



**BNP PARIBAS**  
CORPORATE & INVESTMENT BANKING

## Exploring the ever increasing growth, expectations & challenges of electronic trading - the past, present & future of electronic trading products



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The only **CERTAIN** thing about the **FUTURE** is  
**UNCERTAINTY**



# Evolution of Trading

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- Open outcry method of trading
  - Virtual trading floor trading electronically
    - Disintermediation
      - Stock market booms and crashes
        - Shorter settlement cycles
          - Wall Street decimalisation
            - Standardisation using FIX protocol
              - Program trading
                - Digitisation of trading – Algorithmic Trading

**2008: Market fragmentation & consolidation**



# What are your trading concerns?

**The Ultimate Outcome is Uncertain...**

Report by Celent on ATS Europe

**...becoming more aware of transaction costs...**

Quoted by Steve Wood, Global Head of Trading, Schrodgers in "The Trade"

**...desire to reduce costs and achieve greater efficiency...**

Survey by SIFMA (Securities Industry and Financial Markets Association)

**...fragmentation of the equity markets...**

Quoted by Eric Karpman, Vice-President, BNY Mellon AM, in "The Trade"

**...pick up the best liquidity pool and the best price...**

Quoted by Steve Wood, Global Head of Trading, Schrodgers in "The Trade"

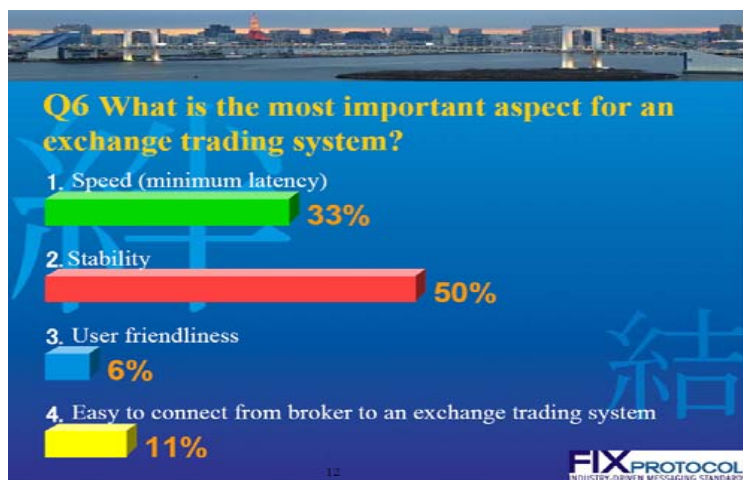
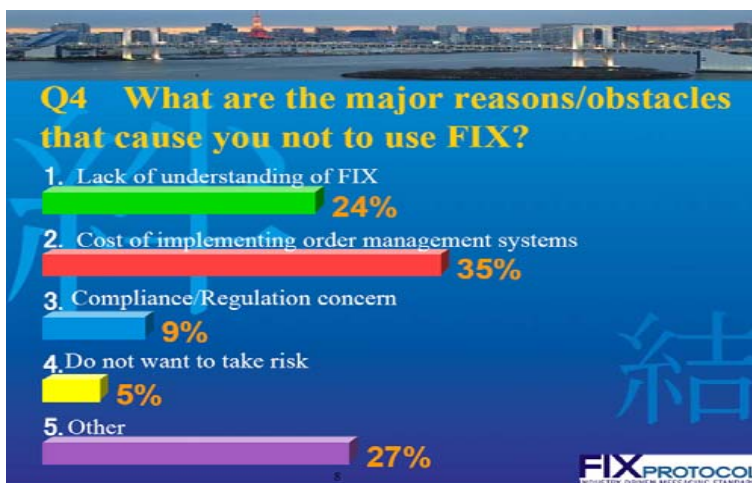
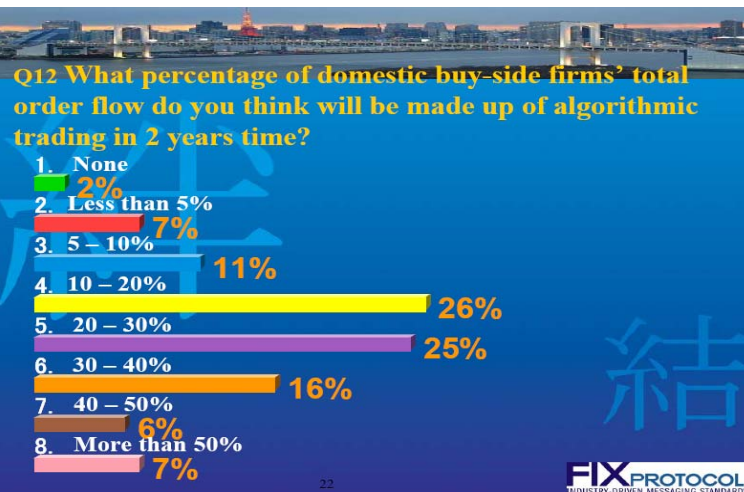
**...best execution is a process of attempting to secure the best combination of price and intermediary value...**

