

SunGard's Assent ATS Builds Critical Mass

SunGard's newly launched alternative trading system (ATS) is part of a larger suite of Assent Liquidity Services that provides market participants with access to diverse order flow passing through SunGard systems and services. Traders Magazine spoke with Chris Lees, Vice President of Liquidity Services and ATS Product Manager, about the evolution in dark pools and how SunGard's depth of products and breath of customers provides access to a unique pool of liquidity.

What are some trends in dark pools?

The original dark pools were tailored to a particular type of order flow—they had their own 'personality.' For example, a dark pool may have tailored toward retail, institutional, high-frequency or statistical arbitrage flow. True liquidity arises from a mixture of diverse liquidity sources, so we increasingly see modern dark pools try to diversify their flow by cross-linking with other dark pools.

This cross-connectivity serves clients as well: as the number of dark pools grows, it becomes increasingly costly for participants to connect to multiple venues; there are simply too many of them. By linking and aggregating dark pools, brokers and software providers are able to provide a single point of access for their clients, lowering costs and increasing execution probability.

How will regulation affect the future of dark pools?

Regulations will definitely have an impact on dark pools and dark-pool linkages, most notably where these linkages are via indications of interest (IOIs). We believe that on balance, regulators and clients will see IOIs as a negative. Whilst regulators are comfortable with displayed (light) markets such as NASDAQ, or with fully dark pools that follow established dark pool business models, they will increasingly focus on emerging grey pools which seek to show details of some orders to a small subset of the market. We expect to see increased regulation of grey pools.

Is regulating IOIs a bad thing?

Of course we can't predict the direction this regulatory focus will take; therefore, its future impact is uncertain. If the regulators clamp down on IOIs there will be

less connection between dark pools and therefore less matching and fewer executions—something that may not be in the best interests of clients overall. Connecting to multiple venues provides more access to liquidity, which is good for the end investor, but clients continue to be concerned about information leakage.

How does technology support dark pools and liquidity?

Technology and smart order routing technology enables an individual to connect to multiple dark pools through a single interface. Our Dark Pool Aggregator strategy and Smart Order Routing technology have been successfully aggregating liquidity for our clients for some time now, and introducing our dark pool ATS will further enhance our capabilities in this space.

What impact does fragmentation have on trading execution?

Best execution practices ensure that investors always have access to the best prices in the market. Provided you have the ability to successfully navigate this fragmented world, there are clear benefits to venue competition, both in terms of reduced venue fees, and market price competition.

The costs of amalgamating and accessing these best prices can vary considerably, however, between brokers with or without Smart Order Routing technology, and routing performed by market-centers. For small and mid-tier participants who can't afford to build connectivity to a multitude of execution venues and don't have their own smart order router, these costs can be a significant impediment.

What should a customer look for when choosing a dark pool?

When selecting a dark pool, a client should look for execution likelihood, liquidity, and price improvement. A dark pool that has only one type of order flow may not yield the best results overall. One way of diversifying the participant base is to closely embed dark pool technology with smart order routing. The result is a dark pool that can also intelligently route orders that it can't execute to other destinations. Our ATS does that.



Chris Lees
Vice President of Liquidity Services

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Clients should also look for a dark pool from a neutral technology provider. A lot of dark pools are provided by sell-side broker dealers with either an active or passive interest in the flow that hits their dark pool. The trading interests of the dark pool provider and the client may not be aligned.

Is information leakage a risk?

Information leakage caused by displaying or showing orders to others is a potential risk. If orders aren't exposed to others, then execution likelihood will go down. If orders are displayed then execution likelihood increases,

but information is leaked. What's important is that the client is given the option of whether to display their order or not. Some dark pools don't give you that option.

What makes SunGard unique in the marketplace?

SunGard has a number of divisions that already process large order volumes every day. Across SunGard's Brass and Assent, our diverse customer base includes sell-side broker-dealers serving institutional and retail clients, as well as high frequency and professional traders. We believe that it is this natural and existing diversity within the SunGard family that will allow us to build a critical mass of liquidity in our ATS quickly. For our customers, this will create an important pool of liquidity and allow us to reduce their overall cost of trading.

How do you help clients maximize their trading experience and achieve best execution?

Assent Liquidity Services is an important element of the SunGard experience, which includes a suite of products and services which spans the entire lifecycle of the trade—from order receipt through trading and marketplace routing, through to post trade analytics and compliance monitoring, and on to clearing. The range and depth of services we provide is unique in the marketplace, and our recently launched ATS is a key component in maximizing the total trading experience for our clients. By executing within SunGard systems, the ATS allows our clients to share directly in our economies of scale through lower execution prices and to improve their overall trading performance. •

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