



# FOREWORD

## Innovative New Ways of Doing Business

Welcome to another issue of Xchange newsletter which this time explores the progression of Alternative Trading Systems in the global financial markets.

Dawn Kissi, a former journalist at Securities Industries News and now a freelance writer, explores the rising popularity of multilateral trading facilities (MTFs). Dawn looks at how MTFs have evolved and the factors which have contributed to their growth.

I catch up with Randy Williams, Vice President of US Sales and Communications at BATS Global Markets, to find out what impact the current rise of ATS have had on the development of BATS Global Markets, from both the US and European perspective. Hank D'Hoore from Interactive Data offers their points of view on the impact of ATS in the global market place and how it has affected their business, as well as considering what the future holds in store.

The FPL Algorithmic Trading Working Group provides an update on the rise of FIX adoption in the Asian financial community. Edward Mangles, FPL Asia Pacific Regional Director, explains how the understanding of the FIX protocol is creating an increased level of interest in the Asian markets.

If you have any comments on any of these issues raised in this edition of Xchange or there's anything you would like to see in a future issue, please get in touch using the contact details on the back page.

Alex Walker

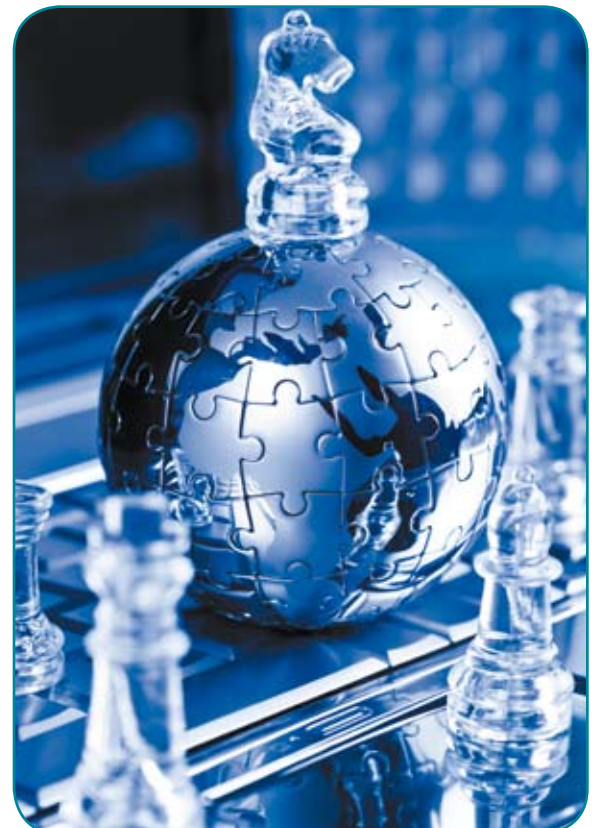
Senior Vice President and General Manager

TNS Financial Services Division

# MTFS ON THE GLOBAL

It is nearly two years since the Markets in Financial Instruments Directive (MiFID) hit the European and UK trading scenes and, while it was known electronic trading would never be the same under the new "rules", many also did not know what to expect in regards to compliance, more regulation and lower pricing. Granted, competition breeds competitive pricing, but the dramatic shifts and pricing as well as volumes, has made electronic trading across the region somewhat of a daily sport.

Established market players such as Chi-X Europe (which was first to market, pre MiFID), NASDAQ, who made its trans-Atlantic presence felt with the launch of a London-based multilateral trading facility (MTF) NASDAQ Europe, NYSE Euronext, who this year debuted SmartPool, its dark trading venue for block



# TRADING SCENE

orders of UK and European equities, have found themselves vigorously playing the field with the London Stock Exchange and Frankfurt's Deutsche Borse, to name a few.

The new venues have not only offered lower and more competitive pricing, but have forced the hand of incumbent exchanges to reassess their business model and eventually lower prices for the buying and selling of a security.

"One of the goals of MiFID was to increase competition in Europe, and certainly the MTFs have provided competition and viable alternatives to incumbent exchanges," Brian Gallagher, Managing Director and Head of European Electronic Trading for Morgan Stanley notes.

US-based alternative trading system (ATS) BATS Global Markets, opened for business in London in 2008 with the launch of BATS Europe. Bringing its high-speed, ultra-low latency platform to the market, BATS Europe has garnered a good amount of market share to date, as well as joined initiatives aimed at improving the overall market environment across the United Kingdom and Western Europe.

## **Technology, it seems, has made it all somewhat exponential.**

"MTFs have had a terrific impact on the market in a short period of time, and it isn't solely reflected in market share gains," Randy Williams, spokesman for BATS Europe commented.

"BATS Europe and some of the other MTFs have also played a lead role in harmonizing tick sizes, creating a common symbology and creating interoperability in clearing."

