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THE BUY-SIDE PERSPECTIVE

Riding out the storm

Buy-side intensifies focus on counterparty performance

TCA evolves as investors seek greater control over execution

In the 12 months since last year's TradeTech Europe, an already complex and rapidly changing trading environment has been made more treacherous by often intense macro-economic sidewinds that have buffeted the buy-side trader with extreme intra-day price volatility and plunging trading volumes.

Many market participants will be hard pressed to forget the first two weeks of August where a downgrade of US government debt and doubts over the future the euro-zone caused volatility to surge and trading volumes to balloon to almost double prevailing levels.

Given such foreboding and challenging conditions, it is no surprise that the trading desks of hedge funds and asset managers are redoubling their efforts to manage trading costs efficiently while maintaining healthy performance levels.

"One of the primary issues is how to achieve maximum netting benefits across different instruments."

Terence Nahar, investment director, Scottish Widows Investment Partnership

New rules

A key task for all market participants in 2012 is adapting effectively to the raft of new rules that appear to impact every aspect of the financial markets.

In OTC derivatives, for example, standardisation of instruments so that they can be traded on exchange-like platforms and cleared by central counterparties will fundamentally change the nature of doing business in these markets. In Europe, the European market infrastructure regulation, due to be implemented by the end of this year, is the main vehicle for driving change, with MiFID II also charged with defining the new trading platforms of previously over-the-counter derivatives.

The new rules mean asset managers will need to undergo a widespread revision to the way they trade swaps. Formal obligations for clearing and collateralising swaps, combined with higher capital charges for those trades that remain bilateral, will only increase costs for the buy-side. Careful planning is required now to access swaps liquidity in the future.

Terence Nahar, investment director at Scottish Widows Investment Partnership, says his firm has devised an "elaborate" process for managing this change, driven also by the need for greater visibility across OTC derivatives exposures.

According to Nahar, clients are beginning to demand more information on how swaps are being traded as they become more familiar with using these instruments as hedging tools for their liability exposures.

"We have bolstered a number of areas related to how we trade OTC derivatives," he says. "These include revising our process on monitoring exposures across the counterparties we deal with, reviewing the dealing capabilities of the firms we have trading relationships with and ensuring we can deliver consistent best execution to our clients across both bilateral and centrally-cleared instruments."

This reappraisal of existing processes, says Nahar, will help to control costs. Noting that the rule changes are aimed in no small part at protecting investors from counterparty risk, he also points to the need for buy-side firms to understand the fees associated with replacing a counterparty in the event of a default, which can prove costly.

The new rules also require a sharper focus from the buy-side on collateral management, with Nahar stressing the increasing importance of the treasury management function in the new world.

"One of the primary issues for the buy-side is how to achieve maximum netting benefits across different instruments, be they centrally-cleared, exchange-traded or transacted bilaterally," says Nahar.

Doing more with less

For equities, the tumultuous market conditions of the past 12 months have accelerated adoption of a more sophisticated approach to monitoring broker performance, according to Rob Shapiro, head of execution consulting at agency broker Bloomberg Tradebook.

In short, buy-side trading desks are being told to retain alpha with fewer resources and are now required to ensure counterparty relationships are delivering maximum value. A key factor is that with lower trading volumes in uncertain economic times comes lower commission levels and reduced purchasing power.

In the US for instance, the latest annual report from consultancy TABB Group, 'US Institutional Equities: State of the Industry 2012', estimated that commissions would plummet by a third by the end of the year.

This contraction is already leading to a concentration of the buy-side's commission dollars to its core brokers, a factor that market observers have said may lead to greater consolidation among sell-side providers, as well as a focus by brokers on the services that their clients value the most. To become more careful consumers

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HIGH-FREQUENCY TRADING

Survival of the fastest?

"Predatory practices" still a concern for investors

Adapting to HFT a "generational change" for the buy-side

High-frequency trading (HFT) volumes may have stabilised on both sides of the Atlantic, but that's not to say the phenomenon has stopped creating waves – or energetic debate – as attendees of this year's TradeTech Europe HFT Focus Day taking place will no doubt discover on 24 April.

Currently estimated at around 60% of total equity volumes in the US and around half that in Europe, controversy continues to rage as to whether HFT provides tangible benefits to all market participants or adds to the trading costs of traditional long-term investors while also exacerbating market volatility and systemic risk.

"Buy-side institutional investors are forced to navigate a system designed to maximise the touching of their orders by conflicted market participants."

Sal Arnuk, co-founder, Themis Trading

In HFT's defence, Peter van Kleef, managing director, Lakeview Capital Market Services, a Germany-based broker-dealer that services the low-latency trading community, cites lowering spreads, adding liquidity and decreasing arbitrage opportunities from differential pricing across regions and venues. "HFT is oil to the financial markets engine that makes the markets run more efficiently," he says.

For many, HFT is synonymous with market developments such as rapid electronic trading innovation, market fragmentation, for-profit exchanges, co-location, direct market access and

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"The buy-side is becoming much more analytical with regard to how they choose their brokers."

Rob Shapiro, head of execution consulting, Bloomberg Tradebook

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of brokerage resources, the buy-side is using more rigorous and auditable broker voting processes and adopting aggregation tools to help them administer an increasing number of commission sharing agreements (CSAs). More comprehensive CSA structures have been implemented by buy-side firms in the last 12-18 months to allow the trading desk to concentrate on seeking the best execution channels, while allowing PMs to get hold of the research they value most.

In this environment, transaction cost analysis (TCA) – already an integral aide in the buy-side's pursuit of best execution – takes on greater significance when seeking to manage dwindling commission levels.

Noting the evolution of transaction cost analysis as a practice that originated as a way for buy-side firms to evaluate fund performance internally, Shapiro says that understanding the context around a particular order is the only way to achieve meaningful results and broaden the applications for TCA.

"Buy-side traders realised over time that to use TCA to measure broker performance requires an understanding of trade difficulty and the potential for market impact on a pre-trade basis," he said. "The buy-side can subsequently understand whether certain brokers are just scoring highly because they are receiving the easiest trades."

Health check

This notion has been developed further, explains Shapiro, with buy-side firms now factoring overall market conditions into their analyses, as well as the fact that they are taking ever greater levels of responsibility for the execution process.

"For both low- and high-touch trades, the buy-side has more control than ever over how an order is executed by choosing factors such as order urgency and price limits," he says. "TCA results are therefore now used to gauge the health of an overall relationship between the buy-side desk and sell-side counterparts."

For the sell-side, scoring well on TCA, particularly in the current environment, now depends on ensuring execution tools and algorithms are being delivered in the most optimal way.

"With volumes and commission pots down, competition for buy-side business is fierce," says Shapiro. "The sell-side has to prove they are adding value and this depends on offering services that others cannot provide. The buy-side is becoming much more analytical with regard to how they choose their brokers."

Uses of TCA have matured for market participants on both sides of the fence, says Jon Fatica, head of analytics at technology vendor and TCA provider TradingScreen.

"The use of TCA has now been extended among sell-side firms, which commonly analyse the effectiveness of their algorithmic strategies to deliver information to clients on performance," says Fatica. "On the buy-side, we are seeing more traders using TCA results to develop the relationship they have with portfolio managers and have a more informed dialogue on optimal execution." ■

"Traders are using TCA to have a more informed dialogue with portfolio managers on optimal execution."

