

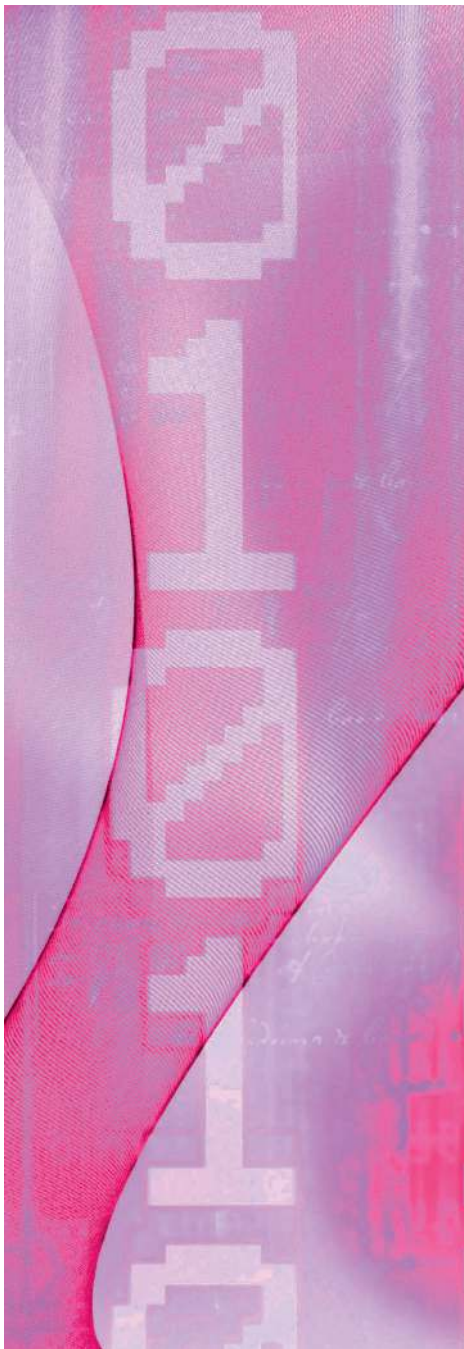
The 2014 Asian Algorithmic Trading Survey

Recognising excellence in the delivery of algorithmic trading solutions

Featuring

- Market review
- Broker roll of honour

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Asia now matches Europe and North America

Improvements in perceptions about Asia's use of algorithms indicate that the continent has caught up with the rest of the world.

2014 represents a breakthrough year for the Algorithmic Trading Survey in Asia. Not only were more responses received than in any previous year, from more individual respondents, but scores also reached record levels in terms of customer satisfaction.

In 2012 and 2013 the overall survey scores across all respondents and all questions were 5.17 and 5.13 respectively. While broadly acceptable, this level of scoring was some way behind that seen in the main global Algorithmic Trading Survey.

In 2014 that changed. The overall average score was up by 0.43 points to a 5.56. This was within a few basis points of the main survey average of 5.59. As Figure 1 highlights, improvement was

recorded in all twelve areas of service under review.

The biggest gain in scores was for client support where results were higher by almost three-quarters of a point; that is three in four respondents gave a better score this year than in 2013. Although respondents are concentrated in Hong Kong and Singapore, the region includes Australia and Japan and physical distance can make client support coverage more complex. As such all providers are to be commended on the overall improvement in this category.

The area seeing the least upside was price improvement. Here the gain of just 0.30 points means that this aspect of capability now ranks second to last in terms of client perceptions.

Outside of obvious price gains seen with crossing, it is hard to effectively

demonstrate that price improvement has been achieved. As a result, perceptions of performance are also impacted by expectations based on sales pitches and subjective user perspectives on the execution outcome.

Whether services have been oversold or underappreciated is not clear, and it may be that both are to blame. It is also worth noting that this seems to be something of a global phenomenon, with the same area recording similarly disappointing scores in the main survey.

