CITIUS, ALTIUS, FORTIUS.

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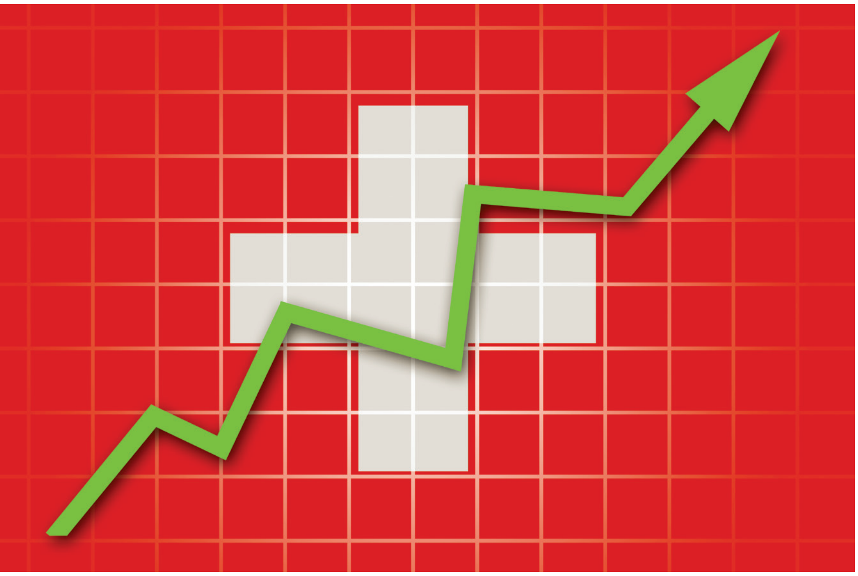

Switzerland may be known for its neutrality, but when it comes to defending its market share in Swiss equity trading, its stock exchange has always embraced competition.

On 3 February 2021, trading in Swiss equities outside of Switzerland was resumed in the UK. It marked the end of a 19-month period of forced isolation during which the Swiss Stock Exchange saw its market share raise to over 99%. As if being caught in the middle of a political row hadn't caused enough potential for destabilization, a global pandemic led to further uncertainty and complicated the task of organizing an orderly functioning marketplace. Successfully managing these historic challenges not only allowed the Swiss Stock Exchange to prove its resilience and demonstrate its competitive and innovative nature, but also presented it with a unique opportunity to assess the effects of liquidity consolidation during a time of unprecedented trading volumes.

INNOVATION IN THE ABSENCE OF COMPETITION

Looking back at 19 months of being excluded from competing, the first conclusion the Swiss Stock Exchange can draw is that this situation didn't curb its innovative spirit. It was never its own choice to be sidelined, and it eagerly prepared for the moment the ban would be lifted. So while waiting for the return to normality it focused on what it could influence: improving its own infrastructure and portfolio of services.

The Swiss Stock Exchange has set the gold standard for innovation for a long time, marked by trailblazing achievements such as opening the world's first fully electronic exchange 25 years ago and currently operating the largest microwave network in Europe. Investing in the most modern technology is part of its DNA, so the Swiss Stock Exchange continued upgrading its platform and systems – something that paid off when unprecedented, sustained volatility and volumes had to be dealt with from March 2020 onwards.

But its infrastructure is not the only thing the Swiss Stock Exchange continued to improve over the course of the 19 months of non-equivalence. To better meet clients' needs, several new services were introduced. The most recent example is the launch of "Swiss EBBO", a service that makes trading in Swiss equities on the Swiss Stock Exchange more efficient. It's a unique setup where three order books – the Central Limit Order Book, non-displayed liquidity pool SwissAtMid, and Swiss EBBO – can be accessed simultaneously with a single order. Besides providing participants with additional liquidity, it supports them in their efforts to achieve best execution for themselves and their clients while reducing the risk and complexity associated with executing in multiple liquidity pools outside of the Swiss Stock Exchange.

Also in the equity space, the Swiss Stock Exchange introduced Trading-At-Last (TAL); for ETFs it launched "Quote on Demand" (QOD); and for structured products the Price Validation Market Model (PVM). Each measure was elaborated in close collaboration with clients and market participants, aimed at making trading more efficient. In that same spirit, the exchange started working on Conditional LIS order functionality for SwissAtMid, which will enhance the ability for its members to source block liquidity later in 2021.

THE IMPACT OF LIQUIDITY CONSOLIDATION

The unique circumstances in trading Swiss Equities over the past 19 months also allow for observations to be made about how the consolidation of liquidity onto one venue impacts market quality. In July 2019, when trading volumes in Swiss shares started to concentrate in Switzerland, some concerns were raised that overall volumes would decline, spreads would widen and implicit trading costs would go up. However, data suggests that there are tangible benefits to market participants and investors in accessing a consolidated pool of liquidity.

Liquidity consolidation onto one venue did not lead to less turnover in Swiss equities, furthermore spreads were largely unaffected and depth of liquidity even improved. The only times wider spreads were observed was immediately after the non-equivalence regime began, and throughout the period of significant volatility in spring 2020 corresponding to the first wave of the Coronavirus pandemic; in both cases spreads recovered toward their narrower historical average, and in particular whilst the pandemic led volatility caused spreads to widen across all primary exchanges, compared to its peers, the Swiss Stock Exchange saw spreads widen less and recover more quickly.

The conclusion drawn by the Swiss Stock Exchange was that consolidated liquidity was more resilient to volatility shocks than

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These historic challenges allowed the Swiss Stock Exchange to demonstrate its competitive and innovative culture.

liquidity fragmented over various trading venues, and that trading efficiency increased, as metrics like an improved order-to-trade ratio showed. This is particularly important when evaluating the so-called implicit trading costs, as increased complexity results in higher searching costs for liquidity, as well as an inefficient replication of infrastructure and operational resources. This indicates that once a certain threshold of liquidity fragmentation is reached, cost and complexity are likely to outweigh the benefits of competition.

For the Swiss Stock Exchange, these learnings indicate a need for debate on market structure that includes the perspective of all market participants, including the buy side, mid-tier and smaller market participants, to avoid reaching a tipping point where complexity outweighs the benefits of competition.

A NEW DAWN

Besides a revitalized desire for competition and learning valuable lessons regarding liquidity consolidation, there's another reason why the Swiss Stock Exchange emerged stronger from 2020: the BME takeover. In June, the Swiss exchange operator SIX completed the acquisition of a controlling stake in the Spanish stock exchanges and financial markets group Bolsas y Mercados Españoles (BME), forming the third-largest operator of financial market infrastructure in Europe.

The combination of SIX and BME, both leaders in their domestic financial markets, is a landmark deal that creates a more diversified group with a strong presence across Europe and a broader geographical reach. The new strength and scale allow it to address current challenges and shape the future of finance, to serve market participants more effectively in the years to come.

All these reasons combined make the Swiss Stock Exchange optimistic about the future. In the spirit of the Olympic motto – Faster, Higher, Stronger – it embraces competition as the driving force behind its quest for excellence and innovation, and it embraces constructive debate about liquidity fragmentation and consolidation. And thanks to its growing portfolio and scale, the Swiss Stock Exchange is confident that its lit and non-displayed books will remain the most attractive options for participants to trade Swiss shares. ●