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CLEARING

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Ready to Rumble

BATTLEFIN PRESIDENT TIM HARRINGTON AND HIS TEAM NOT ONLY RUN A HEDGE FUND, THEY SPONSOR THE 'HEDGE FUND HUNGER GAMES' WHERE THE BEST BIG DATA STRATEGIES WIN.

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Trader Trends

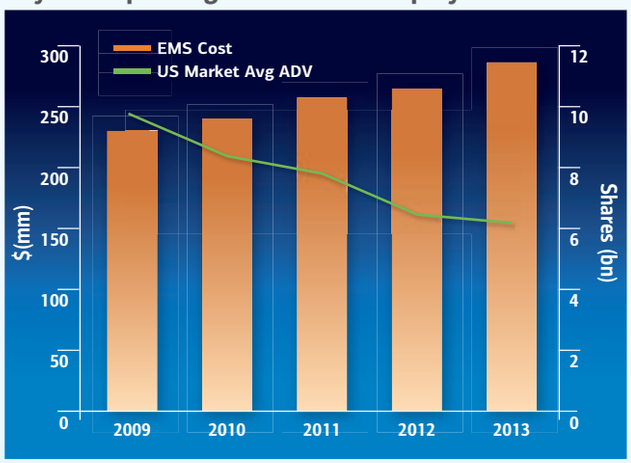
Brought to You by Bank of America Merrill Lynch

Ferris D'Angelo
Head of Vendor Consulting
Bank of America Merrill Lynch

Trading technology costs are on the rise

Execution management system fees have been trending upward over the last five years. Therefore, it's important for the buy-side to conscientiously manage technology spending and negotiate better pricing. This is especially true as platform capabilities become more complex and complimentary products enter the market. The total cost of ownership of front office technology encompasses not only direct fees, but also broker expenses which may lead to higher execution costs.

Buy-Side Spending on EMS vs. US Equity Market ADV



Source: *Tabb Group and BATS Global Markets*

> ***In a low volume and even lower commission rate environment, it is vital to understand your technology costs. BofAML's vendor consulting team has the experience and subject matter expertise to guide you through the trading technology landscape.***
>
> **Ferris D'Angelo**
> Head of Vendor Consulting

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COVER PHOTO & THIS PAGE: Jordan Hollender

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WHAT'S ONLINE

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NOTABLE QUOTABLE

"Barclay's alleged crime: Lying to customers about its dark pool, but not what traders were doing in the pool."
- Prof. James Angel

SLIDESHOW

Highlights from Traders On the Move for July 2014

PHOTO GALLERY

The Pittsburgh STA 2014 Charity Gala and Conference on July 17

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PHIL ALBINUS
EDITOR

@philalbinus
SEC's Piwowar: "A lot of things Lewis says in #FlashBoys are either misleading or just completely incorrect

JOHN D'ANTONA
MANAGING EDITOR

@JohnnyD_Traders
Pimco gets the go-ahead to trade derivatives for its ETF fund.

@Traders_Tweets
DTCC CEO Sandy Broderick will leave the firm at end-August and will be replaced by Chris Childs

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EDITOR'S NOTE

PHIL ALBINUS
EDITOR

Looking Out

AFTER A SUMMER OF JARRING AND DISPIRITING HEADLINES, THE MARKETS appeared to take the bad news from the Middle East, Ukraine and the standstill inside Washington D.C., to heart. Traders got a small dose of volatility in late July after months of calm and steady growth. The reasons for the 1 to 3 percent dip depended on whom you asked. Stock prices are either too high, a tech bubble was finally coming, or the market was overdue for a sensible correction. Some were even using the other "C" word — crash — for what we could see.

Hedge funds, for their part, are facing more regulations and reduced returns of 3 to 5 percent. At this rate, a lot of alternative investments are doing as well as a staid 401(k) plan. Goldman Sachs made waves last month when it cast off the struggling hedge funds from its prime broker services. Like other prime brokers, it's sink or swim for the struggling funds out there.

Despite these realities, elite graduate schools continue to pump out quantitative traders, and many traders still aim to start their own funds. Investors and venture capitalists are looking for the next buyside champion, but the question remains: Where do you find the talent? I profiled the men behind BattleFin, the hedge fund that sponsors a series of competitions where the best trading strategies vie for the top spot. The only requirements is a big data trading strategy, a trading background and, in some categories, a bit of seed money. The winner gets even more cash to grow their fund into the next Black Rock.

In this issue, Gregg Wirth looks at the coming round of OTC clearing regulations from Europe and the U.S. If we can't settle this issue soon, settling trades may never get settled. Also in this issue, contributing editor Renee Caruthers explores the rise of SEFs in the options space, and managing editor John D'Antona Jr. finds algo provider Neonet ready for Europe with eyes on the U.S. markets.

This month marks the 13th anniversary of the events of Sept. 11, 2001. As we participate in an industry dealing with complex issues and a challenging future, let's pause and remember those who are no longer here to trade, make deals and go home to their families. May they continue to rest in peace.

Phil Albinus
Editor, *Traders*
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Briefings

BREAKING NEWS & BRIEFS

B. Riley Expands Services in Quest for East Coast Business

The broker-dealer's new mandate is to leverage the firm's research offering — including corporate access — to focus on micro, small- and mid-sized firms via a high-touch sales trading desk.

BY JOHN D'ANTONA JR.

THE WEST COAST OFFENSE IS coming to the Big Apple. Los Angeles-based broker-dealer B. Riley & Co. is gearing up to make a push for more clients on the East Coast, an area where it has had a presence for some time but hasn't produced a whole lot of executions. But that is about to change, according to Tom Shapero, managing director on the firm's New York sales trading desk. His mandate is simple: leverage the firm's research offering, including corporate access, to focus on micro, small and mid-sized firms and bring in the trades with an expanded high-touch sales trading desk.

"Research drives the bus here," Shapero told *Traders*. "B. Riley is looking to serve these lower covered companies."

These smaller companies are often overlooked by the larger brokers, and that is where B. Riley looks to insert itself. While the firm has access to algorithms, Shapero sees a more high-touch trading approach as its key to success. He wants to get his sales traders armed with the firm's research in the buyside's crosshairs and be one of its first calls.

"Buyside traders like to talk to traders and get an analyst on the phone and get real color," he said. "This is the last area

where a broker can add value. We want to build trust with our clients and help them source liquidity." And that is something an algo just can't do, he added.

The firm is also enlarging its corporate access offering, which has been successful on the West Coast. There it employs bus tours where clients are chauffeured to corporate headquarters for meetings with executives and analysts to gain intimate insights. Shapero told *Traders* that while clients from all regions attend these trips, the firm is thinking about what it can bring to B. Riley's East Coast clients right in the New York metropolitan region.

"We have made a big push for more corporate access here on the East Coast," Shapero said. "This year alone, our NDRs here in New York have increased dramatically. We have always done well with corporate access and our conferences out West. As we expand our East Coast penetration, we will consider having more of these events here."

Shapero joined the firm last October from Sanford C. Bernstein & Co. in New York, where he was senior vice president and head of U.S. sales trading from 2005-2013. Earlier at Bernstein, he launched the firm's NASDAQ dealer desk and acted as its head of NASDAQ sales and trading from 2002 through 2005. Prior to that, Shapero was at D.E. Shaw & Co., where he started and headed the institutional block trading desk. He also worked as a member of the Spear, Leeds & Kellogg program desk.

After setting up shop in New York, Shapero is now hitting the New York City streets: "My job now is to get the message out on the East Coast."

And to that end, Shapero has hired several new staffers for the New York office: three sales traders, two salespeople and one analyst. B. Riley now has the cash to spend on new traders, technology and research, as it is no longer privately held. On June 18, B. Riley and publicly traded Great American Group completed their combination.

JC Stamler joined as a sales trader. Stamler, a 23-year pro, spent the last three years at The PrinceRidge Group where he was director, institutional equity sales. From 2010 to 2012, he was head of institutional sales and trading at Casimir Capital. Before that, he was with GFI Group as an institutional equity sales trader from 2007 to 2010. Prior to GFI, Stamler was at Miller Tabak & Co. for seven years and was an institutional equity and options sales trader. Early in his career, he was an equity and options sales trader at Bear Wagner, and a sales trader at Kalb Voorhis.

Michael Mason also came onboard as an institutional sales trader. Mason, a 15-year vet of the trading markets, comes from Elevation LLC where he spent the last two years as a managing director, event-driven/merger arbitrage sales. Earlier in his career, he was director, trading/capital raising at JW Asset Management in New York; prior to that, he was director, head trader equity and derivative trading/sales at The Benchmark Co. in New York. He began his trading career at Deutsche Bank as an associate/equity trader in 1998.

Emeric Twomey also joined the New York sales trading desk. Twomey, an 18-year pro, spent the last two years at agency-only broker ITG where he was a vice president and sales trader specializing in consumer and technology, covering hedge funds. Earlier, he was at Piper Jaffray, also covering hedge funds, and did a stint on the Institutional Equity Trading desk at Scotia Capital. He also worked at Bear Wagner Specialists as a specialist trading clerk on the floor of the NYSE, and held a similar position with Harvey Young Yurman, where he worked on the floor of AMEX.

All three report to Richard Waks, managing director, head of sales trading.

The firm also brought on two salespeople: James Given and Matthew Ellis. Both report to Andy Moore.

Aequitas Files for New Neo Exchange Approval

JOHN D'ANTONA JR.

IT LOOKS LIKE CANADIAN traders are about to get another new exchange.

Aequitas Innovations, operator of Aequitas Exchange, has filed a formal exchange application for its new Neo marketplace with the Ontario Securities Commission (OSC) and the other securities regulators in Canada. The OSC regulators have put out a request for comment on the Aequitas application.

