What To Do When Trading in Canada Goes Active

We at Omega ATS have been hearing from our dealer clients and prospects that their proportion of active trading has been increasing. This was recently echoed by the Investment Industry Association of Canada:

"Interestingly, even though trading fees have been lowered, most dealers report an overall increase in exchange and ATS trading fees since the multiple marketplace became a reality. While this may seem counterintuitive, **aggregate trading fees are higher because of an increased proportion of fees paid (fees for taking liquidity or existing bid-offer prices) to fee rebates received (rebates for providing liquidity or posting bid-offer prices)** in the multiple market environment." [emphasis added] (Ian Russell, President and CEO of the Investment Industry Association of Canada - July 8, 2009, National Post)

One of our competitors has also confirmed this recent trend:

"**The cost of trading in Canada, is getting out of control**", added Mr. Schmitt. "This is the result of multiple factors: **a large increase in active trades**, venues applying high active fees for low value securities, venues that apply complex fee structures preventing dealers from fully understanding what is driving their trading costs, and venues that put their profitability ahead of the interests of the industry." [emphasis added] (Jos Schmitt, CEO of Alpha Group – July 6, 2009, Reuters press release)

This is how some of our sources tell us they are experiencing the change: they book an iceberg order in a liquid stock, and as their order starts to fill and "reloads", they see other orders immediately book at their disclosed limit price. They lose time priority and sometimes price priority. As greater proportions of their booked orders remain unfilled despite having traded at those levels, Best Execution forces them to go active to complete the balance of the clients' orders.

What choices are open to firms that have been traditionally "passive" liquidity providers and are being forced to become more active?

Omega ATS aims to become a venue of choice for natural liquidity providers. Paying no rebates means we can charge substantially lower "active" fees, resulting in many of our dealers routing to Omega first whenever we are tied at the best price; that gives our liquidity providers a superior fill rate. But another result of paying no rebates is that we are less attractive to the high velocity liquidity providers that are earning an increasing share of rebates paid by the other four marketplaces. **Not all high velocity trading firms are driven by rebates, but those that are aren't coming to Omega to post for nothing** (even if they do have to send active orders to Omega to honour better priced quotes).

To address the Best Execution obligations of dealers working your clients' limit orders, if you are no longer receiving good fills on passive flow at other more active marketplaces, you will be no worse off posting some of that flow on Omega. We expect you'll even be pleasantly surprised – you should notice that your passive trading strategies on Omega won't be frustrated by high velocity trading firms seeking rebates.

Sincerely,

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