Jon Fatica, head of analytics, TradingScreen

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Panel: Innovative approaches to using TCA throughout the trading process: maximising savings and best execution
25 April – 14:15-14:45

Panel: Capturing synergies of your business and cutting costs through cross asset trading
25 April – 14:45-15:15

Panel: Effective strategies for broker review: are you getting good value for money?
25 April – 16:15-16:45

Panel: Cost effective capture and processing of data to enhance transaction cost analysis
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Panel: Measuring the true value of research: factors, challenges and practical tips
26 April – 14:45-15:15

How has your relationship with the broker changed and what does it mean in practice?
26 April – 15:15-15:45

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alternative trading venues. So when politicians and regulators emphasise the need to rebuild investor confidence and entice traditional funds and end-investors back into the markets after a period of sustained global financial market turbulence and volatility, HFT begins to look like part of the problem.

"In the US markets, HFT and the current conflicted market structure designed to ensure it thrives has had a severe detrimental effect on long-term institutional investors," remarks Sal Arnuk, partner, co-founder and co-head of equity trading at New Jersey-based Themis Trading.

Even defining HFT is controversial, with legislators and regulators including the European Commission and the US Commodities Futures Trading Commission (CFTC) currently working on refining proposed definitions in consultation with market participants. But most players accept a broad working definition based on use of proprietary capital to fuel automated trading strategies, typically market-making or stat arb, executed via powerful, co-located trading systems, but which end the trading day flat to minimise risk.

Law of the jungle

A commonly voiced criticism is that some HFT firms engage in predatory trading designed to profit by disadvantaging traditional buy-side traders that don't have the financial muscle to access cutting-edge trading tools and exchange data feeds. Critics include CFTC Commissioner Bart Chilton, who recently nicknamed high-frequency traders "cheetahs".

To Arnuk at Themis, the problem goes beyond predatory HFT strategies to the way in which market is set up to process orders from institutional investors.

"Buy-side firms are forced to navigate a system designed to maximise the touching of their orders by conflicted market participants," he says. "Orders are typically chopped and fed into the market place by broker-sponsored algos and routed according to broker economics, then to broker-owned proprietary trading arms/affiliates. If they reach an exchange they get shared with 'liquidity partners', which are the exchange's HFT partners, also termed market-makers, who get a free look before the order finally interacts with resting orders on the exchange. This gauntlet of pit-stops is designed to prey on institutional order flows and to create leakage with the end result that institutions are buying stock more expensively because of this interaction," he says.

"It is disappointing not to see regulators picking up on predatory behaviour."

Martin Ekers, head of dealing, Northern Trust Global Investments

Martin Ekers, head of dealing, Northern Trust Global Investments, describes predatory HFT as trading strategies that "aggressively speculate against genuine order flow" based on creating the illusion of liquidity by posting multiple orders on multiple exchanges before changing direction, for example having sold 1,000 they then buy 10,000, thereby forcing the price up in the expectation that the buyer will be forced to pay higher prices. "They are speculating that you've got more to buy. They won't hold positions for longer than a matter of minutes," he explains.

Given that HFT firms are only playing by market rules, shouldn't the buy-side step up to the challenges of trading in technologically advanced markets and consider the growth of HFT strategies part of modern day market evolution? "Traditional buy-side firms need to invest in technology to remain competitive and avoid giving away information and get up to speed with how the markets are now structured," says van Kleef. "Some of the larger funds need to upgrade or risk extinction. It's natural technological progression and there is nothing threatening about it. You can choose to work with it or get overtaken by it. Over time, the buy-side will become more comfortable interacting with HFT, it is a generational change with fund managers from the computer generation rising through the ranks."

Rebate arbitrage

While HFT advocates argue that any order in the market is tradeable provided you have the right systems and strategies, critics such as Arnuk question the motives of HFT firms, describing electronic market-making as rebate arbitrage. "They do not buy a stock because they think it will go up or sell it because they think it will go down, they buy and sell, flipping the same share lots thousands of times a day, to get exchange rebates," he contends. "This is fundamentally different from the practices of old-style market makers and specialists who provided fairly static two-sided quotes, and would commit capital and were there to bridge the gap in the event that natural intermediaries were not immediately available. Modern day market-makers enter into and cancel millions of orders a day using co-located speeds and special perks provided by the exchanges (special order types and exchange data feeds) using specialist tools to maximise rebate collection."

Northern Trust's Ekers notes the shallow nature of liquidity offered by some HFT firms. "A high-frequency trading house that places itself on the top of the order book in five different venues in the knowledge that if one venue interacts it will cancel the other four orders before anyone can trade with it is offering very modest liquidity and significant information leakage and signalling to the market, which in circumstances involving other market participants may be deemed abusive by the regulators," he says. "As a fundamentally free open market supporter and someone who believes in following the rule book and the intention of the rule book, it is disappointing not to see regulators picking up on predatory behaviour."

Issues raised by such practices have gained regulatory and legislative attention in Europe and the US, although few measures have yet to hit the statute books so far. That said, regulation of HFT is far from a simple task. With market participants trading across multiple venues that are subject to varying levels of regulatory scrutiny and control, questions arise as to the appropriate location of and responsibility for controls, monitoring and enforcement.

Recently announced proposed revisions to MiFID II and the Market Abuse Directive have raised concerns from some quarters over unintended consequences for liquidity. Proposals include a ban on direct electronic access to markets through broker infrastructure, more open access to co-location, order-to-trade ratio cancellation fees and a minimum resting period of 500 milliseconds for orders on order books. In the US, a number of exchanges have taken the lead on imposing order volume restrictions in the interests of improving market efficiency, while regulators are reportedly investigating a number of market practices, including use of order types and routing strategies that supposedly favour HFT firms.

Intrinsic value

Market discussions are extending beyond predatory HFT to wider issues relating to the purpose, function and integrity of the equity markets. Some buy-side participants are left wondering about the role of capital formation in markets saturated by proprietary trading strategies designed to maximise gains from incremental stock price movements by trading high volumes at fractions of a second irrespective of intrinsic value. The steady increase in off-exchange trading volumes in Europe and the US is often cited as evidence that natural buyers looking to be matched with natural sellers at the best price are no longer being served by traditional bourses.

Themis' Arnuk rejects accusations of institutional Luddism. "In the US, the traditional buy-side are fully supportive of technology developments designed to make trading more efficient. However, it is clear that there is a declining margin utility from trading in fractions of a second for them," he says. "The benefits of micro second trading only accrue to certain types of high-frequency traders and not to the market in general. Long-term institutional investors are now more proactive in determining how their orders are executed to minimise the risks of interacting with high-frequency flow and revisit strategies regularly."

To pursue best execution in adverse conditions, asserts Arnuk, the buy-side needs external help. "Three developments will aid the long-term end investor in this process: the development of suites of more intelligent algos; a step back to more high-touch trading; and an awareness of the need for buy-side unpredictability in trading strategies they adopt." he says. ■

TO LEARN MORE…

Discussing the value of HFT to the end investor, to markets and to the market players – a view from the buy side

24 April – 09:15-09:45

Panel discussion: debating the role of HFT in the market structure and the changes that are bound to come with the new regulation

24 April – 14:40-15:30

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Braced for a monumental shift

Collateral the key buy-side challenge in new OTC derivatives markets

Higher capital charges to underpin Emir, MiFID II, Dodd-Frank reforms

It may have taken longer to arrive than many politicians would have liked, but financial market participants knew the message was in the post. Since the financial crisis forced governments into widespread bail-outs, the onset of sweeping regulatory reform has been one of the markets' few certainties.

