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WORKING FOR THE BUY-SIDE

MIFID II

Waiting for ESMA

Consolidated tape a long way off, ESMA head warns

Waiver, OTF debates likely to prolong MiFID process

A single consolidated market data tape in Europe is still a number of years away, but it looks increasingly likely that the European Securities and Markets Authority (ESMA) will play a leading role, a MiFID II session heard yesterday.

Rodrigo Buenaventura, head of market division for ESMA, said that although the regulator had begun addressing the formation of a consolidated tape, no major progress could be made ahead of the finalisation of MiFID II.

"The current version of MiFID II does not envision a single consolidated tape driven by ESMA. That is a fallback option in case the market does not develop one.

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> Rodrigo Buenaventura, head of market division, ESMA

THE FUTURE OF MARKETS

Reaggregate! Automate! Industrialise!

New rules, IT innovation and the erosion of silos are creating a more flexible market structure

Market changes driven by regulation and technology offer opportunities that should not be stifled by uninformed fear of the unfamiliar, regulators and stakeholders from across the transaction chain agreed on the opening morning of TradeTech 2013-London yesterday.

Opening a panel discussion on changing roles in the market, Tim Rowe, head of the trading platforms and settlement team at the UK's Financial Conduct Authority, acknowledged that regulators more often than not play a reactive role, seeking to catch up on evolution in the industry.

He pointed in particular to a breakdown in traditional asset class-based silos which has led to functions traditionally carried out by particular market participants being spread among a larger group of providers. "Regulators are trying to sort this back into buckets, as reflected in the creation of the multilateral trading facility and organised trading facility categories introduced in MiFID I and MiFID II," he commented. Clearing provides a further example. "Some brokers carry out functions associated with a central counterparty," he said. "We need to assess if they should be regulated as such."

Traders on the buy- and sell-side are also challenged by the erosion of silos. Traditionally, sales traders were accessible in channels depending on the type of asset class being traded. Now, said Michael Seigne, managing director, equities, Goldman Sachs, clients want to make their access choices based on trading attributes rather than channels. "Our goal is to be

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Waiting for ESMA

It would take us a few years to get to a single consolidated tape, if that indeed happens," he said.

The version of MiFID II agreed upon by the European Parliament last year offers three options for establishing a consolidated tape: competing providers offering tapes based on pre-defined data standards; a single provider selected by a competitive tender process; or the appointment of an entity that would run the tape as a utility.

While the Commission and Parliament had previously indicated they would favour the competing provider option, current MiFID II discussions by member states at the European Council may not lead to the same conclusion, Buenaventura suggested.

In March, the COBA project – an industry-led initiative to develop a consolidated tape that would financially reward providers of data based on price improvement – was put on indefinite hold due to regulatory uncertainty.

Buenaventura said ESMA was "looking very closely" at developing a pan-European tape for equities, but said it must wait for the final directive before serious work could begin.

"Politicians and the institutions have not decided which option [to pursue]. We could have competing tapes from the start, a single tape or a mixed option. Therefore all the preparation we are doing is dependent on what choices they make," Buenaventura said.

Cumbersome governance

Co-panellist Ruben Lee, CEO of markets consultancy Oxford Finance Group, said an ESMA-run tape would be fraught with difficulties and market participants needed to drive an industry solution.

"It will come down to ESMA, but I'm not optimistic it will do well," Lee said.

"Governance structures will be too cumbersome, it will be difficult to realise and the way participants get revenues from it will determine market structure in the future – by regulatory process rather than commercial," Lee said.

> "The Irish Presidency is very ambitious in its timetable."
>
> Jasper Jorritsma, policy officer, DG internal markets, European Commission

At present, MiFID II is closing on the trialogue phase, where the Parliament and Council of the European Union work together to agree a final text with input from the Commission, although the Council has not yet put forward its position.

Jasper Jorritsma, policy officer, DG internal markets and services for the European Commission, told the conference a final text could be agreed within months.

"The Irish Presidency is very ambitious in its timetable that would have them actually finish the MiFID discussions, not just within the Council but with the Parliament, by the end of summer," Jorritsma said, adding that this was reliant on member states in the Council agreeing their position very soon.

Beyond the tape

In addition to the consolidated tape, a number of key MiFID II issues are likely to see protracted debate in the trialogue stage, including whether the organised trading facility (OTF) will include equities, as the Council is known to favour.

"In the equities space, the omission of the OTF for equities is intended to be balanced by the requirement to trade equities on regulated markets and multilateral trading facilities (MTFs)," Jorritsma asserted. "The only way to trade in the dark will be to trade under a waiver on a regulated market or MTF."

However, the waivers themselves have also become a flashpoint of debate for European policymakers, acknowledged Jorritsma.

"From the Commission's point of view, we're pushing to reduce waivers as much as possible and hoping to have a situation where only large in scale orders are allowed to be traded in the dark," he said, adding that recent reports suggesting the Council wanted to develop different approaches to the issue of waivers, could fundamentally change the final outcome of the directive. ●

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Reaggregate! Automate! Industrialise!

a provider of liquidity to our clients, however they want to access it," he added. "The challenge is very similar for buy-side traders as for service providers – the efficient reaggregation of liquidity."

There was also consensus among panellists that changes wrought by regulation might negatively affect the business models of certain categories of market participant, but open up opportunities to others. "Regulators are responding to events in the market," noted Diana Chan, CEO, EuroCCP. "The push of OTC business into clearing provides opportunities for exchanges to capture some of these trading flows. So while regulation may lead to the closure of some businesses, it provides opportunities for others."

Industrialise me!

Francois Bonnin, CEO, John Locke Investments, suggested that technology was as significant a game-changer for dealers as regulation. "All these changes come on the back of globalisation and advances in technology. They should be controlled, but not prevented," he said. He described criticism of high-frequency trading (HFT) as fear of the unknown rather than being based on actual negative impacts. "HFT will take its place alongside other market techniques," he said. "Personally, I like the fact that my job is becoming more industrialised."

Asked to clarify, Bonnin pointed to the growing presence of what might be termed 'quant mechanics' on dealing desks, though, he insisted, the human element was essential and would never disappear.

Paul Bowes, head of business development (EMEA), equities, feeds & platform, Thomson Reuters, agreed technology was a major driver of change in his firm's service model. "The biggest development in how we service trading clients is the advent of cheap data storage and the ease of retrieval of that data," he said. "The geeks are in charge of trading desks."

> "While regulations may lead to the closure of some businesses, it provides opportunities for others."
>
> Diana Chan, CEO, EuroCCP

Amber lights

Despite the generally benign view of changes to date, three panellists pointed to potential dangers.

"One concern of ours in the UK is the extent to which we as regulators start to take away choice," said Rowe.

Acknowledging that regulators in Europe fret about HFT and dark pools, Rowe suggested such concerns must be refined to focus on specific issues so as not to inhibit algorithmic trading unnecessarily. "This is reflected in our continuing negotiations around MiFID ll," he said.

Bonnin argued that dangers to the beneficial evolution of markets are less in the actions of regulators than of governments. He cited as an example the introduction to a proposal by the 11 European countries supporting the introduction of a financial transaction tax (FTT). This, Bonnin said, was an overtly political statement about the need for the financial sector to pay for its mistakes.

Chan meanwhile drew attention to a long-term danger to market health that had so far escaped attention. "We've talked a lot about trading, but what has been missing in the discussion so far is the state of the primary markets. Companies need to come to market for people to have something to trade." Decline in the primary markets is a concern.

Coupled with restrictions on HFT and suppression of algos, "that would damage the equity space," she warned. ●

> "The geeks are in charge of trading desks."
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> Paul Bowes, head of business development (EMEA), equities, feeds & platform, Thomson Reuters

Where is the money going?