The formation of Neo Exchange was announced last June. Its goal is to protect investors against predatory trading strategies. It offers a senior listing service for companies ready for public listing and an exempt market centralized capital-raising platform to provide early and mid-stage companies with access to capital and liquidity.

In response to the application, the OSC has also published a copy of the application for information and comments by all industry stakeholders. The deadline for comments to the OSC is Aug. 26.

The Aequitas Neo Exchange application, OSC Staff Notice and Request for Comments can be found at www.osc.gov.on.ca/en/Marketplaces_pending-applications_index.htm

Q9 Networks is providing the hosting services for Neo — from testing and disaster recovery to trading infrastructure.

Aequitas investors and commercial partners include Barclays Corporation Ltd., BCE, CI Investments, IGM Financial, ITG Canada Corp., OMERS Capital Markets, PSP Public Markets and RBC Dominion Securities.

The Neo application follows the pre-filing comment process of the Aequitas solutions completed by the OSC in 2013.

Hedge Funds Hike Capital Allocations

JOHN D'ANTONA JR.

THE SECOND HALF OF THE YEAR portends to be an active one for hedge funds. And this follows a busy winter and spring.

That's the view of bulge bracket firm Credit Suisse, which just announced the results of its mid-year "Hedge Fund Investor Sentiment Survey." The report polled 284 global institutional investors representing $544 billion in hedge fund investment on their current strategy appetite and allocation activity.

The second half of 2014 looks set to be a strong period for capital allocations to hedge funds, according to the poll, conducted by Credit Suisse Capital Services. Of the investors surveyed, 97 percent indicated that they plan to be highly active in making allocations during the second half of this year. This compares favorably to 85 percent of investors who responded that they had already been active in making allocations in the first half of the year.

"The high percentage of respondents with strategic intention to actively allocate to hedge funds in the second half of this year could reflect a prolonged due diligence process, in response to high levels of market volatility back in March/April," said Robert Leonard, managing director and global head of capital services at Credit Suisse. "Regardless, it does seem clear that institutional investors remain committed to hedge funds, as many see current equity and bond market valuations as high and are looking to further diversify their portfolios."

The bulge firm based its survey results and conclusions after canvassing global institutional investors, including fund of funds, family offices, consultants, endowments and foundations, private banks, pension funds and insurance companies. More than 57 percent of responses came from the Americas, while 34 percent came from EMEA-based investors and 9 percent came from APAC.

The survey also named the top three strategies by net demand (percentage increasing allocation — percentage decreasing allocation) on a regional basis. They were Americas: Event Driven, Long/Short Equity – Fundamental, and Emerging Markets Equity.

Levin Says End Maker-Taker, PFOF

TWO POPULAR PRICING MECHAnisms in the equity markets should be abolished.

Sen. Carl Levin (D-Mich.) advocated the drastic action in a letter dated July 15 to Mary Jo White, chair of the Securities and Exchange Commission, noting maker-taker and payment-for-order-flow pricing create conflicts of interest for brokers and exchanges when executing client orders.

Levin joined the chorus of buyside traders who have long complained about these incentive-based systems. Some argue that brokers send order flow where they can get the biggest rebate rather than the best price.

Maker-taker is where rebates are paid to brokers who provide exchanges with liquidity. Payment for Order Flow (PFOF) is where certain firms pay brokers and others for sending them their orders.

"Eliminating maker-taker pricing would improve confidence in U.S. equity markets," Levin wrote. "Such action also would reassure investors that they can rely on their brokers to provide best execution of their trades, without having to question whether a broker might instead be seeking to maximize its own profits at the customer's expense."

IIROC Publishes Guidance on Expansion of Circuit Breakers

JOHN D'ANTONA JR.

IN A MOVE DESIGNED TO CONTINUE to insulate the Canadian capital markets from a market problem, the Investment Industry Regulatory Organization of Canada has published its Final Guidance report, which expands the single-stock circuit breakers (SSCB) program.

The guidance, which takes effect Feb. 2, 2015, does several things to help stabilize the market. First, it expands the securities subject to SSCBs to include all securities that are considered "actively traded." Secondly, it extends the times when SSCBs are active to include more trading hours when all marketplaces are open. Lastly, it allows more than one SSCB to trigger for a particular security during the same trading day.

MARK D. KNOLL
GUEST COMMENTARY

The Long Compliance Race

To prepare for regulatory changes, traders must think like a marathoner and not a sprinter.

IN AN INDUSTRY DOMINATED BY speed, where short-term success is dependant on decisions made faster than the blink of an eye, getting traders to focus on the long-term impact of regulatory changes is like trying to get a world class sprinter to think like a marathon runner.

Sure, both pursuits involve the simple act of placing one foot in front of the other, but winning at either discipline requires completely different approaches. Day-to-day, the buyside sprinter is focused on the short-term — reacting to market signals, identifying liquidity, testing prices, and monitoring execution quality. In contrast, successful firms adapt to the ever-changing regulatory environment using a marathoner's mindset. Marathoners study their route months in advance, know where the hills are, know where the water stops are, and plan a strategy for miles twenty-four through twenty-six as much as they do miles one through five.

More than anything else, marathoners prepare months in advance, mile after mile, to make sure that when race day comes, they already have the miles in their legs.

SUCCESSFUL FIRMS ADAPT TO THE CHANGING REGULATORY ENVIRONMENT USING A MARATHONER'S MINDSET. MARATHONERS STUDY THEIR ROUTE MONTHS IN ADVANCE, KNOW WHERE THE HILLS ARE AND PLAN A STRATEGY FOR EVERY MILE.

THE LONG ROAD RACE

Preparing for regulatory changes requires the long-term planning of the distance runner. Regulators signal their intentions months or years in advance. The more complex or controversial a proposal, the longer the lead time. Last month at the Sandler O'Neil Global Exchange and Brokerage Conference, SEC Chair Mary Jo White laid out the agency's equity market structure roadmap. She first identified three "core principles" grounding the Commission's approach to equity market structure issues: (i) the best interest of investors and facilitation of capital formation; (ii) accounting for the varying nature of companies and products; and (iii) comprehensive testing of past assumptions. Chair White then highlighted the Commission's initiatives to address five broad issues: market instability, high-frequency trading, fragmentation, broker conflicts, and market quality for smaller issuers.

Even with the relatively low volatility of recent memory, the wild gyrations caused by the financial crisis still loom large. Market instability is therefore still a major concern of the Commission. In the near-immediate aftermath of the financial crisis, the Commission promulgated both limit up/limit down and market access rules. Today, the focus is on what Chair White referred to as "single points of failure," such as the securities information processors or "SIPs." Proposed Regulation Systems Compliance and Integrity (SCI) is designed to provide the Commission with better information about disruptions, intrusions, and systems compliance issues for exchanges, clearing agencies, SIPs and certain alternative trading systems (ATSs). Initially proposed in March 2013, the staff currently is digesting numerous comments received, and a final proposal to the Commission is still months away. For the industry, the key question for the final Regulation SCI proposal is whether it is just another mandate that calls for the collection and reporting of more data, or whether it will establish more definitive protocols to address data and processing interruptions as they happen in real time?

HFT remains in the news, and therefore remains a Commission priority. While appearing to rule out any hard "speed limit," Chair White has instructed the SEC staff to review what she calls "aggressive, destabilizing trading strategies" that could "seriously exacerbate price volatility" in "vulnerable market conditions." This "anti-disruptive trading" rule, she says, "will need to be carefully tailored to apply to active proprietary traders in short time periods when liquidity is most vulnerable and the risk of price disruption caused by aggressive short-term trading strategies is highest."

In a rulemaking idea aimed at proprietary traders, the SEC is considering subjecting unregistered active proprietary traders to regulation as "dealers" under the Exchange Act. Alongside

this proposal, the SEC would potentially eliminate an exception from FINRA membership for certain dealers that trade in off-exchange venues. These proposals, still in the most embryonic of regulatory development, are aimed squarely at bringing within regulatory reach significant market participants who, until now, have been on the outside looking in. Buyside, meet FINRA. FINRA, meet the buyside.

In addition to these significant proposed expansions of the SEC's regulatory reach, Chair White also identified several nuts and bolts measures, including instructing the staff to prepare recommendations related to the use of trading algorithms, and, especially, to promote rules that force firms to pay a high price for poorly designed or supervised algorithms. Also on the menu are continued efforts to address latency issues between the SIPs and proprietary data feeds. This effort would include potentially asking FINRA to include certain timestamps in the consolidated data feed indicating when displays of orders and executions are processed.

In her speech in July, White appeared to question whether "the increasingly expensive search for speed has passed the point of diminishing returns." But rather than have the Commission set a mandatory "speed limit," she has instead instructed the staff to consider proposals for market-based "competitive" solutions any problem that speed creates. While not quite wishing the industry back to the days of bike messengers running paper certificates from brokerage house to brokerage house, White indicated that the Commission would be evaluating market-based initiatives to "deemphasize speed as a key to trading success" that may be similar to "ones historically applied to the proprietary traders with time and place advantages on manual trading floors."

TODAY'S WORD IS "TRANSPARENCY"

The watchword for the Commission's ongoing concerns regarding fragmentation is transparency. Or, as Chair White puts it, the lack of it. "Transparency is one of the primary tools used by investors to protect their own interests, yet investors know very little about many trading venues that handle their orders." Part of the solution to this lack of transparency, according to the Chair, includes FINRA's dissemination of aggregate ATS trading information.

But, since ATS' account for less than half of all unlit volume, the SEC supports FINRA's efforts to expand this aggregate information to include all off-exchange market makers and broker-dealers. This push comes close on the heels of recent enforcement actions against dark pools run by major broker dealers where a lack of transparency, and a failure to follow their own guidelines, has opened the door for more top-down regulatory action.

As part of this overall review of market fragmentation, expect the SEC to take a hard look at Regulation NMS and the order protection and trade-through rules. Regulators also will no doubt re-examine Regulation ATS, as twenty years have passed since its first adoption.