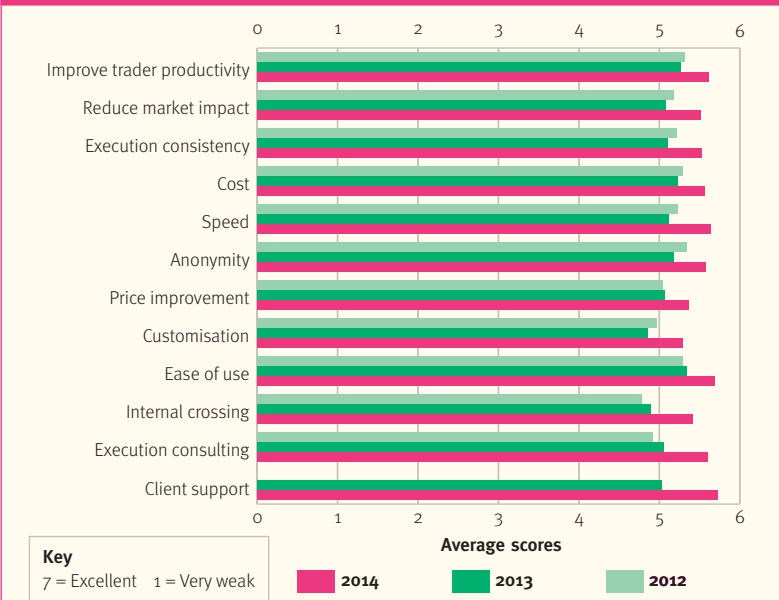
Functionality counts

Priorities of clients in Asia continue to evolve with the development of both the markets and provider capabilities. Figure 2 illustrates the evolving position based on clients being asked to name the four most important aspects of functionality as they assess algorithmic trading counterparties.

This year reduced market impact accounted for 11.45% of all mentions. This was the third year in a row in which its proportion grew and made it the most important aspect as far as 2014 responses were concerned.

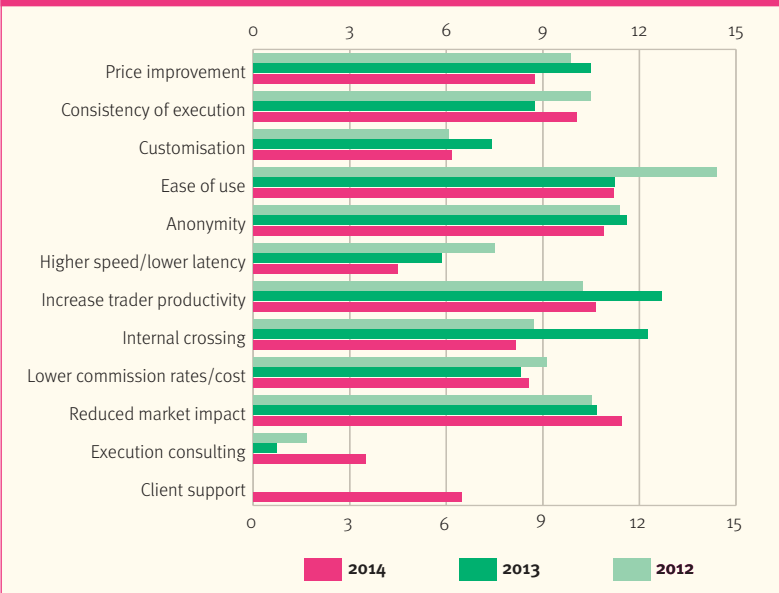
Its position paralleled that in the main Survey. In

FIGURE 1: RATING OF ALGORITHM PERFORMANCE



Source of all charts: The TRADE Asia Annual Algorithmic Trading Survey

FIGURE 2: REASONS FOR USING ALGORITHMS



Market review

terms of elements that relate to execution outcomes, this area is now clearly more important than anonymity, execution consistency and price improvement, though these each remain core areas of capability where client expectations are high. Overall these four areas accounted for more than 40% of all mentions.

Trader issues

For those aspects that affect the traders themselves, ease-of-use, though declining marginally from 2013, remains the most important, attracting 11.2% of total mentions. Increasing trader productivity also obtained more than 10% of mentions, though this was somewhat lower than in 2013.