Quoted by George Molina, Head of Trading, Franklin Templeton Investors in "The Trade"

**The best way to predict the future is to invent it**

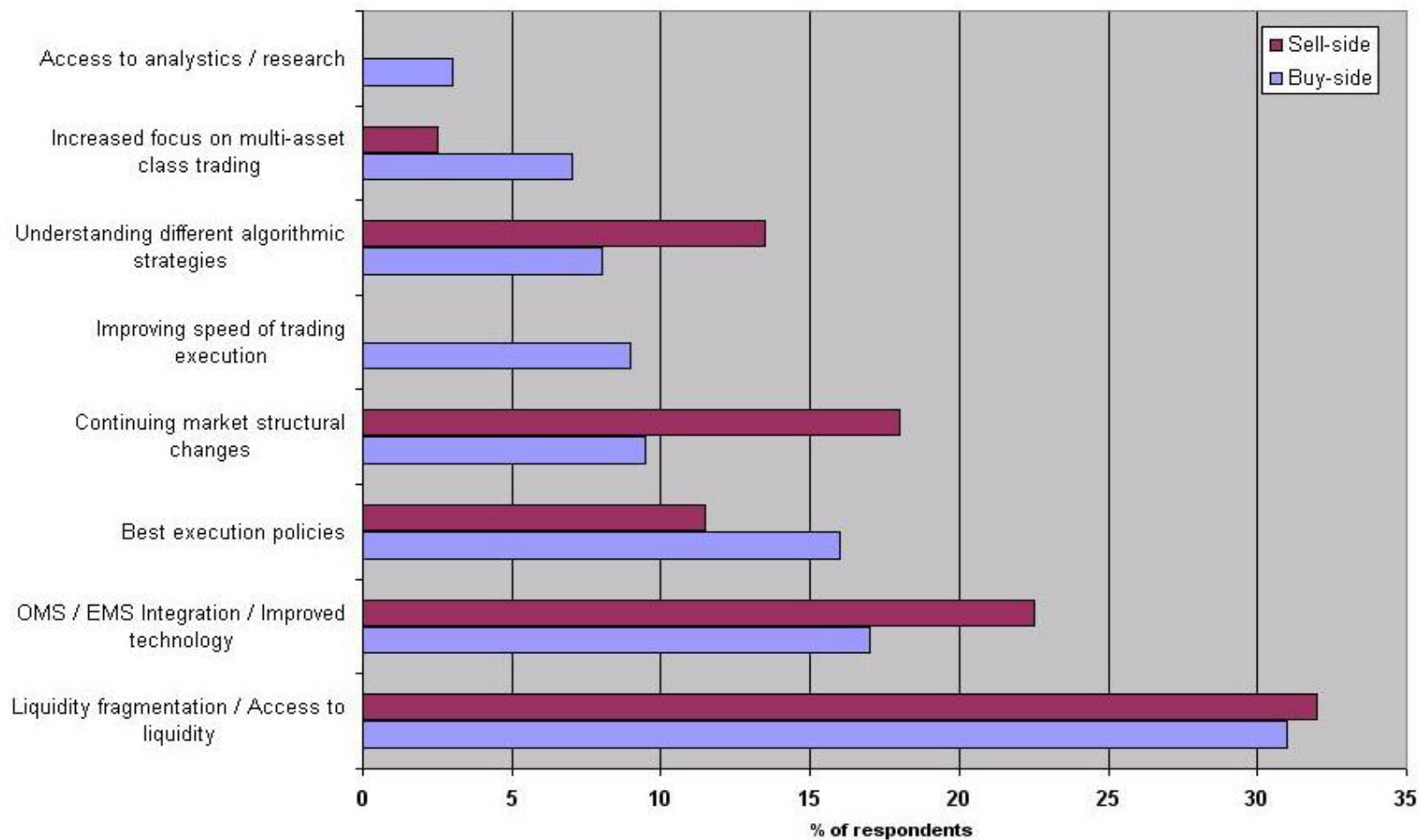


# FPL Japan – 2006 Survey results





# Biggest Challenges Facing Buy-side Trading Desk



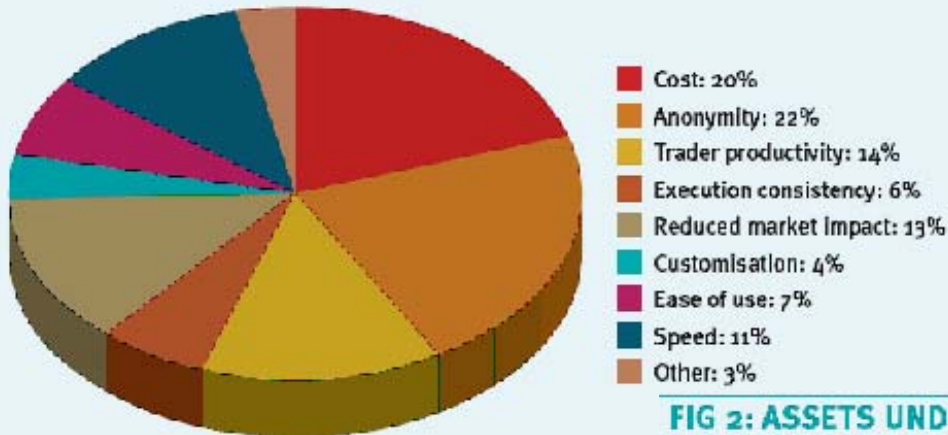
Survey by SIFMA (Securities Industry and Financial Markets Association)