The maker-taker model is also now front and center, with Chair White noting that there were "serious questions" about whether conflicts related to these rebates and incentives offered by exchanges to attract volume could be effectively managed. To address this conflict, the Chair has asked the staff to review Rule 606 of Regulation NMS, which requires disclosure of some order routing practices, but does not always capture large institutional orders. Chair White suggested that while some brokers already provide this wider swath of information, she would like to see this practice expanded.

Finally, in an effort to improve the quality of the equity markets for smaller companies, the SEC is pushing forward with plans to implement a pilot program that would allow wider tick sizes for the stocks of smaller companies. The SEC, on June 24th, approved an order requiring the exchanges and FINRA to submit a pilot plan by the end of August. Under the order, the pilot would last one year and would include securities with (1) market capitalization of $5 billion or less; (2) average daily volume of one million or less; and (3) a share price of $2 or more. The pilot will include a control group that will continue to trade under the current rules, and three test groups: (1) securities quoted in five cents minimum increments with trading at any currently-permitted price increment; (2) securities quoted in five cent minimum quotes with trading at five cent increments with certain exceptions; and (3) securities with quotes and trading at five cent increments, but subject to certain rules to prevent price matching by trading centers not displaying the national best bid or offer. While the SEC's order sets out parameters, detailed implementation schemes and effective dates are still a ways away.

These regulatory initiatives are not like typical market data, able to be quickly analyzed, digested and traded on in a nanosecond. Evaluating and preparing for these changes, and changes are coming, require that firms set aside their reactive and instinctive sprinter's mindset, and prepare for a longer, slower, and more grueling race.

Mark D. Knoll is a partner at Bressler, Amery & Ross, P.C., a New York City law firm that specializes in financial regulations and compliance.

TIM QUAST
GUEST COMMENTARY

Watch the Fiscal Rocks

Killing Regulation NMS could save the markets from a potential shipwreck.

MICHAEL LEWIS'S CAGE-RATTLING bestseller about high-speed trading, "Flash Boys," left one thing out. He didn't say why exchanges pay fast traders. The answer spotlights the importance of getting right whatever corrective market-structure measures may come.

Off Salt Island in the British Virgins is the wreck of the HMS Rhone, a steamer that sank in an 1867 hurricane. A storm surprised the Rhone, and after losing an anchor in the channel trying to ride out the squall, the captain ran for open water, unwittingly slamming into the teeth of the tempest.

What does a 19th century Caribbean wreck have to do with high-frequency trading? What seems the right thing to do can bring on what you're trying to avoid by doing it in the first place.

Strewn in the wake of "Flash Boys" are congressional hearings and wrangling over whether markets are rigged or the manifestation of technological destiny.

I've long opposed maker-taker, high-frequency trading and Regulation National Market System. On October 20, 2009, the ModernIR blog said: "Reg NMS… supposes that all buyers and sellers have only one thing in mind: price. If that were the case with cars, we'd all drive Tata Nanos."

We have Reg NMS thanks to Congress. In 1975, that body set in motion today's HFT flap by inserting Section 11A, the National Market System amendments, into the Securities Act of 1934, and instead of a "free market system," we had a "national market system."

The legislation mandated a unified electronic tape for stock prices. The NYSE claimed the law took its private property — the data — without due process. Regulators responded with concessions on how exchanges would set prices for trading. The result: The Consolidated Tape Association (CTA).

REGULATION NMS SUPPOSES THAT ALL BUYERS AND SELLERS HAVE ONLY ONE THING IN MIND: PRICE. IF THAT WERE THE CASE WITH CARS, WE'D ALL DRIVE TATA NANOS.

Its rules governing quoting and trading determine how exchanges divide roughly $500 million in revenue generated through data that powers stock tickers from Yahoo! Finance to E*Trade. If an exchange quotes stocks at the best national bid or offer 50 percent of the time, and matches 25 percent of the trades, it gets the lion's share of data revenue for those stocks. And the more price-setting activity at an exchange, the more valuable its proprietary data products and technology services become. Data has value if it helps traders make pricing decisions.

Here history meets HFT. Reg NMS requires trades to meet at the best price. Exchanges have no shares because they're not owned by brokers with books of business as in the past. They pay traders to bring shares and trades that create the best prices. In 2013, NASDAQ OMX paid $1 billion in rebates to generate $385 million of net income. Subtract revenue from information services and technology solutions ($890 million in 2013, built on pricing data) and NASDAQ OMX loses money. Prices matter.

NYSE owner Intercontinental Exchange opposes maker-taker presumably because it made $550 million in profit without the NYSE in 2012, and half that adding the NYSE in 2013. For a derivatives firm, equities are a tail to wag the dog.

In July Senator Levin wrote to SEC chair Mary Jo White: "Clearly, eliminating maker-taker pricing would improve confidence in U.S. equity markets."

Great! We concur. But the stock market is built on best price, by law, which in turn depends on HFT. Ironic, isn't it? Congress created rules that linked stock markets and forced data-sharing. Regulators tacked on a requisite of trading at the best price. Now congresspersons like Levin think the structure fosters distrust.

Say we strip out maker-taker. What could happen? The NYSE and NASDAQ OMX both fail, and BATS remains to set prices, and 70 percent of trading will match anonymously in broker-owned dark pools.

There's an alternative. The problem is the National Market System. Maker-taker is a byproduct. We should get rid of Reg NMS and its requirements that prices meet at the best bid or offer and that exchanges interconnect. The CTA also then goes away. Bring back the word "free."

Tim Quast is president and founder of Modern Networks IR in Denver.

Fidessa Launches Post-Trade Service

JOHN D'ANTONA JR.

THE BUYSIDE IS ABOUT TO SEE more automation come to its post-trade processes.

Fidessa Group announced the next phase of its post-trade strategy with the launch of an affirmation management service (AMS) for the buyside. Fidessa AMS is a new class of application that automates the workflow for direct trade affirmation between the buyside and sellside, delivering a faster, cheaper and more accurate alternative to current solutions.

The post-trade space is characterized by expensive, proprietary, outmoded technology and time-consuming, inefficient manual processes. Its lack of close integration with the rest of the business often means that important information, such as details around commission and market charge calculations, is lost, too.

As the buyside and sellside face shorter settlement times and new regulations are set to push this situation to the breaking point, thus the need for Fidessa's AMS. The service provides a holistic view of the broker community in the same way that an execution management service does for order routing and execution. AMS simplifies the whole process and removes the need for multiple systems, unifying post-trade operations to achieve levels of efficiency that have previously been unattainable.

AMS allows the buyside to interact directly and seamlessly over FIX with the global broker community. This direct, bilateral approach means affirmations can be processed more quickly and efficiently. Avoiding manpower-heavy manual processes or proprietary, centralized solutions allows considerable cost savings as well. Fidessa claims that FIX is also beneficial as it follows the "natural" direction of business flow and thus allows other valuable but lost information to persist from the front office to the back office. This eliminates the need to maintain information in multiple locations.

Traiana Adds Kill Switch to Single-Dealer FX Platforms

JOHN D'ANTONA JR.

MUCH LIKE THE EQUITIES MARKET, mistakes and errors can happen in trading markets, causing market disruptions. One firm is now adding a "kill switch" to its trading platform to prevent such occurrences.

Traiana, a provider of pre-trade risk and post-trade processing solutions, announced that it has extended the scope of its CreditLink service to include a "kill switch" capability for single-dealer platforms in foreign exchange (FX) trading. The switch is intended to stop algorithms from executing orders or to halt erroneous trades.

Bulge firm Citi and its platform, Velocity, is the first single-dealer platform to enhance its connectivity with CreditLink to support this new capability.

According to Traiana, by using CreditLink, prime brokers have the ability to monitor their clients' credit risk and trading activity across multiple ECNs and single-dealer platforms on a real-time basis. As a result, they can identify limit breaches, modify credit lines and terminate trading activity. CreditLink also supports a wide range of asset classes and trading models, serving as a central risk management infrastructure across spot FX, FX derivatives, cleared swaps and exchange-traded derivatives.

The introduction of a kill switch adds to the existing limit monitoring capabilities of CreditLink for single-dealer platforms, and will ensure that the risks associated with algorithmic and high frequency trading can now be managed effectively in real time on these platforms.

Beginning in June 2011, Traiana and leading prime brokers launched an initiative to deploy real-time kill switches to major multi-dealer FX trading platforms, including Bloomberg Tradebook, Currenex, EBS, FastMatch, FXCM's Institutional platform, Hotspot FX and Thomson Reuters.

Bloomberg Opens Cloud-Based Vault

JOHN D'ANTONA JR.

THE INFORMATION CLOUD JUST got bigger.

Bloomberg announced it has joined the Salesforce.com partner program to bring cloud-based enterprise information archiving to Salesforce1 for Financial Services. Bloomberg's Vault will provide specialized enterprise information archiving and compliance "as-a-service" to traders, institutions and other regulated entities that use Salesforce1 for enterprise-wide collaboration.

Bloomberg Vault for Salesforce1 Financial Services helps users seamlessly capture, transform and archive Salesforce Chatter activities, such as posts, comments, content sharing, private messages, surveys, and changes to access controls and user permissions. Using Bloomberg Vault, firms can oversee employee communication and collaboration activities that fit into pre-defined compliance policies. It also helps companies identify communications that may require further review.

"Bloomberg Vault now enables Salesforce1 for Financial Services users to access Bloomberg's industry expertise and proven track record of providing information compliance and e-discovery tools to financial services firms," said Harald Collet, global head of Bloomberg Vault. "Bloomberg Vault can help firms capture, manage, archive and retrieve communications sent using Salesforce1 and other business communications services."

Clients can utilize the service either on their office workstation or from their mobile devices with the Salesforce1 Mobile app.

