



Welcome to another issue of MIR, a newsletter created by Spring, O'Brien, a leading public relations/marketing agency specializing in strategic communications for the financial services industry. We hope that you will find MIR a valuable resource. Please send your feedback and suggestions for content to Marc Weinstein at marcw@spring-obrien.com or call (212) 620-7100, ext. 216 Happy holidays!

News Briefs

Concept Capital, SAS Create Risk Management Portal

Institutional broker and technology provider Concept Capital has partnered with business analytics software and services vendor SAS to develop a hosted portfolio analytics and risk management portal for the hedge fund community. The new product includes a client Web portal with access to customized risk reports and interactive analytics that will permit a multitude of views — including value at risk (VaR), factor analysis, customized stress testing, profit and loss (P&L) time-series analysis, performance attribution and measurement, and production of ex-post risk indicators coupled with more traditional portfolio appraisal reports — all on a multicustodial basis, according to company officials.

Bank of America Merrill Lynch Enhances Canada Equity Algos

Bank of America Merrill Lynch recently announced several enhancements to its algorithmic trading platform for Canadian equities, including the introduction of several algorithms to the region and other changes designed to deliver improved execution performance, according to bank officials. Enhancements to the platform include the introduction of the Instinct algorithm to Canada, the launch of a new Quantitative Implementation Shortfall algorithm (QIS) and improvements to the limit order model and introduction of micro-price logic.

GS Rolls out REDIPlus 9.1

Goldman Sachs Electronic Trading has recently released version 9.1 of its execution management system (EMS) REDIPlus. The latest version features enhancements to options and futures trading, as well as portfolio trading, and introduces flexible solutions for clients using the Bloomberg Professional service, say bank officials. With REDIPlus 9.1, users can streamline their desktop workflow by launching Bloomberg screens from the EMS.

Portware Links to Chi-X Canada

Traders using multi-asset trading and execution management system (EMS) provider Portware now have access to Chi-X Canada, an anonymous alternative trading system (ATS) for TSX-listed securities. Chi-X Canada supports a wide array of order types, is based on strict price-time priority and provides participants with the ability to route orders to any displayed equities marketplace in Canada. The new connection helps Portware customers to better meet their best execution requirements and improve investment performance, according to vendor officials.

ISE, Deutsche Börse Pick RCN

The International Securities Exchange (ISE) and Deutsche Börse Systems have selected RCN Metro Optical Networks, provider of fiber optic-based network technology to connect ISE's current and future data center sites using the vendor's low-latency fiber network. The new connection will support ISE's migration to its new options trading system, which is currently in development and will be rolled out in Q4 2010.

Numerix Adds New Apps

Analytics and derivatives pricing provider Numerix has rolled out a suite of trader workbook applications — Numerix FX Trader, Numerix Rates Trader and Numerix Credit Trade. The new applications are the latest extension of the Numerix CrossAsset XL platform, which is a collection of independent models and risk tools for traders, risk managers and other front-office professionals. The tools allow users to manage a book of trades, monitor relevant market data and value complex derivative deals.

Xignite Delivers On-Demand Options Data From OPRA

Small and mid-tier financial firms looking to trade options now have access to equity options data via two new Web services from cloud services provider Xignite. The new XigniteOptions product delivers delayed options data, while XigniteRealTimeOptions, the second Web service, provides real-time options data. Both services source their data from the Options Price Reporting Authority (OPRA).

Quod Blends SOR, Algorithms

Adaptive trading and execution technology provider Quod Financial has integrated its smart order router Adaptive Smart Order Router (ASOR) with its suite of algorithmic trading strategies to improve order execution and lower market impact, according to vendor officials. Quod's ASOR now offers a range of algorithmic tools, including statistical-based algorithms, probabilistic-based algorithms and mathematical optimization methods.

Orange Gets New PoP in Beijing

In a move to expand globally, voice and electronic trading infrastructure provider Orange Business Services - Trading Solutions has opened a new point-of-presence (PoP) in Beijing, China. Locally based customers now have access to exchanges and financial market participants via the Orange Business Services - Trading Solutions' global dedicated MPLS network. The vendor also recently added a new PoP in Korea. Orange Business Services - Trading Solutions expects to continue expanding its coverage to other financial markets, including South America, according to vendor officials.