**Key challenge: Liquidity and technology**



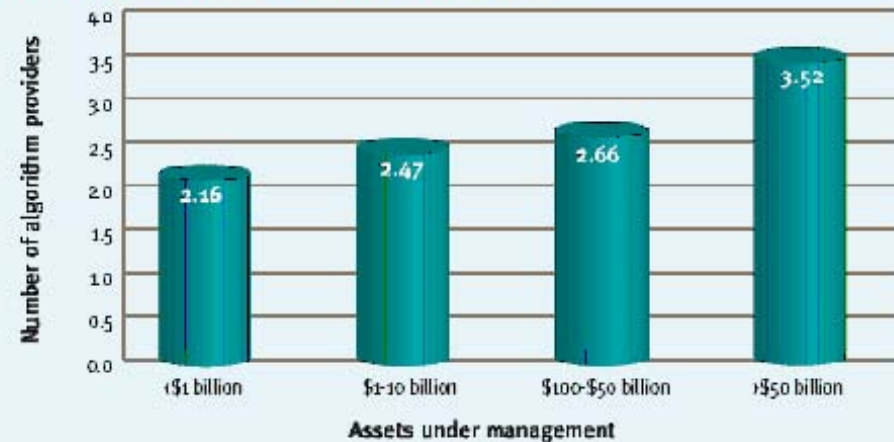
# Reasons For Using Algorithms

FIG 1: REASONS FOR USING ALGORITHMS



Source: The TRADE Annual Algorithmic Trading Survey

FIG 2: ASSETS UNDER MANAGEMENT –  
AVERAGE NUMBER OF PROVIDERS USED