Risk-taking and profit optimisation is out; stability, transparency and social utility is in. This shift will have consequences for how all financial institutions conduct their business, but perhaps nowhere more so than in the fixed income and OTC derivatives markets.

For the buy-side, these changes will eventually lead to less reliance on the sell-side for liquidity provision, but perhaps a greater need for post-trade, risk management and collateral management services. A number of sessions at this year's TradeTech Europe will explore the practicalities of these shifts for traders and consider how fixed income and derivatives markets will shape up in the years to come.

Mapping out a new OTC world

In OTC derivatives, the Group of 20 political leaders agreed in their 2009 summit in Pittsburgh that systemic risks in the OTC derivatives market needed to be reduced.

Europe has approached this through the European market infrastructure regulation, which received final sign off from the region's authorities at the end of March, and MiFID II.

Combined, the two pieces of legislation will ensure that derivative contracts currently traded over-the-counter are standardised where possible so they can be transacted on exchange-like trading venues and cleared by a central counterparty (CCP). In the US, the Dodd-Frank is establishing a similar framework via a single law.

In addition, higher capital charges will be imposed on those swaps that cannot be standardised and therefore remain bilaterally traded. Meanwhile, new trade data repositories are also being put in place to enable better risk monitoring capabilities by regulators.

For the buy-side, the reforms mean having to implement many new processes for OTC derivatives trading. These include deciding the best way to manage new clearing obligations, the formal management of initial and variation margin payments – something that was previously unnecessary under most bilateral deals – and use of reconciliation tools.

Much attention has focused on whether CCPs have the risk management capabilities to handle even liquid swaps, but Alex McDonald, CEO of trade body the Wholesale Markets' Brokers Association, identifies another reason why the new rules may not ultimately alleviate the fears raised by G-20 leaders.

Noting the drops in credit ratings suffered by many banks since the financial crisis, McDonald points out liability-driven funds that typically hold assets for long durations may find that the bespoke swaps they require technically have a longer expected lifespan than the counterparties with which they arranged such transactions.

"In the event of a default in a bilateral derivative, replacing tailor-made, long-term contracts would be extremely difficult and expensive," says McDonald. "The buy-side needs to adapt its model accordingly, but clearing as envisaged by policy makers is geared towards short-term products and doesn't solve this problem."

"In the event of a default in a bilateral derivative, replacing tailor-made, long-term contracts would be extremely difficult and expensive."

Alex McDonald, CEO, Wholesale Markets' Brokers Association

The collateral challenge

In the emerging new derivatives market, the buy- and sell-side need to manage collateral more efficiently. Under bilateral deals, the use of collateral is either non-existent depending on the strength of counterparty relationships, or informally managed.

As the new guardians of systemic risk, CCPs that clear OTC derivatives will have much more formalised rules and processes. In response, the demand for suitable collateral, in the form of cash or highly-rated securities, is expected to skyrocket.

The International Monetary Fund estimates that the new OTC derivatives rules will require up to US$300 billion worth of collateral for existing derivatives positions on a netted basis. Many market participants regard this as a rather conservative estimate, predicting that the actual figure may grow to around US$3 trillion if netting efficiencies are removed. To add to the problem, the macro-economic troubles faced by the US and European countries have diminished the worth of many sovereign bonds, making once-reliable assets unsuitable for collateral purposes.

For buy-side firms, a key strategic consideration is how to manage evolving clearing obligations, with some potentially using direct connections to central counterparties rather than broker-clearers, custodian banks or prime brokers.

The path a buy-side firm opts for will be dependent on their size and type. For example, global institutional investors will have more resources to connect directly to clearers and will benefit from offsetting collateral positions by consolidating flow through one CCP.

Smaller fund managers and hedge funds, however, are likely to manage clearing connectivity through their prime brokerage relationships given that a requirement for membership to some CCPs includes the periodic filing of financial statements.

Fixing fixed income

If anything, the impact of reform measures may reshape fixed income more radically than OTC derivatives. In Europe, regulators are using the present review of MiFID to impose similar transparency provisions on equity-like and fixed income instruments as the first version of the directive brought to the region's equities markets.

This means introducing pre- and post-trade quoting and reporting requirements, which are both practically non-existent in fixed income markets, and the introduction of new trading venue categories that are sure to spawn new innovations from market operators and liquidity providers.

Many market participants are in favour of bringing more clarity to the fixed income market but warn that blanket application of new rules could adversely impact execution quality.

"For the buy-side, greater pre- and post-trade transparency helps to measure performance and adjust our trading strategies based on proper, meaningful data," says Carl James, global head of fixed income and FX trading at BNP Paribas Investment Partners. "However, the rules need to consider the liquidity profiles of different instruments, from highly-liquid government bonds to more illiquid asset-backed securities."

When looking to establish a new balance between transparency and liquidity in Europe's fixed income markets, James says regulators should not overlook the role of asset managers in the wider economy.

"Regulators are determined to protect retail clients, but shouldn't forget that all asset mangers work solely for their clients' savings and pension funds, who are ultimately retail clients," he says.

"The new rules need to consider the liquidity profiles of different instruments."

Carl James, global head of fixed income and FX trading, BNP Paribas Investment Partners

Basel busting

But MiFID is just one of several regulatory drivers of change to the fixed income markets. Basel III, the latest set of guidelines devised by a group of central bankers to ensure adequate capitalisation of the banking sector, will impose a risk-weighted capital charge on the assets held by banks.

The likely result will be that fixed income market making services offered by brokers will become less profitable, causing them to either reduce the liquidity they offer to the buy-side or, for very illiquid products that will be too expensive to capitalise, retract from the market altogether.

For the buy-side, changes to both fixed income and OTC derivatives trading point to one thing – a need to take more control over the way they execute in these markets.

From a trading perspective, solutions are emerging. Multi-broker electronic trading venues have been developing their capabilities, while brokers have been adjusting their service offerings. UBS, for example, has introduced PIN-FI, a fixed income crossing platform built along similar lines to the broker's Price Improvement Network for equities. Rather than relying on the sell-side for bond prices, the buy-side can use PIN-FI to specify their price limits for an instrument and post liquidity on an anonymous basis.

Similar innovations are occurring in the OTC derivatives market. DerivaTrust, a service launched in Q2, allows the buy-side to advertise exotic swaps that cannot be standardised under the new regulations. As well as disintermediation of broker-dealers, and the associated costs and commissions, DerivaTrust lets the buy-side set their own terms when negotiating contracts.

Banks and software vendors have also recognised that new solutions will be required to handle the collateral shortfall, with financial software firm SunGard unveiling its firm-wide collateral efficiency tool at the end of March and international central securities depository Euroclear Bank teaming up with BNP Paribas Securities Services to help investors pool collateral through tri-party repo deals. ●

TO LEARN MORE...