Customisation and client support both rather surprisingly were seen as somewhat less important in this area. Additional features continue to account for the smallest number of mentions. Across four areas they received less than one-quarter of the votes. Among them lower costs including commissions was slightly higher this year and the most important of the four. Internal crossing declined markedly in importance compared with 2013, with its proportion going

FIGURE 3: AVERAGE NUMBER OF PROVIDERS USED BY AUM

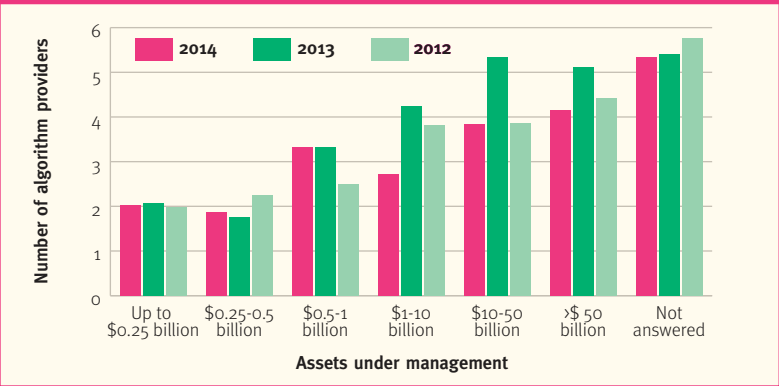
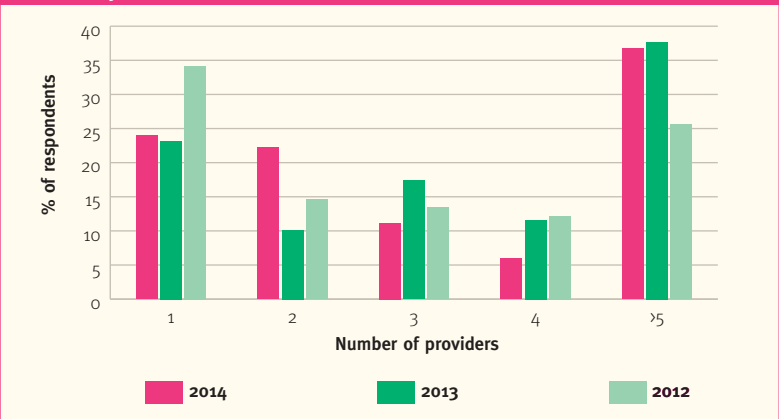


FIGURE 4: NUMBER OF PROVIDERS USED



If clients already have the providers they need, growth can only come with new entrants using algorithms or by winning clients away from competitors.

from more than 12% to a little over 8% this year.

Smaller broker panels

It was noticeable in the main survey earlier this year that the number of providers being used appeared to be in decline compared with 2013. This

trend also appears to be the case in Asia.

In this case the decline is starting from a generally lower base of usage. This has important implications for providers. In North America and Europe, there was a growth trend in number of providers being

used which ran for at least 10 years. In the case of Asia the expansion phase would seem to be much shorter, perhaps as little as five years.

If indeed clients have decided that in general they already have the providers they need, then growth can only come with new entrants using algorithms or by winning clients away from competitors.

Neither of these is as easy as being added as a new provider to a client broker list that already has some algorithm providers.

Figure 3 shows that among the very largest of respondents, those with over US\$50 billion of assets under management, the average number of providers evaluated fell for the second year in a row. It now stands at 5.34. This is lower than in the main survey (5.76). The same situation applies in all cases except for clients with assets of US\$250-500 million which sees an anomalously high average of 3.33 unchanged from 2013. While there is a modest increase in average providers used among the very smallest clients, the decline among the mid-market respondents is significant. Clearly unless the market itself expands, the pressure on incumbents