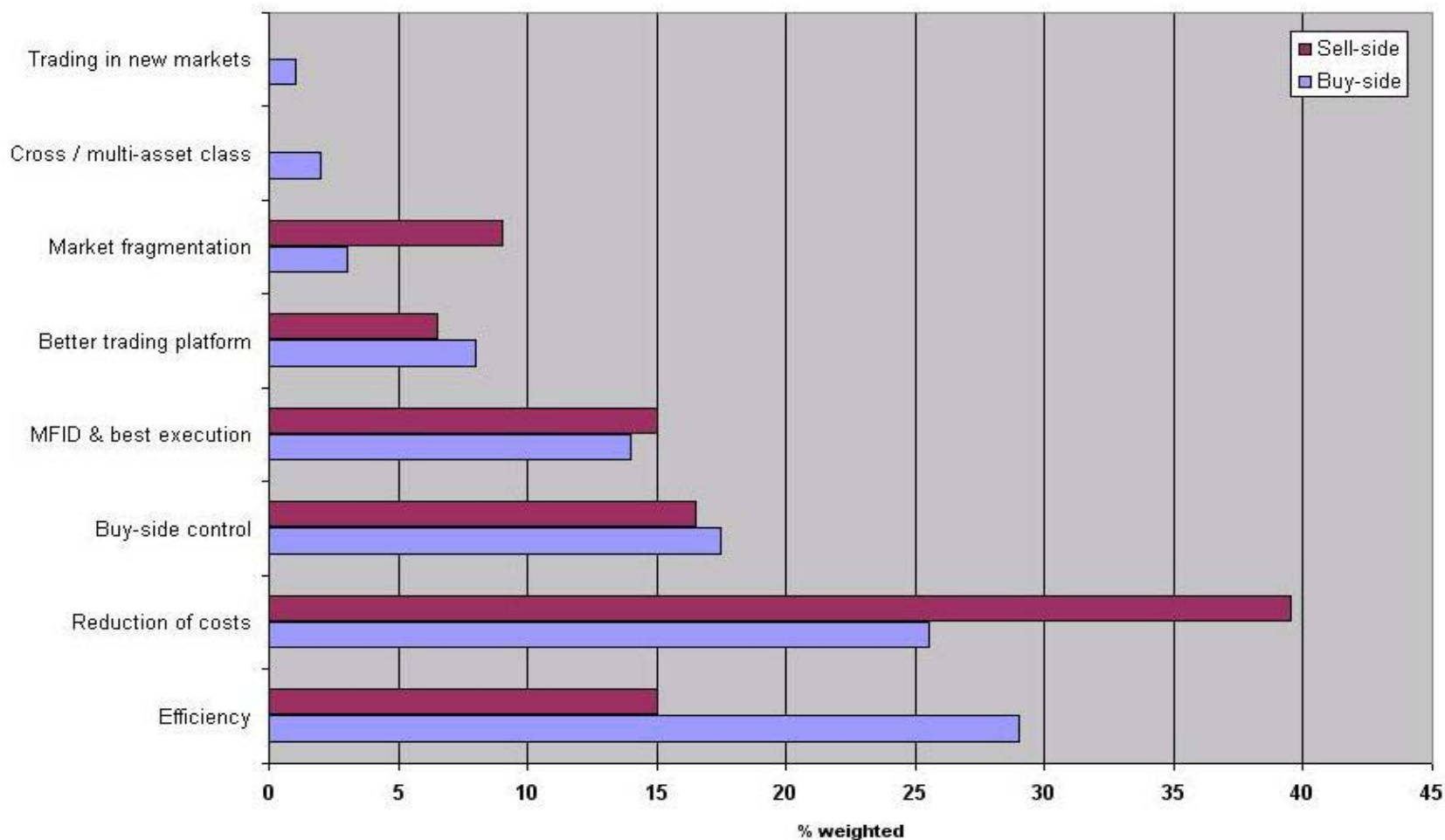
Source: The TRADE Annual Algorithmic Trading Survey

**Anonymity is the main reason**





## Driver for Growth in Electronic Trading



Survey by SIFMA (Securities Industry and Financial Markets Association)

