

'Dark Pool' Execution Venues

What Are They and Does Asia Need Them?

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What is a 'Dark Pool'?

Execution Market Place can be divided into two types of Markets

- Displayed order detail
- Non Displayed order detail

Dark Pool is Non-Displayed order detail

- 'Trading Volumes created from orders not available to the public'

*Rise of Dark Pools and Rebirth of ECNs: Death to Exchanges?
Aite Group LLC, September 2007*

- Exchanges, ECNs, will show the order price and volume

Types of 'Dark Pools'

- **Broker Dealer**
 - Integrated with the broker / dealer's electronic trading system
 - Receive single orders as a source of liquidity from several sources
- **Independent**
 - Tend to focus on facilitating block trading
 - Different fee requirements from participating members
 - Tend to have minimum notional value required to be crossed on a monthly basis

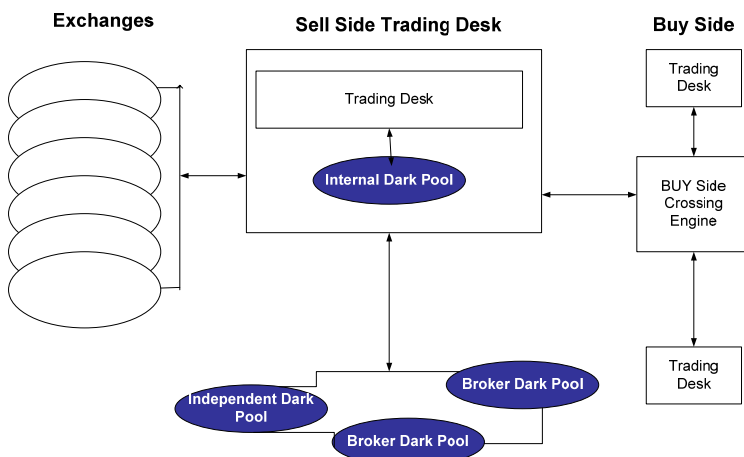
How do they Trade?

- **Pricing**
 - Negotiated: price between parties
 - Auto execute: based on order condition set by trader
- **Type of Execution / Crossing**
 - Continuous
 - Scheduled
- **Volume**
 - Not known until transaction is completed

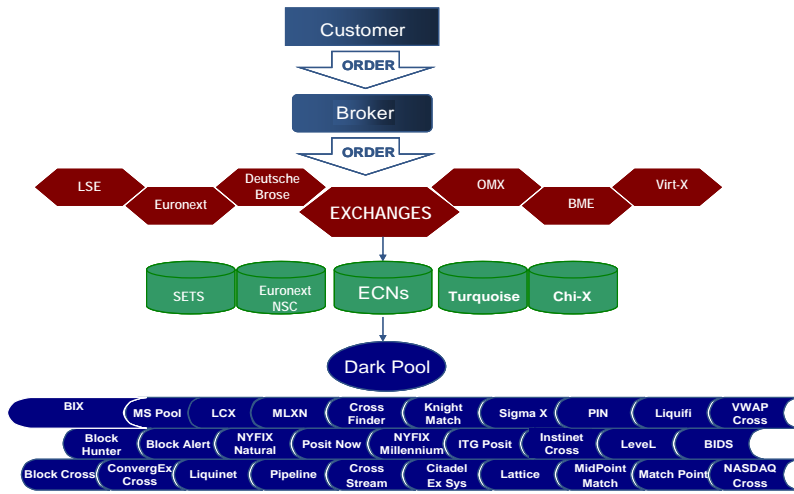
Dark Pools in Asia – Why?

- Asian Markets tend to operate as monopolies for
 - Trading
 - Central counter party
 - Clearing
- ‘Central Limit Order Books’ are based on legacy technologies
- North America has over 40 Potential venues for execution
- Asia to follow the trend
 - Price improvement on markets with large price spreads
 - Execution costs can be reduced
 - Available liquidity of thinly traded stocks
 - Avoid ‘Market Impact’ with large orders

Execution Options.....



Execution Options.....in Europe



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Current Trends

- 'Sweeping for Liquidity' & 'Liquidity Navigation'
 - With an increasing number of execution venues, gaining access to the liquidity poses a technical problem
 - 'Sweeping' algorithms allow access to hunt for liquidity across several venues
- Exchanges ATS joining in
 - Several exchanges are now offering non-displayed orders as an alternative
- More headaches for IT

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And now to the discussion....