FIGURE 5: ALGORITHM USAGE BY VALUE TRADED

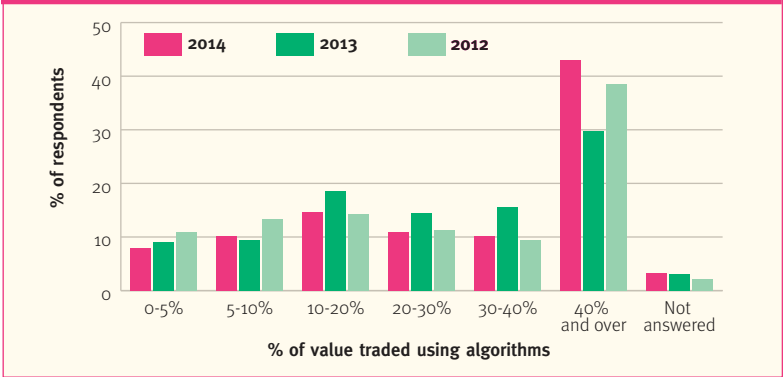
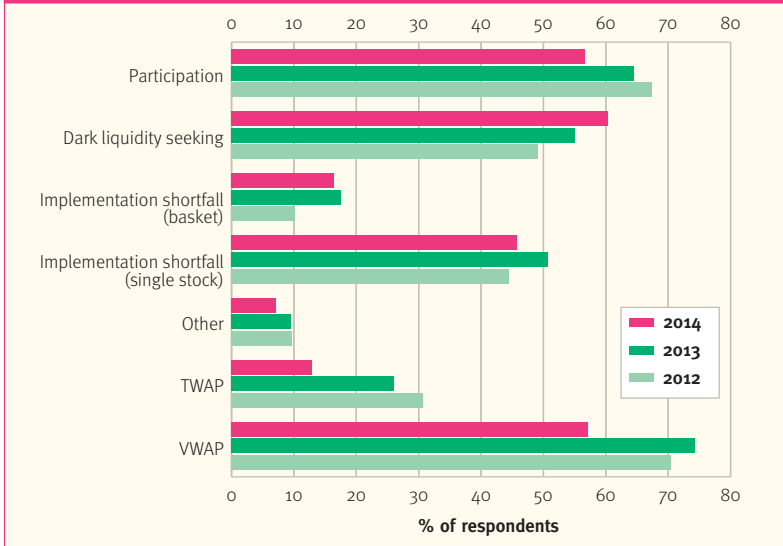


FIGURE 6: TYPES OF ALGORITHMS USED



The reduction in mentions of all types may reflect a consolidation of activity or a greater use of more customised solutions.

will increase and getting added to a list is likely to be extremely difficult. Having some core strengths to offer to clients, demonstrated by existing client reference will

be even more important than before.

Figure 4 shows this situation from a different perspective. In this case the number of respondents

Market review

evaluating a single provider is essentially unchanged from 2013 levels. The percentage responding with two providers is up sharply. However this is largely a reflection of the fact that those responding for three and four providers are both substantially reduced, accounting between them for 17% of the total responses, against almost 30% last year.

The number of respondents evaluating five or more providers is down very slightly compared with 2013, but the difference is not statistically significant. Whether or not clients have reduced the number of brokers they use is not certain from the data. However it does appear clear that business is consolidating. Anyone not in the top two providers for a given client has probably lost market share during the last year.

Algo growth

While the number of individual algorithmic provider being used by each client may be falling, the proportion of business done using algorithms does appear to be increasing in Asia.

Figure 5 shows the position in terms of how many respondents are using algorithms for a given

percentage of their value traded. The number still using algorithms on what might be described as an 'occasional' basis, i.e. for less than 10% of their trading, is steady at around 18%. This figure is marginally higher than in the main survey but generally consistent.

The number of clients using algorithms regularly but for a minority of business (10-40% of value traded) is down in 2014 to a little over one-third of respondents compared to nearly half of respondents last year. The offset is a dramatic rise in the number of clients using algorithms for more than 40% of their activity. This has moved from 29.7% to 43.1% a very significant shift from any perspective.

What this suggests, particularly since it is consistent with results in the main survey, is that Asia has pretty much caught up with the rest of the world in terms of its willingness to entrust a very large part of its trading activity to algorithms and electronic trading. Whether this is the result of good experience better marketing or both, is not clear. Based on experience elsewhere however it is a trend that is unlikely to be reversed.

Asia has now largely finished playing catch-up to the rest of the world in terms of algorithmic trading.

...but less participation algos

Figure 6 highlights the change in the different types of algorithm being used. The reduction in mentions of all types may reflect a consolidation of activity or a greater use of more customised solutions. What is clear is that participation algorithms are being used less.

This affects VWAP, TWAP and in-line strategies, with the first two being used by significantly fewer respondents in 2014 than a year ago. Dark liquidity seeking algorithms are now more widely used than any other type. This is perhaps surprising given the nature of Asian markets generally. However, it is a trend that is shown in major markets.

Asia catches up

Overall, the message from the 2014 survey is that Asia has now largely finished playing catch-up to the rest of the world in terms of algorithmic trading. Whether it follows the path forged by major markets in Europe and the US or forges its own specific direction remains to be seen. Either way the business is built on solid foundations in terms of functionality and performance. ■

The 2014 Broker Roll of Honour

Functional capabilities

MEASURING FUNCTIONAL CAPABILITIES

Survey respondents were asked to provide a rating for each algorithm provider on a numerical scale from 1.0 (very weak) to 7.0 (excellent), covering 12 functional criteria. In general 5.0 is the 'default' score of respondents. In total 25 providers received responses and the leading banks obtained dozens of evaluations, each yielding thousands of data points for analysis.