## **With new trading venues come new needs for not just clients, but all market participants.**

New market data, connectivity and transaction cost analysis (TCA) tools have since come to market. Regulatory compliance aside, traders were demanding and expecting more, leaving firms such as Transaction Network Services to tap into its expertise.

The dramatic turn in the global economy has not left MTFs (and exchanges) unscathed. The global downturn has exposed the difficulty some platforms now face in attracting liquidity. Yet the share of captured market activity and flow of these new market players is still impressive.



To remain competitive and in some cases, in business, further price reductions may be imminent. Consolidation is also an option.

A possibility also remains for some MTF's to seek exchange licensing, which when armed with their two proven weapons - low price and low latency - could pose the biggest and more viable threat to established exchanges.

Eli Lederman, Chief Executive of the London based consortium-backed MTF Turquoise, notes that while competition exists, consolidation should not be entirely ruled out. "Naturally, there will be some consolidation, but the underlying competition is here to stay. That genie is out of the bottle."

MTFs will remain, so long as competition does. While one industry analyst's published note on European trading recently predicted some platforms may be all but gone by end of 2010, development on and enhancement to platforms continue. It is not uncommon to read about a new offering from current market players.

Attracting liquidity remains key, regardless of what region the platform is located in. With an eye on Asia, this region may be the next to see its share of new venues open for business.

Talk of a Chi-X platform in Australia was rampant a year ago and that possibility remains. While volumes will dictate who does what and where, global markets are today too closely intertwined for emerging opportunities to be overlooked.

**Dawn Kissi**  
Freelance journalist and former  
contributor to Securities Industries News

# BATS GLOBAL MARKETS

BATS Global Markets (BATS) is an innovative global financial markets technology company, heavily involved in the trading space as an exchange in the US and as an MTF in Europe. Alex Walker catches up with Randy Williams, VP Sales and Communications at BATS, to ask his view on the rise of alternative trading systems in the global market place.

## When was BATS founded?

BATS Trading, the original company, was founded in June 2005 at a time when market innovation and technology leadership were at risk due to over consolidation in the ECN and Exchange industry. BATS ECN went live in January 2006, converting to BATS Exchange, the third largest in the US, in October 2008.

We launched BATS Europe, an MTF, in October 2008 as well and expect to go live with BATS Options Exchange in the US early in the first quarter of 2010. BATS Global Markets is now the parent company, based in Kansas City, Missouri, with US offices in New York and European offices in London.

## How has BATS developed?

BATS has developed significantly over time and plays a crucial part in the global trading market. We're well known for low latency, highly efficient technology, our market structure and pricing is second to none, and we are able to give our customers what they want, when they want it.

In addition, the rise of MTFs has significantly changed trading in Europe and BATS Europe has taken a lead role in key market structure issues such as clearing, common symbology, order routing and standardization of tick sizes.

Making Markets Better is our credo and we're excited to see this playing out in Europe. There's a long way to go in Europe but we like the direction things are headed and we're pleased to have already hit our year-end market share goals of 4% for all the major indices.

## How have ATS shaped the global trading environment?

MiFID has created the need for MTFs in Europe and we're glad to be a part of the landscape here. The regulatory overhaul that happened last year has resulted in MTFs working to make the market more efficient and to make it easier to trade stocks on a pan European level.

Many of the firms that are large liquidity providers in the US equity market are also supporters of MTFs, and as a result those high frequency trading organizations tend to be those that are able to add liquidity to make it easier to trade. Over time, the existence of MTFs in Europe will lead to increased volume, greater liquidity and a heightened ability to trade.

## What are your thoughts on the current ATS marketplace?

We believe competition is what makes markets and anything that makes it easier for competitors to emerge is a good thing. Back when we were an ECN in the US and now as an exchange, BATS has been quite successful, giving our business a layer of legitimacy in Europe. When we started out in the US, we had no track record while, over here, we had many firms ready to trade with us in Europe from day one.

This has enabled our European market share to grow at a faster rate than BATS ECN did. Every piece of the puzzle is important in Europe and that includes connectivity and the ability to quickly get firms connected and get them trading. Obviously in this area we are fortunate to have many great partners to work with, including TNS.

## Has the economic climate affected ATS?

It has certainly made differentiating your business even more important. BATS Exchange and BATS Europe have differentiated themselves globally by offering superior technology and customer service, with innovative pricing.

As an exchange in the US, there are certainly advantages you have over alternative trading systems, which are not direct participants in the national market system. In Europe, however, exchanges and ATS are very similar with the primary difference being that alternative trading systems can't offer listings.

## What do you feel the future holds for ATS?

Certainly there will always be room for new entrants who are innovative but, bear in mind, new entrants will have higher bars to clear as time goes on due to the precedents set by those who came before them.