Can competition exist in exchange traded derivatives?
25 April – 14:15-14:45

Panel: Embracing the benefits of electronic futures trading by implementing the best futures execution platform
25 April – 15:15-14:45

Panel: Examining developments in listed and OTC derivative regulation and how market mechanics are evolving
26 April – 14:15-14:45

Assessing the current state of the European options market and identifying what will lead to greater liquidity
26 April – 14:45-15:15

Panel: New techniques for effectively implementing cross asset trading
26 April – 16:15

Panel: Looking into the future of cash bond trading – will it take the route of electronically traded equities?
26 April – 14:45-15:15

Distinguished by diversity

This year's Emerging Markets Focus Day will most likely expose as many differences as similarities among the markets concerned.

How might the agenda of an Emerging Markets Focus Day at TradeTech Europe have differed five years ago from what is on offer on 24 April at The Tower Hotel? Despite long experience of investing in emerging markets among many buy-side firms, particularly in the UK and Europe, there would have been less to talk about in 2007, suggests Seth Freeman, CEO, EM Capital Management and a participant in this year's keynote panel on 'Unlocking emerging market liquidity from your trading desk'. "At that time, the availability and reliability of emerging market data streams was inadequate and there were both infrastructure and regulatory constraints, specifically with regard to relatively higher frequency trading," he says. In many cases, there were still cumbersome market entry procedures for foreign investors along with complex tax regimes. "Fewer firms felt sufficiently dedicated to emerging markets from a strategy perspective to allocate resources to figure out how to do it efficiently," says Freeman.

Increased mainstream interest in emerging markets in recent years has been cultivated in the aftermath of the publicity received by the BRIC countries, a term coined in 2003 by Jim O'Neill, then chief economist at Goldman Sachs, as an umbrella for the fast growing markets of Brazil, Russia, India and China, now commonly extended to BRICS to include South Africa. "In many ways the BRICS countries have received more investor attention as service providers have facilitated access," says Freeman. "The BRICS in relative terms are more liquid than most other emerging markets, where liquidity constraints are a defining characteristic."

The growth of a domestic middle class has changed the economic make-up of the BRICS countries to some extent, modifying their reliance on exports of raw materials or high labour content goods. They nevertheless remain relatively resource based, says Freeman. "It's one of the few common features they share with other emerging markets."

When it comes to investment allocation, Freeman cautions against aggregating emerging markets under a common umbrella. "Although the term 'emerging markets' still has some uses, the markets themselves are developing at different rates and at different scales," he says. There are also significant regulatory and tax differences among them, which can make a big difference to investor returns. "Not all emerging countries have double taxation treaties with the US, for example," he notes. "Tax rates can also differ depending on whether you're defined as a dealer or an investor, which might depend on how long you hold the shares. The tax paid may also not be recoverable in all markets. One of the challenges of emerging markets as a class is precisely the lack of uniformity."

Liquidity constraints limit the attractiveness of some markets to institutional investors, not only by hampering trading opportunities, but in terms of the impact that foreign investor activity can have in distorting the market. There are risks on both sides when inviting big fish into a small pool. Nevertheless, says Freeman, "There's some effort to find new markets that are viable rather than just sticking with the five or six largest."

Not-so-direct market access

Given the constraints he outlines, Freeman suggests that electronic trading capabilities are not as much of a competitive differentiator in emerging markets as elsewhere. "It's a macho thing to say you're using algorithms, but the reality is there is plenty of conventional trading going on in these markets," he comments. While some market regulators, such as the Securities and Exchange Board of India (SEBI), have defined a formal framework for what is permissible in terms of algorithmic trading, certain obstacles remain. "For example," says Freeman, "the National Stock Exchange has had an exclusivity clause in its co-location contract that, for many jurisdictions, would be perceived as anti-competitive." (And indeed SEBI has issued clarifications to end a number of restrictive practices.)

He points out that in India algorithmic trading is more a feature of the futures than the equities market. "One of the issues is you cannot do a round-trip trade on the same day for cash equities. You have to wait until the trade has settled on T+2," he points out. "But in futures as long as you have put the margin up, you can transact quickly. So there's another issue: the product that's available for high-speed trading is also different in different countries."

Freeman is nevertheless supportive of moves to facilitate electronic trading into emerging markets, because of the process efficiencies that can result. "Electronic access is definitely desirable, whether or not you're a high-frequency trader," he says. "What's not often appreciated is that there are a lot of moving parts, both before and after a trade is entered. A lot of back office, administrative, allocation and reconciliation activity can be facilitated if you can initiate a trade electronically. That information can feed through to other processes."

In practice, he acknowledges, in many markets the foreign investor's electronic order is re-entered by the local broker, whether manually or through some electronic validation process. "The brokers in these markets are obligated to perform some kind of pre-trade quality assurance step," he says. As a result, foreign orders have to pass through an active intermediary. "Some of the brokers are more sophisticated and can handle that fast and electronically, while some have a more manual approach," says Freeman.

Acceptable limits?

Another constraint that must often be monitored is a cap on the percentage of shares that may be owned in aggregate by foreign investors. "The way that is handled differs from country to country," says Freeman. "In many markets, the custodian bank is given a regulatory oversight role in that regard. In practice at the end of each day, the market will issue a report that shows the foreign ownership level of companies and that effectively establishes the maximum limit for the following day." The custodian then has a policing activity to ensure that the limits are not breached. These intermediary functions are taken particularly seriously. "Brokers and custodians are extremely careful about events that could disrupt their licensing," says Freeman.

With many barriers to local entry in place, how feasible is it for traders in developed markets to get their exposure to emerging markets through vehicles available at home? Much depends on the trading strategy, says Freeman. "If the strategy is basically arbitrage, then it may be feasible to use some of these market access products, but generally, there aren't that many companies that have listed ADRs, for example, and in most cases these represent the larger companies." In addition, he says, they often trade when the underlying market is closed with potential implications for currency fluctuations and reactions to news events. While some investors are using ETFs for emerging markets exposure, says Freeman, "It's not ideal. There is also an extra layer of cost from the management of the fund." Opportunities in emerging markets are, he suggests, best exploited by taking the plunge and engaging with the services available in the market themselves.

THE CONVERGENCE STORY

Simon Quijano-Evans, head of research and chief economist, EMEA, at ING, will present the opening keynote address at the TradeTech Europe's Emerging Markets Focus Day, taking on the subject of 'Trading on emerging markets convergence'.

"There is convergence from both sides," says Quijano Evans. From an 'emerging Europe' perspective, the fiscal story reflects moves towards integration with the euro-zone, while the travails of the region's developed markets in the aftermath of the financial crisis are having an impact on ratings dynamics. Trading recommendations resulting from the convergence story should be of interest to traders of all asset classes, whether working on baskets of credit default swaps, exchange-traded funds or currency, he suggests. "I'll be focusing primarily on the EMEA region, since this is where we see the greatest spill-over of the euro-zone crisis," he says.

TO LEARN MORE...

Keynote presentation: trading on EM convergence

24 April – 09:30-10:00

Keynote panel: unlocking global EM liquidity from your trading desk

24 April – 10:00-11:00

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>> Test your trading skills against other traders on our **Trading Simulation Game** at TradeTech April 25-26, booth #349.