ITG Launches FX Trading Cost Index

JOHN D'ANTONA JR.

AGENCY-ONLY BROKER AND technology provider ITG has launched an analytical tool that helps traders accurately price the cost of liquidity for two dozen currency pairs.

ITG's FX Trading Cost Index application, designed for foreign exchange traders and portfolio managers, is updated daily. The index takes into consideration the intended time of trade and notional trade value.

The index also provides dealer and ECN calculations based on historical costs. It is adjusted for recent trends in cost levels and implied volatility as of 5 pm Eastern time on day T-1. Cost estimates for the next trading day are available at 10 pm GMT the day before.

Charles River's Data Management Service Adds EAM Investors

CHARLES RIVER, A FRONT- AND middle-office investment management solutions provider, announced that EAM Investors is now on the Charles River Data Service.

The data service provides batch reference and issuer data, real-time pricing, new security setup and the recently offered constituent-level benchmark data. EAM has implemented the private cloud-based Charles River Investment Management Solution and is also using the Charles River FIX network for electronic trading.

"Charles River has improved our execution capabilities and investment guidelines monitoring by delivering accurate data to our portfolio managers and traders," said Derek Gaertner, director and chief operating officer of EAM Investors. "With Charles River hosting the system and managing the data, we have lower technology costs and can focus our time on our core competencies."

Front-office systems are some of the biggest consumers of data, and as the volume and number of feeds increase, so do data costs and complexity. The Charles River Data Service is targeted at lowering these costs, which are incurred throughout the trade life cycle.

The data service is an integral part of Charles River's Software as a Service (SaaS) solution and is also available to legacy client-hosted environments.

EAM Investors is a majority-employee-owned, institutionally focused investment boutique located in Cardiff-by-the-Sea, Calif. EAM manages equity portfolios in the U.S. and international small-cap and microcap markets.

READY FOR BATTI

BattleFin co-founder Tim Harrington and his team not only run a hedge fund, they sponsor a series of trading tournaments where the best big data strategies win.

By Phil Albinus | Photos by Jordan Hollender

LET THE GAMES BEGIN. IN EARLY SEPTEMBER, A GROUP OF DATA-CENTRIC traders and aspiring hedge fund managers from different backgrounds gathered to compete in the seventh BattleFin competition. The prize? The chance to win seed money to start their own fund or, at the very least, receive publicity to lure curious venture capitalists to join in with their cash. Some in the media have called BattleFin the "Hunger Games for hedge funds," and like the dystopian YA novel, BattleFin's multi-tiered competition is fierce. After all, as traditional hedge funds see steady if ho-hum returns of three to five percent, the winners of BattleFin are pushed to produce the next giant fund that beats Wall Street.

That's the aim behind BattleFin, the brainchild of co-founders Tim Harrington and Brian Tomeo along with co-founder, legal counsel and hedge fund specialist Marc LoPresti. BattleFin is not just its own proprietary fund with plans to become a full-fledged hedge fund this fall; Harrington said he and his team are "taking a venture capital approach to the hedge fund industry by incubating a number of start-up managers."

This is pretty impressive when you consider that BattleFin held its first tournament in 2012 with six contestants out of 300 entries. Tournament 5 had more than 9,000 models entered from 43 countries. This month, Battlefin launches Tournament 7 with $25 million in potential allocations

Brian Tomeo, Tim Harrington and Marc LoPresti on the 1965 BMX R75.

We want someone who is looking at the world in a different way. We stay away from guys using sellside research.

from two unnamed investors. "We held our Big Data Combine [event] last November where we had people from 43 countries compete. I didn't even know there were 43 countries," LoPresti said.

The contestants, mostly men, do not have the same resumes that you would find on a traditional trading floor: M.B.A. degrees from Ivy League schools and other top-shelf institutions. BattleFin contestants hail from across the globe and from unusual backgrounds and disciplines. *Traders* last month profiled Tim Fligg, a former chef and current options trader who won his category in BattleFin 6.0 earlier this year and has plans to start his own hedge fund. Another contestant, David Bush, a winner in Tournament 4.0, is a concert musician turned hedge fund manager. Yet another BattleFin winner, Mark Angil, is a former U.S. Navy officer who built nuclear reactors before winning the Sharpe Ratio Shootout of the BattleFin 4.0 tournament. In fact, Tomeo, who helps run the competition, competed in the first BattleFin, where he came in sixth. The former JPMorgan vet now oversees the technology arm of the competition, which powers the leaderboard used to tally the traders' results.

Along with finding the next top trader and trading strategy, Harrington said that the aim of BattleFin is to push traders beyond the tried-and-true modes of trading. BattleFin believes that the future of hedge fund investment strategies centers on big data and the managers who are willing to look for data beyond their Bloomberg terminals and Thomson Reuters feeds. Harrington cites hedge fund giants Two Sigma and Renaissance for their investment philosophies.

Harrington noticed that many of today's hedge funds were simply gathering assets, and he estimated that 90 percent of the new allocations are going to the large funds that were seeing 3 to 5 percent returns even though the market was up 30 percent.

"It just didn't make sense to us because we saw these small and emerging managers in the sweet spot of their fund's perfomance curve and they couldn't get access to capital. We decided to address this issue, put our flag in the ground and incubate the best strategies we could find," Harrington told *Traders*. "There wasn't a way for insitutional investors to really get access to the early stage alpha generators due to fears of operational risk and the amount of time needed to vet these early stage managers." With this in mind, he added, BattleFin created a business model that acts as a virtual funnel to rank and quickly evaluate the newer managers.

"We use these leaderboards and then a BattleFin score to rank them," Harrington said.

The best strategies won't be found in traditional market data. BattleFin participants look to sources such as Twitter and other social media platforms, as well as scientific and government reports.

"We're looking for disciplined, repeatable, differentiated strategies," Harrington said. "We want someone who is looking at the world in a different way. We stay away from guys who rely on sellside research or technical analysis. We're looking for the strategies that leverage data streams and managers who can mine large amounts of data and make sense of it. We pay particular attention to strategies that use weather, Twitter feeds and other data sources that have not been picked over and over-analyzed."

One such big data visionary was a trio of Massachusetts of Institute of technology professors who formed Flyberry Capital, a small Cambridge, Mass., hedge fund that exploits data from government reports, weather forecasts and other sources. They won the first BattleFin tournament and they're looking to grow into a larger asset management shop. Flyberry Capital's principals also graced the cover of *Traders'* February 2014 edition.

After beating out the other competitors in their heat, Flyberry Capital CEO Michael Chang and his team began quant trading using a big data strategy. The fledgling fund relies on its Flyberry Engine, a big data search tool created by former Google fellow and fellow MIT graduate Sean Chang, whom colleagues call "the Michael Jordan of programmers." The Flyberry Engine scours the Internet for news alerts and trends from sources raging from social media, government agency reports and announcements, and findings from weather, earthquake and other geosensors.

This big data push has led to some dynamic and unorthodox ideas for investing strategies, to say the least. "We had one group, an astrophysicist from UC Santa Barbara and a professor of astronomy from the University of Washington, that entered the Launch category with a strategy based on how gases form around black holes and related the models to trading stocks," Harrington recalled. He also mentioned a trading team from California called Manifold Partners that utilizes big data strategies and looks at the clustering patterns that emerge.

Tomeo likens BattleFin's mission to grooming traders for the "emerging manager" space, where a trader has less than three years' experience and less than $300 million in assets under management. "We're trying to redefine the space like the frontier managers [found in Nigeria, Egypt and Vietnam] where we would give capital to early stage guys that are in the idea generation mode," Tomeo said. "We would help them build a company so they could take their idea, test it, trade it, and actually raise assets into it. Or, we look to invest in them ourselves, and they run their own infrastructure themselves."

For Tomeo, it's about grooming data miners into investors and traders. "There are a lot of people who have the ability to mine gold, but they don't have the opera-

tional skills to figure out where to look for the gold," he told *Traders*. "A lot of the strategies that we saw being designed by people who had the data mining skills were just not investable because they were either too volatile — they had too much risk in one asset class — or they weren't consistent enough in terms of how they were looking at risk management."

"We try to determine the rules and objectives for the data scientists. We point them in the right direction, and then they find the gold. What they come up with and produce is actually something that is sellable and meaningful, because the data analysis is only useful if you can use that to generate a return," Tomeo said.

According to BattleFin's website, 10 of the best strategies have been chosen to incubate.


Marc LoPresti


Tim Harrington


Brian Tomeo

THE BATTLEFIN FUND

Harrington and Tomeo not only run the competition, they manage the BattleFin fund, too. Based in Rowayton, Conn., in leafy hedge fund country between Greenwich and Westport, the fund started trading its own money this summer. Harrington declined to say how much it had in assets under management but added that two investors were slated to provide seed capital in early September. Tomeo runs the technology side of the business from BattleFin's Miami office, where the technology for the BattleFin leaderboard is based. BattleFin has a team of eight employees who help run the fund, the competition and other arms such research and development.

BattleFin's fund will be driven by what he called "open source investing," which will allow investors to view its operations as transparently as possible on a daily basis. "They can log in at any point and see how their investment is doing, what the fund is doing and what the fund's doing relative to the market," he said. "This is different than what's traditionally been going on in the hedge fund world, where maybe you get a monthly or quarterly statement that really just has a number on it."

The principals of BattleFin started its fund with their own capital and tested their trading front end, risk management and reporting tools for two months before launching the fund. "BattleFin has spent a lot of time and money building out the technology to rank and source these emerging managers. In some cases we have been able to build off systems like Realtick which offers multiprime broker trading capabilities. This is important to small managers who may have to trade at multiple places where their investors are located." Harrington said.