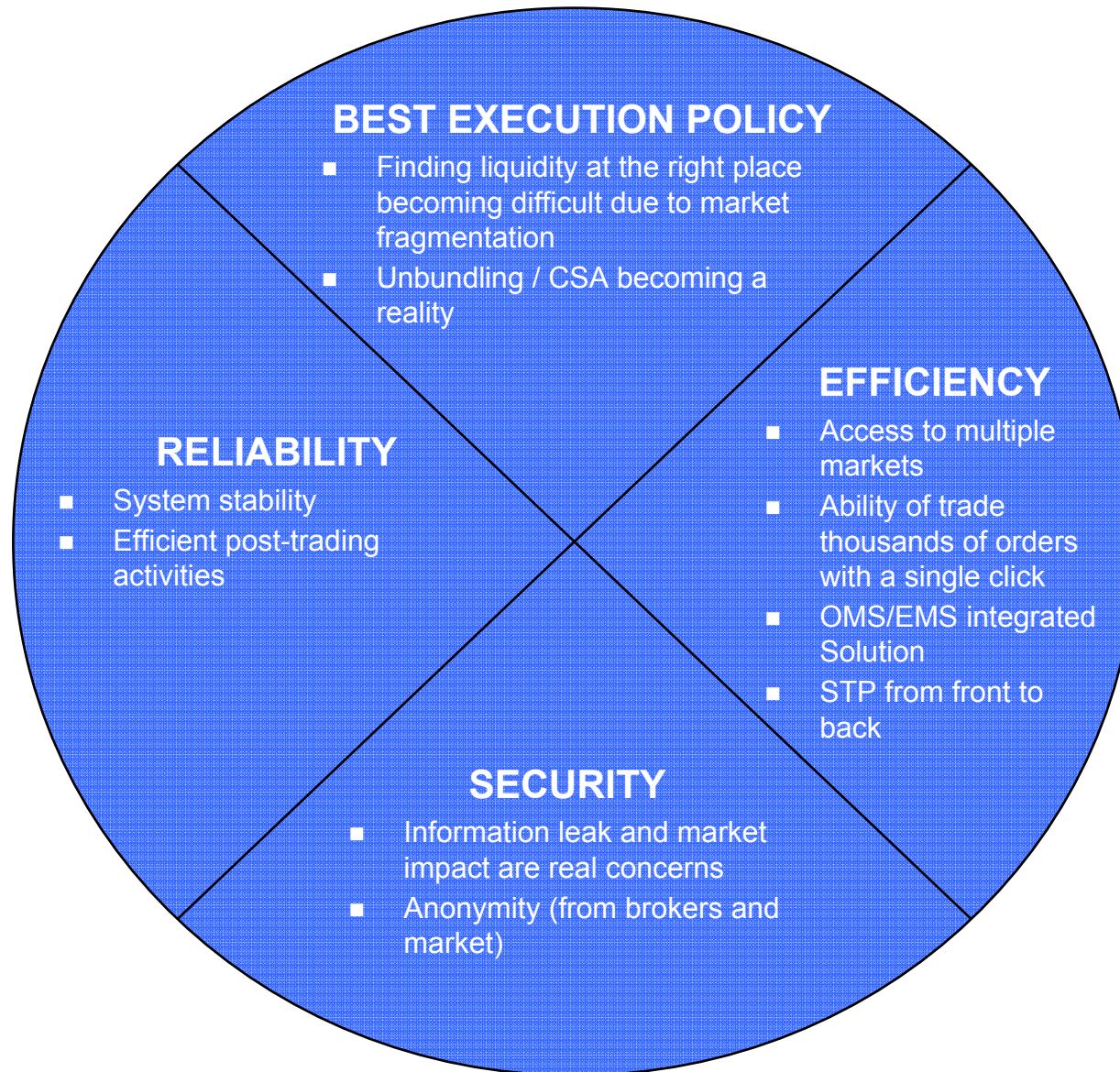
**Mismatch : Efficiency vs Reduction in Costs**





## To Sum Up Your Concerns

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# Challenge - Working within an Ever-changing Complex Market

## General market trends :

- Decimalization
- New regulations – RegNMS, MIFID etc
- Unbundling
- Greater participation by retail investors
- Ever increasing volatility