The search for yield is still constrained by a risk-averse attitude that may take years to subside

The opening day of TradeTech 2013-London began within a macro-economic perspective on the changing world of capital markets as seen through the eyes of three key institutional investors.

Beginning the panel debate, Richard Lacaille, CIO, State Street Global Advisors, noted positive developments in investor sentiment, particularly through the parent group's custody arm. "Europe is deleveraging, but it is a matter of how to get rewarded for the risk taken. Equities are now offering reasonable value and there is more investment. There is some evidence of inflows and risk-taking but it is happening slowly. People are going into equity funds."

"Risk appetite is still subdued by people haunted by 2008."

Alex Fleiss, chairman and CEO, Rebellion Research

Francois Bonnin, CEO, John Locke Investments, said there is a need to harness data flow from one asset class to another. "Money is not going from bonds to stocks, but from lazy to hard-working asset managers. 'Restaurant' asset managers can invite as much interest as possible, but everyone is under pressure and looking at where the risks are," he observed.

Alex Fleiss, chairman and CEO, Rebellion Research, noted significant asset rotation. "There was decent flow towards equities in January, but that's abated," he said. "In the last week, equities were way over-bought, but no one wants to sell their fixed income. 2008 stuck a dagger in the heart of all investors, even for equities. The desire for risk post 2008 is less, but it might be decades until they are comfortable.

"Equities will outperform fixed income in the next 10 years but now the desire is to be away from market exposure. Endowments, for example, don't want fixed income exposure. They want to be as close to zero beta strategies as possible, gold being the most interesting conversation topic in the last week."

A passion for yield

With so much talk about risk, it is hard to make money, panellists noted. However, said Lacaille, there is still a passion for yield.

"In the US, there is a high default rate but spread in high yield is reasonable. People are evaluating risk and are looking at property, for example. But they should be careful with the low margin issue.

"In the US, there is a high default rate but spread in high yield is reasonable."

Richard Lacaille, CIO, State Street Global Advisors,

"The way SMEs are paying for credit is different now from when the collateralised loan obligation market was in favour. But we should not say all of those methods were bad, they just need to be prudently managed. We should not throw the baby out with the bath water. People need to better understand the correlation of risks and the real economic risks behind those correlations to understand how these instruments lubricated the market, particularly in Europe."

Interest rates will stay low for a while, panellists accepted. "This and the fact there has been little uptick in mortgage demand have caused the junk market to have a lower yield than the S&P 500 and global emerging sovereign debt is more appealing," said Fleiss.

"Emerging market equities, on the other hand, have not done well because risk appetite is still subdued by people haunted by 2008. The BNY Mellon ADR index was barely flat – it shows most of the exposure is in US funds so people are still scared of risk."

The last resort

Bonnin referred to the lowering of interest rates as a last resort by governments to address growth. "Interest rates where lowered in 2005 but that's a last resort a government can think of," he said. "Today people don't want to hear about inflation but it gives hope and motivation to buy today because things will be cheaper tomorrow."

When asked to square the S&P 500 with the fall in commodity prices, Lacaille said: "In the US equity market, earnings have not grown rapidly but you could argue there is some growth. Inflation won't squeeze dramatically. But you have discount rate, which is where the change is taking place. The emerging markets have done well in the last five years, but investors are still nervous. The price-to-earnings ratio in emerging markets is 10, so even though they are becoming less risk averse they have not been rewarded. Investors are waiting for the inflow and returns to come in and they're demanding a higher premium."

Top picks

Asked to provide their top trades for the next year, Fleiss said emerging market sovereign debt is one to watch. Bonnin said he would be short gold, but "it's a long stock depending on liquidity."

"Everyone is under pressure and looking at where the risks are."

Francois Bonnin, CEO, John Locke Investments

Euro-zone equities were Lacaille's top tip for the next year. "People are taken aback by this because Europeans are undergoing a recession and its difficult to see but there's a relatively weak euro currency and perhaps a stronger dollar," he said. "For a stock picker there's value. Buying a business in Portugal, for example, may have construction challenges, but by investing in a Portuguese company in exports you can, for example, redomicile your ownership in zlotys to offset any uncertainty, provided the Portuguese economy can function." ●

Grow fast or die

New breeds of trading venue offer innovation but success may still prove elusive

Left to right: Tony Mackay, Market Bourse | Ben Sprintett, Instinet Europe | David Miller, Invesco Perpetual | Neil Smith, State Street Global Advisors | Alistair Haynes, Aquis Exchange | Christopher Gregory, Squawker | Phil Coggan, capital markets editor, The Economist

Opening the panel session 'New Breeds of Trading Venue', Philip Coggan, capital markets editor, The Economist, gave the floor to three new trading venues and then invited buy- and sell-side panel members to give their verdict. The response was a cautious welcome which, given the proliferation of new trading venues in recent years, should be considered encouraging.

For the buy-side, represented by David Miller, senior dealer at Invesco Perpetual, and Neil Smith, senior equity dealer at State Street Global Advisors, the problem remains simple: finding liquidity. This problem remains far from easy to solve and Ben Springett, head of electronic trading, Instinet Europe, saw the new venues as "an opportunity, not a threat, having the potential to help brokers and dealers provide solutions for their buy-side clients".

While not being direct participants in the venues, buy-siders Miller and Smith welcomed the opportunity to direct their brokers to interact with 'custom' liquidity suited to their specific requirements and preferences under the structures put forward by both Squawker and Market Bourse. Meanwhile Instinet, like all brokers confronted with declining commission rates and relatively low volumes, would welcome the subscription pricing model offered as an industry revolution by Alasdair Haynes, CEO, Aquis Exchange. Taking a lead from other industries such as media and telecoms, Haynes postulated that subscription pricing would lead inexorably to more trading and hence narrower spreads and better execution for the benefit of all; an old argument perhaps, but still a good one in the current climate in the industry.

Choose your partners

Rather than focusing on price to grow liquidity, both Squawker and Market Bourse are betting that buy-side clients, nervous about information leakage and toxic liquidity, will back models that allow them to decide what kind of counterparties they want to trade with and instruct their brokers accordingly. According to Christopher Gregory, CEO, Squawker, the new platform has 36 members live and a further 45 in the on-boarding process. Squawker facilitates 'private anonymous conversations' with qualified counterparties and uses FIX indications of interest to automate the process of identifying possible matches. "Matching counterparties rather than orders" was the way Gregory summed up Squawker's USP. This may sound more like a dating website than an organised trading facility, but the buy-side panellists were definitely supportive of the ideas and sentiments underlying it.

Tony Mackay, CEO, Market Bourse, saw his company as an "exchange between broker dark pools". The idea once again is to allow buy-side clients and their sell-side brokers to pick and choose the kind of counterparties that see their potential orders. Market Bourse is not as far forward in terms of implementation as Squawker, but again both buy-side and sell-side saw value in its proposition.

What all the new ventures need to overcome is the Catch 22 of trading venues; namely that liquidity attracts more liquidity, so how do you get started? Necessarily a critical mass of clients and trading must be attracted quickly. The race does indeed tend to go to the first and the swift, as testified by the experience of Chi-X Europe – founded by Mackay – in a previous round of innovation in market venues. "Could network effects ensure that not all new ideas could expect to survive and would there perhaps only be one of the three new venues still presenting to TradeTech by 2015?" asked Coggan. eBay and Amazon are examples he used of a 'winner takes all' outcome.

Perhaps not surprisingly the panellists thought that in trading there would indeed be room for multiple solutions, thereby evidencing once again the tendency to value hope over experience.

