

The Reuter Monitor Money Rates

Technological revolution for financial information markets in times of international crises



THE NEW REUTER MONITOR- INSTANT RATES FOR THE MONEY MARKET



Immediate and direct access to money market rates from leading banks will be available from June 4 through a new computerised system—the Reuter Monitor.

Now the money market has a market place

The supply of up-to-the-minute information on the world stock and commodity markets is made possible by the existence of centralised dealing floors where information can be efficiently collated and reported.

But the international money market has no such centralised market place. Through the Reuter Monitor, quotations will be contributed by the market makers themselves, the leading international banks and financial institutions.

Thus, at the touch of a button, recipients to the full service will have the ability to scan money rates across the world.

World exchange rates, continually updated

Contributors will have the facility to display their quotations on foreign exchange, eurodeposits, certificates of deposit, domestic money markets and other allied markets, and to update them continually.

Subscribers to the Reuter Monitor will be provided with a video terminal and keyboard through which, with the aid of the Reuter Monitor Directory, they will have immediate access to the contributors' rates.

The illustration shows a typical page of information which will be screened for subscribers. The Reuter Monitor will cover the following—

- Foreign Exchange
- Eurodeposits
- Certificates of Deposit
- Domestic Money Markets
- Eurobonds
- Gold
- Commercial Paper
- News Retrieval.

The Reuter Monitor will monitor the news too

In due course the video terminal will also provide subscribers with a comprehensive and up-to-date news file of summaries of the latest world news items affecting the money market.

Full texts, if required, will be retrievable from the Reuter central data bank. A teleprinter hard copy will eventually be available as a record of all information received.

Confidentiality

One of the disadvantages of the old system of person-to-person enquiry for rates was that the enquiry itself could have the effect of driving the market one way or another. With the Reuter Monitor, the subscriber can interrogate the market in complete anonymity.

Ask for a demonstration

Demonstrations for corporate treasurers, bankers and brokers are being planned over the next few weeks. Please ask for an invitation to view the service or for further information, by filling in the coupon.

REUTERS

To: Mr. A. Jackson, Reuters Limited, 85 Fleet Street, London, EC4A 3DF. Tel: 01-353 6060.
 Please send me further information on the new Reuter Monitor
 Please arrange for me to have a demonstration

NAME _____
 POSITION _____
 COMPANY/INSTITUTION _____
 ADDRESS _____
 PHONE NUMBER _____

Chase Manhattan Bank's new treasury dealing room has been specifically designed to incorporate the Reuter Monitor Service.

Dealers sit at custom-built octagonal trading desks with Reuter Monitor screens suspended from the ceiling to give them easy reference

to rates and news flashes.

The Chase Foreign Exchange input page CMBX carries forward and spot rates for five major currencies, and was interrogated 56,830 times per week in September by subscribers throughout the system.

In light of the success of this

foreign exchange page, Chase has recently expanded the Reuter Monitor Service to include a sterling page CMB5.

Like more than 1200 organisations, it recognises that the Reuter Monitor service has now become an integral part of the

international money and foreign exchange markets.

Wouldn't it be a benefit to your organisation?



Reuters Limited, 85 Fleet Street, London EC4A 4AJ.
 Telephone: 01-353 6060.

Chase Manhattan's new dealing room is designed round the Reuter Monitor



Left: "The new Reuter Monitor – Instant Rates for the Money Market"

- Reuters first ad for the Reuters Monitor Money Rates; Financial Times, 24 May 1973.

Right: "Chase Manhattan's new dealing room is designed round the Reuter Monitor"

- Chase Manhattan's dealing room ad for the Reuter Monitor; Financial Times, 10 November 1976.

Summary

The introduction of the Reuters Monitor system during international crises



- In 1973/74, economies around the globe and the international financial system were faced with a plenitude of highly connected international pressures and crises:
 - The OPEC oil embargo in the wake of the Arab-Israeli War of 1973, quadrupling oil prices
 - Rapidly increasing inflation and stagnating economic growth in many advanced economies
 - Fast changing exchange rates after the end of the Bretton Woods system
- Early 1970s also key period in advancing “market for financial information”, with introduction of Reuters Monitor Market rates in June 1973 as exemplary for technological revolution in market info
- However, although Reuters’ Monitor system would prove highly successful in the long run, in the wake of the crises of late 1973 it was in fact **not** - as might be expected - pushed by the need for faster and “better” information, but the system came close to a breakdown
- Lacking user base in system of “contributed data” and thus missing network effects, coupled with traders resorting to “old habits” in fast changing markets as key reasons for the problems in 1973

Motivation: Why looking at “information” in crises?

Information key feature of banking & financial markets, yet overlooked in crises



“Information” as a fundamental concept for finance and banking – yet role in crises not fully explored

- Information acquisition, processing and decision-making within banking and financial markets has to adapt to new environment in times of distress with e.g. increased volatility or increased uncertainty and risk
- Major structural changes (techn. change, regulatory changes, financial innovation) have changed the way business is conducted in banking and financial markets and the role & nature of information over past decades
- Research into the market for financial information/market data vendors patchy at best; most studies and enquiries from journalistic or technological perspective (e.g., Bartram 2003; Alleyne & Wagner 1993)
- Role of the market for financial information as a whole not yet thoroughly understood esp. considering the fundamental changes in financial and banking markets, and no dedicated assessment of it’s role and effects esp. during financial and banking crises

1. Motivation

2. Market for financial info

3. Reuters MMR in 1973

4. Outlook & Conclusion

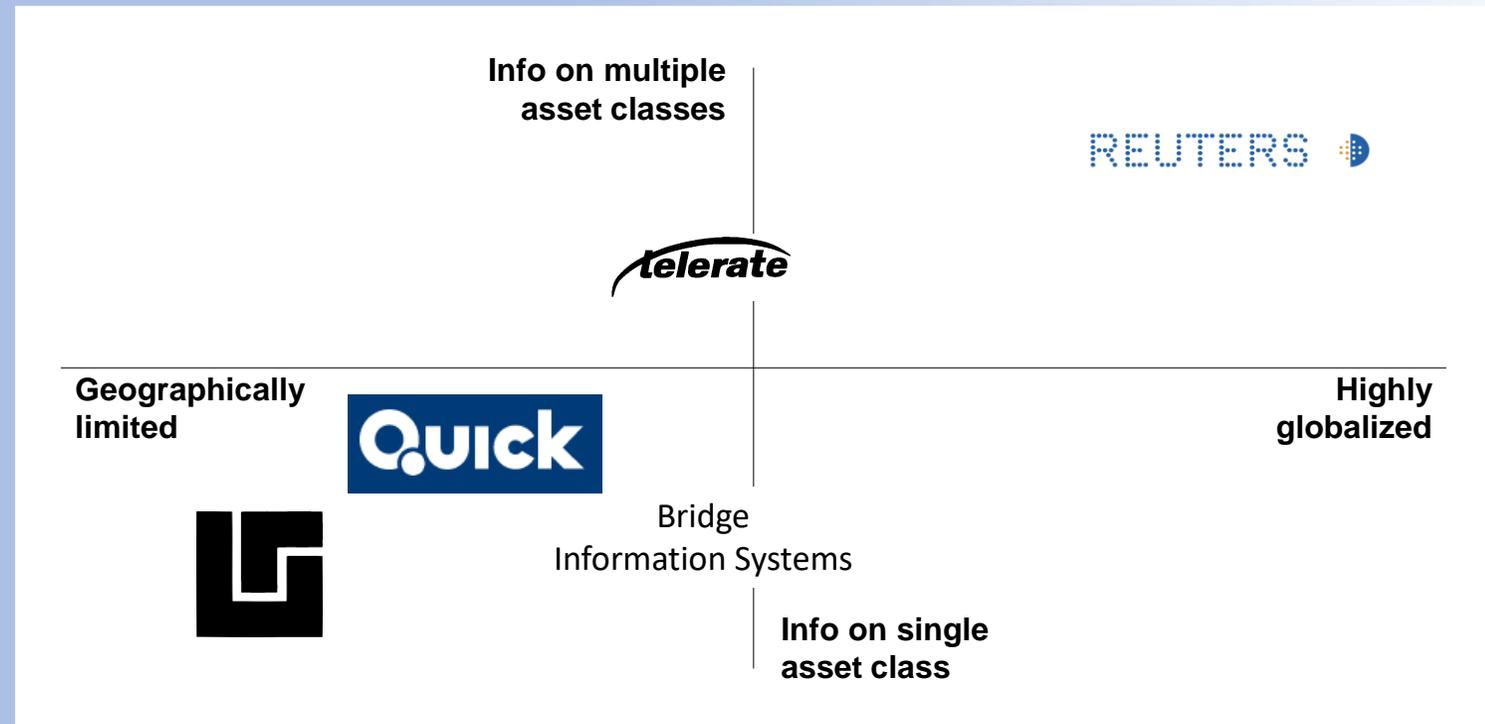
How might we think about the “market for financial information”?

