on the exchange over the same period.

In terms of price, the average improvement spread over Best Bid and Offer (BBO) had ranged between 4.3bps and 8.9bps, depending on the category of ETF.

If we looked all the trades executed in 2019, 88.2% were traded within the spread.

Conclusion

RFQ trading provides better access to liquidity, as well as more competitive and transparent pricing. This more efficient workflow also applies to on-exchange ETF RFQs and not only to the more established institutional platforms, because the workflow and the participants are comparable.

When looking at executing RFQs on-exchange instead of using the electronic platforms, which currently enjoy a bigger market share and a longer track-record in this service, there are several advantages. Given that the execution size and price is the same, institutional investors operate in a fully regulated market framework with CCP clearing which electronic platforms are only now starting to develop. In addition, they have the opportunity of integrating this service in a fully transparent agency model, available through their broker. This is in our opinion is why they deserve the full attention of market participants. ■

**Details on how the service operates are available on the Borsa Italiana web-site: https://www.borsaitaliana.it/etf/rfq/rfq/rfq.en.htm*

Rethinking 'buy or build'

Best-Execution speaks to Rapid Addition CEO, Mike Powell about market trends and the launch of their new trading technology platform

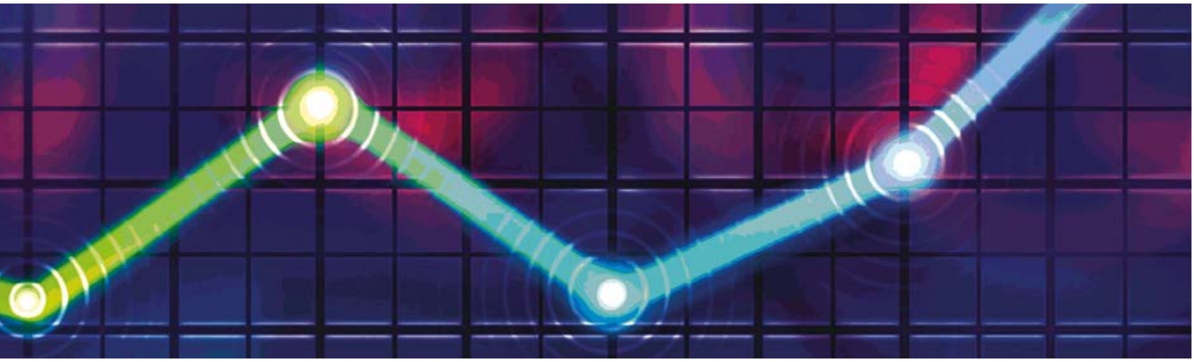
Rapid Addition (RA) has been providing electronic trading technology to the market for over a decade, what have been the major trends over that period and what does the current landscape look like?

Things have come a very long way in that time. It's certainly been a decade for growth in electronic trading, both in terms of pure volume but also in its expansion beyond equities to virtually all other asset classes.

New regulation has driven significant change to market structure since the global credit crisis too, and we're now seeing common challenges across markets in the form of liquidity fragmentation, a heightened focus on execution quality, and pressure on revenue models.

The buyside has become increasingly sophisticated and demanding of their brokers, especially when faced with their own regulatory obligations towards performance benchmarking. So, with shrinking margins and a crowded market, sellside firms are having to work harder than ever before to differentiate themselves from their peers.

What I find interesting though, is that we are now seeing the sellside want much greater control over their electronic interface with their customers. Increasingly, it is being seen as something much more than just a connection – it has become



"The buyside has become increasingly sophisticated and demanding of their brokers, especially when faced with their own regulatory obligations towards performance benchmarking. So, with shrinking margins and a crowded market, sellside firms are having to work harder than ever before to differentiate themselves from their peers."

Mike Powell, Rapid Addition

the primary shop window for their services.

So what are the implications of all this?

Well, the first point is that the commissions associated with electronic trading are far lower than for traditional high-touch order flow, and so efficient use of technology is key to ensuring trading in specific markets, or with different customer segments, is economically viable.

But, this cannot come at the expense of reliability and performance, nor a cumbersome on-boarding process. A poor on-boarding experience can lose a customer before they even place an order. And, at a minimum, it can strain hard-won customer relationships. This is one reason why firms want to own this whole process rather than rely on third-party FIX network providers, certainly for their more strategic clients.