Each evaluation was weighted according to three characteristics of each respondent; the value of assets under management; the proportion of business done using algorithms; and the number of different providers being used. In this way the evaluations of the largest and broadest users of algorithms were weighted at up to three times the weight of the smallest and least experienced respondent.

In arriving at the overall Roll of Honour, the scores received in respect of each of the 12 functional capabilities were further weighted according to the importance attached to them by respondents to the Survey. The aim is to ensure that in assessing service provision the greatest impact results from the scores received from the most sophisticated users in the areas they regard as most important. Finally it should be noted that responses provided by affiliated entities are ignored and a few other responses where the respondent was not able to be properly verified were also excluded.

As in previous years, the 12 functional capabilities are grouped into three categories; those that impact on actual execution performance; those that effect direct and indirect costs of trading; and capabilities that are of a qualitative and more subjective nature.

REDUCING MARKET IMPACT

ROLL OF HONOUR

ITG
J.P. Morgan
Liquidnet

As noted in the market review, reducing market impact was the single most important feature in terms of clients' evaluation of algorithmic trading services and providers. The level of mentions means that almost half of the respondents considered it to be one of their top four areas of interest. For the second year in a row the importance to Asian clients grew, reflecting their determination to see real benefit from algorithmic trading above and beyond convenience and consistency.

As far as scores were concerned the year saw a significant improvement compared with 2013. The average score across all respondents and providers was up by 0.43 points to 5.56. At this level, though still marginally behind the overall survey average, the scoring level is more than satisfactory. Among the major providers in terms of responses, the range of scores was broader than might be anticipated given the importance. Demonstrating the quantitative advantage of particular algorithms is hard, but clearly would be highly beneficial in achieving business growth.

Among the Roll of Honour names, Liquidnet appears as it did in the main Algorithmic Survey. J.P. Morgan also merits

¹ Roll of Honour recipients are listed in alphabetical order throughout the survey.

Broker Roll of Honour

inclusion in Asia as well as the main Survey. ITG received more responses than the other Roll of Honour names and gained consistent high scores across a range of different types and sizes of clients.

EXECUTION CONSISTENCY

ROLL OF HONOUR

Bank of America
Merrill Lynch
Citi
Credit Suisse

One of the key strengths of algorithmic trading is that the execution performance achieved is consistent. Given the market infrastructure in Asia, consistency is both harder to achieve and hence of arguably greater value than in some other regions. It is also somewhat easier, though still difficult, to demonstrate through analysis of execution outcomes.

Execution consistency is not as important as reducing market impact. However, it accounted for more than 10% of all mentions by respondents in relation to key factors in evaluating providers' performance. The proportion of mentions grew this year, reflecting increased focus by clients on actual trading performance. The level was also consistent with that seen in the main Survey.

In terms of the Roll of Honour names, Citi received a high number of responses across the region. Its scores in this area were excellent. Credit Suisse and Bank of America

Merrill Lynch were also among the largest providers in terms of response numbers and their scores in this area were also strong. The range of scoring among major providers was narrower here than in some other areas of performance. While good scores show well, they are unlikely to drive significant new business because of the generally good scores received by all providers. Scores overall were up 0.43 points reaching 5.53 across all providers and were higher still among those receiving most responses.

PRICE IMPROVEMENT

ROLL OF HONOUR

Citi
J.P. Morgan
Liquidnet

Price improvement, like other aspects of trading outcomes is hard to assess objectively. There is no way to ascertain what might have happened and therefore determine the extent, or indeed existence of price gains. In this respect the position of Liquidnet among the Roll of Honour names is interesting. By offering buy-side to buy-side trading and allowing parties to negotiate price, it is likely to offer both sides a clear benefit. While not an algorithm as such, it is a way of trading that, when successful, guarantees a particular gain in the perception of users. It is for that reason perhaps that its scores are



high in this area. Other Roll of Honour names have gained their ranking through a more traditional route, though Citi has successfully promoted its Citi Match product.

