

Google strikes deal with CME as exchange moves to cloud

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CME Group and Alphabet Inc.'s Google struck a deal to help the derivatives exchange operator with its technology needs and a plan to move all of its operations to the cloud.

As part of the agreement, Google also made a \$1 billion equity investment in a new series of non-voting convertible preferred stock of CME Group, the companies said Thursday in a statement. The 10-year partnership will allow CME to first move its data and clearing services to Google Cloud, then eventually its trading and other markets.

"This partnership will enable CME Group to bring new products and services to market faster," CME Chief Executive Officer Terry Duffy said in the statement. Google Cloud will help CME increase access for more market participants and provide news tools for developing algorithms and risk management.

Chicago-based CME appointed Ken Vroman to a new role as chief transformation officer to help with the transition. The two companies said they will explore ways to work together on innovations for

CME Group's customers.

The move is the latest among the exchange businesses including Nasdaq Inc. and Cboe Global Markets Inc. that have started to expand into cloud-based software and [data analytics](#).

"Exchanges are moving towards data and other recurring revenue streams, rather than just relying upon trading revenue, and getting those tools in a quicker, more efficient manner is an important step," Kevin Heal an analyst at Argus Research Corp., said in an interview.

Industry Changes

Exchanges offer services including price quotes and trades that occur over milliseconds. CME and others have expanded to offer data, portfolio management and other services that help investors make more informed decisions. CME allows its customers to trade futures, options, cash and over-the-counter markets.

Cloud computing, which allows companies to outsource computer processing and data storage to the big tech firms rather than operating the systems in-house, has been one of the fastest-growing areas of the technology industry. But Google's cloud business lags behind market leader Amazon.com Inc. as well as Microsoft Corp. and China's Alibaba Group Holding Ltd.

In its [earnings report](#) last week, CEO Sundar Pichai said Google Cloud has "continued momentum," but the unit fell short of revenue expectations in the third quarter.

The leading cloud providers have been pushing into [financial services](#), an industry that has lagged other markets because banks and financial institutions are often restricted on what can run on a public cloud due to regulatory requirements and security concerns. Google Cloud has struck deals with

HSBC Holdings and Deutsche Bank AG, but Amazon Web Services is much more dominant in the sector.

Last month, Google shelved plans to add bank accounts to its payment app, saying it would instead "focus primarily on delivering digital enablement for banks and other financial services providers rather than us serving as the provider of these services."

Google cloud chief Thomas Kurian has expanded his unit's workforce, focused on solutions tailored to clients' industries and reorganized his staff to grab market share from rivals. Last year, the division's annual revenue jumped 46% to \$13 billion.

The partnership could help give a leg up to Google and CME.

"CME was lagging behind its peers with regards to its data and analytics offerings," said Owen Lau, senior research analyst at Oppenheimer & Co. This partnership "strengthens their product" and will make it easier for the companies to innovate. It's also a "vote of confidence for CME to have Google's help and brand name."

Google is also pushing a partnership strategy, taking stakes in companies that it sees providing a strategic opportunity to advance its technologies. Last year, Google bought a \$450 million stake in home security firm ADT Inc., forming a partnership that could get the tech giant's smart-home products in front of millions of new customers.

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