Market to supply information for financial institutions, but what info. and how?



In the 1970s, the “market for financial information” changed and expanded, yet was still fragmented

- In 1970s, market for financial information highly fragmented, consolidation only in late 80s/90s
- Market for financial information split along several lines
 - Geographical focus
 - Asset class focus
 - News provider (AP, AFP, Reuters etc.) vs. Info. provider (Telerate, Quick, Reuters etc.)



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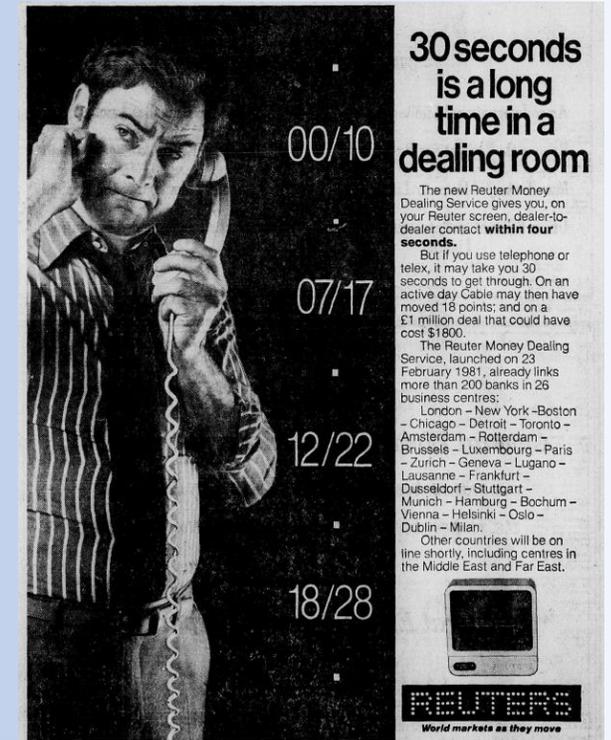
Why looking at Reuters?

Reuters emerged fundamental transformation in 1970s and dominant thereafter



Reuters development from news provider to financial information firm

- Fundamental transformation of Reuters from the 1960s onwards under CEOs Gerald Long (1963-81), Glen Renfrew (1981-91), and Peter Job (1991-2001)
- Until 1960s, Reuters focused on provision of news (and financial information) through large international journalist network, working on a subscription basis mainly for large newspapers
- Several technological innovations in 60s/70s proofed to the Reuters board the potential revenue in providing financial information (and later news) directly to clients in finance and banking:
 - The International Financial Printer [Direct distribution to clients]
 - Stockmaster and later Videomaster [Computerised stock information on request]
 - Reuters MMR [Contributed data within computerized marketplace]
 - Reuters Monitor Dealing [Provision of direct dealing platform]



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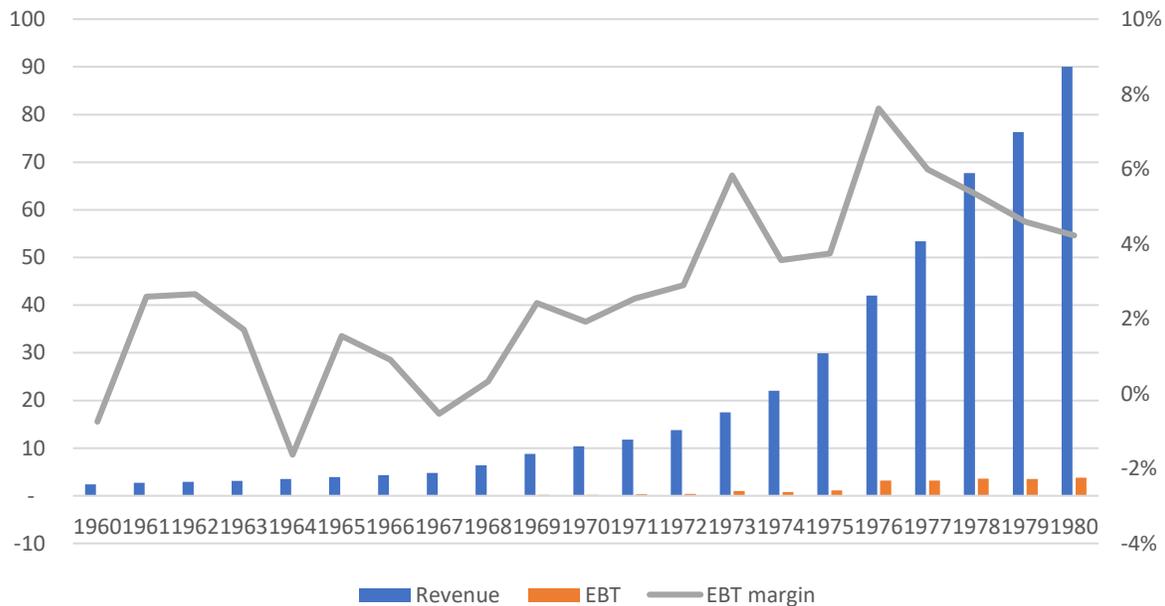
4. Outlook & Conclusion

