plans to converge standards.

Although the IASB is not expected to change its charter until 2010, the potential increase in U.S. control of the group is top-of-mind for many in Europe. The U.S. focus on prescriptive rules could clash with the IASB's guidance-based approach if the oversight group recommends more American appointees to the IASB board, currently comprised of six trustees each from North America, Asia and Europe.

Differences aside, there is abundant reason for cooperation. Divergent accounting practices have made it difficult for firms to list and sell their securities outside their home markets and for shareholders to have a comparable understanding of the companies in which they are investing. Creating uniform international standards could ultimately promote greater cross-border investment and reduce trade barriers.

"The goal is to get accounting standards on both sides of the Atlantic to appear as close as possible so that if or when U.S. firms are required to move to IFRS, the transition can be a bit more painless," said William Stocker, partner in charge of New York accounting firm Marks Paneth & Shron's professional practice group and chairman of the international accounting and auditing standards committee of the New York Society of Certified Public Accountants.

The FASB and IASB have been trying to harmonize U.S. GAAP and IFRS since they signed the so-called Norwalk Agreement in 2002. The two groups, along with the SEC, have been pushing for full convergence of the standards by 2009 but that target is unlikely to be met, according to accounting experts.

There is considerable work left to do. The recent FAS 157, for example, establishes standards—and methodologies allowed—for fair-value pricing of all assets and liabilities, while the IFRS guidance is less clear. Though the IASB is set to issue a definition of fair value in 2010, it has not indicated what it will do if that differs from the FASB's—"the price at which an instrument can be sold or transferred in an orderly fashion."

Also to be reconciled is how firms book their derivative transactions and address the use of derivatives to hedge risk—a practice known as hedge accounting. Under FAS 133 and IAS 39, derivatives must be recognized as either financial assets or liabilities, but the U.S. rule doesn't apply to contracts that do not allow for net settlement.

Small Steps

There is speculation that the SEC will make IFRS mandatory within the next three to five years. In November, the regulator approved a July proposal allowing foreign companies to report their financials using IFRS rather than filing in U.S. GAAP or reconciling their records with the standard. In August, the SEC issued a concept release—which falls short of a rule—proposing that U.S. companies be allowed to file using IFRS, though it has yet to announce a final decision.

"The largest accounting firms could easily have the global reach to handle IFRS work, but mid-tier to smaller ones have a hefty learning curve."

—Donal Byard, Baruch College

Also unknown is whether the SEC will opt for a gradual adoption of IFRS or set a firm date for the migration. While there is strong support for IFRS in the U.S., how it should be implemented is a source of much debate.

The American Institute of Certified Public Accountants (AICPA) in May amended its rules to give private firms the option of using IFRS as an alternative to GAAP. "We think it's a good way for firms to prepare for the new global standard which will help investors," said Fred Gill, senior technical manager of accounting standards for the AICPA in New York.

However, a recent survey of the group's members found that only 9 percent of 1,240 respondents would choose early adoption.

"Given that significant differences still exist between IFRS and U.S. GAAP, we do not support giving U.S. domestic filers an option between the two sets of standards," said Georgene Palacky, director of financial reporting policy for the CFA Institute, which represents securities analysts who must review financial statements. "To allow cutovers to IFRS to occur randomly presents serious uncertainties and complexities to end users."

The CFA Institute wants the SEC to come up with a blueprint that includes a date for completing the transition to IFRS and interim milestones that would give firms time to prepare. The group says that it supports "the current conversion efforts between the IASB and FASB to improve financial accounting standards regarding off-balance-sheet arrangements and financial instruments."

While multinational financial institutions are already familiar with IFRS, regional and local U.S. firms could find adoption more difficult, as will accounting firms without qualified staff. Business schools are only now awakening to the need for dedicated courses on international accounting standards. "The largest accounting firms could easily have the global reach to handle IFRS work, but mid-tier to smaller ones have a hefty learning curve," said Donal Byard, associate professor of accounting at Baruch.

Education is just the tip of the iceberg, according to AICPA's Gill. "U.S. firms will have to make changes to their information-gathering and financial reporting systems prior to the adoption of IFRS because they will need to present comparative information for the previous year," he explained. ■

Latency – Continued from page 13

the lowest available network latency on a 1 gigabyte Ethernet. The benchmark was conducted using Intel-based Sun Fire servers with dual quad-core Intel Xeon processors running on the Solaris 10 operating system.

Sun brings more than raw horsepower to solving performance problems. While Intel and AMD have been promoting multicore processors, applications often can't take advantage without extensive rewriting. Sun's Niagara chip uses thread cycling so users can run up to eight threads per core, or 64 threads on an eight-core machine. The result is powerful processing with very little power consumption.

"This performance used to cost millions and take up a lot of real estate," says Donna Rubin, director of marketing for financial services at Sun. "But these systems are very cost-effective and use less power than a light bulb."

For applications that aren't multithreaded, Sun can place them in containers that communicate directly through shared memory without going over a network. ■