>> The top 10 traders will join Tradebook at the **Goodwood Festival of Speed** to celebrate our award for Speed from the readers of *The Trade.*

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In Europe and US, politicians hold key to recovery

The US is further along the path to recovery than Europe, but political risk threatens progress on either side of the Atlantic, according to UBS's London-based Paul Donovan and Peter Hooper of Deutsche Bank Securities in New York.

"Economically speaking, it is hard to imagine Europe pursuing a worse possible fiscal stability policy."

Paul Donovan, global economist, UBS Investment Bank

TRADETech DAILY: What hope does the macro-economic outlook offer for an upswing in equity trading volumes?

Paul Donovan: In this environment, risk assets are moderately more favoured because the returns on lower risk assets are too low to meet the requirements of institutional investors. That said, we are in an anaemic economic recovery, relatively speaking. More importantly, we're in a period of considerable structural change, which adds uncertainty to the direction of the overall economy. So while we might get some improvement in equity market volumes in a cyclical sense, from a structural perspective a return to the volumes we've seen in the past is relatively unlikely.

TTD: What are the key elements of this structural change?

Donovan: The global trend rate of growth is being reduced and there are increased restrictions on international capital movements, formal or otherwise, as well as an increase in home-country bias from many investors and a more politicised global economic environment. Taken together, this leads to a reduction in international capital flows.

Trade protectionism is not a huge risk: the world has moved on since the 1930s and most trade is now part of extremely complex supply chains. Capital account protectionism is harder to argue against, partly because you don't have that 1930s precedent, but also because it's not overt. Often it's a result of unintended consequences, such as new banking regulations which are de facto imposing restrictions on capital movements.

TTD: Is the crisis-free start to the year a reason for optimism in Europe?

Donovan: Movements in the bond markets suggest we're not entirely out of the woods. There are still concerns about Spain, for example, both in terms of the banking system and its fiscal position. But extreme right-hand tail risks such as the break-up of the euro have, if not disappeared entirely, been reasonably well reduced. That does not mean we are past the crises. We are in a pause between a whole series of different economic and political decisions.

Economically speaking, it is hard to imagine Europe pursuing a worse possible fiscal stability policy. Countries with negative growth are being told to abandon fiscal support for their economies, imposing instead draconian austerity measures.

The markets now regard the GDP part of the debt-to-GDP balance as at least equally important to the overall fiscal stability story. The question of how to cut government deficits in a manner that allows at least some economic growth to come through is unresolved in the euro-zone.

The [European Stability] Mechanism is fine at least until it's tested. It is working reasonably adequately for Portugal and Ireland at the moment. But the moves toward enforcing fiscal austerity are now becoming counter-productive as far as markets are concerned. And the failure to contemplate a more integrated fiscal solution for the euro-zone – i.e. further steps toward a fiscal union – is also a cause for concern.

TTD: How would you characterise the US recovery at this stage?

Peter Hooper: This is still a relatively sluggish recovery for the US, but we're seeing a number of negative risks receding. A lot of progress has been made on household deleveraging in the US. There's still a way to go but the overall picture on household finance is looking quite a bit better than it has in some time. In the housing sector, we're making a lot of progress in working down the excess stock of vacant homes. I think you will soon see residential investment come on stream.

The labour market has been outperforming to the point that Federal Reserve chairman Ben Bernanke has described it as puzzling that employment should be doing so well while the economy is growing so sluggishly. I'd suggest two reasons. First, the economy is doing better than some of the data suggests; we've had some upward data revisions already and expect more. Second, we've seen a significant slowing in productivity indicators. Now that's not a good sign indefinitely, but in the near term, cyclically we're seeing some catch-up from some amazingly strong productivity early on in the recovery. Having been more effective in getting more out of their workforces, firms are now having to hire more. Capital formation has been low; that has to pick up and will be another driver of growth.

For equity markets participants, the improvement in the labour market will be important in two respects: it will bolster household formation, giving further support to the housing market; and further improvement in employment will be a plus for consumer confidence. The reason why we think the stock market has further to run is that we've seen a first phase of recovery characterised by diminution of downside risks and investment flows from institutional investors; the second phase will be households getting in on the act. As confidence builds and employment continues to grow, you will see more flows into mutual funds. Overall, the prospects for continued reasonable expansion are there, most likely we'll see decent further trends in the equity markets.

"From a structural perspective a return to the volumes we've seen in the past is relatively unlikely."

Paul Donovan, global economist, UBS Investment Bank

TTD: What are the key risks to recovery in the US?

Hooper: Externally, actions taken by the European Central Bank and European political leaders have substantially changed the picture from last fall, but events in Spain show that it's still far from smooth sailing. In the Middle East, Iran poses some risk of upset in the oil markets. Perhaps most important is how the US deals with the 'fiscal cliff' that's coming (i.e. a substantial fiscal contraction based on federal government spending cuts and the end of tax breaks implemented under the preceding Bush administration). Most likely they'll kick the can down the road until we have a second-term Obama presidency that is motivated to deal with his legacy, as opposed to re-election, therefore motivated more to lead on this issue, which may result in some more reasonable progress.

There is some possibility of breaching a debt ceiling, before the US presidential election in November, but most likely that's not going to come until very late this year or early next. Given the high stakes, expectations are that rational thinking will prevail. But the possibility of gridlock cannot be ignored.

TTD: What are the prospects for increased capital formation in the US?

Hooper: At this point, capital formation in the US has gone from historically depressed levels to just barely enough to stabilise the business capital stock. The growth of capital services is clearly slowing and this has hit productivity; unit labour costs are now rising significantly as a result of very low productivity growth, associated with this is very slow growth in capital services. It hasn't yet hit earnings, but it certainly will unless we see a further pick-up in capital spending. We expect spending on equipment, software and even structures to be the key driver of growth in the US over the year ahead, with consumer spending contributing too, but not growing much above the norm in line with income. Capital spending will grow well above GDP growth to drive overall investment up to more normal levels and to get the expansion of the business capital stock looking more normal.

In turn, this will push productivity back up, keep a lid on production costs and hold earnings performance in place. That seems all in train, which is why we hold a modestly above consensus view of US growth prospects. Market volatility is low right now but if that picks up due to any of several risk events it could throw this off schedule for a while longer. Personally, I'm positive.

TTD: Why has the US succeeded in deleveraging quicker than Europe?

Hooper: For one thing, the recovery of the US housing market is well ahead of Europe's, particularly in terms of home loan defaults and writing down asset values. Overall home-price-to-rent ratios are back to pre-crisis levels in the US, but they're still well above pre-crisis levels in Europe, which may in part be a factor of differences in legal frameworks. Another factor may be that the banking system is a co-equal partner to the capital markets in Europe as a source of finance.

TTD: What are the growth implications of these differences?

Donovan: The US banking system took early steps to deleverage whereas the euro-zone banking system has failed to do so and remains under-capitalised. The US can now offer a certain amount of credit stimulus to the economy and we're starting to see positive consumer credit lending and a gradual

“Most important is how the US deals with the ‘fiscal cliff’ that’s coming.”

Peter Hooper, chief economist, Deutsche Bank Securities

reintermediation of the banking system. This means that monetary policy can actually have an impact, while fiscal policy stimulus has been pursued aggressively. In the euro-zone, the European Central Bank’s policy is significantly blunted by the failure of the credit transmission mechanism.