Changing structure of the market

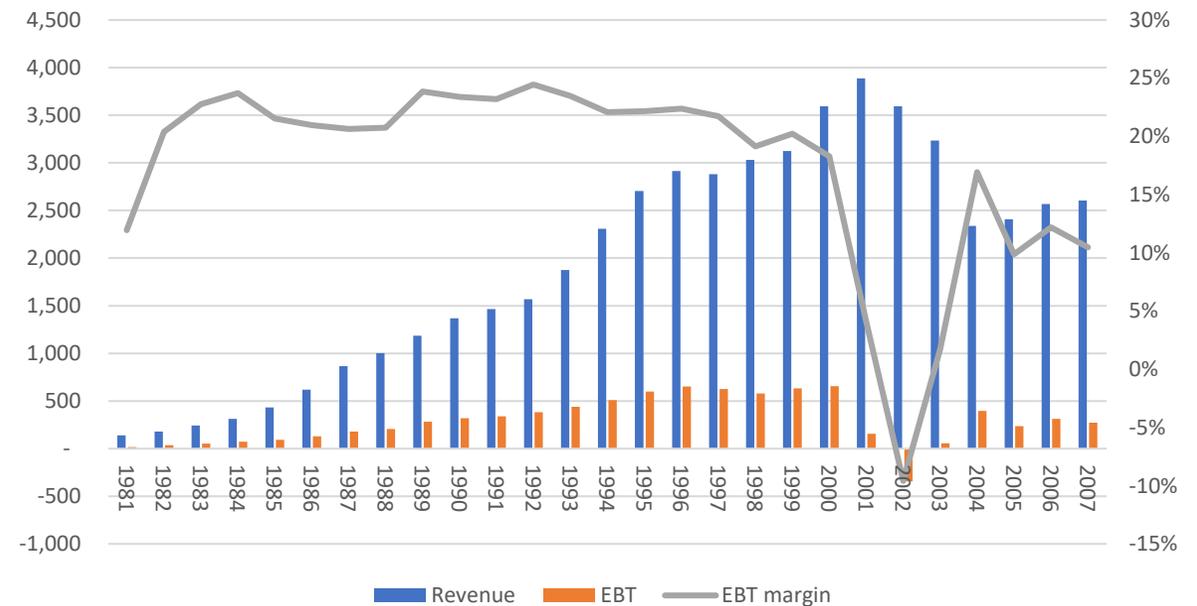
Reuters company development



Graph 1: Reuters Group revenue, EBT & EBT margin, mn. pounds, 1960-1980



Graph 2: Reuters Group revenue, EBT & EBT margin, mn. pounds, 1981-2007



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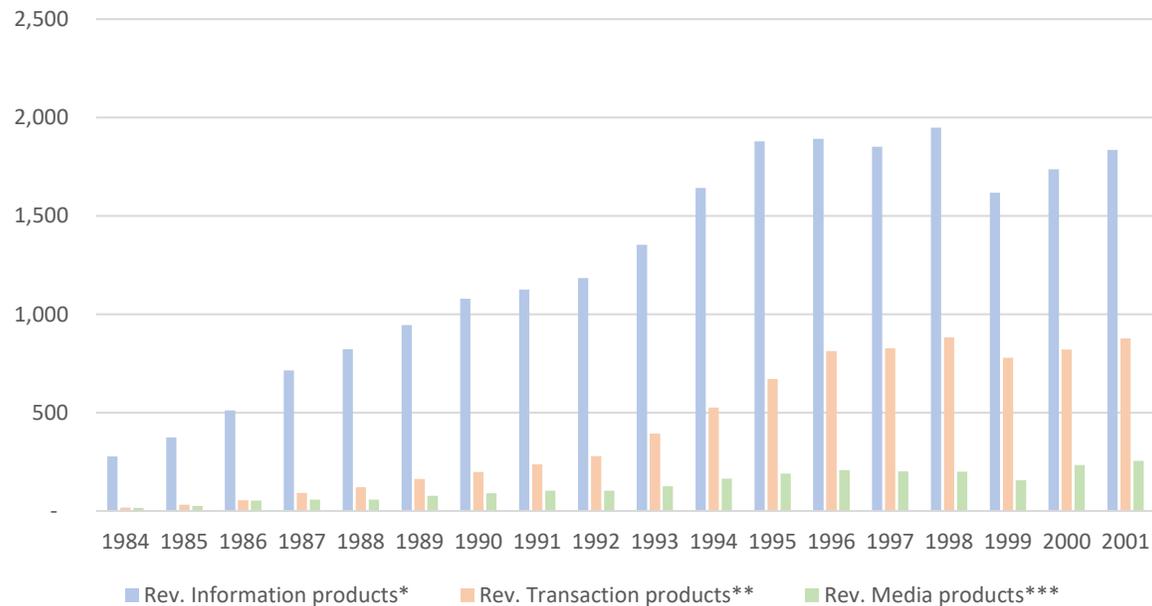
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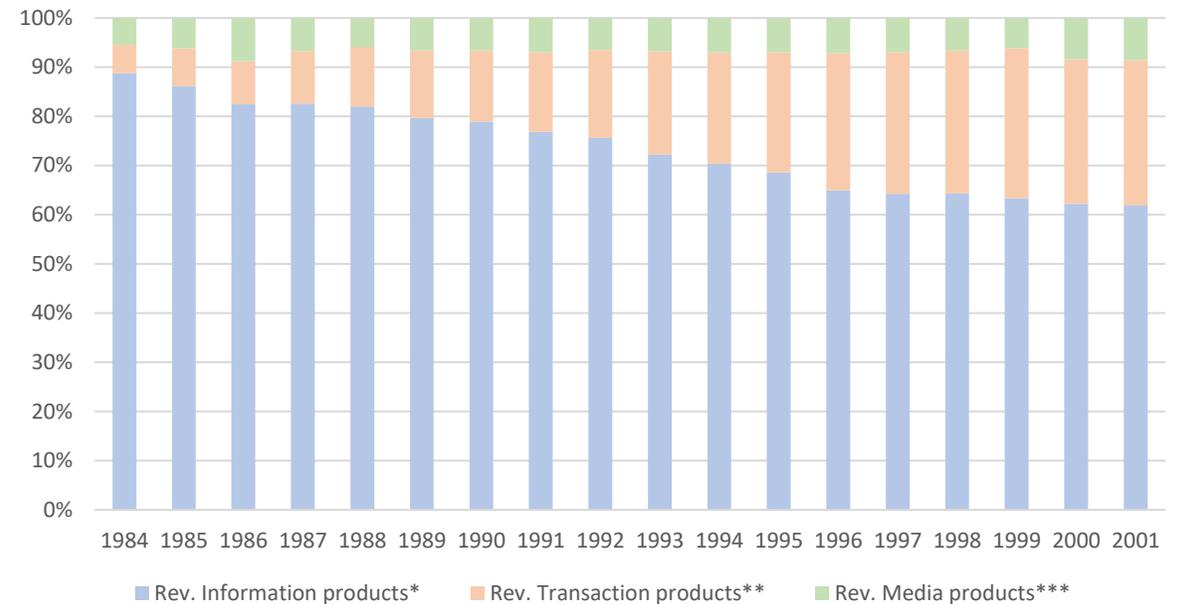
Reuters company development



Graph 3: Reuters rev. per product division, absolute mn. pounds, 1984-2001



Graph 4: Reuters rev. per product division, share of total, 1984-2001



In 1973/74 intern. financial system is faced with pressures & crises

OPEC Oil embargo, increasing inflation, end of Bretton Woods



The international challenges & crises of late 1973/74 lead to increased uncertainty in many markets

- Stock market crash: start monthly fall in Dow Jones (14%) and S&P500 (7%) in November 1973; ended only in November 1974 with both indices down 30.4%/36.8% respectively (similar in other advanced economies e.g. UK)
- Triggered by oil price shock in wake of Arab-Israeli war in October 1973 and oil-embargo implemented by OPEC, quadrupling of barrel price from ~\$2.90 to ~\$11.65 from October '73 – January '74
- Hit and aggravated pressures on the international economic and financial system that had already struggled with inflationary pressure, stagnating economic growth and adjustment to new regime of floating exchange rates
- From October '73, USD spot rate gained significantly until January '74 (compared to continental European currencies), based on widespread assumption that the US was in a better position to compensate the oil price shock, only to reverse rapidly in January 1974 and losing significantly until May

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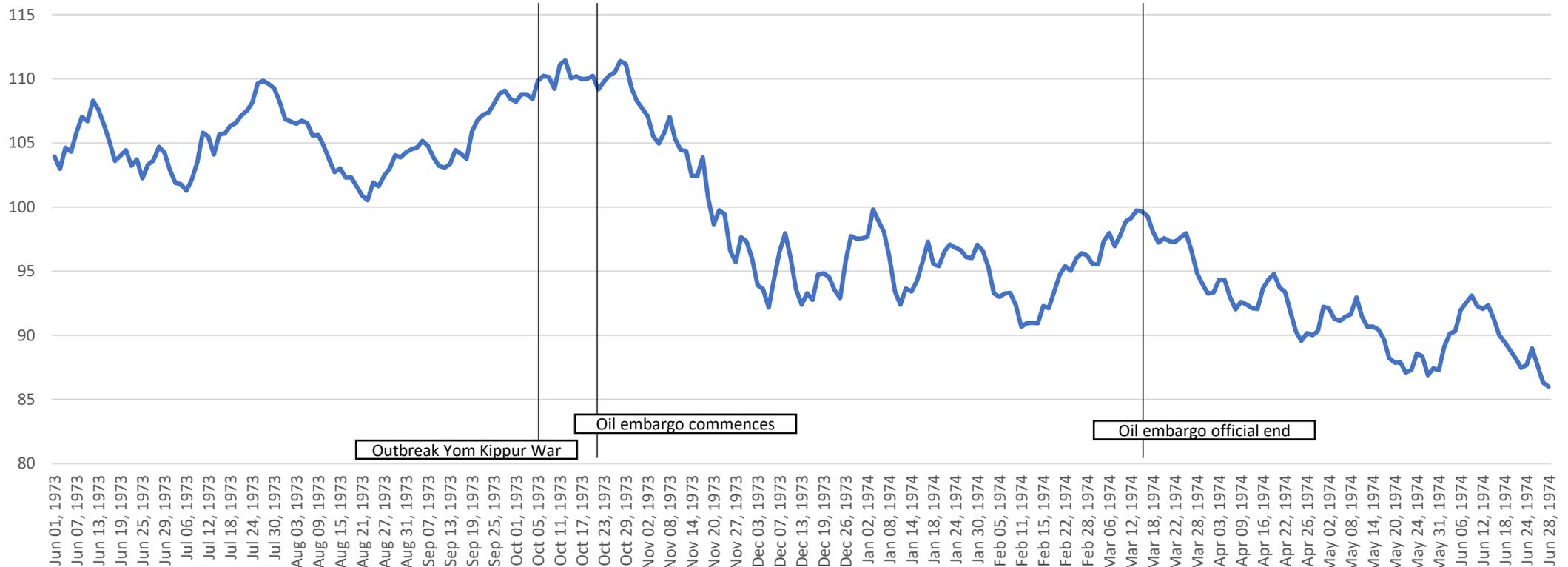
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International turmoil of 1973/74