Taxing times

Coggan raised the vexed subject of financial transaction taxes (FTT) and the effect national initiatives are already having on liquidity. Springett confirmed that volumes in France and Italy were down by 20-30% following the introduction of local FTTs. He worried that once the tax was more widely in place across more markets and asset classes – as is planned under legislation currently in front of the European Parliament – many existing trading venue business models, especially those with high fixed costs, would find the pressure difficult to survive. Launching new venues in such an environment might be considered ambitious. However Miller offered a more optimistic view. "Transaction taxes, in the form of stamp duty, have been in place in the UK at a level of 50 bps for some time. This has not affected the fund managers' appetite to trade. Therefore a transaction tax at 10 bps or so would be unlikely to have any meaningful effect on the level of trading." Echoing some of the comments from Tuesday's HFT Focus Day, there was also recognition that a transaction tax which got rid of 'some of the noise' might actually not be a bad thing for long-only institutional investors in particular.

The main conclusion to be drawn from the session is that innovation in market structures will continue to evolve, as it always has done. The good news for all participants is that there is still an appetite to invest in new ways of doing things in an effort to meet buy-side client needs. What is unchanging is that the buy-side needs liquidity, nothing more and nothing less. Whoever finds the best answers to that singular problem will have a successful future. Those that do not, or are too slow, will perish.

"Transaction taxes have been in place in the UK for some time. This has not affected the fund managers' appetite to trade."

David Miller, senior dealer, Invesco Perpetual

Always look on the bright side

SocGen quant Andrew Lapthorne finds value in equities despite low yields and irresponsible central banks

"It's the worst time to be a fund manager in 200 years," Andrew Lapthorne, global quantitative strategist at Société Générale Corporate & Investment Banking, told the TradeTech audience Wednesday in a presentation short on reasons to be cheerful.

Low yields on equities, and on corporate and sovereign bonds – even excluding taxes and trading costs – mean "there's not a lot of return out there to play with".

Meanwhile, central banks aren't helping, he said, demonstrating his mastery of understatement. Faced simultaneously with low interest rates and inflation, they had tried to force investors out of low-risk and into high-risk assets. "Whatever the moral arguments, forcing people to seek yield by taking risk when they don't have the appetite for it is highly dangerous," he said.

"I'm worried about central banks. They want returns on risk assets to go up not but those returns are not driven by fundamentals – and that will create problems for investors."

"Forcing people to seek yield by taking risk when they don't have the appetite for it is highly dangerous."

Andrew Lapthorne, global quantitative strategist, Société Générale Corporate & Investment Banking

Equities vs bonds

Losses are unavoidable. Lapthorne contrasted the shift from assets priced on the best return in the 1990s to the current focus on capital preservation. "The question is how much they will lose in a recession – because there will always be a recession," he said.

"The only way to get yields is to take a capital loss. That's what central banks mean by stabilisation – and it's why everyone loves cash and bonds and everyone hates equities. It isn't that people don't see that bond yields are low. It's just that they know they won't drop like a stone at the first sign of trouble."

He rejected "myths" surrounding demand and bond yield forecasts, especially the so-called normalisation view – effectively, an assumption that bond yields will be higher because bonds and equities are inversely correlated. In fact, asset prices had seen a strong recovery over the past 12 months, and there is no evidence that companies are holding back from investing until they see clearer signs of stabilisation.

"It's simply not true [that companies are not investing]," said Lapthorne, pointing to a growth in capex of between 10 – 30% over the past three years. "There's no pent-up demand waiting for normalisation."

The concomitant of corporates investing is that they – at least the US ones – are also leveraging up rapidly. "Demand for yield has been met by a massive wave of supply from the corporate sector, which means investors are effectively subsidising the stock market," he said.

Share buy-backs – a textbook contributor to balance-sheet efficiency – came in for criticism because they are associated not with shareholder returns but with option dilution. "[Corporates are] issuing stock to themselves. To me, that sounds more like wages than shareholder returns," said Lapthorne.

But why should a corporate not borrow at a discounted rate and buy back its own equity? It made sense in 2006 and it does now – in theory, Lapthorne acknowledged. "But you don't see what it costs you. It isn't volatility that kills returns; it's leverage," he said, pointing out that adding leverage costs on average an annual 600 basis points in performance. "You don't see it week in, week out because it tends to happen in a recession."

Keep it simple

Despite his pessimistic prognosis, Lapthorne identified opportunities for investors who focus on growth rather than financial engineering and avoid companies guilty of accounting manipulation.

"Things that weren't interesting 15 years ago are interesting again in a low-yield environment," he said. "Simplicity still works. Buying good quality companies with a decent yield – that still works."

The key for investors is to focus on active stock selection rather than asset allocation. Citing pension funds abandoning active fund managers because they failed to outperform a benchmark, he blamed strategic asset allocation for institutional investors' overexposure to bonds. It was asset allocation – not active management – that had left pension funds on average 10% exposed to Asian markets at the peak of the Asian crisis.

He contrasted the 150-odd "deep value" (undervalued) stocks around in 2011 with the relative paucity of commodity-led value stocks today but maintained that stock selection beat asset allocation. "Even bearish strategists in macro mayhem can find undervalued stocks," he said.

Even so, the combination of quality income and deep value still works because it combines high-risk and low-risk value strategies. This approach also has hidden attractions. "You take risk when the pricing is correct and don't take risk when it's incorrect – and you don't have to listen to an economist ever again."

EXCHANGE REGULATION

Commercialism "hijacks" market efficiency

Exchanges facing different ways across the Atlantic

Some exchange operators are hijacking the regulatory process for their own "narrow interests", TradeTech delegates were told yesterday.

Natan Tiefenbrun, CEO of multilateral trading facility (MTF) Turquoise, said he was concerned some exchanges were pursuing opposite market structure rules in different jurisdictions, specifically the United States and Europe.

"We recognise that as per the G-20 decisions, there is going to be more regulation of the market, however my concern is that the process has been hijacked for a narrow commercial benefit for some participants, rather than to ensure the safety or the efficiency of the system as a whole," said Tiefenbrun, whose MTF is majority owned by the London Stock Exchange.

He was speaking at a panel on the value and future landscape of trading venues, alongside representatives of BATS Chi-X Europe, Deutsche Bank, Knight Capital, Sparinvest and Deutsche Borse.

Tiefenbrun said it was discouraging to see that exchanges such as Nasdaq OMX and NYSE Euronext were arguing for new changes in the US that would promote choice and ensure that lit and dark trading live side by side. "Whereas in Europe, unfortunately NYSE, I think seeing the opportunity of the profit, is pursing changes to the rules that will largely eliminate dark trading, essentially eliminating choice."

Some exchanges have backed the European Parliament's stance on eliminating equity-based broker crossing networks from the organised trading facility (OTF) category in the second iteration of the European Union's Markets in Financial Instruments Directive (MiFID). The move would force BCNs to become systematic internalisers or MTFs, effectively reducing competition in the dark pool market.

"The process has been hijacked for a narrow commercial benefit."

Natan Tiefenbrun, CEO, Turquoise MTF

Meanwhile, in the US, Nasdaq OMX is joining NYSE and BATS in offering retail flow as part of its Retail Price Improvement (RPI) plan. The move sets the exchange groups up as competitors to brokers that currently cross retail flow internally.

"Very poor situation"

Mark Hemsley, CEO of BATS Chi-X Europe, said the situation in the US and Europe was completely different when it came to dark pools.

Whereas in the US, the concern was price improvement, Europe has got itself in a "very poor situation," he said.

With MiFID, regulation was introduced to scare dark pools into becoming lit, but it instead led to further demand.