Across the survey, price improvement saw one of the smallest gains in scores (0.30 points). At an average score of 5.36 it is the second worst performing area within the 12 covered. It may be that this is a problem of quantifying gains or simply a reflection of some overzealous selling of functionality. Either way it is something where clients are less convinced.

It is also worth noting that the relative importance of this area to clients declined noticeably from 2013. Scores were also in a quite narrow range among major providers. All this suggests that in the absence of convincing evidence, clients will increasingly ignore claims of excellence.

ANONYMITY

ROLL OF HONOUR

- Bloomberg Tradebook
- Instinet
- Morgan Stanley

The ability to keep orders anonymous in the market has long been a prized source of competitive advantage in Asia. In these markets, even more than elsewhere, buy-side clients, especially long only managers, have been concerned about information leakage. This is as big a problem if competitors can get information from algorithmic trading, as it is the result of leakage by individuals. Algorithms should have a natural advantage, but that is not always easy to show. The importance is illustrated by the fact that although slightly lower than in 2013, anonymity still attracted the third highest proportion of mentions across priorities. Around 45% included it within their top four.

In 2014 scores on this question improved by 0.40 points across all providers. This good performance still meant that the area moved from being marginally better than average to marginally worse. While progress is good, there still seems to be work to be done by providers. Among major providers, scores fell into a narrow range with best and worst separated by less than 0.80 points. Instinet is naturally strong in Asia, while Morgan Stanley again demonstrated the broad capabilities that it possesses.

Among the Roll of Honour names, this was an area where Bloomberg Tradebook scored particularly well, achieving its best score within the Survey.

EASE OF USE

ROLL OF HONOUR

- Deutsche Bank
- Goldman Sachs
- Instinet

It is an essential prerequisite for successful implementation of algorithmic trading that the system should be easy to use. Failure to achieve this objective will quickly render any system uncompetitive. The role of execution management systems in helping achieve this is also important. This probably explains the constant tension between providers of each service. The importance attached to this aspect by traders is clear from the survey results. Ease of use was the second most important element compared with fourth in 2013, and ranked ahead of Trader productivity.

As might be expected for such an important area, scores among major providers were narrowly bound. At 0.72 points the gap between best and worst was smaller than in any other area except reducing market impact. Clearly providers across the board are doing a good job at focussing their efforts opposite the areas that clients consider most relevant. However, that does mean that opportunities for competitive

differentiation are limited and unlikely to prove sustainable over time.

In terms of the scores themselves these were up by 0.35 points. While not the largest gain, this still left this area as the second best scoring in the entire survey. All providers should take credit for this performance. However among them, Citi, Deutsche and Goldman Sachs performed with notable credit and fully merit inclusion within the Roll of Honour.

TRADER PRODUCTIVITY

ROLL OF HONOUR

- Goldman Sachs
- J.P. Morgan
- Morgan Stanley

Among those elements that impact traders directly, improving trader productivity was historically seen as the single most important element. In Asia that is no longer the case, with ease-of-use usurping that position. In part this reflects a maturing of the industry and its users. It also no doubt is impacted to some extent by the fact that trading volumes remain depressed, in relative terms at least. Even so it remains a core part of service. It may only rank fourth of the twelve areas, but still accounted for more than 10% of total mentions with two in five respondents regarding it as one of the four top components of service.

Perhaps unsurprisingly the Roll of Honour names include some of the

Broker Roll of Honour

best established service providers. These firms were at the forefront of bringing algorithmic trading to Asian markets and probably still benefit in terms of client perception for the impact they had in the area of trader productivity.

Scores were somewhat more volatile in 2014 than in previous years. The average score was up 0.35 points to 5.61. This placed third among the questions compared, versus second a year ago. The gap between top and bottom was 0.91 points. Though not as large as some areas it is bigger than might be expected for such a key element. At this stage in the business evolution it is unlikely that any institution can gain real advantage here, but achieving the core objective is a necessary condition to remaining competitive.

CUSTOMER SUPPORT

ROLL OF HONOUR

BNP Paribas
Citi
Macquarie

In the early years of the survey, we did not include a question about customer support. This reflected the view that the systems were straightforward and one of the benefits was the limited client interaction that should be needed once installed. As time passed, the systems as well as the underlying algorithms became more complex. This was a reflection of product



innovation and a desire to gain competitive advantage. In such circumstances, customer support became necessary to ensure that clients always fully understood the benefits of new functionality.

