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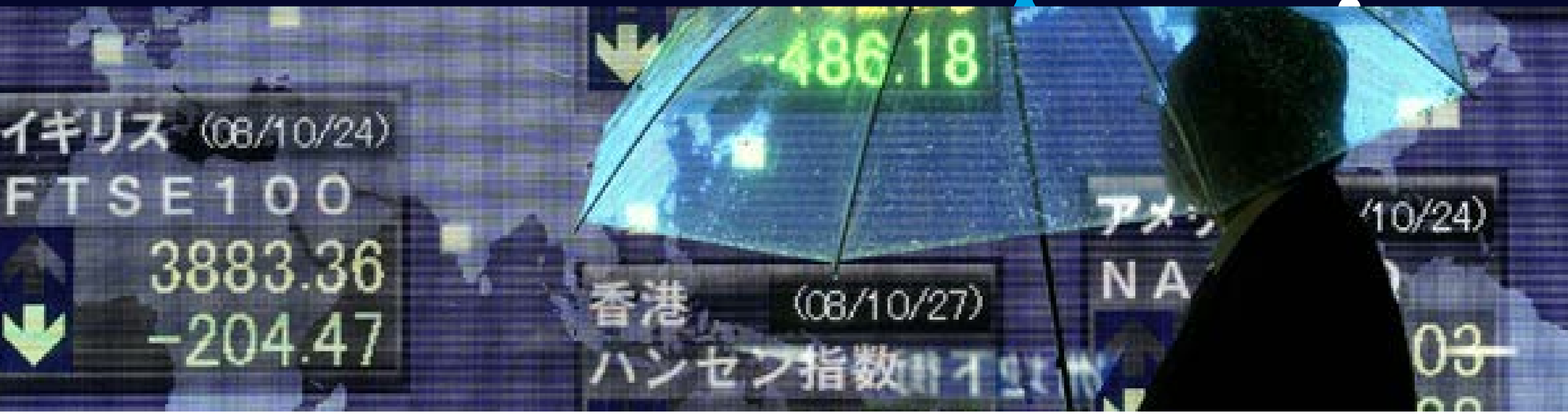


The Low Touch (R)evolution

By Chris Monnery, Global Head of Low Touch Order Management Business Development at ION Markets