Stock market crash of late 1973



Graph 5: S&P500 index, daily closing prices in USD, Jun. 1973 - Jun.1974



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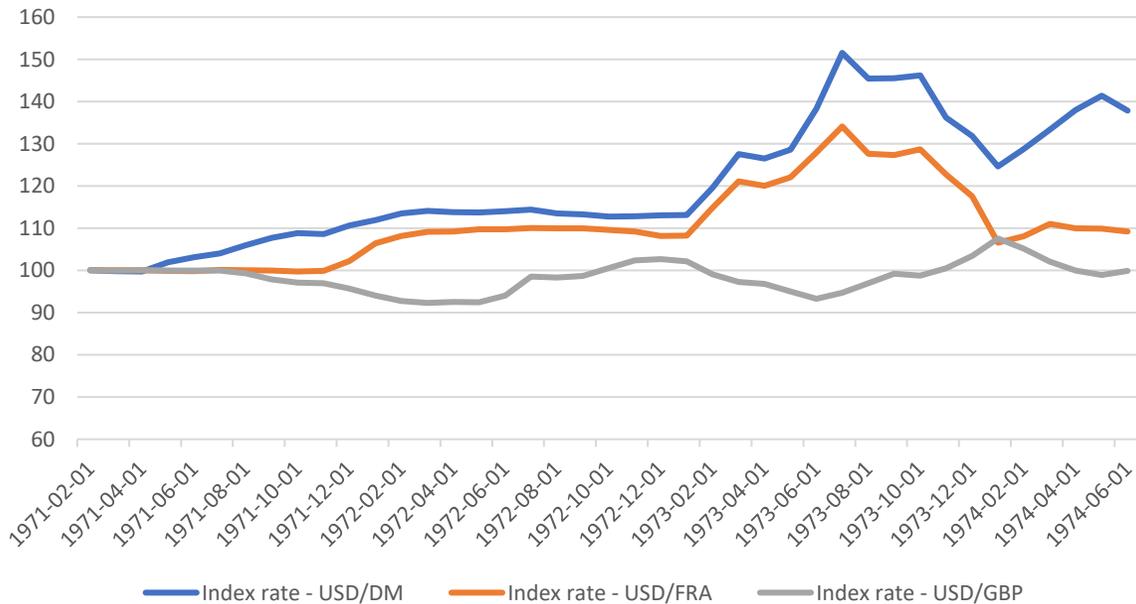
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International turmoil of 1973/74

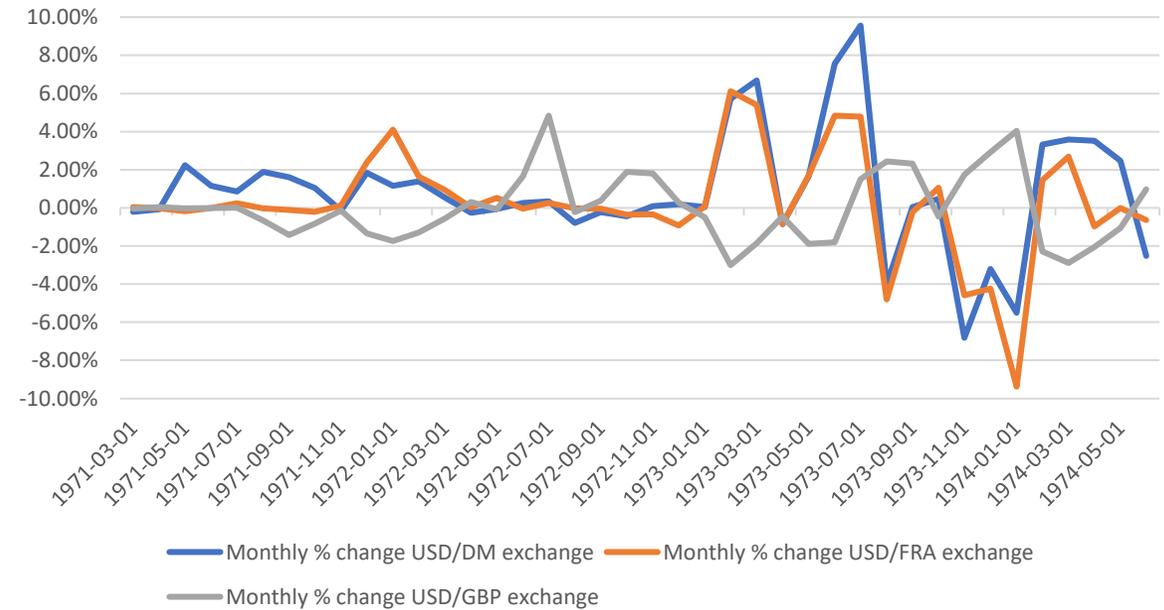
Increased volatility and uncertainty in foreign exchange market



Graph 6: USD/European currencies exchange rate, indexed
1971=100



Graph 7: Average monthly %-changes major European
currency exchange rates



1. Motivation

2. Market for financial info

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4. Outlook & Conclusion

The plan for a new unique system – the Reuters Monitor

Recognized potential for system supplying unique forex info early on



Reuters Monitor system originally devised to fill “information gap” in forex market

- Reuters MMR devised for foreign exchange market with looming collapse of the Bretton Woods system and in anticipation for a developing FX market that was in need of transparency regarding information on buyers’ and sellers’ prices in the non-exchange traded market
- Idea around since 1971, but first proposal by Andre Villeneuve and John Ransom (Reuters Economic Services) in February 1972 for a “Forex system”
- Information should come from participants on the new system - “Contributed data”: institutions could either participate by being “contributor-recipient” (quoting their rates publicly on the system) or “recipient-only” (being only able to see the price quotes entered into the system)
- Development approved by Reuters board & funded by £800k eurocurrency facility, costliest development up until then in company history, approved based on success of Stock-/Videomaster

“Before the advent of Monitor, banks had to maintain almost continuous telex and telephone contact with each other simply to keep track of market fluctuations”
– Reuters World, 1981

1. Motivation

2. Market for financial info

3. Reuters MMR in 1973

4. Outlook & Conclusion

Introduction of the Reuters Monitor system

Subsequent expansion of the system with additional information



Year	Info. added on Monitor	Description
1973	Foreign Exchange	Start of the Reuters Monitor System in 1973, providing information put into system by subscribers on bid/ask prices in foreign exchange market
1975	News	August 1975 start of “money-news retrieval service”, providing updated headline pages for Monitor subscribers promised from its introduction on
1975	Bonds	Addition of Monitor Bonds service providing bond price information mainly for European markets, US Government securities information added in '78
1977	Commodities	Addition of commodity price information pages on the Monitor system
1978	Equities	Monitor Equities went live in 1978, focused on European stock markets, competition to Stock exchange information systems (e.g., LSE TOPIC)

1. Motivation

2. Market for financial info

3. Reuters MMR in 1973

4. Outlook & Conclusion

Reuters MMR devised for floating exchange rate regime

Yet, the new system initially struggled to gain momentum in crisis



Reuters MMR sluggish uptake endangered its success early on, before critical mass was reached

