

# SECURITIES INDUSTRY NEWS

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## Merrill's Tosi: FinTrack Part of Larger E-Com Plan

*Merrill Lynch announced last week that it has tapped FinTrack Systems, a New York City software company that builds Web-based trading systems for institutional investors, to provide its e-Charm for Equities trading system on Merrill's MLX portal.*

*The system connects Merrill's OTC and listed trading desks to institutional customers. Merrill plans to add Latin American securities to the system, and then European and Asian equities, said Nat Rathnam, a principal at FinTrack. Merrill is also considering adding the FX version of e-Charm to the portal, he added.*

*The firm is offering the system to its institutional customers this month, Rathnam said. As part of the deal, Merrill also took a stake in the company.*

*In an interview with Securities Industry News Internet Editor Mary Schroeder, Laurence Tosi, director of business development for Merrill's corporate and institutional client group, discussed the FinTrack investment in the context of Merrill's philosophy of partnering with systems and software providers in general.*

**Securities Industry News:** *What is your philosophy of making e-commerce-related investments?*

**Laurence Tosi:** The fundamental strategy I've always had is, if you can harness the entrepreneurial spirit of an outside business, and partner with it effectively, you can build e-commerce applications faster and smarter than is

possible by doing it yourself. In e-commerce, applications and technologies reach obsolescence at an incredibly fast pace. So the need to innovate is paramount, or you fall behind. Literally by the time you launch an application—and this is true in the securities industry or in retail—it is virtually obsolete at the time it is launched. Because launching it, you learned enough about what the next generation would look like. So you need an operating model toward technology that allows you to continue to iterate and innovate. And one of the most effective ways to do that is by striking strategic relationships. Because typically, what you look for is the fit between the two companies. You look for who has what assets and expertise, and for financial goals. And if there's a fit, sometimes out of the synergy it literally becomes one plus one equals three.

Now, to be a good partner, you have to stop thinking and using words like 'vendor' or 'contract,' 'you have to do,' 'you must do,' and start thinking about 'partner,' 'share,'" etc. You have to change your entire mindset about how you approach outside companies. You can no longer think about it as, We paid them; they have to do it. Because you're building things that you're not even sure what they are. I joined Merrill Lynch last year because I felt as though our brand, our customer base and our intellectual capital was so good that a

traditional business like Merrill Lynch could win on the Internet.

Last summer we started looking for who were going to be the key partners to help us build this institutional portal [called MLX], which by any stretch of the imagination is an enormous undertaking. Describe the difficulty that some companies have had building their retail offerings, multiply that by 50 and you have what is your average institutional portal.

So I arrived about the time we were starting to turn the execution into high gear, meaning that we had built numerous applications, we had plenty of electronic connectivity to our clients.... We were already a leader in e-commerce; the question was how to you bring it to a browser-based Internet technology. Our idea with FinTrack was, we needed a smart, focused independent shop that had good technology that would build with us the next generation of institutional trading applications. Over last summer, we looked at almost 100 different vendors and companies, not just for trading applications, but for other pieces of the portal. And one of the companies that rose to the top in terms of the quality of their technology expertise and quality of their people was FinTrack.

So the basic pitch to FinTrack is, they were a young company—I think at the time they had 12 people—they were very hungry for the work,

# SECURITIES INDUSTRY NEWS

Murugan [Manivannan, FinTrack's president] and his colleagues had a decent capital markets background. They had never built an equity trading application before. In fact, they [had built] a derivatives system. But we believed that if we struck a strategic relationship with them, we could help them build essentially the next-generation equity trading application, and that's what we did. The way the strategic relationship works is that we help them at all levels of their business mature or incubate into a bigger, stronger competitor in their business. Because the bigger and stronger they are, the better partner they are for Merrill Lynch. So the way it worked was, we invested capital in them.

**Securities Industry News:** *What kind of stake did you take?*

**Tosi:** A noncontrolling share. It's a significant stake. We are the largest outside shareholder. We would never take a stake in a company that would jeopardize their neutrality. Because then they wouldn't be able to go out to the securities industry and do business with our competitors. Believe it or not, doing business with competitors is very important to our plans with FinTrack. Because the more business do with our competitors, the more they'll learn about the business, the stronger they'll get as a company, and the better their products will be. I don't think you can capture shops and keep things internally, because it will become obsolete so quickly that it doesn't make any sense to try to do it all as dedicated development. I would say our relationship with FinTrack is similar to our relationship with Bloomberg. We're still the largest outside shareholder of Bloomberg, but I don't think you'll find anybody saying that Merrill Lynch manipulates or con-

trols Bloomberg.

So we took a minority stake in FinTrack. We have a seat on the board. We're really there to advise them.