INSIDE THE BATTLEFIN GAMES

Here's how the quarterly tournaments work: The seventh BattleFin tournament will be funded by two anonymous investors to the tune of $25 million. Participants must provide their own money or raise the capital to participate. The most recent tournament began on Sept. 2 and will end on Dec. 1, with winners named on or around Dec. 15. Before then, BattleFin and partner TigerDirect will sponsor a live networking event in Miami called Silicon Beach that will take place in the infield of Marlins Park.

During the tournament, BattleFin looks at each team's track records and their pedigrees. Using data analytics, BattleFin backtests "to match their track record plus what we've seen on the live trading environment," according to Harrington. "Using the data collected, BattleFin is able to quickly evaluate the strategies that enter the tournaments. Since track records can be short we need to use all the data we can. We drill down to position level detail to see how many trades the managers are getting right and what type of risk controls the managers use." The results are monitored by BattleFin's risk officer, Kent Baur.

The contestants are divided into three categories based on their trading experience and size of their particular fund. The Launch category is for new investors to pre-launch their fund, sometimes with paper or non-money trading. If they do well, BattleFin and its unnamed sponsors may invest money so that they can move to the second level. The Professional level requires that participants have a six-month track record of trading with their strategy and around $1 million in assets under management. For the top category, Elite, traders must have $5 to 10 million in AUM and a 12-month audited track record, and must survive BattleFin's painstakingly thorough vetting process.

"We review the presentations and the data streams," Harrington said. "Then we have about 100 strategy-related questions where the managers have to tell us about how the portfolio works, the position sizes, what risk limits do they use, and so on."

Is BattleFin upending the way Wall Street in general and the buyside in particular look for promising new talent? LoPresti is modest despite being impressed with the talent that shows up to compete. "I hate to use the word 'disrupting' because it's overused, but we are sort of disrupting the traditional process of asset management talent identification and incubation," he told *Traders*. "I don't think we pose a threat to those shops. We have a very nice opportunity set in terms of the number of people that we can help." ■

FACT:
U.S. dollar interest rate swaps volume hit 859 trades on i-Swap in July, with a notional value of $41 billion, representing 40 percent of all U.S. dollar interest rate swap trades at ICAP

The Rise of the SEFs

New and very eager players are showing interest in emerging swaps execution facilities environments.

BY RENEE CARUTHERS

SIX MONTHS AFTER THE MADE-AVAIL-able-to-trade deadline that was viewed as the starting gun for trading on swaps execution facilities (SEFs), some market players say the most noteworthy pattern that has emerged is a return to familiar routines. Dealer-to-client trading has remained with providers who traditionally served that model, and dealer-to-dealer trading has resumed at the inter-dealer brokers that have long competed for that business.

Yet while the market looks to return to the patterns it is accustomed to, there is growing interest from potential new participants in new opportunities SEFs might provide.

"We are in the process of talking with and onboarding with SEFs," said Isaac Chang, global head of fixed income at KCG, who noted that KCG is not trading on SEF currently but plans to do so. "What interests us is that interest rate swaps have a fundamental underpinning that is very close to a lot of the instruments we trade. We trade euro dollar futures, Treasury futures, cash U.S. Treasury bonds — a lot of the same factors that affect those markets affect interest rate swaps, but the market has always been closed to us before the advent of central clearing. Now with SEFs, execution is moving electronic as well." The firm is evaluating instruments but currently focusing on market agreed coupon (MAC) interest rate swaps and credit index swaps because of their more standardized futures-like structures.

KCG is not the only one knocking on the door. Citadel Securities confirmed in an email that it has done a SEF trade and that it is building a market-making business in the space, but declined to comment beyond that.

Quantitative Brokers, another potential entrant, remains noncommittal but is watching the space with interest. "We think it's going to go but it hasn't gone yet," said Robert Almgren, president and co-founder, who noted that the company is waiting for more liquidity and consolidation of existing SEFs. "We don't want to build out to something that is going to vanish," Almgren said.


Isaac Chang


Jeffrey Hogan

FOLLOW THE LEADERS

The first entrants are early adopters, and may be too few in number to represent a change in the tide, but they are noteworthy in that they are operating in a market that was once off-limits to them for a variety of reasons.

"I think think there are many potential participants who have been waiting on the sidelines for some time," said Paul Hamill, global head of FX, rates and credit execution services at UBS. Using its Neo platform, UBS serves as an agency or introductory broker, providing stream-based API access to the different SEFs including post-trade API, aggregation and other services. "What we have found in our outreach is a huge amount of interest from non-traditional players in the market, and a fairly significant lack of awareness as to where the market really is in terms of depth, liquidity, central limit order book trading and access options overall."

Some of the most conservative views on new entrants into the marketplace come from interdealer broker SEFs themselves, who stand to benefit from new volumes. That might be an example of catering to existing dealer clients, which overwhelmingly prefer voice RFQ models that are least disruptive to their existing business models. "For IDBs, SEFs are a medium-term play," said Aite Group senior analyst David B. Weiss. "They are beholden to the dealers, and the dealers know that in two years the market will change, but it hasn't gotten there yet."

A representative of one interdealer broker who asked to remain anonymous said that the firm is at the stage of educating potential clients about the SEF and its trading process. "There has been some interest, but I think it's fair to say that the market seems to have migrated to where it was prior to impartial access in terms of customer dealing where they are accustomed to dealing," the representative said. "Firms that were on dealer-to-

client platforms are on dealer-to-client SEFs; firms that were on dealer-to-dealer platforms are on dealer-to-dealer SEFs. Is there some overlap? I think there will be, but I don't think it's to the extent that some are trying to characterize it."

According to an ICAP press release issued in the beginning of August, July marked the third consecutive month of record volumes on i-Swap, the electronic central limit-order-book arm of ICAP's SEF. U.S. dollar interest rate swaps volume hit 859 trades on i-Swap in July, with a notional value of $41 billion, representing 40 percent of all U.S. dollar interest rate swap trades at ICAP. The SEF also has a voice-based request-for-quote modeled execution service. Central limit order-book models appeal to newer participants, but the i-Swap volume data does not indicate the type of firms participating in the trades.

Jeffrey Hogan, managing director, business development at interdealer broker BGC Partners, noted that several key rules related to SEF execution remain outstanding. He added that the unfinished nature of regulatory mandates may be compelling some market players to take a cautious and patient approach toward changing trading styles or venues.

"The vast majority of products that are subject to transaction requirements on SEFs by U.S. persons are not yet fully electronic and are not being executed on central limit order books," Hogan said.

Hogan noted that the U.S. Dollar Interest Rate swap market in the swap dealer space remains at least 70 percent voice, and globally the Euro Interest Rate Swap is 85 percent voice for dealers. "Credit markets are significantly more electronic merely because the relevant indices are fewer in number, and these electronic trades are also taking place largely outside the CLOB but via other electronic means," he said. The changes will come, but it will take time. We're still very early in the timeline of SEF influences."

"THE VAST MAJORITY OF PRODUCTS THAT ARE SUBJECT TO TRANSACTION REQUIREMENTS ON SEFS BY U.S. PERSONS ARE NOT YET FULLY ELECTRONIC AND ARE NOT BEING EXECUTED ON CENTRAL LIMIT ORDER BOOKS." — JEFFREY HOGAN

THE CATALYSTS

Meanwhile, though some impediments to increased electronic trading and a broadening of the market to new participants remain, there are also catalysts pushing the market more electronic as well. Among them is central clearing.

"We are seeing some customers who are choosing to trade on SEFs whilst not obligated to do so due to the benefits of central clearing in controlling counterparty risk," said BCG's Hogan. "There are non-U.S. persons who feel accessing SEF structured central clearing confers advantages."

KCG's Chang views central clearing as an equalizer that enables smaller firms to compete. "In a bilateral world, if you are worried about credit exposure, 10, 20, 30 years out, you are going to go with the too-big-to-fail institutions because you know they are going to be around. If anything happens to them, the government is likely to bail them out," he said. "Central clearing essentially levels the playing field. At the end of the day, everyone's exposure is in the clearinghouse. For firms like us, it allows us to provide liquidity to the swaps market and eliminate the counterparty exposure."

OTHER FACTORS

Other factors now attracting newcomers to OTC swaps include transparency and central limit order book trading. "We have an explosion of data in this market that never existed before, and I think that will be a major factor in bringing new participants to the market," says UBS's Hamill.

For Quantitative Brokers, the central limit order-book model, with the anonymity it offers, is an absolute prerequisite to trading. "For us, it would have to be a central limit order book. And if there are multiple venues and multiple central limit order books, we can do smart order routing," Almgren said. In an ideal scenario, Almgren added, the number of SEFs would consolidate down to a handful, with healthy competition among them. "We would trade on all of them, track liquidity on all of them and route orders to whichever one is most favorable. It's how we add value."

Some see a move toward more automated trading strategies as an inevitable path for the market. "Once some of the kinks get worked out and liquidity really starts to grow and more tenors start to become increasingly more liquid, then we can really start seeing some dynamic arbitrage-like trading," said Sol Steinberg, founding principal of research firm OTC Partners.

"As you get more electronification, greater transparency, and on the back of that more data, firms that are really good at using speed to promote client franchises and manage risk more effectively are going to gravitate to that market," added Anthony Perrotta, head of fixed income trading at Tabb Group.

In the end, with SEFs, as with any market, liquidity will likely be the ultimate catalyst. "We have seen order books get as tight as an eighth of a basis point for liquid points," said UBS's Hamill. "If you get a lot tighter than that, then it's a catalyst where pretty much anyone says this is where I can get by best execution." ■

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TURF BATTLE

REGULATORS IN THE U.S. AND EUROPE ARE BRACING FOR A FIGHT OVER GLOBAL OTC DERIVATIVES CLEARING OPERATIONS

Eurex: CCPs Reduce Systemic Risk

JOHN D'ANTONA JR.