- By June 5, 1973 (official launch) only 5 contributors to the system, with 10 recipients-only members. Sluggish uptake mainly driven by doubts about the new technology and viability of the system
 - *“The Foreign Exchange Manager of a leading Acceptance House: ‘He said he could not see any application for his bank because: (I) they have as much business as they can handle; (II) Rates are too sensitive to be inserted on screens” - Michael Nelson, RES Director, 1983*
- By September 1973, just a month before the oil-price shock in the wake of the Arab-Israeli war rocked financial markets and the FX market in particular, the number of subscribers and esp. contributors had only increased to 15 each
- With increased volatility in the market in late ‘73, the system was NOT used more frequently, but almost collapsed as traders were swept up with dealings rather than update their FX quotes in the system – several early subscribers such as Barclays Bank expected the system to break down

“Reuters timing was fortunate since exchange rate movements became wilder than ever in the wake of the 1973 Arab-Israeli war”

– Reuters World, 1981

1. Motivation

2. Market for financial info

3. Reuters MMR in 1973

4. Outlook & Conclusion

Low subscriber numbers until late '73 endangered success

Several factors contributed to sluggish uptake and trouble in crisis



Resistance to new technology, hardware installation backlog and lack of critical mass key problems

- Launch of the new product sluggish in May/June 1973, launched “on a flood of lunches”, personal connection to first institutions critical in securing subscribers to the system
- New system changed way in which traders interacted in foreign exchange market – it seems that Reuters struggled esp. at beginning without critical mass of subscribers on the system delivering clear added value over previous business conduct through faster & “better” information
- Additionally, continuous struggle in 1973 with hardware contractor “Digital”, responsible for production and installation of Monitor terminals
 - *“Digital were very bad in the delivery of the equipment, so we couldn’t get the equipment out into the field, and so people were not interested in putting the information in because there was nobody to read the information, or few people” - Michael Nelson, RES Director, 1989*

*“Without your support and confidence in the early days of the planning and the introduction of the service we would never have had the success(...) there were many opponents and doubters, which made your support doubly important to us”
– M. Nelson, 1983*

1. Motivation

2. Market for financial info

3. Reuters MMR in 1973

4. Outlook & Conclusion

Monitor collapse was averted through active mgmnt.

After initial shock and turmoil, Reuters reached critical user mass



Collapse was averted, in '74 MMR went on to prove more resilient with critical mass in user base

- No sources left to extent to which usage of the system decreased in late '73 after foreign exchange rates started to move more rapidly, but anecdotal evidence suggest a significant decline
- Complete collapse of the system could be averted by (i) Reuters actively encouraging its contributors to add and update their quotes in the new system, (ii) by adding new contributors to the system that increased the number of subscribers to 52 (25 contributors) by January 1974, and (iii) by Gerald Long advocating for the continuation of the system
- System was stabilized, increasingly more and more subscribers could be added faster to the system (after initial supply chain difficulties regarding installation were also overcome)
- By June 1974, 246 subscribers were online on the new system, with 52 contributors and 192 recipients-only (in comparison, when system was devised, a total of around 230 subscribers by 1976 was estimated)

“I think that the Reuter Monitor very nearly failed, and the reason it very nearly failed was, paradoxically, because the markets were so active that people were too busy to put information in”
– M. Nelson, 1989

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4. Outlook & Conclusion

Conclusion – the Reuters Monitor in the crises of 1973/74

System suffered initially in forex turmoil of late '73, before stabilizing in '74



A close examination of the financial information industry during modern financial crises is still lacking

- Introduction of Reuters Monitor Market Rates (MMR) as one example for the important and difficult to assess function that information providers serve during a financial shock, as well as interrelation with financial and banking markets
- Although with benefit of hindsight, the Reuters MMR would prove to be highly successful and change information provision in financial markets, it only narrowly collapsed in forex turmoil of late 1973
- Sluggish uptake (caused by new technology, and backlogs in installation) led to a lack of a critical mass necessary in new system of “contributed data”, failing to generate enough incentives for traders to prioritize the system during critical period in late 1973
- Emphasises the need for close examination of financial information industry during financial crises, as well as development of the market over time in conjunction with the overall development of the financial industry

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2. Market for financial info

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4. Outlook & Conclusion

Outlook – market for financial information in subsequent years

Shifts in financial data market highly connected with trends in financial industry



Re-organisation and changes in information providers during and after financial crises

Stock market crash of 1987

- Uncertainty about dominating firm Reuters' reliance on financial industry overall, drop of ~52% in Reuters' stock
- External uncertainty by experts & analysts mirrored within Reuters organisation, pay freeze & cost-cutting measures
- However, hit in equity market could be compensated by diversified portfolio and esp. uptake in FX business
- No drop in activity on the Reuters Monitor system in last quarter of 1987
- Customer demand in financial industry remained high, no break in new orders and indeed steady increase in demand for Reuters products in aftermath of crisis

Burst of the dotcom bubble 2000

- Again in wake of dotcom bubble, Reuters' share price collapsed, though this time with break in revenue & profit
- Sharp drop in user accesses ("terminals"), partially explained by internal product consolidation, but more importantly by customer demand shifting during & after crisis
- Banks & financial institutions up to 2000 employed several "information terminal" products at the same time
- Cost cutting measures in financial institutions lead to drop of simultaneous employment of multiple products
- Reuters, faced with high-end competition by Bloomberg and new low-cost suppliers was severely hit and its market share dropped significantly

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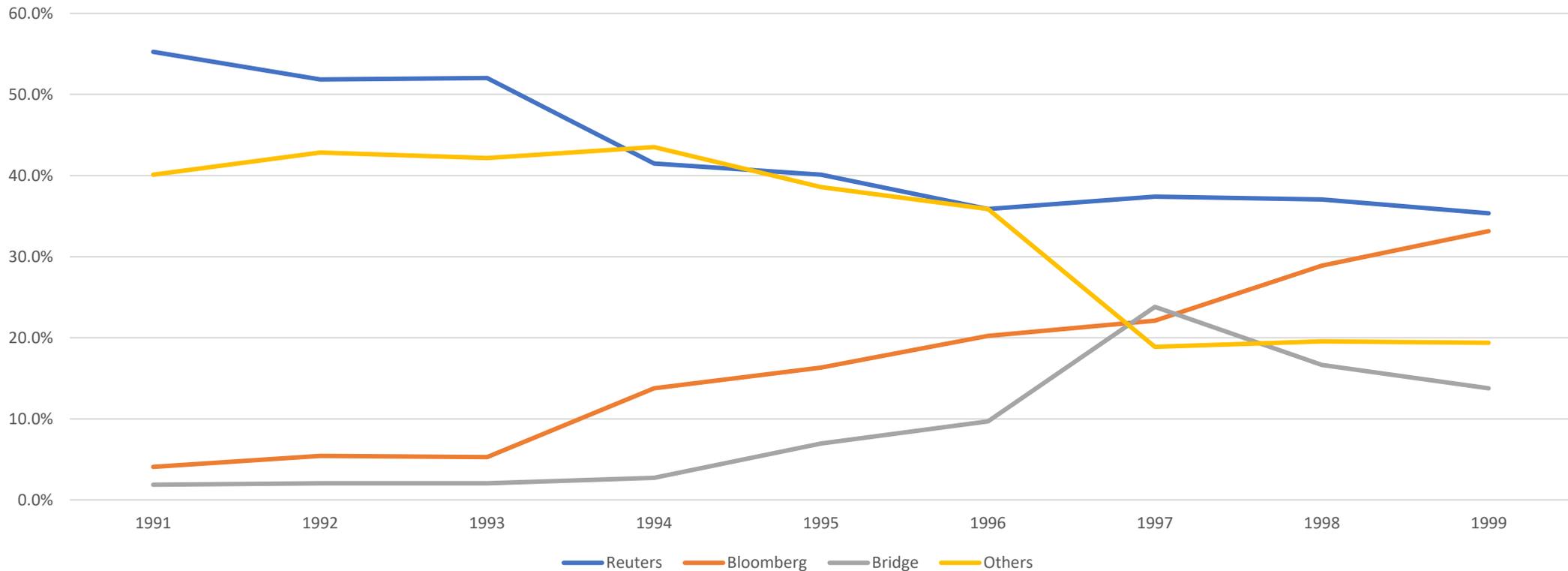
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Outlook - Changing structure of the market