This change is reflected in the relative importance of the question. While still only 6.5% of total mentions, this is a lot higher than previously. In addition providers have focused attention on this area with enormous success. Scores across all providers averaged 5.72. This was by some margin the highest score in the Survey and contrasts remarkably with the average of 5.03 recorded in 2013. Providers appear to have done an outstanding job at delivering what clients are looking for.

It is also an area where institutions with a general commitment to client service can outperform more specialist firms who perhaps believe the service will 'speak for itself'. This is reflected in the Roll of Honour names. It is also

the case that the range of scores is wide. The difference between Roll of Honour and the lowest scores at 1.23 points was the fourth largest in the Survey. Clearly some are doing a better job than others in the eyes of clients.

CUSTOMISATION

ROLL OF HONOUR

Credit Suisse
Morgan Stanley
UBS

In the 2013 survey, customisation achieved a score of only 4.85, the lowest of any service category. 2014 saw an improvement in scores but not in position. The average score of 5.29 was certainly better but still ranked 12th out of 12.

Last year it was suggested that providers simply lacked the business opportunity to justify the kinds of customisation that clients were looking for. To some extent that still may be the case. Trading in Asia remains a long term growth story and electronic trading perhaps more so. However, in the environment of today it still struggles to justify new investment on the back of current business levels.

In terms of scores of individual providers there are clearly some who are disappointing clients' expectations. Scores of below the 5.0 'default' level were not uncommon, even while the best scores are well below those seen in

other categories. The range of scores was 1.03 points, larger than some of the more important areas but still below that seen in other areas. At the same time that scores have improved, the number of mentions received by customisation as a priority has declined. While still accounting for more than 6% of mentions it is very clearly well down the list of things clients worry about.

Those with the biggest business always have most opportunity and most capacity for customisation. Against that background the names that appear on the Roll of Honour are not surprising, including three of the very largest firms in the region. While they are offering an encouraging lead to their competitors, the nature of the business may prevent them deriving any additional advantage in terms of new business. However it will certainly help them defend the market share that they already have.

COSTS AND COMMISSIONS

ROLL OF HONOUR

- Bloomberg Tradebook
- Morgan Stanley
- UBS

Among other factors affecting perceptions, cost is something that cannot be avoided. The first focus is of course on commissions. However, the other costs and benefits of algorithmic trading are equally important. Cost and ease of installation are a factor, as is the

cost of maintaining the system and capability. These are areas where Bloomberg Tradebook enjoys some advantage due to the fact that it is seen as part of Bloomberg and as such is delivered at little or no additional cost. Those firms with a history or providing their own EMS also may have a perception advantage here. This may explain why Morgan Stanley and UBS appear in the Roll of Honour when their commission rates are unlikely to be among the lowest.

Accounting for around one in 12 mentions, cost remains a relevant factor in considering providers but not an overwhelming one. Everyone knows that commission cost savings can be quickly lost through poor execution results. Similarly something that is cheap and easy to install will be of little benefit if it is hard to use.

Scores in the category moved up by 0.35 points. The resulting overall average score across all providers was 5.56, exactly equal to the survey average score. In surveys such as these it is rare for cost questions to score as well as that. It is a reflection of the value placed on other aspects of service that costs should do so well. At 0.78 points the difference between best and weakest performers is small and implies that lowering costs is unlikely to deliver marked improvement in market share in the long run, whatever short-term gains it may achieve.



CROSSING

ROLL OF HONOUR

- Citi
- Liquidnet
- UBS

Internal crossing is now definitely regarded as a means of achieving other benefits, such as lower market impact, less information leakage and price improvement, rather than being an end in and of itself.

As a result, crossing activity is evaluated based on its outcome not its existence. Clearly crossing is an area where banks have an opportunity to offer differentiated service precisely because they have access to different liquidity depending on who their clients are. This is one of the aspects of the recent furore around dark pools. If done well however, crossing offers distinct advantages to clients in areas that matter to them. The performance of the Roll of Honour names suggests that they are delivering value through crossing capabilities.

Broker Roll of Honour

The range of scores among major providers for crossing is the second highest in the survey at more than 1.50 points. That probably reflects the fact that some providers do not offer a service, rather than some offer a very bad service. Even among top tier firms, differences in client perceptions are quite marked. Overall the score for this area was 5.41, up 0.52 points from 2013. This however was a less broad based gain, owing more to the much better performance from some providers.