CENTRAL COUNTERPARTIES (CCPS) are a benefit to the marketplace and play a major role in reducing systemic risk.

In a white paper first published in July, Eurex said that CCPs, while reducing systemic risk in financial markets, also provide the marketplace with specific recovery and resolution frameworks for financial market infrastructures.

Thomas Book, chief executive at Eurex Clearing, the CCP of Deutsche Börse Group, wrote in "How Central Counterparties Strengthen the Safety and Integrity of Financial Markets" that the new CCP model shows "the macro-prudential advantage of a centrally cleared market versus a bilateral one."

Hence, he continued, the regulatory agenda to broaden the use of CCP clearing, together with stringent regulatory requirements, makes financial markets more robust and transparent and benefits the wider economy.

The white paper first analyzes the functioning of a CCP and the effect central clearing has on systemic risk mitigation in financial markets. CCPs ensure prudent collateralization and have procedures to manage defaults in an orderly manner.

The second part of the paper outlines features that need to be met when operating a CCP. An analysis of past disruptions of CCPs against regulatory requirements shows that EMIR, the European post-trade regulation, already sets the highest standards and can serve as a regulatory benchmark globally.

The final part of the paper discusses the ways in which the CCP mechanism permits markets to recover — or be wound down — if unprecedented market shocks overwhelm the existing safeguards without disrupting entire financial markets. While existing regulations already strengthen CCPs, the added safety of specific recovery and resolution frameworks for market infrastructures enable CCP stakeholders to act decisively to resolve market shocks.

Clearing Houses Must Be More Transparent — Tabb Report

WITH MORE TRADING AND risk in the swaps market, clearinghouses should be more open and disclose their operating procedures for the benefit of the marketplace.

That's the viewpoint of market consultancy Tabb Group, which said in a recent report that the concentration of risk among central counterparties (CCPs) in the new global market structure must be accompanied by a proportional increase in transparency and reporting at the CCPs.

Radi Khasawneh, a Tabb Group research analyst in London, wrote in a research note that short-term fragmentation (with multiple entities split geographically) was likely to give way to consolidation and standardization over time. Given this trend, regional clearinghouses cannot simply do their own thing and march to the local regulator's tune. And the same goes for the larger central clearing counterparties that have emerged with recent regulations requiring these complex instruments be cleared.

"We are at the implementation phase of a global regulatory shift that will force the majority of swaps into clearing," Khasawneh said. "The idea behind the push was to give regulators a cleaner view of risk in the derivatives world, but ever since the intention was announced by the G20 in 2009, market participants have long been concerned that this in itself may be creating additional systemic risk."

If most trades have to go through a limited pool of CCPs, the potential for a significant market shock increases, he added.

According to Tabb, the increase in the importance of CCPs in the new market structure must be accompanied by a proportional increase in transparency and reporting at the CCPs. Many of the safeguards are dependent on proprietary and often opaque modeling.

Still, Tabb reported that huge differences remain in margin treatment globally.

It is far more preferable that this comes from the clearinghouses themselves, and, in fact, the efforts of many global clearinghouses to attract increasing flow across different products to boost margin efficiencies increases the complexity of the modeling question, Khasawneh said.

THE COMING CLEARING TURF BATTLE

When it comes to pending global OTC derivatives clearing operations, regulators in the U.S. and Europe are bracing for a fight.

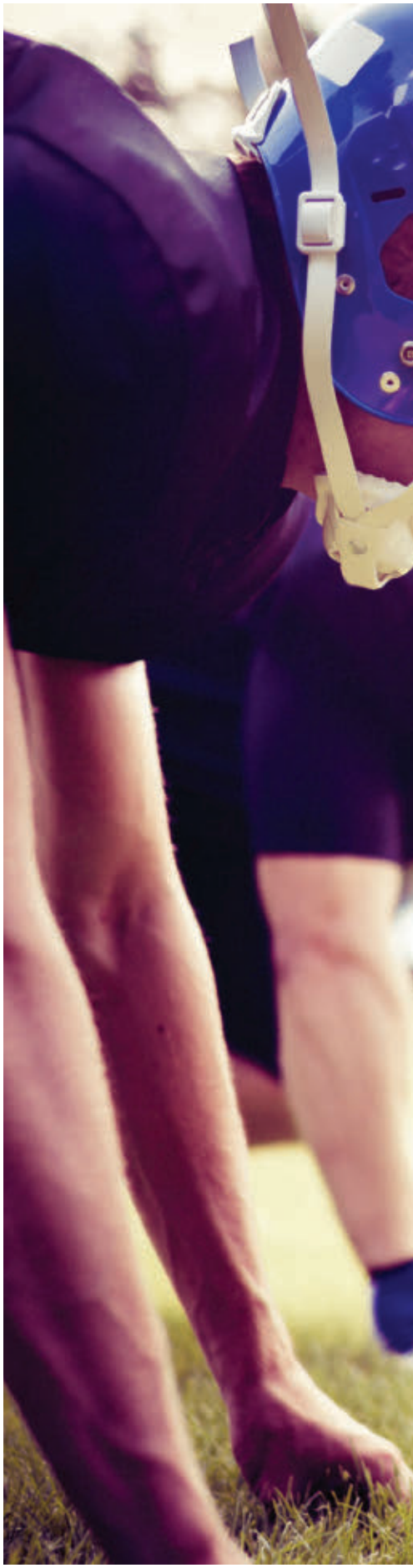
BY GREGG WIRTH

THE ESCALATING TENSION AMONG GLOBAL REGULATORS HAS LEFT central counterparties (CCPs) in the U.S. and Europe nervously awaiting a resolution to what has become the most daunting hurdle yet for the newly mandated regulatory regime in the worldwide clearing of over-the-counter (OTC) derivatives.

Worse yet, regulators in Europe are facing a mid-December deadline to resolve these issues, which center on regulatory equivalence and mutual recognition, and many worry that failure to meet that deadline could leave CCPs, exchanges, buyside firms, banks and investment houses on both sides of the Atlantic in limbo as to how to clear cross-border swaps, futures and other derivative products.

"The biggest nightmare would be that CCPs will not recognize each other's products," said Craig Pirrong, professor of finance at the University of Houston.

The U.S. is already up and running with its clearing mandate, and market participants are feeling the full effect of that, Pirrong explained. But Europe's



clearing oversight rules don't go into effect until 2016. Until then — whether the European Union (EU) likes it or not — the U.S. Commodity Futures Trading Commission (CFTC), which oversees much of the U.S. OTC derivative market and does have fully finalized and implemented rules for clearing OTC derivatives, is the point of the spear for OTC derivative regulation. "Europe is very afraid of being dragooned into the U.S. regulatory system," Pirrong said.

Many market observers worry that such an unresolved and jagged schism between the U.S. and Europe in the trading, clearing and settlement of OTC derivatives could be enormously disruptive to the $700 trillion market.

ROOTS OF THE PROBLEM

The roots of this dispute can be traced to the Pittsburgh 2009 meeting of the G20, where member countries resolved to have all governments mandate the clearing of many derivative securities, which at that time were being heavily blamed for causing much of the chaotic market meltdown that led to the then-ongoing financial crisis.

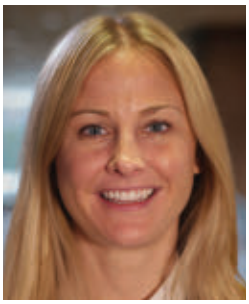
After that, U.S. lawmakers created and passed the Dodd-Frank Act in 2010, which outlined an OTC derivative clearing regime that largely went into effect last year. As per the G20 agreement, the new U.S. regulations used CCPs for clearing instead of allowing bilateral swaps between two parties and voluntary clearing, which regulators and legislators believed carried much more systemic risk. In Europe, lawmakers debated longer, eventually coming up with the European Market Infrastructure Regulation plan (EMIR) in 2012, which will see its OTC derivatives clearing regulations go into effect in 2016.

Into that regulatory gap plunged the CFTC, which was worried that with U.S. regulations finalized and most foreign regulatory bodies still mapping out their rules, a two-tiered system would evolve — one regulated and one not. Also, the CFTC feared regulatory arbitrage would emerge as market participants, even U.S.-based ones, would begin gravitating toward the countries with the fewest rules. So, the CFTC starting offering regulatory guidance. European regulators and others immediately accused the CFTC of regulatory overreach.

"This is all part of the ongoing turf war between the regulators that has been sparked by what Europe considers to be extraterritorial overstepping on the part of the CFTC," said Virginie O'Shea, senior analyst at Aite Group. O'Shea explained that there is a lack of equivalence between the U.S. and Europe in terms of both regulatory requirements and in recognition of CCPs for clearing. Additionally, there are ongoing disputes between the CFTC and the European Commission (the executive branch of the EU) and the European Securities and Markets Authority (ESMA) about minimum standards for risk, client collateral and margin requirements. The ongoing dispute has resulted in a stalemate of sorts over these issues, with each regulatory regime refusing to budge. "The European Commission has already recognized a number of other countries for regulatory equivalence, but it has yet to agree with the CFTC on the U.S.," O'Shea noted.

Indeed, this bad blood and bruised feelings among global regulators have resulted in occasional flare-ups. In a June 10 speech at the Futures Industry Association's IDX conference in London, Ananda Radhakrishnan, director of the CFTC's division of clearing and risk, said he was "tired of providing exemptions" to European-based CCPs and suggested instead that those CCPs move their clearing contracts to their U.S. units and under CFTC oversight.

Two weeks later, the European Commission announced it would recognize the regulatory regimes of several more countries, including India and Australia, but pointedly would not yet recognize the U.S. In a tersely worded statement accompanying the announcement, Michel Barnier, the EU commissioner in charge of financial services, said the CFTC needed to recognize and defer to the "strong and rigorous rules in jurisdictions such as the EU."