Development of market shares in financial data market in 1990s



Graph 8: Market share in financial data market, 1991-1999



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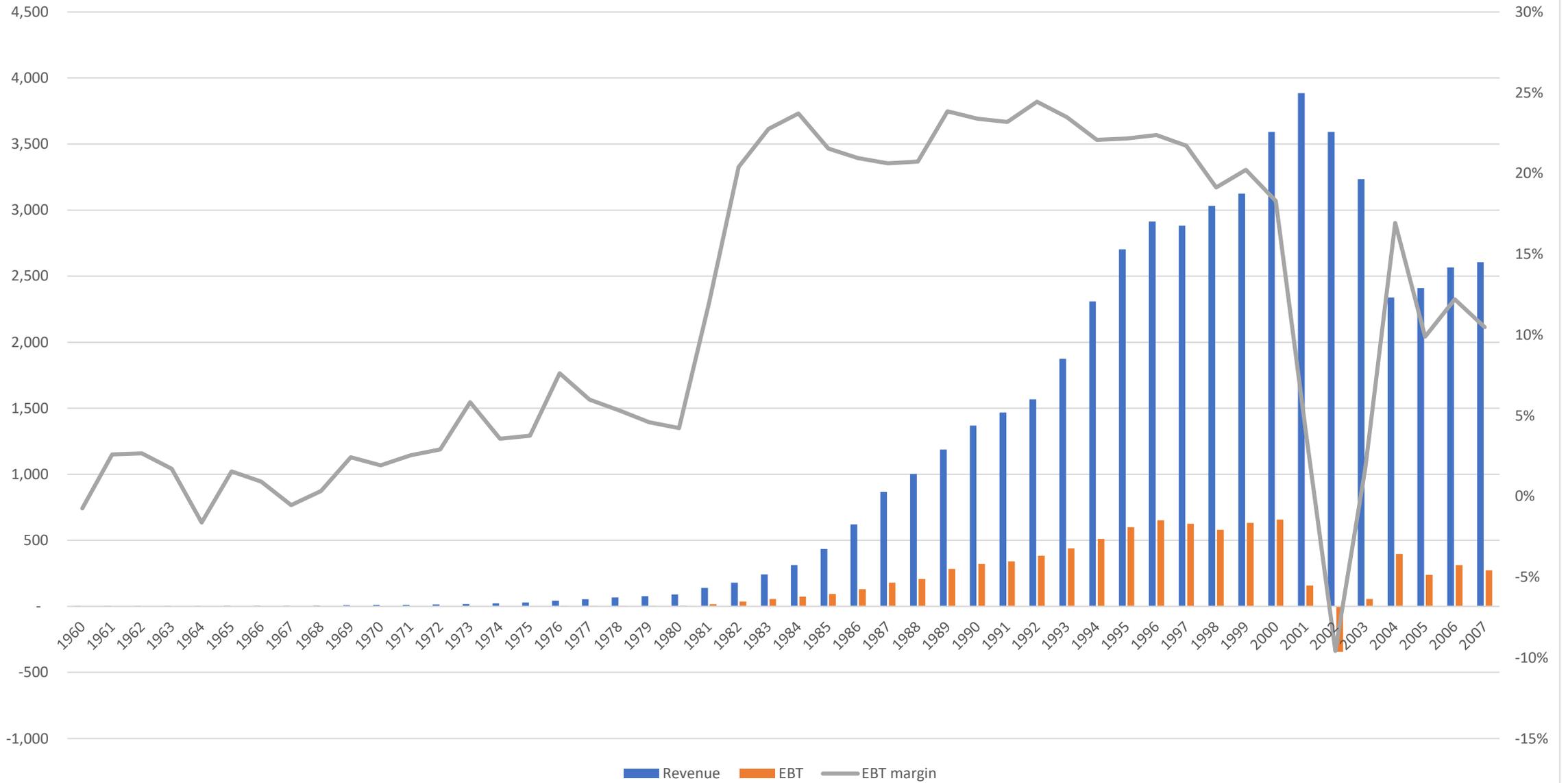
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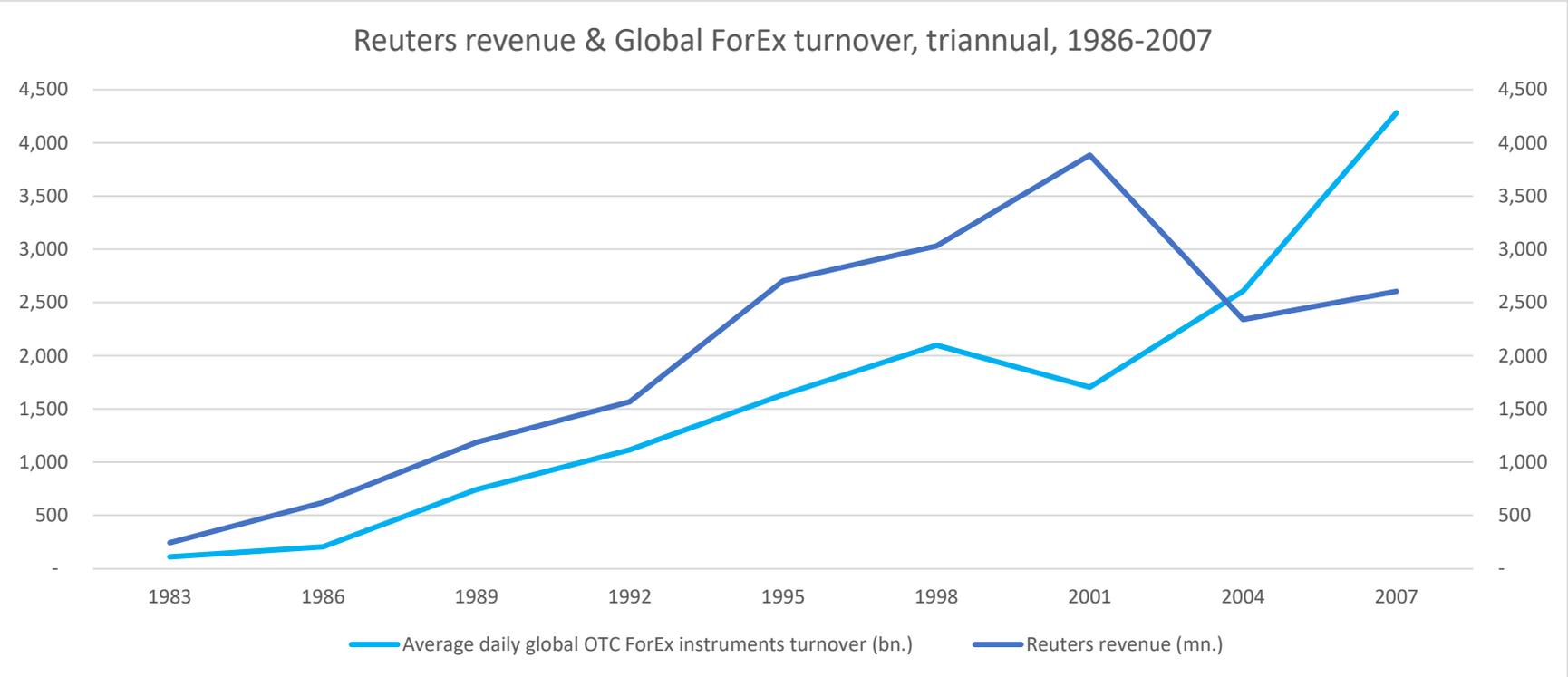
4. Outlook & Conclusion