In terms of importance, crossing is seen as an enabler. As such its importance, as evidenced by priority mentions is quite modest. At around 8% of the total, it means that one-third of respondents place it in their top four. More important is the marked decline from 12 months ago when crossing was seen as more of an end in itself, guaranteed to deliver benefits.

SPEED AND LATENCY

ROLL OF HONOUR

Bank of America Merrill Lynch
Bloomberg Tradebook
Morgan Stanley

Speed and low latency were critical to success in North America, useful in Europe but have never been seen as key in Asia. The level of importance attached to them in the 2014 Survey recorded a further decline for the third year in succession. At 4.5% of all mentions, they rank eleventh of the 12 questions.

The fact that scores are also within a band of less than 0.80 points suggests that clients have difficulty in assessing real differences in performance between different providers. Also, speed can mean different things to different clients, which may also impact scoring patterns.

Overall the average score across all providers was 5.64, up 0.53 points and in fact one of the better scoring areas within the survey. Even so, no provider managed to achieve a score of more than 6.0. The only other area to fail to have a single provider at that level was cost and commissions. With everyone doing a solid job in the minds of clients, it appears unlikely that any provider will find competitive advantage from this aspect of service. Nonetheless the efforts of the Roll of Honour names are to be congratulated in gaining recognition for outperformance in this area.

EXECUTION CONSULTING AND ANALYTICS

ROLL OF HONOUR

Citi
ITG
UBS

Clients definitely want to know how well their trades are doing and how effectively they are using the tools provided by the brokers. Despite the best efforts of independent transaction cost analysis firms,

brokers still feel that the unique elements of their algorithmic trading suite are not properly captured by the analysis of others. This has resulted in the growth of Execution Consulting, where providers analyse and explain the trading activity of their clients. This personalised approach is not economic to deliver to all clients, but it has obvious benefits to both parties.

While this remains the least important aspect of service, it did garner more than 3% of overall mentions in the survey, a much higher proportion than in previous years, when typically it barely registered. Overall scores were much improved, picking up 0.55 points to reach a very creditable 5.60, above the overall survey average.

It may have taken time to reach this point and there may be a good deal further left to go. However the efforts of the Roll of Honour names in particular are beginning to bear fruit. If the trends continue, it may be that this becomes an area of real competitive difference between providers. Interestingly the range of scores here was higher than in any other area. Again, that reflects the fact that some banks simply do not provide this kind of service. It also reflects on the positive appreciation by clients of some of those that do. ■



Ones to watch

Following the example of the awards presented by The TRADE magazine each year, ones to watch have been put into two simple categories. First are those firms that seem, based on response numbers, to be winning clients. Second are those, that, based on scores achieved, appear to be highly regarded by the clients that they have.

RESPONSE NUMBERS

ROLL OF HONOUR

- Barclays
- CLSA
- Sanford C Bernstein

Clearly there are providers of algorithmic trading services who do not see a full reflection of their business through survey responses. This can result from many different considerations including providers not wanting to have their clients participate. Furthermore, some clients simply do not choose to respond and others are prevented by internal policies or procedures. It is difficult to assess whether a growing but still relatively small

number of responses, reflects a growing business or merely a higher participation level across a static client base.

In any event, based on responses received this year and comparisons with prior years, the survey tries to offer at least some recognition to banks who appear to be successful in the marketplace but who have not generated responses from a sufficiently broad base of clients to qualify for Roll of Honour status, outside of the 'ones to watch' category. In that context the three names listed are very much ones to watch, whether by the competition or by clients looking to expand their algorithmic broker list.

CLIENT SCORES

ROLL OF HONOUR

- Barclays
- Fidelity
- Sanford C Bernstein

While fewer responses does not necessarily mean fewer clients there is a clear correlation in the survey between the number of responses received and market presence. Having a smaller number of clients does not always make service delivery easier, but it can help, particularly if clients are concentrated in more specific regions or type of business.

The Roll of Honour names here did achieve scores in a number of categories that were similar and in some cases higher than those seen by the best providers included in the Roll of Honour names. However they did so across a smaller number of respondents. Hence their inclusion in the 'ones to watch' Roll of Honour. If scores are maintained and client response numbers grow, then they will doubtless feature in the Roll of Honour in one or more categories in future years. ■