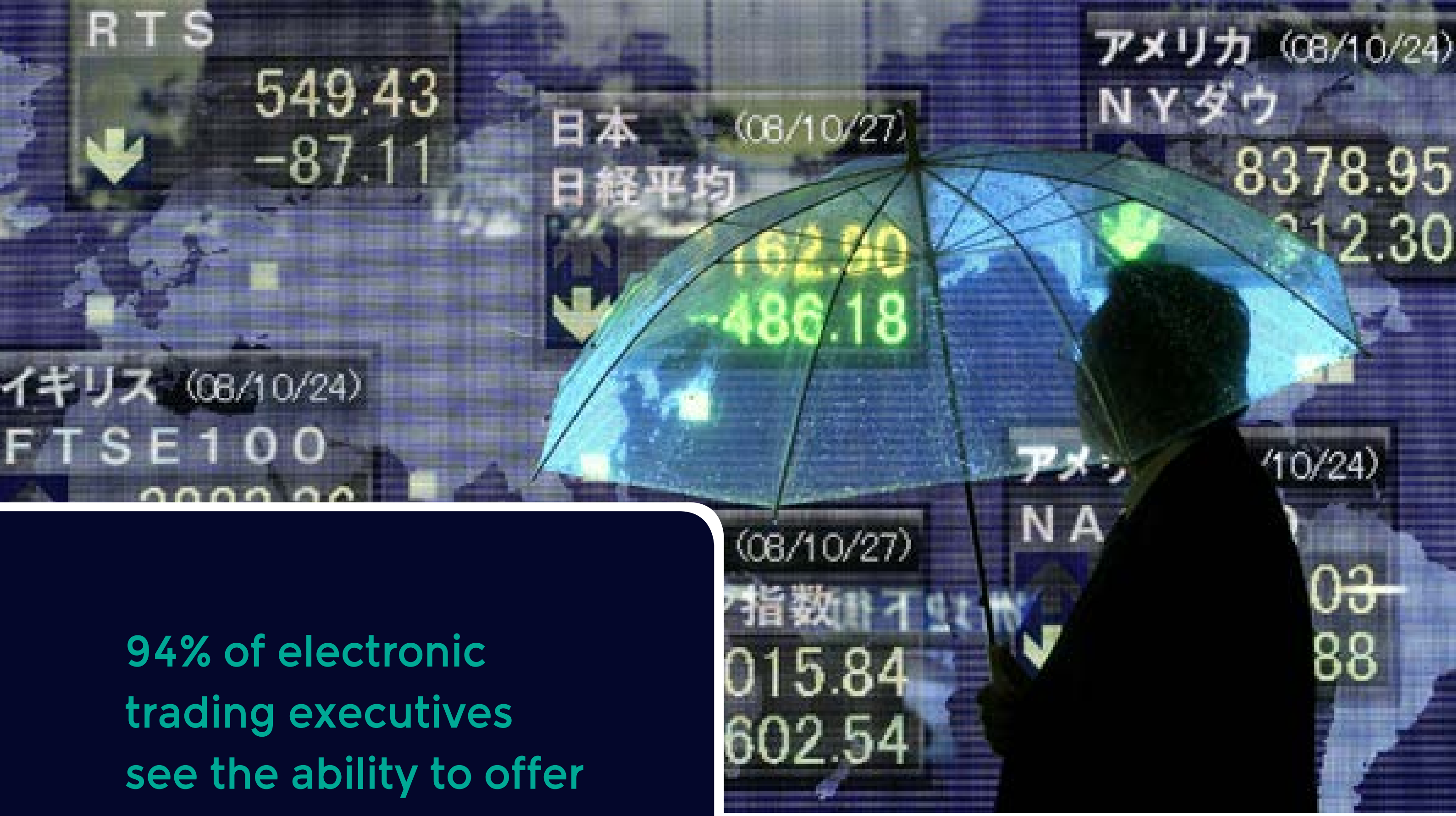
Greenwich Associates recently published a free-to-access research paper on the silent evolution within the world of Equities Low Touch trading. While I talk about this as an evolution, in fact it's more of a revolution – changing the way the buy, and sell sides think about electronic trading.

The simple fact is this: The buy side, whether from want, or need is becoming more involved with how their brokers are executing their orders. Regulation like MiFID II's unbundling of execution from research, and the wake-up call delivered by Michael Lewis' Flash Boys has meant that the 'how' of execution can no longer be ignored. The broker's algo suite has moved from a commoditized tool box that was often simply a white-labeled version of another broker's offering, to the new battleground brokers use to compete for business. This shiny new thing has taken the form of customization, or to quote Greenwich, the 'ability to say "yes" to their client's request'.

Algo customization has always been present provided you were big enough to warrant your broker dedicating the right resources to the quantitative analysis, building, and running of that customization. But this simply doesn't scale to the mass market. And for the sell side, it's been limited to those with their own in-house algo suites. But now we're not really talking about the old form of customization, we're talking about a wider-spread need to manage the order in the specific way requested. This will vary by client, market, size of order, time of day, or pretty much any variable you can think of. While this is a less complex ask from the buy side than the algo customizations of old, it places a different burden on the sell side to handle what is essentially a higher level of care related to managing the order.