"Now what we are doing is saying 'oh, we don't like those'. Let's try and change regulation again and try to scare them elsewhere," Hemsley said.

Hemsley said he believed lit and dark pools should operate in integrated books.

However, Michael Krogmann, executive vice-president for Xetra Market Development at Deutsche Borse, said there was a need for transparent price discovery.

"Fragmentation per se is not a bad thing, but you need transparency to overcome the bad things."

He acknowledged that some order sizes would never be able to trade in the open audit book, but "it makes more sense for the sake of equity markets to concentrate liquidity in public audit books".

TRANSACTION COST ANALYSIS

TCA playing catch-up

Transaction cost analysis is making itself relevant to the new trading environment

The Trading & Execution stream began with Neil Smith, senior equity dealer, State Street Global Advisors presenting findings from some work SSgA has done in analysing dark pool activity. He concluded, "Dark pools are important, accounting for 9-11% of trading volume in Europe. Trading in them can be advantageous in terms of execution outcomes, but care needs to be taken especially with more difficult orders." His analysis of eighteen different pools, some broker-owned, some independent, showed marked disparity in outcomes.

Without explaining all of the magic, Smith suggested it was possible to improve performance in certain venues with a better understanding of how they operated and what kinds of trades might be optimally routed to different venues. What his presentation also highlighted was just how granular the analysis needed to be to drive meaningful and actionable conclusions.

The same analytical challenge was picked up by Darren Toulson, head of research, IFS Liquidmetrix, in the panel session on new ideas and goals for TCA. "Clients want to know why their results are what they are. This requires them to drill down into more market data and more trading data. Data is of better quality and more complete than it was, but data quantity has become a bigger issue in the new environment."

But this move from a compliance focus of TCA to a performance focus is now well established. As Christoph Mast, global head of trading, Allianz Global Investors, put it "We used to do TCA to show clients we were achieving best execution. Then following MiFID we had to do it to show clients, regulators and internal audiences. Now our CIO and portfolio managers want to know what value our traders are adding, collectively and individually."

Mast added that brokers' experience and analysis was increasingly being tapped to help improve trading performance. David Miller, senior dealer, Invesco Perpetual, added that "Whatever the driver, analysing and measuring trading performance is even harder in the current fragmented markets than it used to be. Even worse whatever benchmark is used the portfolio manager inevitably decides whether they think a trade was done well."

Given the prominence of PMs in most management hierarchies and the influence they wield over CIOs, this view, however subjective, cannot be ignored. The pressure is on traders, buy-side and sell-side, to come up with high-quality analysis and steps that lead to better execution.

Marcus Hooper, director, Agora Global Consultants, who was chairing the session, then asked panellists to comment on the trend towards real-time TCA. The general feeling was that an integral part of the traders' job was to monitor trading performance in real-time and make tactical adjustments as required. Panellists generally felt there was scope to use technology to provide automated alerts if performance moved away from targeted benchmarks.

However, as Mast summarised, "Real-time TCA helps me beat a benchmark, it does not tell me whether a trade was good or not." Likewise pre-trade cost estimates are seen as a useful 'handicapping tool' but are not helpful in measuring trading quality in any absolute sense.

While equity TCA is struggling to adapt to new structures and demands, there is growing interest in multi-asset class TCA, not least in response to MiFID II. As presently proposed, fixed income and other OTC asset classes are going to need best execution confirmation. Richard Coulstock, head of dealing, Eastspring Investments, explained his focus is primarily on FX trading.

This started as part of a review of custodian execution performance, but it quickly became clear that there were other uses including position risk caused by timing mismatches between securities and FX trades being done. Once again however, issues of data quality and completeness as well as appropriate performance benchmarks were highlighted as his analysis progressed.

Coulstock added that fixed income presented even greater challenges than FX. Some panel members are equity specialists, which gave them ample reason to not comment on the scope of the problems associated with TCA for those trades. More generally however, this is an area where the buy-side is likely to be looking for guidance and support if regulatory pressures demand a response. In the meantime, the challenge occupying TCA providers and users alike is being able to run fast enough to keep up with market and regulatory changes. The industry has come a long way in many areas and improved its relevance enormously, however it looks as if more will be needed going forward.

"We used to do TCA to show best execution, now we want to show what traders are adding."

Christoph Mast, global head of trading, Allianz Global Investors

"Data is better quality, but data quantity has become a bigger issue."

Darren Toulson, head of research, IFS Liquidmetrix

TRADING VENUES

Can price cuts bring volume to venues?

Times have changed since the launch of Chi-X Europe, agree roundtable participants

Has price elasticity run its course as a driver for trading venues? If it has, how can trading venues attract more volumes? These were among the issues addressed by Tony Mackay, founder of MarketBourse, and previously Chi-X Europe, led one of several simultaneous roundtables on various aspects of market and product development.

Mackay contrasted the market context today with that at the time of Chi-X Europe's introduction. "When Chi-X was launched in Europe, we priced to cause a sufficiently deep level of pain to the exchanges," he said. "Our fees were 90% lower than theirs, in addition to the introduction of the maker/taker model. We felt that was well beyond the ability of exchanges to match through price reductions."

In addition, he acknowledged the success of Chi-X Europe was partly due to the fact that it concentrated on index stocks that HFT participants could arbitrage – initially, not by design but because of the practicalities of clearing though EMCF, Chi-X Europe's clearer. The ownership structure also helped, said Mackay, since owners had an incentive to route orders to the venue.

Pricing models

He identified three basic pricing models in the present market for non-exchange trading venues: a utility model; the Squawker approach, which he described as essentially an interdealer broker; and MarketBourse, his new venture, which aims to charge somewhere between typical exchange fees and those for Liquidnet, with an emphasis on expanded functionality.

With FIX, he suggested, cost and barriers to entry have lowered considerably. "Price elasticity as a marketing strategy is played out," he contended.

Thomas Gidlund, head of sales and business development at Burgundy, suggested it was more important to address the total cost of trading on a venue rather than just the transaction fee, which Mackay concurred is often only a small part of the total cost. While transaction fees have come down, as has the price of clearing, reductions have yet to come for market data.

Participants exchanged views on the value of further fragmentation, agreeing that US markets did not offer an appropriate model for Europe. Reg NMS, they argued, had led to massive fragmentation for little discernible benefit. "It's part of the problem, not part of the solution," observed one US participant.

A Nasdaq representative based in Europe queried why anyone would want to go to a dark pool to trade size. "The average trade size in a dark pool in Europe is €5,000," he said – no more than the average in lit books. Opportunities for price improvement still exist in dark venues "but the more people trade there, the less reliable the reference price will be".

"When Chi-X was launched in Europe, we priced to cause a sufficiently deep level of pain to the exchanges."

Tony Mackay, founder of MarketBourse

EMERGING MARKETS

Paying for prosperity

Politics, not economics, is driving China's decisions as it looks ahead to a decade of low growth

Investors who've bought into the emerging markets growth story based on consumption driven by the urbanisation of middle-class populations should focus instead on recent armed conflicts in the South China Sea, according to Alison Graham, CIO of Voltan Capital Management. Opening Wednesday's emerging markets session, she said investors underestimate the differences in world outlook between developed markets and growth markets such as China, Russia and Saudi Arabia.

Focusing on China, she pointed out that capital allocation decisions – in which the emerging market state plays a greater role than it would in developed markets – are likely to be based on politics as much as profit. "The underlying philosophy is that the purpose of capital is to promote the national interest rather than wealth accumulation for individuals," she said.