TTD: What are the risks of investing in emerging markets?

Donovan: If the globalisation of capital does go into reverse, this suggests a stronger home country bias, reflecting increased concerns about political risk. Emerging markets should always remain part of a well-diversified portfolio. But in the near term we would expect a market like the US to outperform. A reduction in the globalisation of capital flows would have a disproportionate impact on emerging market growth performance over time because of the relative importance of foreign direct investment in terms of enhancing productivity. Therefore lower capital flows would have a bigger impact on emerging market trend rates of growth than would be the case in the developed world.

TTD: What indicators should we pay most attention in monitoring the recovery of global economies?

Donovan: Because we’re in a period of structural change, relying on one or two headline indicators is guaranteed to lose you money. Looking at the US unemployment rate is no use because it doesn’t tell us future economic development.

In the developed world, the main indicators we need to focus on are around credit provision. Any signs of a slowdown in credit growth in the Anglo-Saxon world would be taken very negatively. The fact that we’re getting a slowdown in credit growth in the euro-zone is already very negative.

Second, we need to look at labour markets in a broad sense. At this stage, we’re looking for those that are in employment to increase their propensity to consume and decrease their precautionary savings rate. We need to look at measures such as short-term unemployment, average hourly earnings and household cash flow, We need to see something approaching a normalisation of consumer behaviour, which requires confidence among those in work, combined with some ability to raise credit.

TTD: In terms of equity markets prospects, do the reasons for optimism outweigh the reasons for pessimism?

Hooper: Yes. This has been a long and slow recovery. Because it has taken so long, a lot of rebalancing has already taken place on household balance sheets, the housing sector and the wider economy. Spending on durables and structures has a long way to go, but there’s a good deal of pent-up demand to drive things. The main challenges are largely policy issues: fiscal policy in the US and the sovereign debt issue in Europe. I tend to see the incentives as powerful enough to drive things in the right direction and so tend to think things will look better rather than worse a year down the road.

TO LEARN MORE…

Paper promises: why the debt crisis heralds a new world order
25 April – 09:10

US & global macro economic prospects
25 April – 09:40-10:10

Presentation: Paul Donovan, managing director and global economist, economics team, UBS
26 April – 09:30-10:00

Upcoming Events in Europe...

TradeTech SWAPS & DERIVATIVES
28th - 30th May, 2012 - London
www.tradetechderivatives.com

TradeTech DACH
4rd - 5th July, 2012 - Frankfurt
www.tradetechdach.com

TradeTech POST TRADE
11th - 13th September 2012 - London
www.tradetechposttrade.com

TradingArchitecture EUROPE
19th - 20th September, 2012 - London
www.tradingarchitectureeurope.com

TradeTech FX
25th - 27th September 2012 - London
www.tradetechfx.co.uk

TradeTech NORDIC
7th November, 2012 - Stockholm
www.tradetechnordic.com

TradeTech Liquidity
29th November 2012 - London
www.tradetechliquidity.com

TradeTech SWAPS & DERIVATIVES Regs
November Roadshow - Frankfurt & London

TradeTech
16th - 18th April, 2013 - London
www.tradetecheurope.com

For the global calendar visit
www.tradetechcalendar.com

Putting our own house in order

Upcoming regulation may create fairer and more transparent markets; but investor confidence will depend more on the industry's response.

As a cadre of regulators tell TradeTech delegates how MIFID II, the European market infrastructure regulation (EMIR) and the rest of the regulatory rulebook will create fairer markets, industry participants will argue that at least some of the regulatory response will make markets less efficient and create a slew of unintended consequences.

Criticisms that regulators have overreacted may be widespread but they're largely superfluous, according to Ruben Lee, CEO of the Oxford Finance Group. "It's self-evident that the global growth in regulation at the moment is a response to a series of market and regulatory failures," he says.

The problem is what Lee describes as the "political logic" of regulation-in-progress, including Emir's requirement for central clearing of OTC derivatives – a move he claims could prove counter-productive.

The directive, which the European Parliament voted through at the end of March, intends to reduce systemic risk by requiring market participants to forego bilateral collateral arrangements, instead posting collateral and setting aside margin for use in the event of a default.

"Problems may arise if central counterparties (CCPs) are required to clear certain types of OTC contracts that are not well-suited to such clearing," says Lee. "If a default arises, the CCP itself could then be at risk. Regulators argue that they are not seeking to mandate the clearing of unsuitable contracts. But if the regulation is to bite, this possibility may arise."

Natan Tiefenbrun, head of products, equities and derivatives markets, London Stock Exchange Group, believes central clearing will bring greater transparency and efficiency to derivatives markets.

Tiefenbrun, a panellist in the session on the social impact of capital markets, likewise welcomes the removal of restrictive practices around the licensing of indices and access to central clearing. "Eventually we'll see the same competition in derivatives we already see in equities," he says. "It will require all manner of changes but the market as a whole will benefit."

Winners and losers

Inevitably, capital market reform will create winners and losers. As well as the clearing houses themselves, mandatory CCP clearing should also bring business to vertically integrated exchanges and clearing members, while banks engaged in bilateral trading may have most cause for complaint.

When it comes to MIFID II, Tabb Group CEO Larry Tabb says the disincentive to trade – because the regulation will likely make it more expensive to do so – will negatively affect not only brokers but also investors unable to get in or out of their investments quickly.

"But it may be interesting for issuers and it may be a good thing for the economy," he says. "Companies want stable ownership. If the slightest headwind makes investors bail, it doesn't create stable funding for a company. On the other hand, it could mean that because it's so expensive for investors to get in and out of positions, they don't get in at all."

> "We no longer have investors – we have traders."
>
> Larry Tabb, CEO, TABB Group

According to Tabb, a panellist in a session on reshaping market structures, reformers would do well to consider unintended consequences. He argues that MIFID II, for example, could well slow down the market, with a significant impact on pricing. The stipulations on dark pools and minimum holding periods, the latter designed to curb high-frequency trading volumes, will gradually widen spreads.

"The longer an order is in the book – the longer the mandated resting time – the wider the quote needs to be to ensure the market doesn't move against you when you're providing liquidity," he says. On the other hand, longer holding periods and wider spreads could create more liquidity at different price points, which, conversely, may make it easier to trade less liquid names. "That has yet to be seen," acknowledges Tabb.

Investor confidence

Yet he's reluctant to condemn MiFID II's strictures, pointing to questions over whether the market has in fact become too efficient. "The cost of trading has come down so much that we no longer have investors – we have traders," says Tabb. "People trade out of a stock at the least bit of turmoil."

To regain investor confidence, both market operators and regulators need to do three things better, says Tiefenbrun. First, educate the public about how financial markets contribute to the real economy by, for example, facilitating global trade and economic growth. Second, explain the City's contribution to the UK economy. Third, convince consumers of the benefits of competition, transparent markets and investors' own due diligence as a means to ensure efficiency and integrity. "Regulation alone can't be the answer. If anything has been demonised, it isn't the markets: it's competition as a force for good," says Tiefenbrun. ■

TO LEARN MORE...

Panel discussion: the role and impact of capital markets on society and its economic and political stability: is it possible to create fair & transparent markets?

