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

- 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

...fragmentation of the equity markets...
Quoted by Eric Karpman, Vice-President, BNY Mellon AM, in “The Trade”

...becoming more aware of transaction costs...
Quoted by Steve Wood, Global Head of Trading, Schroders in “The Trade”

...pick up the best liquidity pool and the best price...
Quoted by Steve Wood, Global Head of Trading, Schroders in “The Trade”

...desire to reduce costs and achieve greater efficiency...
Survey by SIFMA (Securities Industry and Financial Markets Association)

...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

Q12 What percentage of domestic buy-side firms’ total order flow do you think will be made up of algorithmic trading in 2 years’ time?

1. None
2. Less than 5%
3. 5 – 10%
4. 10 – 20%
5. 20 – 30%
6. 30 – 40%
7. 40 – 50%
8. More than 50%

Q11 Will algorithmic trading be a key focus area for your firm in the next 6 months?
1. Yes 73%
2. No 12%
3. Not sure 15%

Q4 What are the major reasons/obstacles that cause you not to use FIX?
1. Lack of understanding of FIX 24%
2. Cost of implementing order management systems 9%
3. Compliance/Regulation concern 5%
4. Do not want to take risk 27%

Q6 What is the most important aspect for an exchange trading system?
1. Speed (minimum latency) 33%
2. Stability 50%
3. User friendliness 6%
4. Easy to connect from broker to an exchange trading system 11%
Biggest Challenges Facing Buy-side Trading Desk

Access to analytics / research
Increased focus on multi-asset class trading
Understanding different algorithmic strategies
Improving speed of trading execution
Continuing market structural changes
Best execution policies
OMS / EMS Integration / Improved technology
Liquidity fragmentation / Access to liquidity

Key challenge: Liquidity and technology

Survey by SIFMA (Securities Industry and Financial Markets Association)
Reasons For Using Algorithms

**FIG 1: REASONS FOR USING ALGORITHMS**

- Cost: 26%
- Anonymity: 22%
- Trader productivity: 14%
- Execution consistency: 6%
- Reduced market impact: 13%
- Customisation: 4%
- Ease of use: 7%
- Speed: 11%
- Other: 3%

Source: The TRADE Annual Algorithmic Trading Survey

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

Anonymity is the main reason

Source: The TRADE Annual Algorithmic Trading Survey
Driver for Growth in Electronic Trading

Mismatch: Efficiency vs Reduction in Costs

Survey by SIFMA (Securities Industry and Financial Markets Association)
To Sum Up Your Concerns

**BEST EXECUTION POLICY**
- Finding liquidity at the right place becoming difficult due to market fragmentation
- Unbundling / CSA becoming a reality

**EFICIENCY**
- Access to multiple markets
- Ability of trade thousands of orders with a single click
- OMS/EMS integrated Solution
- STP from front to back

**RELIABILITY**
- System stability
- Efficient post-trading activities

**SECURITY**
- Information leak and market impact are real concerns
- Anonymity (from brokers and market)
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

- Fragmentation of Liquidity
- Obstacles to Access Venues
- Complex Functionalities on Different Venues
- Multiple Pricing Models
Outcome – Investment & Innovation

New Regulations across the globe

- Reg NMS
- MIFID
- Financial Products Trading Law
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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