Conflicting interests

Even if consumption is still intact, the emerging market government may find itself struggling to reconcile conflicting interests between, for example, the coastal regions' common hostility to government and dependence on foreign trade, demand from the interior for wealth distribution via low-cost loans and bridge-to-nowhere building projects, and its own interest in preventing political fragmentation.

In a sweep that took in the 1940s, Mao and recent social protests, Graham suggested China had "maxed out" its advantages to date. Deposits in putatively safe banks – China has a 40% savings rate – had wound up in non-performing loans (NPLs) to state-owned companies estimated at anywhere between 15 – 40% of total lending. Hence the boom in low-margin exports had been motivated as much by the need to cover China's cash needs as by profit, said Graham.

As it faces an end to the cheap capital that (with cheap labour) has fuelled China's economic growth to date, the two options open to the government are recession or a decade of Japanese-style low growth. But the government is unlikely to write down NPLs given its implicit bargain with the population to exchange an increase in living standards for curbs on political freedom. If it adopts the second option and settles instead for a decade of 1 – 2% GDP growth, "probably the government wouldn't be in power in 10 years' time", said Graham. Even if China shifts towards higher-margin exports, it would take a while for the impact to be felt – and the central government doesn't have that long.

In the absence of an economic solution, Graham suggested a sharp increase in armed conflicts in the South China Sea in recent year had been a "strategic decision" aimed at buying economic time by rallying the population around political nationalism.

Accumulated tensions

It is yet unclear whether the state capitalism that is common – with variations – to these markets can withstand a prolonged slowdown in growth, but it is clear that accumulated tensions between governments and populations could have global ramifications, said Graham. In the meantime, she urged investors to understand that "profit is not necessarily the primary objective of state-owned companies and non-commercial objectives can directly affect private investment". ●

"The purpose of capital is to promote the national interest rather than wealth accumulation for individuals."

Alison Graham, CIO, Voltan Capital Management

MID-SIZED BROKERS

Is it time for a mid-tier sell-side renaissance?

New trading solutions are revolutionising the mid-sized broker environment, believes Marcus Hooper, director of Agora Global Consultants and moderator of the trading and execution stream at TradeTech 2013-London

"New players are adding ancillary services to support core offerings using smart technology."

Marcus Hooper, director, Agora Global Consultants

Back in the halcyon days when volumes were higher, if you were a medium-sized sell-side firm and had the cash then you'd set up an integrated investment banking business. It's just what you had to do. The lure of big volumes and clients' apparent appetite for full service provision made it an obvious next step. If you didn't have a full service solution including electronic trading, program trading and broad research coverage, well what else were you going to do to move your business forward?

For several years a swathe of firms tried to establish full service offerings. The desire was to become top-tier but actually this was the birth of a new form of mid-tier provider. Program and electronic trading was an early goal. However this was back in the days when clients mostly wanted capital commitment for their entire program trade. Some firms took the attitude that if you threw enough capital at program trades you could increase prices later and then watch your P&L slip gracefully from losses to profits. They threw the cash but the plan didn't work. Program trading business was mercenary, not sticky.

Slow start

The vast cost bases incurred in the setup of these services were near impossible to recoup. Many firms bore the pain of a two-year cycle of spending, promoting the service and then nothing happening. Some carried on for a lot longer. Some tried more than once.

The mid-tier ground was expensive with little reward and firms occupying this space often experienced a long drawn out and costly demise.

So why didn't the opportunity pay off? What wasn't anticipated was that when it came to full service offerings, client attitudes changed very slowly and business was extraordinarily sticky. Full service wasn't a plug and play option as far as the clients were concerned. High costs and low rewards turned the prospect of mid-tier integrated investment banks into little more than a dream and over time the mid-tier was decimated.

Of those that survived, many disposed of peripheral activities, focused on core offerings and concentrated on service levels and key clients. The retrenchment to premium service created a viable alternative to the large scale commoditised integrated players. To some extent the supply has revitalised demand.

Most things make sense in hindsight, but does this mean that today the mid-tier is some kind of no-man's land where firms are doomed to meet a sticky end? Well, that might be a fair assessment if it wasn't for some other things that have been changing.

Today it's the top tier that is experiencing a painful squeeze. Business pressures are incentivising sell-side engagement with competitors if there is any possibility of extra revenue. The subcontracting of client execution between sell-side firms has been going on for many years but this now extends much more broadly to product white labelling and the provision of platform-based services. Over time the willingness to make these products available to more or less anyone, whether competitor or client, has grown apace whilst prices and cost of access for those products have dropped significantly.

Simultaneously there has been a dramatic decline in general technology costs and increased availability of easy to integrate and use platforms that we could only have dreamt of a decade ago.

In practice small firms whose central offering is based on high service levels but want to offer cutting edge low touch capability have a huge range of options available to them. The ability to set up a wide ranging service offering has never been easier or cheaper. In the past if you'd wanted a small sell-side firm to provide fixed income, equity and derivative trading in combination, it simply wasn't feasible. Not so now. The high degree of automation and support in the front, middle and back office has made this entirely viable even for tiny players.

New trends

Outsourcing has emerged as a persistent trend and low-cost technical capacity is there to support it. The mid-tier today is an interesting combination of high touch, low touch and wide service coverage, but without the horrific cost overheads of the past. Today's less affluent environment doesn't encourage huge investments, but the most important thing is that they aren't required either. As new players capitalise on relationships and high service levels to create sticky client business, they are adding ancillary services to support core offerings using smart technology deployment as an enabler. This type of low-cost but integrated service offering is attractive to clients and the firms serving them.

It may still be too early to forecast rising numbers of mid-tier players. However the very rapid growth of many smaller firms with dynamic business models may be exactly the right breeding ground for this to happen. Nature abhors a vacuum and the lengthy absence of players from much of the mid-tier space might just be about to change. ●

Break down the silos

Institutional investors looking for simple access to broker expertise

Asset class integration a priority for buy- and sell-side

Fabien Oreve, global head of trading at Dexia Asset Management, will share with TradeTech delegates his views on broker relations and the synergies across equity and fixed income trading desks. Earlier this year, he share some of his views on thee subjects with The TRADE.

"When asset allocation strategies change, the result is simultaneous multi-asset order flows."

Why has Dexia Asset Management taken a more integrated approach to trading across multiple asset classes?

In a low-volume and cost-constrained environment, bringing equity, fixed income, foreign exchange and derivatives together on a single desk is the direction many firms will follow, for four main reasons.

First, order management systems (OMSs) now have the capacity and functionality to integrate easily multiple asset classes and their derivatives. Second, having all traders on the same desk improves communication. Information circulates faster and coordination is smoother, especially in the case of portfolio restructuring or transitions that involve different asset classes. Staff productivity is also boosted when trading in one asset class is slow but active in another. Third, financial markets are much more interconnected than 15 years ago, increasing the importance of correlations across asset classes. At the same time, there has been an increase in derivatives trading; in the US, the total notional value traded in equity products has more than doubled over the last 10 years – mostly due to derivatives. Our asset allocations team frequently adjusts strategies not by moving the underlying assets but via derivatives, because it is more convenient, more cost effective, and more manageable on the investment side. Finally, regulatory reform is changing the way we trade different assets. We are beginning to trade more bonds on multilateral trading facilities (MTFs) and it saves time if an equity trader who has posted orders on an equity MTF can educate his bond trading colleagues.

How does multi-asset integration enhance trading desk performance?

When asset allocation strategies change, the result is simultaneous multi-asset order flows. When everything is coming into one desk, there is no way to work alone or individually, so we anticipate through meetings in which we plan our trading strategy to minimise duration risk. And throughout the trading day we try to maintain synchronisation by talking about how the market is going. This coordination can also help us if a change of approach is required: indications of a recovery might first become evident in the European sovereign bond market, so my bond guy needs to share that information with the trader responsible for financial stocks, even though it might not impact his own positions.