Of course, we've seen plenty of regulation in this time too. How has this affected what your clients want?

Clearly, all the post-crisis regulation, and in particular MiFID, has had a huge impact. As I mentioned, liquidity fragmentation and best execution obligations have led to massive growth in algo trading. But agility is really the key here – being able to see what is happening to flow and having the ability to quickly apply new routing logic is one feature of our platform that customers really like. Providing real-time visibility to individual orders, connectivity status, and network latency is vital too. Broker-dealers live or die by the quality of their execution and so responding to issues quickly is an essential part of maintaining, or even growing, client relationships and margins.

Another key piece of regulation relates to scalability. RTS6 states that firms must demonstrate that they can handle twice their 6-month historic peak volume, and in the current environment the bar has obviously just got significantly higher. So, the ability to handle massive throughput without performance degradation is critical.

The other emerging trend we're seeing is the increasing number of firms implementing multi-asset electronic trading platforms. The combination of best-ex, enhanced surveillance, risk management and trade reporting requirements across all asset classes is driving many to incorporate a multi-asset approach. We therefore see firms looking for systems which can combine both order-driven and quote-driven markets into their routing algorithms.

Interestingly, this also allows such firms to provide a better, more comprehensive service to their clients.

So what has RA been doing to meet this new environment?

Much of what I've outlined was the thinking behind the launch of our new 3.0 platform, which has been over 3 years in its design, development and roll-out. Our current platform, RA Hub, always had a reputation for high performance and reliability, but we wanted to go a step further and deliver a solution fit for the new world of electronic trading.

Naturally, speed and robustness remain at the heart of what we do, so we have incorporated proprietary FPGA (field-programmable gate array) technology into RA Platform 3.0 for firms looking for even greater levels of performance. At the same time, however, we have retained the flexibility that the core software platform provides.

We believe that we are unique in the different combinations of speed, throughput and agility that we now provide.

Another objective was to cut through the complexity of deploying and running large, global trading infrastructures. The way RA Platform 3.0 is architected, along with bespoke tools such as our Service Discovery and full integration with Git, means that managing large scale deployments across multiple datacentres, in different geographies just got far easier. As part of this, we've added the ability to run automated tests in a virtual environment before rolling changes into production, giving technology teams complete control over their trading infrastructure.

Another key part of our design philosophy is that, while we do all the heavy lifting in getting messages from A to B, we make it very easy for our customers to add their own unique IP onto the platform. This way, our customers get the best of buy and build, with an optimum combination of lower overall operating cost but also with the power to effectively differentiate their services.

Finally, we wanted to ensure that RA Platform 3.0 had the flexibility to support any messaging protocol and any asset class. This has had a huge benefit for our customers wishing to simplify their own infrastructure, helping them interface to any version of FIX or proprietary protocol. In short, making a single, multi-asset trading platform a reality.

You mentioned increased volumes – how do you see that playing out?

Yes, the challenge is not only volume but also volatility – ensuring that your trading infrastructure can scale to meet overall volumes and respond effectively during peaks is vital. Current market conditions are also focusing everyone's minds on risk – not just market or counter-party risk but operational risk too. With markets moving so fast and experiencing such large swings, even a small outage can have a disproportionate effect on the bottom line and damage client or counterparty relationships. The ability to adjust risk parameters intra-day is also crucial in volatile conditions such as those that we are experiencing.

So how do you see the future?

I think what we will see is an acceleration of what was already happening. By that I mean the move to assembling trading infrastructure out of foundational components and platforms such as RA Platform 3.0. In this way, firms will shift their focus to their own differentiating IP, be that algos, routing logic, or risk parameters.

Firms will also need to become better at segmenting and understanding the profitability of their clients, creating differing levels of service to meet specific client needs and budgets. This will result in accelerated adoption of cloud for trading with less latency sensitive counterparties. RA Platform 3.0 performs equally well whether deployed on-premise or in the cloud, so we can support these emerging deployment strategies across all types of trading firms.

We see our mission at Rapid Addition is to change how firms view the traditional dichotomy between buy or build, helping our customers achieve the optimum combination of resiliency, latency, control and cost effectiveness. ■