Suzanne Sprague


Craig Pirrong

REAL WORLD EFFECTS

Because the ongoing dispute involves finding acceptable equivalent standards on myriad complex and detailed regulatory issues, real world examples are as diverse as the problems themselves. For example, one major conflicting issue is that the EU has linked its banking capital ratios to the new clearing rules to give EU banks incentive to use clearing firms. If this dispute remains unresolved, however, those European banks would have to dramatically raise capital requirements if they use unrecognized U.S.-based CCPs, making them a less attractive alternative.

Chicago-based CME Clearing, which clears the lion's share of euro-dollar interest rate swaps, could feel the crushing impact of that development. "Regulators and the industry are after the same thing; we want a level playing field across futures and swaps regulation and to avoid market disruption," said Suzanne Sprague, executive director of collateral and risk for CME Clearing, a unit of CME Group.

However, that has been complicated by this dispute, she added. "The determination of regulatory equivalence across jurisdictions was supposed to be based on a holistic assessment without a line-by-line comparison of regulations given the structural differences of mar-

kets across the globe," Sprague said.

While there is a clear imbalance between the U.S. and EU on futures regulation, she explained that the CFTC has worked to create an open door for foreign trading markets and has taken steps to defer primary regulatory oversight to the EU in certain cases. However, she said it is the EU that is cherry-picking line-item regulations to impose on other jurisdictions without regard to recognizing weaknesses in its own rules.

One problematic part of this, Sprague explained, is that the EU is requiring that all CCPs that want to be qualified to clear OTC derivative products in Europe must re-apply for recognition as a domestic or third-country CCP with ESMA, despite the fact that the major CCPs across the globe are already registered in the EU as CCPs. "This re-application process has consumed a significant amount of time and resources," she said, adding that the EU has tied qualified CCP status to this reauthorization process, but the U.S. has not.

The result is that European CCPs do not have to newly register with the CFTC, but U.S. CCPs must be reauthorized by the EU. Worse yet for U.S. CCPs, the EU, as part of the reauthorization process, must regard the CCP's home jurisdiction as having EU-equivalent regulatory standards — something the EU does not yet recognize with the U.S.

Again, a seemingly fixable problem, But if left undone, it could mean a massive global headache for many of the firms involved, especially if the December 15 deadline for ESMA to recognize U.S.-based CCPs under the EU's latest Capital Requirements Directive (CRD IV) is missed.

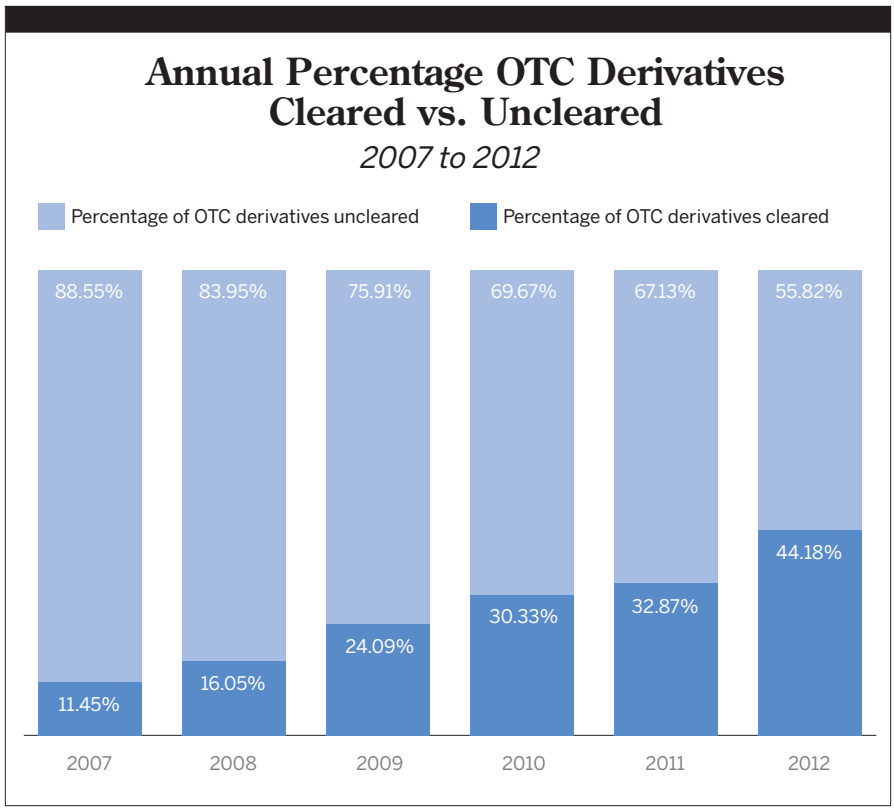
AWAITING RESOLUTION

Another example, one that the CFTC's Radhakrishnan outlined in his speech, involves the regulatory quandary faced by the Nodal Exchange, a U.S.-based exchange that trades futures contracts on North American power markets. Nodal clears its futures contracts with LCH.Clearnet, a London-based CCP. But because it's a U.S.-based exchange, its trades are required to clear through regulated futures commission merchants (FCMs) that have to follow the CFTC's rules on segregation of client assets.

However, because Nodal uses a European CCP for clearing, it will be subject to a different set of asset segregation rules established by the EU. The specific snag involves requirements under EMIR that allow for individually segregated client accounts, while CFTC-registered FCMs are not allowed to use individual segregation. It was this kind of conflict that Radhakrishnan said could be avoided if LCH.Clearnet simply moved the clearing of Nodal's contracts to LCH's U.S. subsidiary.

two governing sides are not willing to compromise — or even talk.

To that end, Timothy Massad, who took over as the head of the CFTC in June, has said publicly he is committed to finding a timely solution to this dispute, and wants to work out "a harmonious relationship that gives appropriate deference to other countries." While that may give the derivatives markets some hope — and Massad is regarded as having a much gentler touch than that of his predecessor, Gary Gensler — until the problems of mutual recognition and regulatory equivalence are resolved, many CCPs, banks and investment firms with skin in the derivatives clearing game can only watch, very nervously.



Indeed, all such examples appear to boil down to one unfortunate conclusion: Even the smallest detail in the most obscure of rules — and one that could seemingly be easily resolved — remains a deal-breaker that could upend an entire market segment if the

"This is a rather unseemly fight between Europeans and Americans over this issue," said University of Houston professor Pirrong. "And they will have to come up with something as a solution, but right now there is just a lot of posturing."

Guide to Correspondent Clearing Firms

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Liquidnet Hires Laible

A look at the financial industry's prominent hires, promotions and other notable people moves inside Wall Street's trading community and beyond.

JOHN D'ANTONA JR.

TABB GROUP NAMED ANTHONY Perrotta Jr. as its new head of fixed income research. Perrotta, a 25-year fixed income industry veteran, was the former CEO of fixed income consultancy Cornerstone Resources. At Tabb, he is responsible for directing the firm's research alliance fixed income practice, which serves rates and credit market institutional investors; the practice focuses on market structure, regulatory reform, trading, and operational and technology issues impacting corporate bonds. Prior to Cornerstone Resources, Perrotta was head of credit and co-head of derivative products at Tradeweb Markets, and before that, head of dealer relationship management and the DealerAxess product unit at MarketAxess. He reports to Larry Tabb, founder and CEO.

REDI Global Technologies, developer of the REDIPlus execution management system (EMS), announced that **Michael Sirchia** has joined as its new head of infrastructure. In this role, Sirchia is responsible for the entire REDIPlus application infrastructure across systems, networks and storage, including the build-out and migration to REDI's global data centers. Sirchia is an industry veteran with more than 17 years of experience managing infrastructure for low-latency and mission-critical trading platforms. Most recently, he was the head of performance engineering for the electronic trading group at J.P. Morgan. Prior to that, he served as the director of platform engineering for the systematic trading group at Citigroup. Sirchia has also held positions with Lava Trading and Greenwich Technology Partners. He reports to Josh Schubkegel, REDI's chief technology officer.

David Polen, Fidessa Group's head of U.S. business development, has transitioned to the firm's execution side and was named global head of electronic execution. In his new role, Polen reflects the markets' changing execution requirements and Fidessa's adjustment to a more electronic trading environment. Polen, a market pro with upward of 15 years' experience, is responsible for delivering managed solutions that address the evolving electronic marketplace. Furthermore, he is charged with assisting brokers to present global execution solutions to their own clients more effectively and cost-efficiently. He reports to Mark Ames, global head of sellside services for Fidessa.


Anthony Perrotta


Eric Michalisin


Rob Laible

EBS, ICAP's electronic foreign exchange trading business, has shuffled its leadership team. EBS announced that **Darryl Hooker** has been appointed head of EBS Market, and Viral Tolat has been named head of product for the firm. Both Hooker and Tolat report to Gil Mandelzis, chief executive of EBS. Both will remain part of EBS's executive management team.

Hooker, a 24-year market veteran, will lead the continued development of EBS Market, EBS's global anonymous trading platform. He has served at EBS and other ICAP subsidiaries for more than 15 years, most recently as head of strategic currency initiatives. Also, for the last seven years he has served as chairman of the International Ruble Settlement Forum, which helps mandate the full adoption and usage of its BESP, real-time gross settlement system (RTGS)

FACT:
Credit Suisse is closing its commodities trading desks and scaling back on on its currency and rates business.

for the ruble in Russia. Tolat, a pro with 21 years in finance, will be responsible for the expansion, development and maintenance of a fully integrated product suite as head of product. He will be working closely with the business lines to ensure EBS's existing products — EBS Market, EBS Direct and EBS Liquidity Optimization — and upcoming offerings are aligned and meet customer and market needs. He was previously chief technology officer at EBS and will retain those responsibilities, which include overseeing the continual enhancement of EBS's technology offering.