In 2012, European equity trading volumes were down 20-25%, potentially posing a management challenge of under-utilised specialist resources. But in a multi-asset team, when equities business is slow, they can help the fixed income guys who were very busy for much of last year. I'm not asking my equities traders to be as good at bond trading as their fixed income colleagues, but if they can manage small-sized order flow it gives the bond guys the space to get the best price on the more difficult trades. Last year saw very strong activity in corporates and we had to be very well organised to help our clients invest in this asset class.

But for this multi-asset approach to work, we need experienced traders. Seniority contributes to minimising execution risks and raises client confidence, but more importantly it provides resilience, the ability to work under pressure and the flexibility to navigate between electronic and phone-based trading. In this team, where no one has less than 10 years' trading experience, I challenge them and they challenge me. Best execution in the most illiquid names or the largest orders is often the result of the trader's observations, experience and memory. We argue, but the result is that we expose ourselves to less risk and take the most appropriate decision in difficult circumstances.

We have a best execution policy but no uniform rules. Best execution policy is not something that is static, it is an evolving process.

What have been the main effects of centralising execution across assets so far?

First, it has improved the quality of relationships with brokers. As a central dealing unit, we can look at the business globally, talk with portfolio managers about brokers' resources and discuss business opportunities with counterparties across various asset classes.

Second, it has increased our role in transition management. Our trading desk follows a clear execution methodology with a view to minimising transaction costs, optimising execution performance and preserving asset value over the transition process.

What role has technology played in supporting the multi-asset desk?

The OMS is the cornerstone of our trading desk's approach to technology. We have set up a blotter for each asset class within a single framework. In each blotter, we have FIX connectivity for order routing and straight-through processing. We have integrated the main features of an execution management system into the OMS, i.e. trading tools and platforms for equities, bonds and foreign exchange, pre-trade visibility and real-time transaction cost analysis. The system also provides audit trail functionality which helps answer compliance queries. The OMS's scalable architecture lets our IT team set up functionality to meet the trading team's specific needs more cost-effectively than a turn-key system.

However, the level of automation must be closely monitored to minimise operational risks.

Technology must be complemented by a solid execution process that identifies when to trade electronically or over the phone. We only trade with tier one brokers that have signed contracts that stipulate their algorithms integrate risk components and binding rules.

"We are happy to speak to brokers' different teams for different asset classes, but within equities, we want to speak to one team."

On the buy- and sell-side, there is a convergence between high- and low-touch trading channels and across asset classes. How does that change your execution needs from brokers?

As buy-side desks such as ours are increasingly organised along multi-asset lines, it makes less sense to strictly segment equities trading between sales, program and electronic channels. My equities traders now have to trade both high- and low-touch and so need brokers that can look across different ways of trading orders.

Our best execution policy specifies that we only trade low-touch for small- to medium-sized orders in European markets we know well, while larger orders are traded high-touch via a mix of global and local brokers.

We use program trading (PT) when executing on behalf of quantitative investment teams whose stock universe is very large and can include small- and mid-cap stocks. PT is all about synchronisation so it is important that brokers' PT desks have access to their high-touch guys. If a program trade is slowed down by some illiquid mid-caps, the PT desk needs to interact with their high-touch colleagues to find liquidity, perhaps in a dark pool, and maintain the pace of the execution. Our approach to equities trading is an integrated one and brokers will have to adapt.

What changes have you seen on the sell-side already?

Senior sales traders that were previously focused on market intelligence and sector knowledge now provide advice on trading strategy based on market structure and execution consulting expertise. Their role has evolved from pure sales trading to a broader execution service.

The buy-side's evolution toward a multi-asset model means our priority is to make all of these asset classes work together and not to consider equities as a separate approach. We are happy to speak to brokers' different teams for different asset classes, but within equities, we want to speak to one team.

Similarly, in fixed income, brokers used to have separate people covering corporate and sovereign bonds, but now we see a convergence of roles. Some corporate bonds are very influenced by trends in European sovereign bond markets, so it makes sense to have a broader conversation.

We welcome the shift by some brokers to more of a relationship approach. Senior relationship coordinators can have broad conversations with us and bring in specialists; when we have an emergency, we know our needs will be met quickly. As a former broker, I know they were primarily driven by P&L, but now they are more concerned with maintaining a long-term relationship with us, especially in current circumstances. ●

TO LEARN MORE ...

Panel discussion: The changing paradigm of broker / buy-side relationships – what value does the customer look for and where is it going to take everyone's business model?

18 April – 09:50-10:30

Creating synergies between fixed income and equities teams, to save costs and to become stronger in terms of your pricing leverage

18 April – 14:30–15:00

Making room for HFT

Creating the right balance between exploiting opportunities and safeguarding fair, open markets is a matter for market participants and regulators alike

"We have to tread carefully when introducing regulation that is supposed to make markets better," says Christian Katz, CEO, SIX Swiss Exchange, who will speak today on the practical implications of MiFID II for high-frequency trading in this morning's HFT Trading Venue stream.

Katz's point is that regulation has the potential to negatively affect markets, the introduction of MiFID in November 2007 being a prime example. Katz says: "Regulators have an idea about what they want to do, then the markets react to those regulations very swiftly – sometimes it takes a bit longer – and potentially you end up having an outcome that doesn't work." In the case of MiFID, the adoption of the Directive led to a proliferation of HFT in Europe. Between 2006 and 2010, says Katz, HFT in Europe increased more than sevenfold.

This – coupled with the fragmentation of European equity trading – was an unintended consequence of a regulatory initiative intended primarily to promote transparency and simplicity. If there is a case for a second MiFID, then there is also a case for reviewing the impact of the first. Citing a belief held in some circles that the politicians responsible for the first MiFID are keen to attach blame to HFT for a range of issues arising in the market, Katz says: "We have to avoid introducing another set of rules which end up having a contradictory effect."

"We have to avoid introducing another set of rules which end up having a contradictory effect."

Christian Katz, CEO, SIX Swiss Exchange

Here's the key. Regulators in Europe and the USA see a need to "make markets better", as Katz puts it. They are going to act and go on acting. But, first, their actions trigger unintended consequences, and secondly, they're targeting HFT with new regulations although HFT is not "blameworthy" in the sense that they suggest. So how will regulatory initiatives such as MiFID II inhibit or otherwise impact HFT, and will any such impact trigger positive (whether or not intended) consequences?

Informed regulation

Effective regulation is informed regulation. In the medium term, regulators are acquiring the technology and expertise to monitor trading at a more granular level. In the short term, the HFT Trading Venues stream at TradeTech will build from the historical background to offer a constructive and forward-looking set of presentations and panel discussions – featuring regulators as well as key market figures – aimed at enabling a co-operative environment in which the various sides in the HFT debate can achieve mutual understanding. The old "regulators act/markets react" paradigm is obsolete; we need to work together.

The chair for the HFT Trading Venues stream will be Hirander Misra, managing director of Misra Ventures and former COO of Chi-X Europe, who emphasises threats as much as opportunities. Misra says: "There is a lot of anti-HFT sentiment around, but there are also opportunities that present themselves to a wide range of market players." Misra will discuss opportunities arising from the movement of OTC derivatives products such as interest rate swaps into an exchange-traded and centrally cleared environment – complex migrations driven by the European market infrastructure regulation in Europe and Dodd-Frank in the US – and also from the growth of frontier and emerging markets.

