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TradeTech Europe Report: Day 2 - Running to stand still

Neil Ainger, bobsguide - April 2013

In among all the thousands of runners registering for this weekend's London Marathon, the second full day of the TradeTech Europe 2013 show got underway on Thursday 18 April at London's Excel Arena, writes Neil Ainger*, with the arguments about high frequency trading (HFT) still dominating. There was also much discussion about emerging markets, data centres, and if latency is still as central as ever to a trading venue's appeal, or if firms are merely now running to stand still as they push up about the limits of physics and the expense of subsidising the latency arms race.*

The rows about whether HFT is a 'good thing' or not - as if you can stop it - continued on the second full day of TradeTech Europe 2013 as Kee-Meng Tan, managing director and head of electronic trading at Knight Capital, warned that "politicians are looking to pander to the public" during the morning session entitled *'The regulatory environment and HFT'*. The debate about if market abuse can properly be spotted and regulated in HFT environments, the reliability and resiliency concerns of this model of trading, its usefulness to the wider economy and much else besides, during the morning's trading venues stream dedicated to HFT in some ways mirrored many of the arguments during the pre-show HFT focus and day one of TradeTech Europe.

Christian Katz, chief executive at SIX Swiss Exchange, speaking during his morning presentation, said that we are moving into an era where technological risks, not human risks, were prevalent and HFT is naturally a major element in this trend. It is also often regarded rightly or wrongly as, "empty trading that is taking real money from real investors like pension funds," he added.

Tabb Group revealed figures at Trade Tech Europe 2013 showing that 40% of all trading in Europe is now based around algos and HFT, while it is almost two thirds of trading volume in the US. No wonder there was so much talk on day one about the declining traditional equities markets, latency arms races, oversight, and changing markets. The case of Kee-Meng Tan's own Knight Capital firm when a market-making algo error led to a $400m loss was also mentioned during the morning's HFT conference stream, moderated by Hirander Misra, managing director of his own Misra Ventures consultancy and ex-technology head of Chi-X, and the notorious 'flash crash' of 2010 when automated trading lead to a stock market collapse was constantly in attendee's minds.

Benoit Lallemand, a senior research analyst and ex-financier at the French-based Finance Watch organisation that seeks to stress the necessity of financial markets engaging with the real economy and society, pointed out during his *'regulatory environment and HFT'* discussion panel that: "It is not a politicised debate. It is political." Regulation is trying to bring the industry back to helping small and mid-cap firms to raise liquidity; it's not at the moment, he said.

"HFT is an easy target to pick on," admitted Lallemand, as it's so detached from the real economy with arcane technology debates about milli or micro-second trading speeds (of which more later), but it is not good for the sector to float so freely off on its own when the public still holds the financial markets responsible for the present downturn in Europe.

Running Speeds

The next panel discussion at mid-day moved away from the political and regulatory debate to focus on '*What is the optimal latency approach for trading venues'* and the need to balance the needs of HFT and non-latency sensitive strategies.

"Speed is not as important as it was a few years ago. Equally as important now is the ability to connect easily to a trading platform," said panellist Tony Harrop, chief technology officer (CTO) at the Global Markets Exchange Group, which is seeking to launch venues and license trading technology in emerging markets - another key trend seen at TradeTech Europe 2013.

"Consistency and reliability is more important than speed, especially in fragmented markets like equities and with all the changes coming down the line with the over-the-counter (OTC) swap markets," said Brian Franzen of Eagle Seven Trading, who went on to add however that "latency arbitrage will always be with us but it is only a niche and one of many different strategies, with diversified portfolios and multi-asset class capabilities increasingly important."

Speaking on behalf of the standardising FIX Protocol Ltd (FPL) organisation quite often, which he previously chaired and is still head of the FPL Americas Regional Committee, Jim Northey, a senior partner at the LaSalle Technology Group, gave a simple "yes" answer in response to the query does latency still matter? "Of course it does. Why else are we as an industry building a microwave radio frequency link across the Atlantic and why else did we build the Chicago to New Jersey link [for New York's co-location data centres]."

One thing conspicuously absent from this latency discussion, which also included Tony Chau, lead architect at the CTO Office in UBS and Thomas Gidlund, head of sales and business development, at the Burgundy multilateral trading facility (MTF), was any mention of in-memory trading or actually getting into the trading chip to further cut trading speeds and gain advantage.