Randy Williams  
VP Sales and Communications  
BATS Global Markets

# ...MOVING ONWARDS AND UPWARDS IN ASIA

The FIX Protocol was originally developed as a buy-side to sell-side trade communication tool, but over recent years, it has generated interest and adoption from the exchanges and regulatory community globally. Greater adoption within this space would enable markets to improve efficiencies and lower costs for the end investor, which are key areas of focus for FIX Protocol Limited (FPL), the organization that owns, maintains and develops the FIX Protocol.

In March 2009, FPL appointed two Regional Directors – Stuart Adams for EMEA and myself for Asia Pacific to help ensure greater engagement with exchanges and regulators. Increased FIX adoption offers significant benefits to the Asian financial community. FIX creates opportunities facilitating access to markets globally in a standardized manner, significantly reducing connectivity costs, lowering the technological and structural risks associated with trading, while increasing trade transparency and reporting. Regulators around the world are increasingly showing interest in exploring these benefits of FIX usage.

FIX adoption is on the rise in Asia, especially in the region's major financial hubs, and many of the region's emerging markets are quickly developing an understanding of the protocol and all that it facilitates across the trade lifecycle. Already adopted widely by the buy-side to sell-side community across Asia, FIX is used by a number of Asian exchanges for connectivity into the market, however many others still

require 'translation' of a FIX message into their proprietary APIs. Additionally, a number of existing FIX implementations are 'non-standard' to the FIX specification, which creates connectivity challenges (and increased cost) for the industry as a whole.

However, with increased input from FPL to help support the exchange adoption/implementation process, and also capitalizing on FPL's experience of previous exchange implementations, the risk of 'proprietary' implementation is decreased.

FPL is keen to engage with the region's exchange/regulatory communities. Tapping into the experience of FPL staff (including its Global Technical Director and Regional Directors), as well as the FPL committee members, the organization is ready to provide the support and advice needed to help the Asian markets benefit from the many advantages offered by standardization.



Edward Mangles,  
FPL Asia Pacific Regional Director



## ...POINTS OF VIEW



Transaction Network Services

### “How has the evolution of MTF and ATS shaped your business?”

The implementation of MiFID engendered widespread changes to the European equity markets, with many new venues emerging. This has led to increased levels of data and liquidity fragmentation across the region and created a more competitive trading environment – a phenomenon also witnessed in the US and Canada with the growth of Alternative Trading Systems (ATS).

Interactive Data has worked actively to provide its clients with access to data from these new venues and plans to continue adding additional execution venues to its consolidated, low-latency global market datafeed, PlusFeed<sup>SM</sup>, as they become part of its clients' investment strategies.

Currently, PlusFeed delivers data from Chi-X, Turquoise, BATS US, Pure Trading and NYSE Arca, amongst others, to its institutional client base. Interactive Data also plans to incorporate NASDAQ OMX Europe, BATS Europe, Burgundy, Chi-X Canada and Omega Trading in the near future.

We have seen quick adoption of these new venues from our clients, who have been interested in the new liquidity available, further encouraged by the lack of exchange fees payable. However, although the rise of multilateral trading facilities has created more competition, which might increase efficiency, we now have a more fragmented and complex global market.



Henk D'Hoore  
Head of Product EMEA  
Real-Time Services Interactive Data

### ...TNS News Round-up

- Financial market participants can now easily connect to Europe's multilateral trading facility, Quote MTF, after TNS signed a deal to become its main connectivity provider. Quote, will be able to provide customers with low latency, highly resilient and secure connectivity services provided by TNS to support the flow of orders and market data.
- TNS has extended its presence in Europe by connecting to SFTI Europe, the European trading network for the Euronext Group of Stock Exchanges.
- TNS has been appointed as the first ever extranet provider to support the Budapest Stock Exchange with client connectivity services, following its recent connection to TNS' Secure Trading Extranet.

## ...Trading Places

29 October

FIX Global Face2Face  
Electronic Global Forum\*  
Mumbai

Contact : +852 8203 6093  
[www.plus-concepts.com/f2f2009](http://www.plus-concepts.com/f2f2009)

2 November

Hedge Risk World 2009  
London

Contact: +44 207 092 1224  
[www.terrapinn.com](http://www.terrapinn.com)

4-5 November

FPL Americas Electronic  
Trading Conference\* \*  
New York

Contact: +1 212 652 4464  
[www.jandj.com/fpl/2009](http://www.jandj.com/fpl/2009)

10 November

FIX Global Face2Face  
Electronic Global Forum\*  
Korea

Contact: +852 8203 6093  
[www.plus-concepts.com/f2f2009](http://www.plus-concepts.com/f2f2009)

1-3 December

Hedge Funds World  
Zurich

Contact: +44 207 092 1224  
[www.terrapinn.com](http://www.terrapinn.com)

\* TNS exhibiting

\*\*TNS exhibiting and speaking

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