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UBS MTF proves clearing choice delivers an edge

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When Benjamin Disraeli was first elected prime minister in 1868 he proudly exclaimed he had "climbed to the top of the greasy pole".

Executives at UBS and Goldman Sachs, which have both seen their recently launched dark pool trading platforms climb industry rankings, may currently be having similar feelings.

In the past two years, both banks have launched independent, dark-pool multilateral trading facilities: UBS MTF and Goldman's Sigma X.

The facilities are designed to offer institutions trading in size protection, through anonymous trading, against adverse price movements.

Unlike broker dark pools, MTF dark pools are open to any user, operate on a non-discretionary basis, and are regulated in a manner that provides some post-trade transparency.

The venues are operated not only by banks but also by exchange operators, including the London Stock Exchange and Bats Chi-X Europe, and brokers including Icap, Instinet and ITG.

According to figures produced by Thomson Reuters, last month UBS MTF became the largest dark pool of its kind, grabbing 24.5% of the region's dark MTF trading.

It overtook the market leader - the CXE dark book - the former Chi-Delta platform of Chi-X Europe, now part of Bats Global Markets.

The platform had held the top position for the first five months of the year and traded 20.1% of dark MTF volumes in June, followed by Sigma X MTF with 12.9%, and ITG's POSIT crossing network, which traded 10.9% of volumes.

Together, Europe's dark order books traded equities worth €25.7bn last month, up from around €15bn two years ago.

As a microcosm of the wider trading environment, in which competition among operators is particularly fierce, the sector has served to magnify some of the broader changes that have impacted European trading.

The industry rankings by value of equities traded have provided a particularly useful insight into which models are enjoying success in a low-volume environment.

Goldman launched Sigma-X MTF to reach a new set of clients, such as agency brokers and principal broker-dealers, that are not already users of its internal cross network, allowing it to expand its overall dark trading flows.

Although the platform has benefited from the natural curve of onboarding clients, which have steadily released more of their business to the bank during the past year, according to analysts, the entire process has been significantly eased by Goldman's use of NYSE Euronext as the outsourced technology provider.

Sigma-X MTF sits within the exchange's data centre, to which many brokers are already connected.

Much of UBS MTF's success, meanwhile, has been attributed to its decision to offer competitive clearing - interoperability - in August last year, allowing clients trading through the MTF to choose their preferred clearing house from four providers.

It was the first European MTF of any kind to offer the service - which helps clients to centralise collateral pools at a single clearing provider. The month after it was introduced, UBS MTF's market share doubled to more than 16%.

Other enhancements that underpin both the Sigma X and UBS MTF include the provision of an at-bid and offer book, and a prioritisation of large orders.

Robert Barnes, chief executive of UBS MTF, said: "Listening to our customer base, developments in the past year have included full CCP interoperability, ability to match at bid and offer as well as mid, and addition of stock names so that today's universe covers blue-chip to small caps of 16 European countries.

Depository receipts are a fast-growing segment, we have recorded matching in 48 DRs spanning underlyings from 12 more countries with six Russian names representing the main activity."