Future Trading Technologies

Ian Jack, global head of the secure financial transaction infrastructure (SFTI) network at NYSE Technologies, the commercial technology business of NYSE Euronext, did address the issue of in-memory trading however in the afternoon keynote at TradeTech Europe 2013 entitled '*Tomorrow's trading infrastructure*'. He pointed out that: "The idea of being able to trade on the venue's own chip is very innovative and to actually be able to get into the matching engine is great," before warning that it is still some way off. He also expected to have to avoid questions about the proposed acquisition of NYSE Euronext by the Intercontinental Exchange (ICE) in a deal valued at US$8.2bn, but was given an easy time on this topic, probably because of the failure of numerous other consolidation attempts in this space previously.

Jack, the man who oversaw the building of NYSE Euronext's co-location data centre facilities in Essex on the outskirts of London a few years ago, also addressed the latency debate during his afternoon presentation. "For every dollar spent on the latency arms race you probably get less back than you would if you'd spent it on services instead. Speed is still important of course, but it's not everything," he said, concurring with some of the earlier panellists.

The speed benefits of microwave radio frequency versus fibre optics was also supported by Jack, who explained that it is quicker because it follows the 'line of sight' and gives speed of light performance in the atmosphere instead of via fibre cabling underground. "Some trading firms are almost acting as old fashioned telcos now," he half joked, "but there are consistency problems with microwave, although I do think these will lessen as application of the technology in the sector improves." Let's hope so as NYSE Euronext is allowing firms to build microwave networks out to their huge Basildon data centre complex in Essex.

Five years ago, when NYSE Technologies data centres where under construction, co-location was all the rage, added Jack, before going on to list over key trends highlighted at TradeTech over the last five years, including FPGA performance improvements, Liquid coverers last year and microwave radio frequency this year, which he said "squeezes the last ounce of performance out of the trading technology stack."

Emerging Markets and Data Centres

Speaking exclusively to *bobsguide* Carlos Hernandez, head of trading technology at the Mexican Interacciones Casa de Bolsa stock exchange, contradicted his counterpoint at NYSE Technologies somewhat when he said: "The co-location trend is still going strong in Mexico."

He cited the Bolsa's new matching engine and associated co-lo data centres run by Kio Networks, which he has recently introduced into the emerged market, as evidence for the continuing strength of data centre co-location in Mexico. Conversely the only excitement around this sector in Europe at the show seemed to revolve around the refurbished 8,500 square metre Volta data centre which is opening in Q2 this year in the City of London at the old Reuters building on Great Sutton Street in the edge of the square mile.

Julian King, commercial director of Volta, explained to *bobsguide* at the show that the new facility will have a

9.6MW capacity and two separate electricity supply streams via UK Power Networks to enhance resiliency. "We also have a target a PUE (power usage effectiveness) rating of 1.5 in mind and a very efficient cooling system in place," he added.

Many other emerging markets besides Mexico were present at TradeTech, with a dedicated stream on this topic this year. Indeed, one of the key tends at this year's show was the rise of exchanges, volumes and liquidity in newly emergent markets like Russia, Brazil or Mexico and growing countries like Indonesia, alongside the move towards a multi-asset class diversified environment. The connectivity challenges that this entails for those international firms wanting to pursue growth and/or diversified portfolios is also a considerable technology challenge.

For Hernandez many of the issues discussed by traditional exchanges in G7 countries did not necessarily apply to his company, which is part of BV Group, with the Mexican exchange experiencing a 10% rise in equities volume this year so far - in direct contrast to many European venues where declining equities volumes was a key concern voiced at the 2013 show. Opportunities elsewhere in swaps and foreign exchange (FX) markets was frequently discussed this year, in among all the fears about regulation and lost runners seeking to register for the London Marathon.

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Neil Ainger is editor-in-chief at bobsguide, having joined the title in January 2012. He maintains a keen interest in technology and banking, especially in the payments and mobile fields, having previously been the deputy editor at Banking Technology and editor of FSTech. Ainger has a BA (Hons) in English from Leeds University, UK, and has also worked at Reed Elsevier and on internal publications for BT Global, PwC and Lucent Communications (in NYC), having been employed as a journalist since graduating in 1995.