25 April – 10:10-10:40

Survival of the fittest? Revamping your business to cope with the new post regulation trading environment: reshaping market structure and finding enough of the right liquidity to bring value to the end investor

25 April – 11:30-12:30

Making sense of dark matters

OTF uncertainties cast shadow over broker crossing networks

Lack of market transparency confounds search for liquidity

With MEPs calling for MiFID II's new organised trading facility (OTF) to be restricted to non-equity asset classes, market participants are pondering a future in which dark trading is only permitted on multilateral trading facilities (MTFs) and systematic internalisers (SIs). But the real issue is the lack of consolidated data, according to Niki Beattie, managing director at consultancy Market Structure Partners.

"Regulators are not addressing the consolidated data issue in its entirety," she says. "That's serious because the fragmentation of data is perpetuating so many other issues. It's making it hard to navigate your way around the market and it's exacerbating the use of dark pools."

> "Fragmentation of data is perpetuating so many other issues."
>
> Niki Beattie, managing director, Market Structure Partners

Dark pools are generally favoured over lit markets by market participants looking to reduce market impact. The absence of pre-trade transparency helps firms to conceal trades in large blocks of stock, making dark pools ideal for long-only institutional investors that want to rebalance their portfolios, for example.

At the same time, widespread fears about the possibility of long-term investors being gamed or otherwise disadvantaged by the presence of high-frequency traders on the lit markets has contributed to an increase in trading activity on non-displayed trading venues. Europe's dark pools reported their highest ever market share in February, reaching 7.65% of Europe's order book total – split roughly 50/50 between dark MTFs and other non-displayed venues, largely broker crossing networks (BCNs) – according to figures provided by Thomson Reuters. Yet regulators are often suspicious of dark pools, because of their alleged lack of transparency.

"As an industry, we need to reinstate trust," says Lee Hodgkinson, CEO of SmartPool, the dark MTF owned by exchange group NYSE Euronext. "Financial services in general over the last few years have lost the trust of the man in the street. Key to restoring trust is transparency. That's not to say that every trade needs to be fully public and done on the lit market. But transparent markets are fair markets and they are markets in which trust flourishes."

Chasing shadows

The new OTF category of trading venue was proposed by the European Commission in its draft of MiFID II, published last October. It was intended as an over-arching venue category that would encompass both BCNs, which were not captured under the first version of MiFID, and new platforms for trading OTC derivatives.

However Markus Ferber MEP, rapporteur for the European Parliament's reading of MiFID II, has repeatedly questioned the need for an extra venue category. And last month, among a raft of amendments to the Commission's original text, he proposed that equity trading should take place, if not on lit regulated markets, then only on dark venues that fitted existing venue classifications. That would mean some BCNs would be forced to turn into MTFs, meaning the operating brokers would lose their ability to control participation criteria and matching rules.

"Whether or not fragmentation increases, we will see more MTFs and more SIs," says Hodgkinson. "On the one hand, that will bring those activities into a structured regulatory framework. The flip side is that it will take the buy-side a while to understand that new landscape. There's always a cost associated with a change."

> "As an industry, we need to reinstate trust."
>
> Lee Hodgkinson, CEO, SmartPool

Dealing with diversity

Beattie concurs that more fragmentation is likely – and not just in terms of trading venues. As more flow is directed to MTFs and SIs, which have reporting obligations that BCNs currently avoid, more pre- and post-trade data will be generated – fragmenting Europe's data landscape even further. "One hopes if things are labelled properly and the data can be aggregated, there will be greater transparency," she says, emphasising her preference for a more direct approach to creating a consolidated post-trade data tape for European equity trades than is contained in the current draft of MiFID II.

Regardless of whether or not the OTF venue category is applied to equities, its current form as outlined by the European Commission prohibits proprietary flow from the operator transacting with that of clients, thereby outlawing the current practice of brokers unwinding client facilitation flow in BCNs. Beattie suggests this constraint undermines the whole point of having such a trading platform in the first place. "The OTF category as proposed is ostensibly defining an agency broker, and we already have those," she adds.

Part of the problem with pan-European efforts to draft legislation that will define and control dark trading is the sheer diversity of the national markets under the European Commission's jurisdiction. With 27 member countries, different markets have very different experiences and needs.

"Some countries are more used to the needs of sophisticated institutional investors and others are not," says Beattie. "Italy has a more sophisticated retail market than the UK, for example. But if we're going to have a pan-European market we have to come up with the right balance for both. We have to acknowledge that we need alternative mechanisms, such as dark pools, for some kinds of trading at least." ●

TO LEARN MORE...

Panel discussion: Dark pools: Are they the root cause of challenges in the market or a symptom of a wider spread problem?

25 April – 15:15-15:45

Navigating dark liquidity pools in the global markets: what is likely to change and how can you best take advantage of anonymous trading?

26 April – 11:30-12:30

Building your own smart order router to control order flow for optimal execution:

26 April – 15:15-15:45

The gambler

Trader, poker-player and former professor Aaron Brown insists: the world still needs risk-takers.

'The Poker Face of Wall Street' (Brown's 2006 book on the parallels between gambling and trading) provoked controversy with its premise that, as Nassim Taleb says in the preface, "economic life is largely modelled after gambling". Was the controversy justified?

The premise is that gambling underlies all forms of risk-taking, including trading. Insights from gamblers and behavioural studies of risk-taking can be valuable for traders.

It's on the border between psychology and economics. A lot of work has been done in the past 15 years in live situations – trading floors and casinos – to understand how people take risks. Some of the results overturn conventional wisdom.

You've said that every successful poker player and trader believes he or she is better than everyone else. Has that struck a chord since the book was published?

The strongest reaction hasn't been necessarily to the ideas in the book. The most common response I get is from traders saying, 'Finally someone understands me'. One very large trader told me he cried like a little girl who'd finally found a friend.

I got a similar reaction from some professional gamblers, who said they could at last tell their girlfriend's parents that they really are doing something important.

To what extent does misunderstanding gamblers reflect a lack of respect for risk-taking?

Risk-taking is treated as something that is done by degenerates and thrill-seekers – as something that can't possibly be important. There's a sense that real jobs are done by people in suits making decisions that try to eliminate risk as far as possible. The idea of people out there in their shirtsleeves yelling and screaming and taking real risks is a 'problem'. I argue that in fact the risk-takers are really at the centre of economic innovation and progress.

Yet you've acknowledged that your premise is out of kilter with much of the public discussion, which blames risk-takers for the financial crisis and pretty much everything else…

Although accusations of recklessness are quite common, to me it's the last gasp of a dying ideology. They're coming from people who are struggling to hang on and pretend they're in charge in a world run by forces completely beyond political control.

Global economic forces and global derivatives markets will determine the course of the future. People who've made careers out of telling the public they understand these forces and can control them, that these forces can be taxed and regulated so they work for everybody, have been exposed as hoaxers. Rather than admit they've been caught out, they pretend they can slap a lot of regulations in place and change things that way.

They're not going to be able to hold back the tide. The choice is to get used to the new world or to ignore it and let whatever happens happens, but there is no way to control it.

Your recent book, 'Red-blooded Risk', takes your ideas to a broader audience. Was it difficult for a risk-taker to write for the risk-averse?