High-Frequency Trading to Expand into New Asset Classes, Geographic Regions in 2010

NEW YORK — Although high-frequency trading has recently been marred by a sea of negative press and threatened by possible stringent regulation, experts and industry insiders agree that the practice is here to stay.

"The nature of going electronic means that people are going to get as automated as possible," said Jesper Alfredsson, vice president of product management for advanced trading technology and connectivity provider Orc Software. "During the last year or two, firms came to a conclusion that you need to automate to stay competitive."

Growth in alternative trading venues, the spread of the FIX protocol and the adoption of algorithmic trading spurred the advent of high-frequency trading and will continue to drive its popularity into 2010, according to a report on the topic published by analyst firm Aite Group earlier this year.

Technology Innovations

As high-frequency trading technology continues to evolve, it will shine a brighter spotlight on co-location, said Jonathan Miller, an analyst with Tabb Group. Execution venues and datacenter providers are looking to upgrade their facilities to offer more space for co-location services. For example, NYSE Euronext is in the middle of building out its datacenter in the New York City metro area. The new 398,000 square-foot facility will consolidate all of NYSE's local datacenters and will have up to 10 times more space for co-location customers.

Tabb Group's Miller also said the industry will see growing interest in dark fiber connectivity, driven by high-frequency trading demands. Dark fiber provides ultra low-latency connectivity, but the technology is still quite pricey and is out of reach for some firms, he added.

Growth Opportunities

As more of U.S. equities volume gets attributed to high-frequency trading, market participants are looking to expand into other asset classes. Futures and foreign exchange (FX) have already seen some interest from high-frequency traders and the trend will continue into 2010, said Richard Tibbetts, chief technology officer for complex event processing (CEP) technology provider StreamBase Systems. "It will be interesting to see what will happen in the FX market because the liquidity is spread out. Participants will be looking for ways to overcome that and for low-latency access to the markets."

U.S. equity options is another area ripe for high-frequency trading penetration, according to Anthony Tassone, vice president of algorithmic trading solutions for trading systems provider RTS Realtime Systems Group.

In addition to spreading into other asset classes, high-frequency trading will penetrate international markets in the next few years to come. Brazil will see a surge in high-frequency trading since BM&F Bovespa has taken steps to improve its trading platform, according to StreamBase's Tibbetts. "The initial forays into high-frequency trading were for cross-border arbitrage," Tibbetts said. "The market will see more high-frequency trading from domestic players."

Although Asia is another market where opportunity exists for high-frequency trading, some industry insiders believe that the expansion will not happen next year, according to Steve Greenblatt, head of corporate strategy for block trading venue Liquidnet.

Certain regional regulatory blocks and some technological hurdles will delay the uptake of high-frequency trading in the area.

As high-frequency trading matures, the industry will begin to see a diffusion of the technology to smaller trading firms, said Alfred Berkeley, chairman and CEO of crossing network provider and agency brokerage Pipeline Trading.

"It will get more available to different market participants," Berkeley said. "We're optimizing our tools for the buy-side. Let's give them the same weapons as the larger brokers have."

Investing in Africa

By Jonathan Auerbach, Managing Partner of Auerbach Grayson

Sanusi Sanusi (yes, same first and last name), Governor of the Central Bank of Nigeria (CBN), began his talk by relating a legendary African tribal parable about the blind man and the child. The blind man places a bowl of berries between the two of them and tells the child to eat one and then he will eat one as they take turns. Shortly, the blind man states: "You are eating more than one on your turn." The child responds, "How would you know since you're eating too, and anyway, I took three." Arcane, not to this audience who were mostly raised on oral history; the story is a classic metaphor for the modern-day regulator's (the blind man...get it?) dilemma.



Sanusi eloquently personifies a new African banker, regulator, and visionary. Within months of taking his position earlier this year, he forced the ouster of several major bank executives for failure to supervise and is currently overtly jawboning further financial service industry consolidation.

As he continued, I jotted down remarks that were clearly applicable to the appalling lack of regulatory enforcement in our market. He said, "How many regulators can discipline a banker who is on good terms with the President and funds the congress?" Or this little gem: "Governance starts with the regulators. "Ben, Tim...are you listening? Over the years, I've been to my share of conferences and this isn't Davos with lots of air-kissing and pats on the back because you've arrived; this conference is about people who understand they're still on the voyage and now they are in control of where they're headed."