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We've actually helped them pitch business to our competitors. We have given them sizable contracts that have allowed them to build up their technology team. I think they're now at 70 people. And we're not their only customer. I believe at the time we were; we're not now. They have a significant deal with one of our competitors. What we did was, we committed to them as technologists and partners, and took a vested interest in their business, and on the back of that, we took the intellectual capital from inside of Merrill Lynch—which is people—and dedicated them to FinTrack, and helped FinTrack build the next-generation equity trading application. And what they've been able to do in the course of a year is go through seven versions, resulting in what I think is the best equity trading application that's out there on the Internet today....

**Securities Industry News:** *Is your aim in supporting FinTrack also to make a profit on your investment?*

**Tosi:** Absolutely. And one of the reasons we used the capital is that capital investment helps them to grow faster. At that point, our interests are aligned

with [those of the] founders and employees of the company. Because Merrill's interest is in seeing the company grow as fast as it can and become as valuable as it can. So when it comes down to "Jeez, do we cut an exclusive contract and cut them out of this business?" the answer is usually, "Well, not if we don't need to because otherwise it just adds more value to FinTrack and isn't that good because we're shareholders too." So our interests are aligned, rather than in the usual fistfight vendor relationship, where you're constantly squeezing them on price. There's an element of that—it's still an honest relationship. But it's OK that we help them develop their products, because in the end when they go off and sell them indirectly, we have a benefit because we're a shareholder.

**Securities Industry News:** *What are your other key e-commerce investments?*

**Tosi:** I consider FinTrack to be an application investment. Our other key

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investments are in consortia, which would be BondBook, the MuniCenter, TheMarkets.com, Securities Hub, TradeWeb, BrokerTec, and Archipelago.

**Securities Industry News:** *What's your strategy for the consortia?*

**Tosi:** In some cases, it's an extension or a new business model. And we are joining with our competitors to build a

## SECURITIES INDUSTRY NEWS

more effective way to deliver products jointly to our clients. There was never an efficient fixed-income exchange, and that's what BondBook is. And the benefit that Merrill Lynch gets out of something like a BondBook is that there's more transparency in the market; we can more freely buy and sell inventory.

**Securities Industry News:** *Where would you draw the line between working with other firms on e-commerce offerings and doing your own proprietary offerings?*

**Tosi:** I think we start with what the client sees, and the client usually wants to see a level of commingling. If it makes sense for the client, that's where we think we should work with our competitors. As soon as it goes beyond the veneer, we compete based on the quality of our portal offering.

**Securities Industry News:** *Outside of the consortia, what are your other e-commerce investments?*

**Tosi:** FinTrack is one of 15. Multex is another. In December, we bought a stake in Multex and signed a multiyear, massive development deal, whereby Multex will develop and support our research and information delivery capabilities across Merrill Lynch's portals globally. So that's MLX, MLDirect, Merrill Lynch HSBC, Merrill Lynch Asset Management. And same thing—they were public at the time. They're a smart company, great entrepreneurial spirit, well managed, and clearly have the expertise in the space. They wake up every morning and think about developing research Web sites. And that's pretty hard to compete with on your own. And so our view was, let's partner with them and let's build sites

together, and I think now we have world-class research distribution sites. A section of MLX is one of them.

One point with respect to those 15 firms: we keep the list very short and we really spend a lot of time with them. We talk to FinTrack almost on a daily basis. And it's not necessarily about developing the products, it's about "How's your business plan going; where's your business going?" We review deals for them, we give them advice. We really embrace our partners and help them build their businesses. I consider that almost the intangible benefit of the association with our brand. We'll do press releases, product testimonials, we've gone on road shows....We really focus on driving a lot of value to these businesses. Not

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just because we're investors, but because that's part of the relationship. If we're so tightly aligned and our fate depends on their success, we do everything we can to ensure that success.

In the case of Multex, we helped them get contracts with our clients, with MLHSBC, we drove their getting the contract with TheMarkets.com. It's a very different way of looking at investing. Our competitors really do what I call the cash and carry—basically go in, make an investment and disappear. Then they come back the day they sell

their shares and ask if they can get out of the lockup. We never do that.

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**Securities Industry News:** *In terms of developing technology, do you feel there's any technology that you would want to be proprietary? Or do you feel it all needs to be done on the kind of basis you have with FinTrack?*

**Tosi:** We use [a firm] to develop it. That doesn't mean what we develop with them isn't proprietary. Some of what they develop, they take the learning and they can do for other clients but they can't take—we retain the proprietary rights for what we build directly with them. We guard the proprietary nature of our technology very carefully.

**Securities Industry News:** *What kinds of trading volumes do you expect to be executed on the e-Charm for Equities system?*

**Tosi:** It's hard to tell at this point. It will really be determined by the clients. It will be available to a wide variety of them. But Merrill Lynch represents on any given day between 10 and 15 percent of all the trades done on the major U.S. exchanges. What percentage of that will come over this particular Internet application vs. the point-to-point [connections], is very hard to tell.

**Securities Industry News:** *What kind of back-office processing technology will be linked to FinTrack?*

**Tosi:** It's our proprietary [correspondent clearer] Broadcort Capital Corp. ■

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