Stepping back for a moment, Low-Touch trading and the functionality we're used to have grown out of FIX connectivity platforms, with close to half the firms questioned in the Greenwich survey still utilizing separate technology stacks across High and Low Touch. If you were a player, you had your own algo container (the 'box' your team of quants uses to build and run your algos). If not, you used the same service from the firms that did. FIX has always been that layer to massage the incoming messages, potentially allowing for subtle forms of defaulting or manipulation. But at the end of the day, you were still targeting an underlying algo, and only had dials of the related parameters to adjust to how you wanted to execute the order. If you had sent a VWAP order, you were going to end up with a VWAP, and for the most part both sides were happy.

Then things changed. Those with the algos became increasingly clever. New tags appeared as additional levers to change the way those algos behaved, and many times the confusion of OMS, EMS, and connectivity networks were slow to adapt. Brokers addressed this gap by providing customization in the FIX layer, appending these new levers onto the client's message. If you had a VWAP, then you still had a VWAP, but maybe you had a new overlay of an I would price (the price at which you were willing to trade the remainder of your order and forgo the rest of the time targeting the benchmark). This was just plugging a hole between the development of functionality and its adoption, but in fact it was the first pigeon-step down the path of customization for all.



94% of electronic trading executives see the ability to offer customized order handling to their clients as key to their business.

Coming back to the present, Greenwich show that the buy side is putting more flow out through electronic channels, and the expectation is that this will increase to around half the order flow in 3 years. And that's before you consider how those high-touch orders are finally executed.

The shift of control over how orders are executed is now presenting the sell side with a problem. How do you successfully say 'yes' to each client's specific and varied demands? Greenwich cite that 94% of electronic trading executives now see offering a customized order handling to their clients as key to their business, and more than ¾ said they see customizations that involve the combination of algos. So this shift is recognized. But how is it being achieved?

The delivery of a broker's algos comes through one of the following: In-house development, white-labeling off another broker, or via a technology vendor, be that an algo specialist or within the firm's OMS/EMS. If you own your own algos (or outsource to a specialist vendor), then you have the control to adapt an algo's behavior to the client. The challenge is that this creates a technical overhead related to the number of client-specific configurations you're operating in a system that was likely not designed to manage them. It's a debt that needs to be paid back with every system upgrade and needs to be fully understood by both the techs and Low Touch traders in equal measure. If you're outside of this group, then your options to provide an enhanced service are limited, as the brokers whose algos you're accessing are unlikely to help you out with some bespoke work.

What this points to is that the Low Touch OMS needs to have its Ronseal moment and 'do exactly what it says on the tin.' It needs to actually manage the order, rather than simply process risk and be the window on your trades. Bringing a layer of order handling workflow into the Low Touch OMS brings with it an ability to think of the algos as building blocks at your disposal and truly define your own service – whether solely using another's algos, or supplementing your service to fill coverage gaps, delivering a seamless service to your clients.

The time of low expectations in Low Touch is drawing to a close. The buy side's search for increased service through the cheaper Low Touch channel is the factor driving this change, and is becoming a prerequisite for winning business. And as Greenwich's research piece concludes, as the tools at the Sell Side's disposal evolve, so too will the demands of the Buy Side.

Bring on the (R)evolution of the Low Touch OMS.

It ***can*** do what it says on the tin.

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Our network processes over $23 trillion worth of transactions every year.

Innovation

Our workflow automation is used by over 45,000 users at 1,500 firms around the world.

Collaboration

Award-winning products in high, low, and no-touch trading.

Pioneers in true real-time risk and P&L.

Open API framework for full platform customization.

About ION Markets

We unify your operations from front to back and simplify them across asset classes. Our workflow automates the complete trade lifecycle and delivers actionable insights, whenever and wherever you need them.

Our solutions provide critical information in real time so you can understand the needs of your customers better, manage risk proactively, and anticipate issues before they become a problem.

Our decades of shared experience combine with successful client collaboration to create the standard for resilience, performance, and innovation in capital markets technology. And our passion for what we do inspires us to constantly invest in our industry and help shape its future.

For you, this means lower costs, greater business agility, and excellence in customer service.

We deliver all this and more so you can stand out from the crowd and be the best.

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