It's a stretch to write for people don't take risks. Frankly, I just don't understand them. But when people understand mathematics or take risks in one area of their lives – say, if they have an adventurous hobby, or an adventurous love-life – then there's common ground I can build on.

If someone takes absolutely zero risk and they don't know mathematics, it's very difficult for me to get through to them.

Did you give your poker-playing opponents an advantage over you by publishing your ideas?

I never used the word 'opponent'. The minute you think that way, you've already lost. You're trying to engage in a co-operative venture. It isn't a competition. I'm not trying to rig the game. I'm trying to show people that if we all gamble – and we all do, whether we know we're doing it or not – and we all gamble intelligently, then we all gain.

Finally, have your ideas made traders any better at what they do?

When I started out on Wall Street in the early 1980s, you had to be smart about risk because a trader who wasn't just went broke. Since then we've built mechanisms and institutions so that today a trader can rely on a risk manager and reports. But as a result we have a lot of traders who couldn't survive without that infrastructure.

In the long run, it's better to do things in that institutional way with rules and forethought, reports and theories. But I still have enormous respect for people who have an intuitive sense for trading, and we still need those people around. However much theory you have, the world still needs shrewd risk-takers.

TO LEARN MORE…

Chair's welcome address – Aaron Brown, trader and author, 'The poker face of Wall Street'

April 26 – 08:55-09:00

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EXHIBITIONS

Damien Hirst at the Tate Modern

Bankside

Tel: 020 7887 8752

The public first noticed Damien Hirst as a student of Goldsmith's College in 1988, when he presented Freeze, an exhibition in a disused warehouse, and has since become one of the most influential artists of his generation.

His latest exhibition includes artwork and sculptures spanning his career, including the famous shark in formaldehyde, 'The Physical Impossibility of Death in the Mind of Someone Living'.

The exhibition runs from 4 April – 9 September 2012, with tickets at £14.

It is open from 10am – 6pm, Sun – Thurs and 10am – 10pm Fri and Sat.

British Design 1948-2012 at the V&A Museum

Cromwell Road

Tel: 020 7942 2000

This exhibition celebrates British art and design since the last London Olympics in 1948, and showcases some 300 objects and pieces of artwork from fashion, product design, graphics, ceramics, photography, sculpture, fine art, furniture and architecture.

It takes you through three sections, with some of the highlights including the first E-type Jaguar ever to be put on public display, an Alexander McQueen evening gown and a model of Zaha Hadid's London Aquatics Centre in the London Olympic Park.

The exhibition runs from 31 March – 12 August 2012, with tickets from £10. Opening times: 10am – 5:45pm, Mon – Thurs, Sat and Sun, and 10am – 10pm, Fri.

Nearest tube station is South Kensington.

COMEDY

Bloomsbury Theatre, 15 Gordon Street

Pam Ann "You F'Coffee"

17 April – 5 May, 8pm

£22 – £2

Tel: 0207 388 8822

For three weeks only, Australian comedienne Caroline Reid becomes Pam Ann, the face of Heathrow Sky Team's Terminal 4, taking you on a hilarious journey right from the check-in desk through to landing. Her performance identifies the quirks and stereotypes of major airline companies and the passenger's flying experience. Madonna is a fan, calling Reid "cruelly funny".

The nearest tube stations are Euston, Goodge Street and Warren Street.

99 Club

28a Leicester Square

On 24 April, Rob Deering, Paul Chowdhry, Josh Widdicombe and Holly Walsh perform stand-up at this award-winning, flagship 99 Club in central London. On 25 April, Ria Lina, Ed Gamble and Stefano Paolini will entertain you, while 26 April showcases Michael Smiley, James Acaster and Bob Mills.

Tickets booked online are £8/£9, while those bought on the door will cost £12.

The nearest tube station is Leicester Square.

BARS

Astons Champagne and Wine Bar

187 Marsh Wall

Canary Wharf

Tel: 0207 537 3903

With a fantastic view of the dockside from the terrace, just a few minutes' walk from the station, this Art Deco-styled venue is glossy and glamorous with a curved central bar and leather booths for more intimate evenings.

Visit www.astons-bar.com for the menu and further details.

The nearest station is South Quay DLR.

Brodies Bar and Restaurant

43 Fishermans Wharf

Canary Wharf

Tel: 0871 971 3183

Overlooking the West India Quay development, those of you wishing to dine can do so on the extensive terrace if the weather allows. Changing the wine list every spring and autumn to complement the food menu, you should be able to find your desired beverage.

Visit www.brodiesbar.co.uk for more information.

The nearest station is Canary Wharf.

Fox at Connaught

Links Way

Connaught Bridge

Docklands

Tel: 0207 476 6777

Described as "the closest thing to a neighbourhood boozer" in this area, this Grade 2 listed building offers you a relaxed and comfortable atmosphere and some traditional fare.

The nearest station is Canning Town.

RESTAURANTS

Camino

28 Westferry Circus

Tel: 020 3589 4514

With its waterfront location, wood and exposed brick restaurant and a spacious bar kitted out with football tables and old sherry barrels, this is the place to come for your evening meal and other antics. Flamenco pictures abound to help create the Spanish feel of this venue.

Try boniato to start with, crisp-fried sweet potatoes with ginger, fennel and yoghurt sauce, or queso de aliva which is a lemony soft pasteurised cows' cheese served with fig and almond cake.

For your main course, choose something from the charcoal grill such as a free-range chicken skewer or Cornish sardines with preserved lemon and roasted pepper salsa. There are tapas dishes aplenty, including salads, cheeses, fish and even crisp-fried baby squid with alioli and lemon.

Those with room for dessert can sample orange, vanilla and cinnamon Catalan custard cream with crunchy caramel or molten hot chocolate pudding with ginger ice cream. There is an extensive wine list to accompany your meal.

The nearest station is Westferry DLR station.

Dockmaster's House

1 Hertsmere Road

Tel: 020 3589 1690

This three-storey Georgian building, formerly the West India Dock superintendent's residence, is now an upmarket Indian restaurant with floor-to-ceiling windows and modern furniture. You can even book the courtesy car to take you from anywhere in Canary Wharf straight to the restaurant, free of charge if you call 0207 345 0345.

Choose starters from chilli scallops with spicy anise squids and apricot sauce, or Indian cottage cheese grilled in the tandoor with mint.

Main dishes include clove smoked tandoori quail on green lentil and mint salad, green spiced grilled salmon with mustard seed and curry leaf quinoa salad and butter chicken with fenugreek sauce served with steamed rice.

The nearest station is Westferry DLR station.

The Gun

27 Coldharbour,

Tel: 020 3544 1660

This nautical-themed gastropub enjoys a beautiful riverside setting with a decked area for al fresco dining. Try Jerusalem artichoke soup with truffle cream to start, or pork and green peppercorn terrine with fig chutney.

Main dishes to tempt include Scottish salmon and smoked haddock fishcake with poached egg and chive sauce, goat's cheese crotin with crushed carrot and swede, walnuts and poppy seed sticks or rump of Herdwick mutton, braised shoulder, pearl barley stew with carrots and turnips.

Desserts on offer vary from Comice pear crumble with vanilla custard, to apple doughnuts with roast pecans, maple syrup and cinnamon ice cream.

The nearest station is Canary Wharf.

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