Mischler Financial, a service-disabled-veteran and minority-owned broker-dealer, has hired **Eric Michalisin** as its new director, international equities sales/trading. Michalisin, an 18-year professional, is charged with growing the firm's Pacific Rim trading business and helping clients trade local equities and ADRs. He comes from Royal Bank of Scotland where he spent the last three years, most recently as director, international equities sales/trading. Prior to that, Michalisin served in a similar role for seven years at JPMorgan Chase. Michalisin began his career in 1996 as a Far East equities sales/trader for Robert Fleming Inc. and stayed with its predecessor, Jardine Fleming Securities, through 2001. He reports to Joe Digiammo, head of global equities, at Mischler.

E-distribution specialist Caplin Systems has hired **Ed Magee** as its new executive vice president for the Americas. Magee, a veteran with more than 25 years' experience, is based in Caplin's New York office and will lead the sales, business development and sales engineering for the region. He came from Markit, where he was a director and distribution product manager for five years. Prior to that, he worked at Citi in a variety of roles, including serving in its eFX group as a direct access product manager and in its fixed income business strategy group. He also did stints at FEniCS and Barclays.

The Hedge Fund Association has appointed **Mark McGoldrick** and **Greg de Spoelberch** as regional co-directors of its New York chapter. McGoldrick and de Spoelberch will lead HFA in the region and help produce member educational programs and events. They will serve alongside McGladrey partner Sal Shah, regional director for both the HFA's Northeast chapter and Connecticut chapter. McGoldrick, a 17-year veteran, is also a managing director at Concept Capital Markets. Before that, he helped found Alaris Trading Partners, an introducing brokerage, in February 2006. Earlier in his career, he worked at UBS Securities in prime brokerage. De Spoelberch, with 12 years in finance, is also director of marketing and operations at Opalesque, where he started in 2009 as head of product development. He also serves as producer of Opalesque TV, interviewing top executives in the alternative investment industry.

Block trading venue Liquidnet has hired **Rob Laible** as its new head of the global performance team. Laible, a pro with more than 20 years of experience, is charged with coordinating the firm's sales, technology and product development teams across all regions. Prior to this, he was in Hong Kong as head of program trading and electronic execution for Asia at Macquarie Securities. Before that, he was with Nomura, where he was head of electronic trading and program trading sales for Asia. Prior to that, he was head of Lehman Brothers' prime services origination and electronic trading in Asia. He also spent a decade at ITG, helping to build the agency broker and technology firm through developing its advanced trading technologies. Based in New York, he reports to John Kelly, Liquidnet's chief operating officer.

Chicago-based Allston Holdings, parent of proprietary electronic trading firm Allston Trading, appointed **Jill Sommers,** former commissioner of the Commodity Futures Trading Commission, to its board of managers. Sommers served as a commissioner of the CFTC from August 2007 until July 2013. At the CFTC, Sommers served as chairman and designated federal official of the commission's Global Markets Advisory Committee (GMAC). Prior to the CFTC, Sommers was the policy director and head of government affairs for the International Swaps and Derivatives Association. She began her career in 1991 as an intern for Sen. Bob Dole (R-Kan.).

BCS Financial Group, operator of Russian broker-dealer BCS has hired **Matthieu Ressencourt** as a managing director and head of equity derivatives trading in London. Ressencourt, a 10-year pro, comes from VTB Capital, where he was head of equity volatility trading until March. He also helped VTB start up its equity volatility trading team in 2008. Prior to that, he worked as an equity derivatives trader at Lehman Brothers. Ressencourt began his career with Crédit Agricole, where he worked in both New York and Paris as an equity derivatives trader. He reports to Joseph Dayan, managing director of BCS Financial Group in London.

If you've started a new job or received a promotion, please let Traders *know at onthemove@sourcemedia.com*

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Wall Street Jobs Down but Not Out
Please click on the QR code at the right to see Traders Magazine's slide show representation of how Wall Street jobs have fallen in the last decade nationally, but even more so in New York City.

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Pittsburgh Society of Investment Professionals Charity Gala 2014

July 17, 2014 | Pittsburgh, PA

Brent Sutherland, Chuck Mattiucci, Brandon Schwan, Brianne King, Dan Dingus, Melissa Richey, Bryan Hoover of Fragasso Financial Advisors.

Benefit recipient family Maura Angelucci, Diane Kudis, Roman Angelucci, Walt Kudis, Chris Angelucci and Domenic Angelucci in his new adaptive bike.

Peter Bohr of Loop Capital Markets and Jeff Petro of Federated Investors

Charles LaVallee, Variety CEO

John Hallacy and Loren Wojcik of Assured Guaranty with Frank Ruscetti of Harvest Financial

Mandi Surgeon, Tim & Tracy King of Highmark with Jim Foliano of Janney Capital Markets

Anna & Eric Motzel of BNY Mellon

Peter Bohr of Loop Capital Markets and Tim Grant of Pittsburgh Post Gazette

Marc Pascal, Bennet Lo and Christopher Herkins of Federated Investors

Jim & Julie Sadowski of Hefren Tillotson and Dave Ruscetti of Harvest Financial

Bryan Hoover and Dan Dingus of Fragasso Financial Advisors

Charles LaVallee, Variety CEO with Terese Vorsheck of Highmark Caring Place

Roman Angelucci takes his son Domenic for spin in his new adaptive bike that was presented to the young man at the charity gala.

Joe Mycka of Federated Investors

Frank Randazza of Stifel Nicholas with Tim Davis of Hefren Tillotson

Peter Bohr of Loop Capital Markets

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Industry Events for Fall 2014

Traders compiles the upcoming industry events sponsored by the Security Traders Association and other financial services industry bodies. If you would like to see your event listed in our Event pages, please contact philip.albinus@sourcemedia.com.

SEPTEMBER

SEPTEMBER 4 - 6
STA Dallas Annual Conference
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OCTOBER

OCTOBER 1 - 4
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October 16
Georgia STA Annual Fall Outing
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October 16
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Chicago, IL

NOVEMBER

NOVEMBER 6
Wall Street Women 2014 Presented by Traders Magazine
New York, NY

November 6
Boston STA Harvest Party
Boston, MA

NOVEMBER 20
STA New York International Reception/Holiday Party
New York, NY

DECEMBER

DECEMBER 5 - 7
Denver STA 44th Annual Convention
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Ready for Europe, Neonet Eyes U.S.

The Swedish broker-dealer prepares to launch its algorithmic platform in Europe now and has plans to enter U.S. market in 2015

JOHN D'ANTONA JR.

SWEDISH AGENCY-BROKER NEONET has a simple business strategy — offer its algorithms and electronic trading solutions first to its native European equity trading clients, and then cross the Atlantic and enter the U.S. equity markets.

Sounds simple enough, Tim Wildenberg, chief executive of Neonet, told *Traders*. But the reality is that it's taken the electronic equity trading firm a few years to get it all together. The firm was started in 1996 in Stockholm by a group of sales traders and technologists, and focused on providing electronic trading solutions, such as direct market access, in Europe. By 2009, it was a listed broker-dealer in Europe, and in 2010 was registered in the U.S.

The firm was then absorbed by Orc Software, a Swedish firm similar to Fidessa but focused more on the European derivatives business instead of equities. By 2012, Orc itself was bought by CameronTec and Neonet was spun off. Neonet returned to its electronic trading roots in 2013 as a private firm when it was purchased by a consortium of owners including Hay Tor Capital LLP, KAS Bank N.V., Nordic Capital/Cidron Delfi Intressenter AB and Neonet management.

Wildenberg joined in August 2013 with one mission: get the firm's algorithms, DMA and smart order-routing technology to European customers that have been underserved by the continent's bulge-bracket banks, many of which chose to service larger institutions. Wildenberg is no stranger to the electronic trading business; he started his career at UBS in 1997, learning the ropes over his nearly 14-year tenure and eventually becoming head of direct execution at the bank. After that, he joined Citi and ran its European electronic trading group.

"First, I was a user of Neonet, then a competitor," Wildenberg said. "Now, I'm here getting us into the marketplace."

Tim Wildenberg

At the center of the firm's strategy is its core DMA and algorithmic trading suite. It offers European clients several algorithms to execute trades, starting with the basic VWAP, TWAP and implementation shortfall types. Wildenberg told *Traders* that Neonet does customize these into more bespoke offerings tailored to a particular user's needs. The firm also offers more sophisticated execution strategies such as those that scan dark pools, adjustable liquidity-seeking algos and even those that trade "at the close."

"Everything we offer was developed in-house and offered to our European clients now," Wildenberg said. "And for the customization, we can make an algo that just works for small-cap stocks in Germany or Spain. We show users how they work, as we want to be as transparent as possible."

Neonet plans to offer all of these strategies to U.S. customers in mid-2015, Wildenberg said, adding that the firm is in discussions with both U.S. buysiders and bulge-bracket brokers to partner with it. He declined to identify which bulge brokers Neonet was in discussions with but told *Traders* that talks were ongoing.

"I do have U.S. broker-dealers and other firms knocking on my door, but Neonet's goal is to establish credibility and reputation in our home market first, then in the U.S.," Wildenberg said. And to avoid any conflicts of interest, Neonet doesn't internalize any order flow.

Neonet does partner with European trade cost analysis firm LiquidMetrix to help measure the performance of its algorithms. Algos are evaluated regularly, and if one needs tweaking, LiquidMetrix helps with the process.

"LiquidMetrix brings quant smarts to our technology-focused firm," Wildenberg explained. "They help us decide things like how much of an order to trade or when to cross the spread. With their help, we now see higher algorithmic performance and have reduced the standard deviation around performance marks."

And the firm continued its push into Euro markets by recently entering an agreement with Visual Trader, a firm that provides order management systems in Spain. Neonet's algorithms are on the Visual Trader trading platform and available to traders looking to execute in Spain's equity marts.

Neonet now serves clients in more than 20 countries. ■

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