In his welcoming address on the opportunities arising out of the movement of OTC derivatives onto exchanges, Misra will also look to the likely post-MiFID II shape of European trading. For him, the conjunction of regulation and opportunity might trigger a familiar evolutionary cycle for market participants and market infrastructures alike. Misra says: "Everyone thinks about the CME or ICE, but there is going to be a proliferation of new venues. There could be new players carving out a substantial niche."

"There is a lot of anti-HFT sentiment around, but there are also opportunities for a wide range of market players."

Hirander Misra, managing director, Misra Ventures

That does sound familiar. Misra says: "Fragmentation is definitely a prospect, followed by consolidation as a consequence of natural selection." But the larger point here, as Misra will discuss in the context of both OTC derivatives and emerging markets, is that regulation can be regarded as an enabler rather than as a potential obstacle.

Don't knock opportunity

So we're talking about informed regulation in a world of opportunity. Misra says: "Everyone's talking about compliance with regulations, but the multitude of reforms across asset classes and across jurisdictions, the new regulations and changes in capital flows into emerging markets all present a wide range of opportunities that trading firms can exploit, however they're categorised." This is, of course, also a useful reminder that regulatory action occurs in a dynamic market environment. The world doesn't wait.

As Misra suggests, the key question is not whether opportunities exist, but how effectively they can be exploited. The influence of the regulatory framework will not only become an important test of today's initiatives – crudely, did they help? – but it is also the ongoing challenge facing our regulators.

Panellist Benoît Lallemand, senior research analyst, Finance Watch, expects the discussion to focus on MiFID II, which he describes as "the most comprehensive attempt to regulate HFT", as well as the Market Abuse Directive, while also touching on how the proposed European Financial Transaction Tax (FTT) might affect HFT." The FTT framework currently being considered by core euro-zone member states would have an impact more widely than just on HFT but, as Lallemand says, it is clearly a significant factor in the cost-effective exploitation of opportunity. The panel convened to discuss this great weight of regulation will also include Piebe Teeboom, senior policy advisor at AFM, the Dutch financial markets regulator, and it will be moderated by Brian Taylor, managing director, BTA Consulting.

Lallemand makes a distinction between the two directives: "MiFID II is an initiative to address market issues at their source. It will try to improve market structure and even microstructure. It will forbid some behaviours and incentivise others. Market abuse regulation comes after the fact."

Joined-up thinking

Politicians sometimes speak of "joined-up government", but there is probably a greater likelihood of today's discussion delivering a joined-up assessment of a set of discrete, linked (albeit not deliberately joined-up) regulatory initiatives and their impact on a complex market environment. Lallemand says: "HFT is not considered a market abuse in itself, but there are a few explicit mentions of it in the Market Abuse Directive because it's such a new phenomenon. There is the potential with HFT to conduct abusive strategies on a much larger scale."

Correspondingly, on the positive side, HFT has the potential to exploit opportunities on a much larger scale. In his presentation, SIX's Katz will consider HFT from the perspective of its role in a stable and sustainable market environment. "I will be talking about the five core requirements of a good marketplace and how the proposed measures in MiFID II will affect their working. Then I will draw conclusions as to what that would mean to the HFT community." Katz will also contribute his own take on how the industry would react to the regulation now proposed.

"There is the potential with HFT to conduct abusive strategies on a much larger scale."

Benoît Lallemand, senior research analyst, Finance Watch

TO LEARN MORE …

Chair's welcome address: Introducing the HFT trading venue session

18 April – 10:15-10:30

Presentation: What are the practical implications of MiFID II regulations for HFT trading?

18 April – 10:30-11:00

Panel discussion: The regulatory environment and HFT

18 April – 11:30-12:30

Panel discussion: What is the optimal HFT strategy for trading venues – how can thy balance the needs of HFTs and non latency-sensitive strategies?

18 April – 12:30-13:00

Linear Investments to use the cloud for trading

TradePrime picked to offer EMS, OMS and risk functionality

UK-based hedge fund manager Linear Investments has picked cloud-based trade system TradePrime for its order and execution management system (EMS).

TradePrime, a product of technology provider TradingSceen, is a front-office tool that includes execution and order management functionality, compliance, risk management, multi-prime broker and administrator connectivity for hedge funds through a cloud.

"TradePrime is a step in the right direction towards the future of hedge fund technology," Jerry Lees, CEO of Linear Investments, said.

"An advanced multi-asset EMS, integrated with position management and order management functionality, compliance and risk, all delivered via the cloud, represents an exciting number of cost and efficiency savings for us."

The new functionality helps the buy-side manage its multiple workflows on a single screen, from an integrated and globally deployed database.

"Many organisations are realising the enormous savings and risk control improvements of having a multi-asset, multi-broker system that combines all the key front-office workflows in a single, in the cloud platform," TradingScreen CEO, Philippe Buhannic, said.

"Organisations realise there are savings and improvements by using a multi-asset, multi-broker cloud platform."

Philippe Buhannic, CEO, TradingScreen

"The recent waves of new regulations have many investment management firms turning to TradePrime to reduce the number of systems that they have to manage, and streamline their sophisticated workflows," he said.

Former Liquidnet head joins BCS board

Barker becomes non-executive director at Russian broker

BCS Prime Brokerage has confirmed the appointment of former European head of buy-side trading platform Liquidnet John Barker to its board.

Barker, who has joined BCS as a non-executive director, has more than 20 years of management experience in financial markets.

Edward Golosov, one of the founding partners of BCS Financial Group, has also joined the board as an executive director. They will both work in London alongside existing executive directors Rizwan Kayani and Vitaliy Shelikhovskiy.

"BCS has been hand-picking professionals from selected market participants and vendors in order to drive business expansion and to increase our market share," Roman Lokhov, CEO of global markets and investment banking at BCS, said.

"BCS Financial Group welcomes John and Edward, who bring a wealth of experience to our colleagues in London. We look forward to working with them as they assist in the expansion of our international business."

Barker left Liquidnet last year, where he was also head of international with responsibility for driving revenue across Asia, Canada and the move into Latin America.

Golosov rejoins BCS with more than 17 years in financial markets. His experience includes setting up the firm's domestic and international brokerage as well as asset management operations in 1995. He has also worked at Barclays Fund Solutions from 2006 to 2011 as global head of structuring and origination, and Merrill Lynch.

Golosov will be responsible for product development across a range of businesses as BCS expands operations in Russia and the UK.

BCS is an independent Russian financial firm providing brokerage, banking asset management, custody and consulting services to institutional and retail clients from 100 offices. It established its new UK entity last year.

SunGard launches one-stop tool to manage cost of trading

New Valdi Trading Analytics to help manage costs and increase profits

SunGard is expanding its Valdi suite of trading tools with the introduction of a product that intends to give firms financial control of trade operations.

Trading technology vendor SunGard's Valdi Trading Analytics (VTA), which was in production for nearly three years, is aimed at helping financial services firms to better manage costs and increase profits.

Using VTA, firms can conduct pre-trade transaction cost analysis, execution performance evaluation, profit and loss attribution and reconciliation across multiple trading and back-office systems.

"The more business models that an institution is involved in, the more asset classes they create," Beau Alexander, head of project management for SunGard, said.

"To have one complete and integrated solution to manage all of your financial information really gives a firm get the best view possible of all their operational efficiencies."

He said the tool would allow firms to make smarter business and trading decisions – "it allows them to recognise if they are working".

TABB Group principal Laurie Berke said: "One of the biggest challenges facing capital markets and trading firms is the ability to drill down into the granular components of trading costs, in real-time, across asset classes, to achieve superior trading results and optimal business decision-making."

"SunGard's VTA is well-positioned to help firms gain real-time transparency into their trade execution costs, execution performance and net profitability."