Appendix

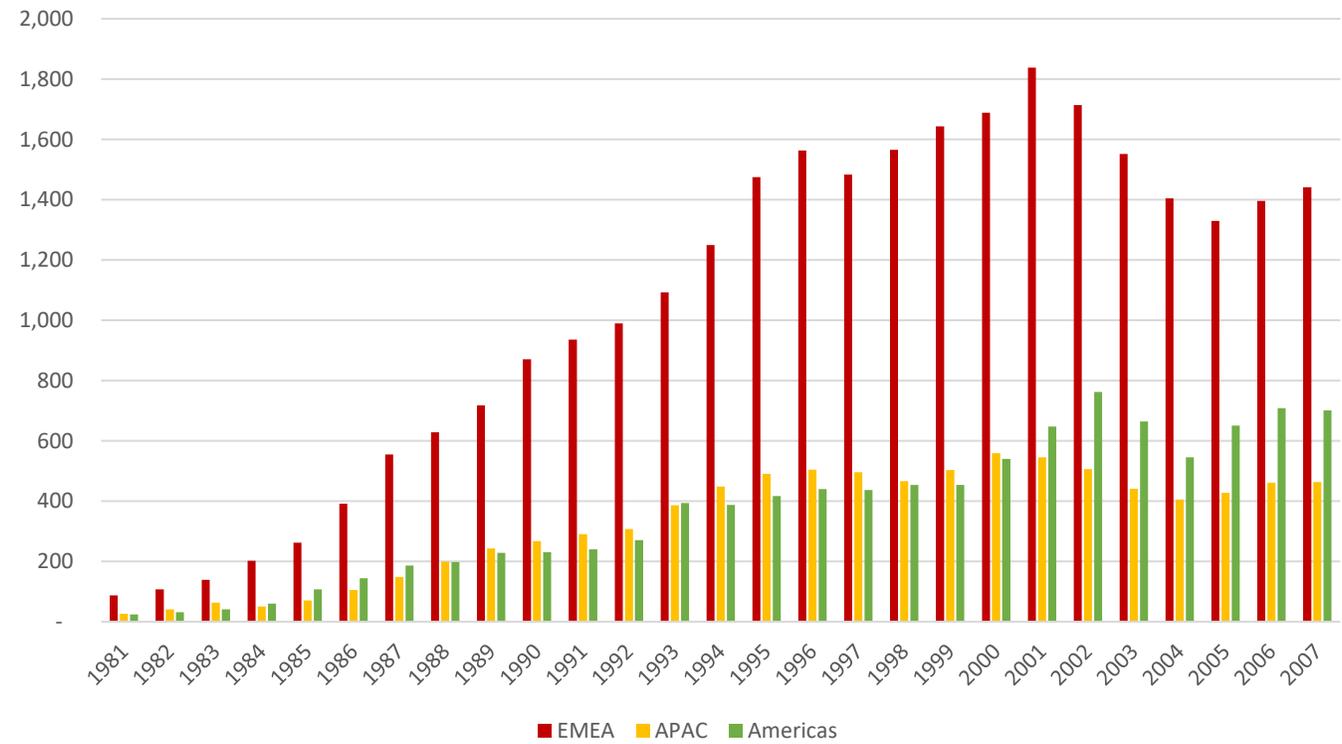
Reuters Group revenue, EBT & EBT margin, mn. pounds, 1960-2007



Reuters revenue & Global ForEx turnover, triannual, 1986-2007



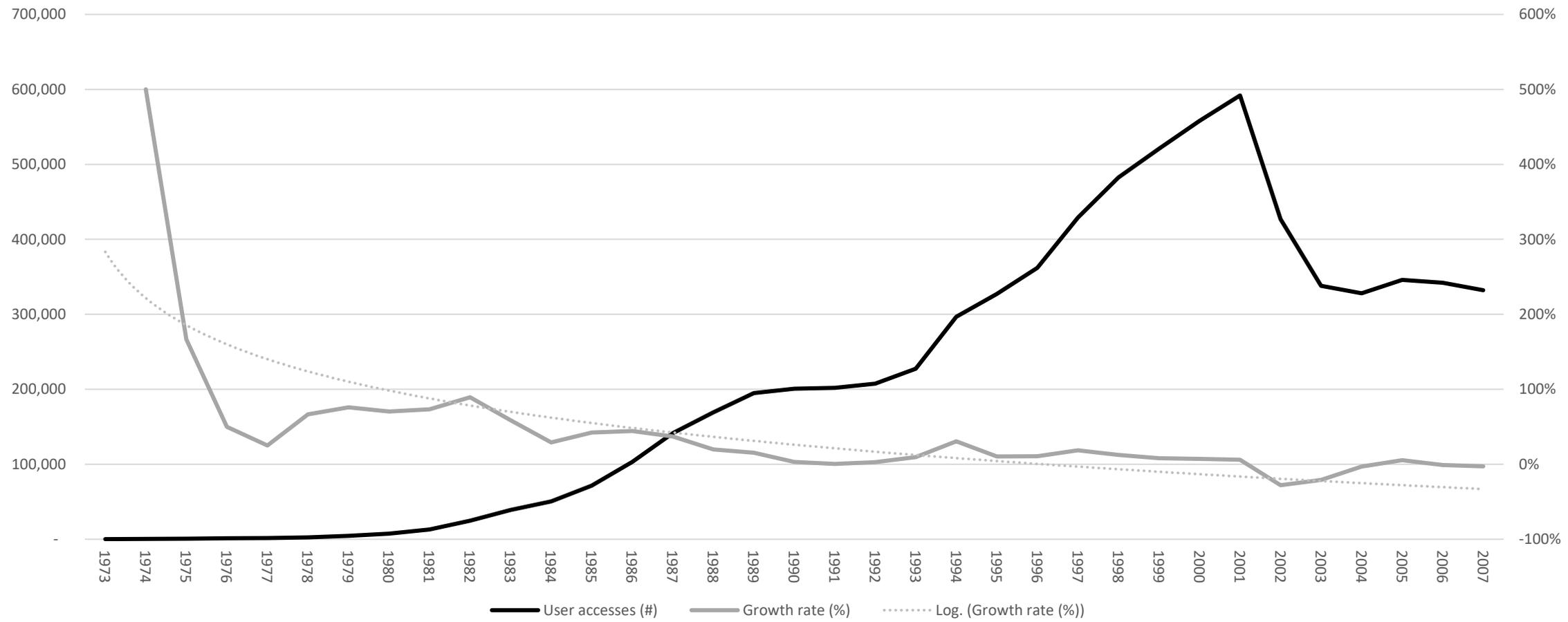
Reuters revenue per main regions, mn. pounds, 1981-2007



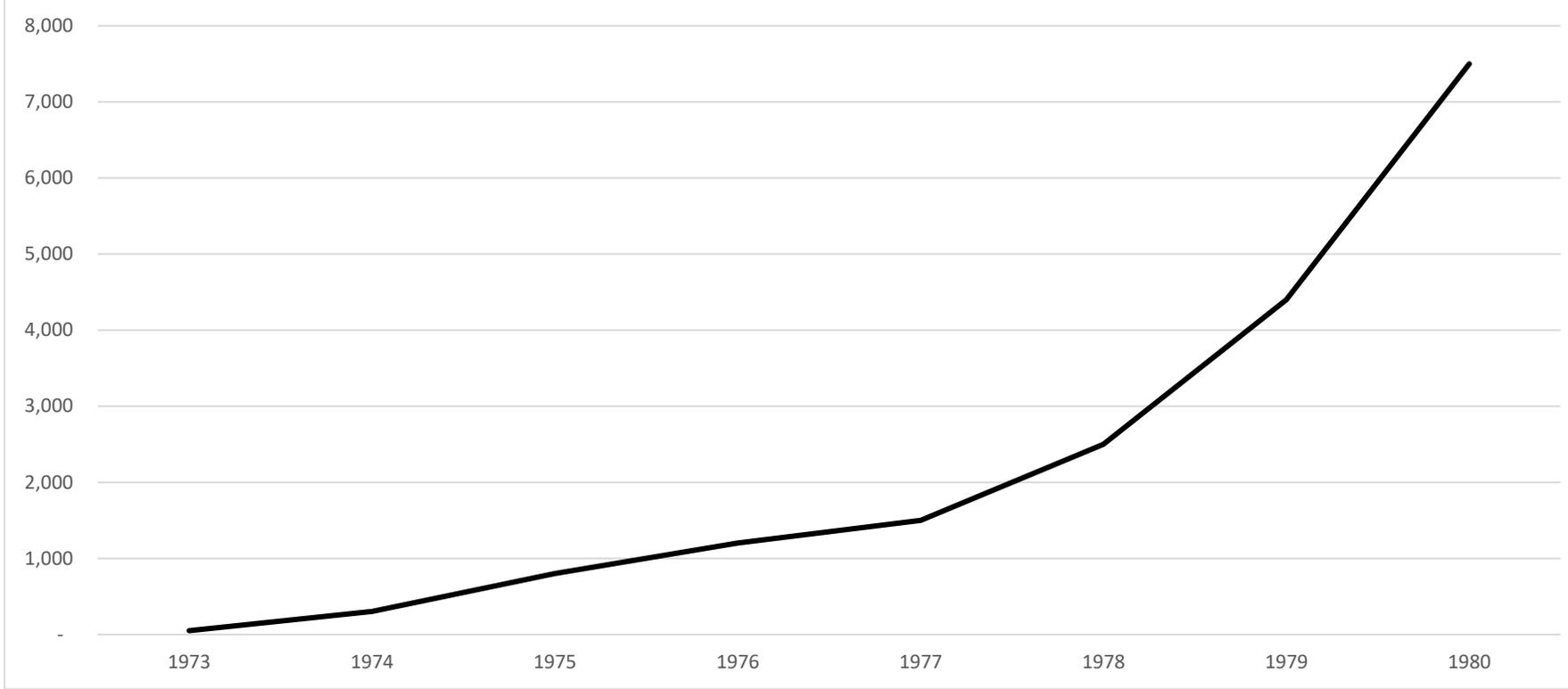
Reuters regional revenue share split, 1981-2007