## New trading styles :

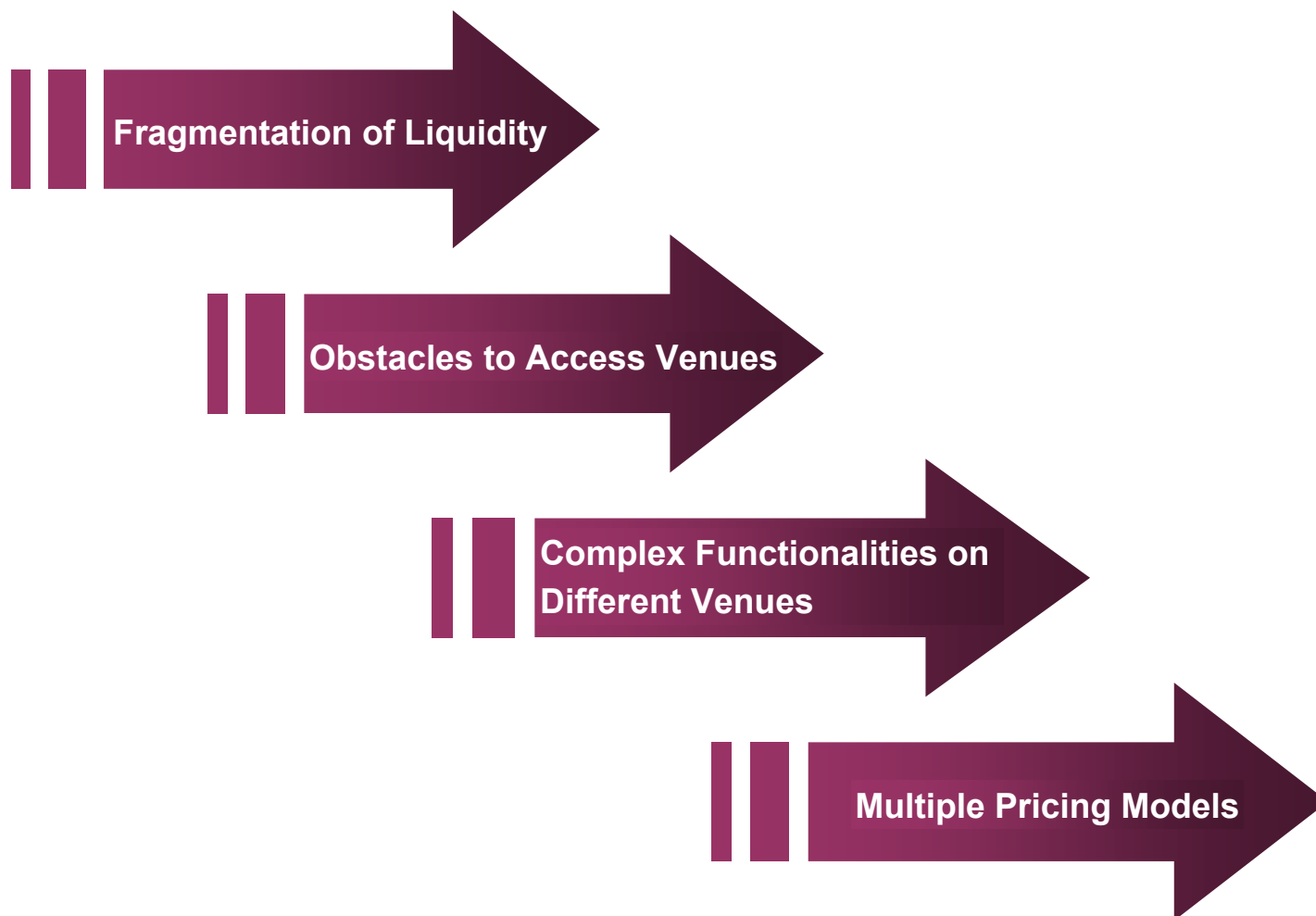
- High frequency trading
- New breed of investors – Hedge funds
- Expansion of strategies by AM – Market neutral, Long-short, 120-20 etc

## Trading objectives :

- Achieving Speed, Security, Value & Efficiency
- Best Execution
- Exploring the inefficiencies of exchanges



## Challenges with Liquidity in ever changing market



### *New Regulations across the globe*

- *Reg NMS*
- *MIFID*
- *Financial Products Trading Law*



## Outcome - Creation of Execution Houses

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Changing client needs and market complexity calls for  
**HUGE INVESTMENT** in the following areas

- HUMAN Resources
- TECHNOLOGY Innovation
- FLOW and Liquidity
- RISK Management



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