Brazil's market surveillance project goes live

Nasdaq OMX's Smarts platform to monitor BM&FBovespa trades

Brazil's incumbent exchange BM&FBovespa has started using Nasdaq OMX's surveillance software to detect market abuse and improve transparency.

Nasdaq's Smarts surveillance platform is now officially live across equities, commodities and futures on the exchange's PUMA trading system.

"This go-live is a milestone for both BM&FBOVESPA and Brazil's financial industry as a whole," Cicero Vieira, CEO of BM&FBOVESPA, said.

"Since Brazilian trading activity has grown in importance in the portfolio strategies of investors worldwide, it is crucial to provide local and international players with market surveillance tools that are aligned with the fully transparent and centralised order driven price discovery across all products in our marketplace."

Marcos Torries, chief regulatory officer of BSM, the Brazilian self-regulatory organisation in charge of supervising market participants, said there had been an increase in self-regulatory activities, and the new system would help with efficiency and detection efforts.

New genetic algorithm on Real Time Solutions platform

QuantFACTORY 5.3.2 accelerates time to market

S&P Capital IQ's Real Time Solutions is releasing its latest automated trading platform with new genetic algorithm features.

QuantFACTORY has been upgraded, offering a complete set of tools designed to help US, European and Asian clients optimise the automated trading development cycle – from data acquisition to alpha discovery and back-testing to production.

"The new genetic algorithm features will allow clients to accelerate the time to market of their automated trading models," Stephane Leroy, vice-president, head of Global Real Time Solutions, said.

The tool's genetic algorithm features lets clients apply 'parallelisation' – allowing them to run multiple back tests to identify the best trading parameters in a short time period.

Stephane Leroy, vice-president, head of Global Real Time Solutions

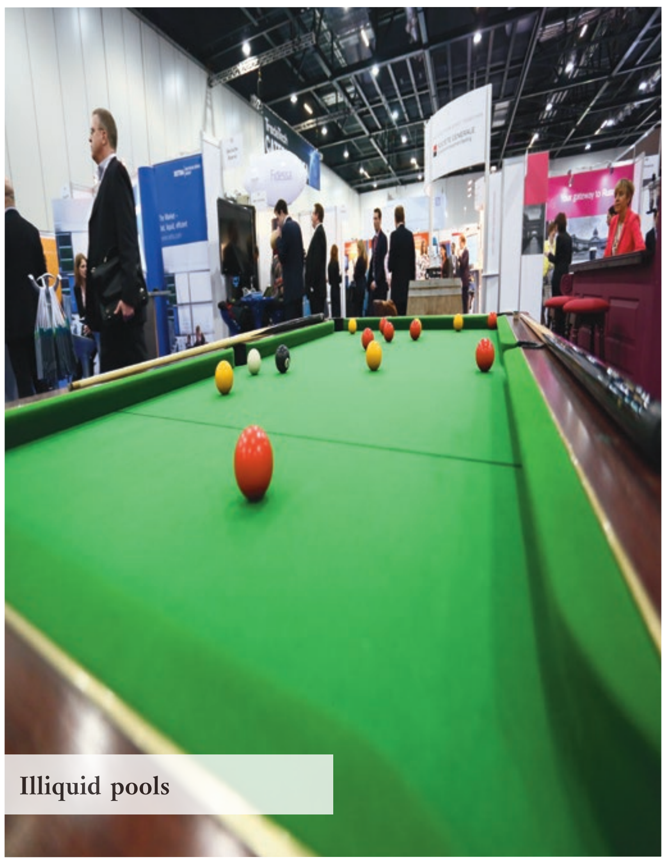
Pierre Feligioni, managing director of Global Real Time Solutions, said the firm was determined to make sure clients stayed ahead of the curve.

"We are focused on developing the most innovative and robust technology to tackle current market challenges across the globe."

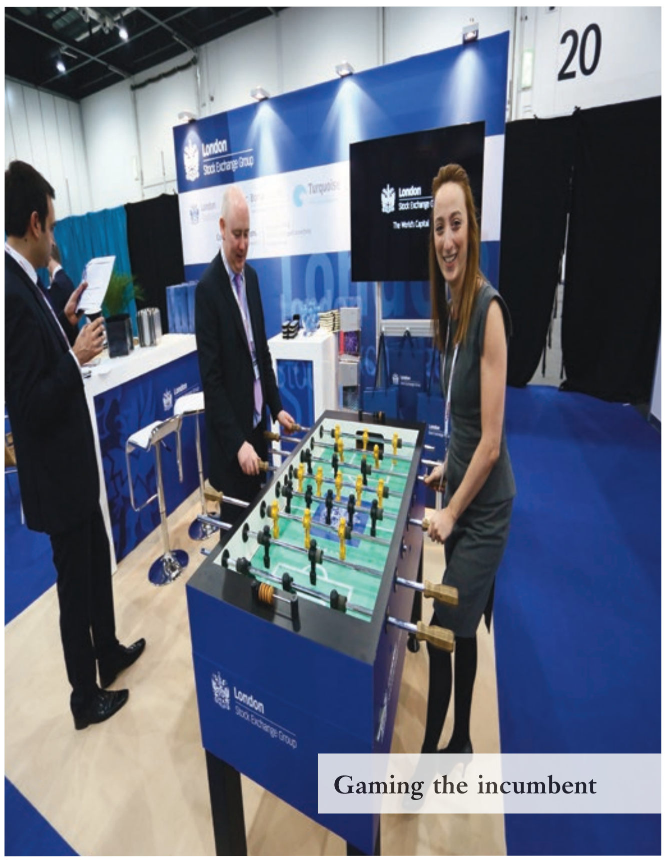
Sweetening the deal

Ahead of the curve

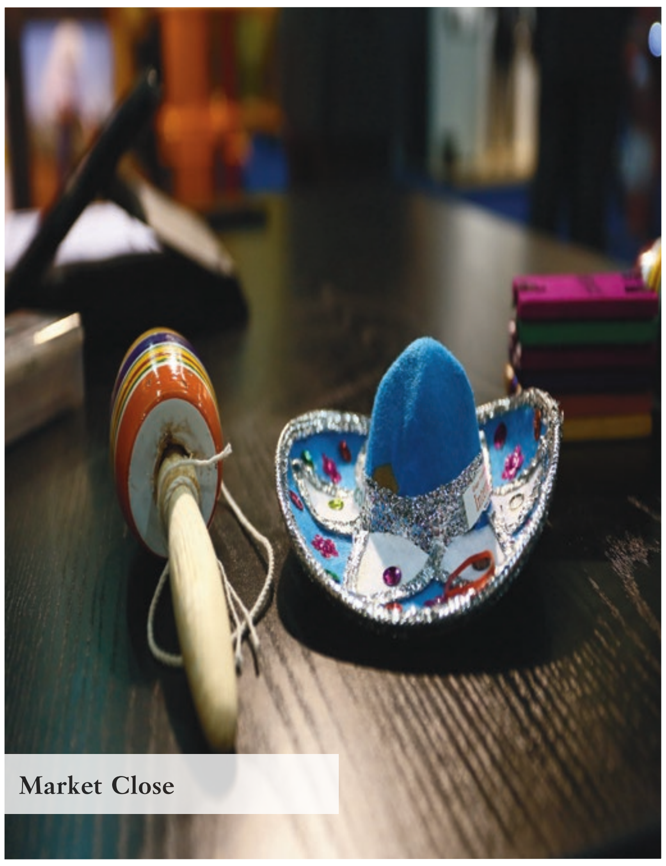
Plentiful fish stocks



Illiquid pools



Gaming the incumbent



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