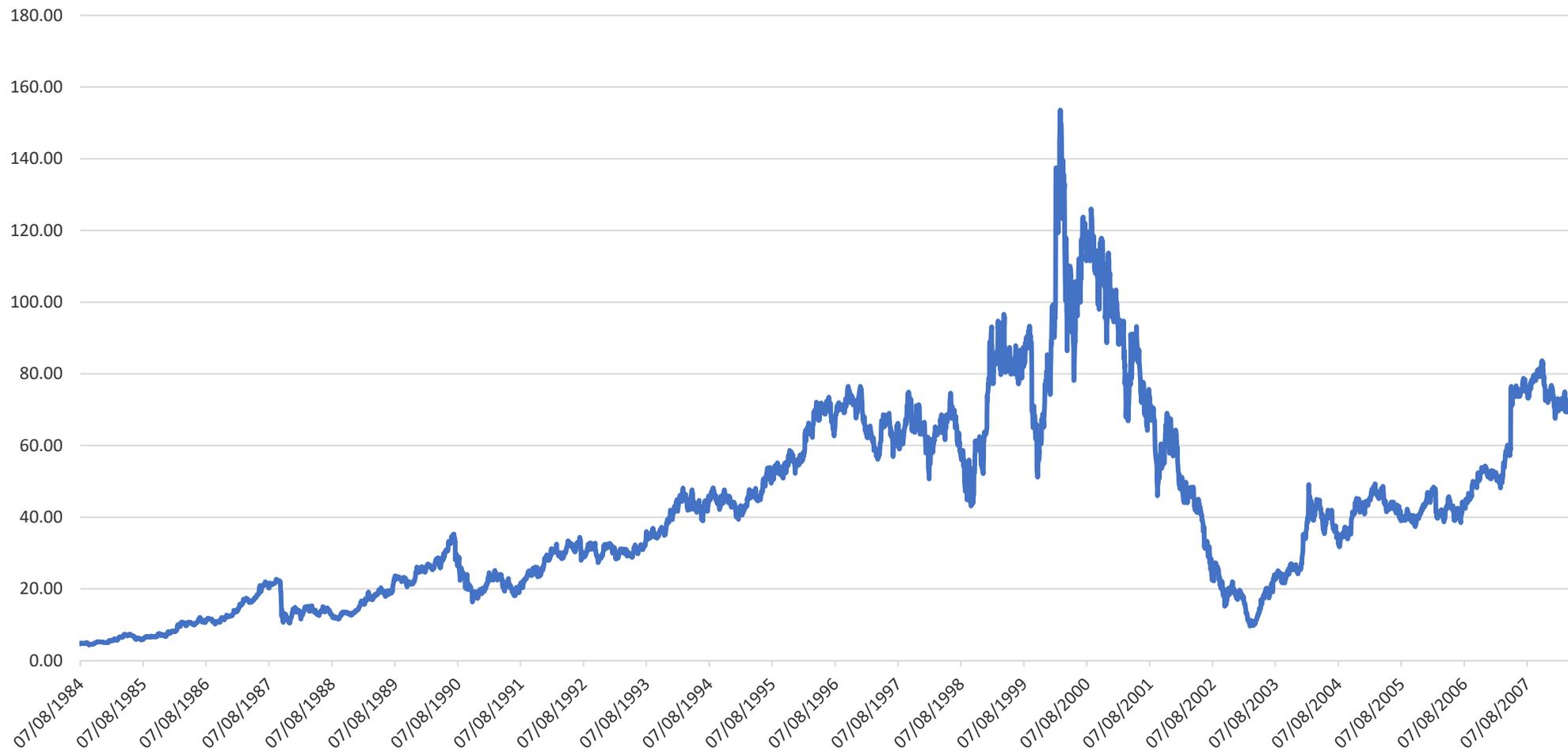
Reuters user accesses development & growth rates, 1973-2007



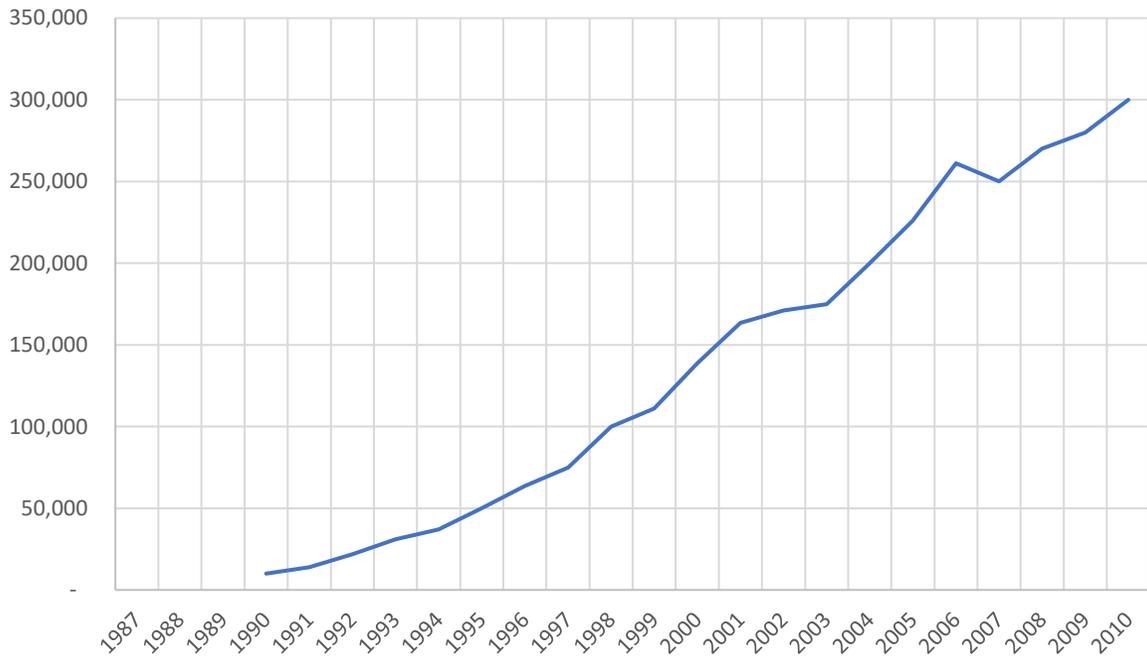
Reuters user accesses development, 1973-1980



Reuters share price (\$), daily closing prices, 1984-2007



Bloomberg user accesses (terminals), total yearly figures



Bloomberg user accesses growth rate, yearly in %, 1991-2010