During a heated late-afternoon discussion about cross-border trading in Africa, my friend Laurean Malauri from Tanzania brought the house down when he said the trading in Ghana and Kenya always went well for him, but he always kept his hands in pockets in Nigeria. After the meeting he was surrounded by Nigerian brokers with business cards in hand; we all like to do trades. By the way, Laurean told me that this was the first time he had ever been in Nigeria and it was much better than what he had heard it would be. It isn't my first time and it does keep getting better.

Sweeping Re-Evaluation of Market Structure is Necessary

By Bernie McSherry, Senior Vice President of Strategic Initiatives at Cuttane & Co.

It has been only four years since the last time U.S. stock market rules were revamped, but the events of the last year have all-but-guaranteed that Washington will again be tinkering with the way investors buy and sell stocks. That overhaul bequeathed us a national market that falls far short of its potential and if past experience is any guide, regulators risk creating new problems by a further alteration of trading rules without a full understanding of their effect on market quality. A sweeping reevaluation of market structure should be undertaken immediately before new rules are built upon a flawed regulatory foundation.



In 2005, the Securities and Exchange Commission (SEC) issued Regulation NMS (Reg NMS), a textbook example of the unintended consequences of regulatory action. Reg NMS was designed to force manual exchanges like the New York Stock Exchange to adopt electronic trading, and it succeeded, but not without negative side effects. Virtually all stock trading in the U.S. is now computerized, yet many longstanding problems plague the industry, exacerbated by the very technologies that were trumpeted as solutions. Automated Indications-of-Interest have replaced whispered phone conversations as a primary source of trading information leakage, computerized "sniper" programs covertly manipulate prices, short sellers wield more power than ever and "flash" orders permit a privileged group of traders to obtain free options that allow them to step in front of publicly displayed orders.

Transparency, an important measure of market quality, has been dramatically reduced due to the fragmentation of order flow across dozens of market centers operating within unequal regulatory frameworks. Firms preferentially route orders without seeking price improvement in the broad marketplace and often utilize "dark" order types that reveal pricing information selectively, ensuring that trades which once took place in the sunlight of public scrutiny are now consummated in the shadowy recesses of alternative trading systems. Under our present market structure the price discovery process, vital to efficient market operation, has degraded to the point that a centralized "best" price no longer exists.

Reg NMS ushered in the electronic era and by doing so effectively tipped the balance of trading power towards speculators at the expense of investors. Most notably, the new rules enabled automated high-frequency trading strategies that are so profitable that they now account for more than half of all U.S. trading volume. By design, high frequency strategies focus on highly liquid stocks, rendering their public utility questionable. What is unquestionable is that the little additional liquidity that high frequency trading does provide comes at the cost of parasitic and potentially manipulative trading activities that feed off the orders of long-term investors. Unlike traditional shareholders, the average life of stock ownership by high frequency traders is measured in seconds. Does it make sense to have a market structure that encourages and disproportionately rewards owners with no real stake in the fortunes of the underlying company? In the Reg NMS filing the SEC concluded that "when the interests of long-term investors and short-term trading traders conflict...the Commission believes that its clear responsibility is to uphold the interests of long-term investors." The SEC should reevaluate current market structure in light of that responsibility.

The process that produced Reg NMS was so arduous that many are reluctant to address the broad design issues that are impairing our markets, preferring to implement jury-rigged solutions instead. Only by examining our markets holistically and through a willingness to modify even painstakingly achieved rule changes will we be able to achieve the goal of a modern, fair and efficient market. U.S. Senator Ted Kaufman (D-Del.) recently urged the SEC to "undertake a comprehensive, independent 'zero-based regulatory review' of a broad range of market-structure issues, analyzing current market structure from the ground up before piecemeal changes built on the current structure increase the potential for execution unfairness." His words should be heeded.

The last four years have reminded us that the market is complex and that is difficult to balance the interests of all participants. Clearly, modernization efforts have produced great benefits yet by favoring the interests of short-term traders ahead of those of long-term investors, our existing market structure ultimately raises the cost of capital for American corporations and reduces their global competitiveness. In the currently fashionable spirit of not letting a serious crisis go to waste, we should view the upcoming period of regulatory reassessment as a unique opportunity to redress the serious structural flaws of our national market system. That's an effort we would all do well to invest in.