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## **Cisco Survey Identifies Key Factors Redefining Global Exchanges and Billions of Trades Daily**

*Study First to Identify Strategies and Technologies That Can Help Exchanges Thrive  
in Rapidly Evolving Landscape*

**NEW YORK and SAN JOSE, Calif. – July 21, 2008** – A confluence of factors is reshaping the global securities industry and the traditional exchange trading business, a new Cisco study reveals. The company's global strategic consulting arm, Cisco Internet Business Solutions Group (IBSG), conducted the first survey that examines and ranks key factors impacting the way trillions of dollars in cash and securities are traded on global exchanges. The study also reveals that in order for exchanges to meet rising user expectations, develop new revenue streams and remain competitive, they must seek a deeper understanding of these factors and exercise influence when appropriate.

To gain insight into this shifting landscape, the Cisco IBSG Financial Services practice conducted a research study, the Cisco Exchanges Survey. Through interviews with dozens of senior buy-side, sell-side and exchange executives, Cisco IBSG identified more than 50 capabilities against which to measure an exchange's performance. The study also revealed that exchanges do not currently influence many of these capabilities.

### **Top 10 Capabilities That Affect Exchange Performance and Revenue**

The Cisco Exchanges Survey identifies dozens of capabilities that a successful and thriving exchange must have in order to perform at a top level, increase revenue and uncover potential new revenue. The 10 high-priority capabilities highlighted within the Cisco Exchanges Survey are, in order of importance:

1. Liquidity
2. Transaction costs
3. Processing capacity
4. Availability
5. Low latency
6. Resilience
7. Volume
8. Legal and regulatory Regime
9. Anonymous trading
10. Indices

“At a time when we have seen so much change, only those organizations savvy enough to recognize the key capabilities, and to what extent they can control these factors, will remain competitive in tomorrow’s market,” said Joe Rosen, president, RKA Inc., and formerly the managing director of trading technology and head of technology marketing at the New York Stock Exchange.

From the 10 capabilities, low latency has perhaps gained the most public attention. The Cisco Exchanges Survey reveals that, while this has been a focus of those seeking to improve exchanges, survey respondents differed in just how important it is. Without superior technology, an unacceptable time gap occurs in the trading process. For companies pursuing a “low-latency” trading strategy, latency must be no more than 3 to 4 milliseconds according to the global head of trading for a leading hedge fund. An exchange that does not provide an excellent latency performance can expect erosion of its trade flow.

Still, while high-performance, low-latency systems may seem critical to some, the Cisco Exchanges Survey reveals that liquidity is the most important capability that an exchange must have. Most significantly, the research shows that exchanges are not in direct control of liquidity. Their performance on this capacity is a consequence of how well they perform on all the other capabilities.

#### **Control: What exchanges must do to meet user expectations**

Ultimately, the Cisco Exchanges Survey finds that an exchange’s success depends on how well it addresses user expectations. With customer expectations constantly rising, exchanges must embrace newer technologies to maintain their position and stay ahead of the competition. The research also suggests that exchanges must continue to invest in the technologies and capabilities that are under their control and that can be linked directly to revenue opportunities.

Cisco IBSG Financial Services practice is focused on helping banking, insurance and financial institutions turn their technology investments into strategic assets that increase productivity, reduce costs and create new revenue sources.

“Financial organizations are presented with a significant opportunity in today’s environment,” said Jim Greene, vice president and global head of financial services, Cisco IBSG. “By developing innovative approaches and deploying advanced technologies in a strategic way, financial exchanges, in particular, can create higher-performance infrastructures that will accommodate the new types of trading while meeting the increasing demands of an exchange’s clients.”

With exchanges competing on a global basis to attract new listings, the need to capture a greater share of transactions is increasing. Meanwhile, changes in regulation, market turbulence and technology are transforming the worldwide financial exchanges environment to a remarkable degree. Although a number of markets have consolidated through acquisitions, competition continues to increase as new markets emerge. Most major investment banks have also added their own engines, which siphon trades directly from exchanges. This results in an arena which

almost everyone competes. There are now more than 55 venues where buyers and sellers electronically trade U.S. equities.

The Cisco Exchanges Survey concludes that the environment for global exchanges shows no signs of becoming easier or any less competitive, but, that those institutions that embrace the 10 key capabilities will be more likely to thrive in the future.

For a complete version of the Cisco Exchanges Survey, and for more information on the Cisco IBSG Financial Services practice, please visit [www.cisco.com/go/ibsg/financialservices](http://www.cisco.com/go/ibsg/financialservices)

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### **SIDEBAR METRICS: Technology in Trading**

- Buyers and sellers electronically trade U.S. equities via more than 55 venues.
- Technology has reduced the transaction cost represented by an exchange in the total cost of buying, selling and processing equities to about 4 percent of the total cost.
- At the time of the survey, main board exchanges were achieving order execution times between 25 milliseconds and 100 milliseconds.
- Estimates for the NYSE are that upwards of 60 percent of its trade volume is generated algorithmically, and it's even higher for NASDAQ. For the LSE at the end of 2007, it was greater than 50 percent.