Transforming markets, driven by demand

The TRADETech Daily talks to Adam Matuszewski, senior product manager at Securities & Exchanges, about how SIX has reshaped Swiss equity trading with its non-displayed pool, SwissAtMid.

What has been the motivation to create SwissAtMid?
SIX operates the primary and secondary market for Swiss equities. Lit trading has always been our core offering, however, we saw the need to run a non-displayed trading facility. In the years prior to the introduction of MiFID II, the popularity of non-displayed trading in Europe had been soaring and this included Swiss equities.

We anticipated that the introduction of DVCs would not diminish the demand for dark trading, which was proved correct when we observed that liquidity shifted back into non-displayed pools after the first expiry of the DVCs in September last year. We therefore launched SwissAtMid to meet client needs with ambition of becoming the go-to venue for Swiss non-displayed trading.

What differentiates SwissAtMid from other venues?
There are few key factors. From a technical perspective, SwissAtMid and our lit book sit on the same matching engine. That not only guarantees accurate midpoint prices but also allows SIX to roll-out new order types that help clients interact with non-displayed and lit liquidity at once.

One example is the sweep order, which first checks the liquidity at the midpoint and then moves to the lit in one atomic cycle. Clients will not miss a potential fill on both books and other participants cannot get ahead of this order.

The other aspect that differentiates SwissAtMid from other pools is the participation of Swiss private banks. For many of them, SwissAtMid is the preferred non-displayed pool. Their participation adds uniqueness to the liquidity mix which is crucial for the whole market. Last but not least, SwissAtMid operates under Swiss financial law, free from any volume caps.

Which clients trade in SwissAtMid?
The lion's share of trading activity comes from investment banks and brokers which accounted for approximately 70% of turnover in Q1 of 2019. They mostly interact with SwissAtMid through dark seeking algos that aim to reduce information leakage, minimise market impact and achieve price improvement by trading at the midpoint. The remaining 30% is split between proprietary trading firms and private banks. The latter account for approximately 20% of trading activity. Their interaction is mostly either through Sweep orders or large resting orders.

What are the latest performance statistics for SwissAtMid?
In Q1 2019, the average price improvement stood at four basis points. In March alone, the value of price improvements reached CHF 520,090, and for the whole of 2018 savings amount to CHF 4.2 million. SwissAtMid has enjoyed exponential growth and is the largest liquidity pool among non-displayed and periodic auction venues in Swiss equities today. In Q1 2019, over CHF 5.6 billion was traded, and CHF 25 billion since launch in Q4 2016. Its current market share of around 38% is three times more than its nearest competitor.

Which other factors have fueled this growth?
We have seen a strong growth in block liquidity since January 2018. Currently, 32% of the turnover results from orders with a size larger than LIS thresholds. We believe surging trade sizes are a trend across all non-displayed pools, driven by demand from both buy-side and sell-side clients for non-displayed and block trading.

Furthermore, if we look at LIS executions in single Swiss shares on other dark or periodic auction venues, we believe that block liquidity in that share can be found in SwissAtMid about 25% of the time. Further, if a trade has been executed on other venues, this liquidity remains in place on SwissAtMid. This indicates the unique nature of the resting orders that market participants can interact with in SwissAtMid.

How did the Swiss stock exchange respond to the growth of block liquidity?
Last year we introduced two new orders that have further improved LIS liquidity – Limit Plus and Iceberg Plus. They facilitate block executions and can speed up time to fill. Limit Plus is a completely unique order that significantly increases the likelihood that a trade gets executed, since it offers dual exposure in both books.

With Limit Plus, participants rest orders fully visible in our lit book but are also available for execution on SwissAtMid. Iceberg Plus is an enhanced version of our existing iceberg orders whereby the visible tranche is pegged to the bid/offer while the full quantity is also available to trade in SwissAtMid.

Who benefits the most from this new order types?
Limit Plus orders help participants to capture more volume and avoid spread crossing that could harm performance against the benchmark, because they sit at the best price in the lit book while simultaneously benefiting from the liquidity available at the midpoint on SwissAtMid.

This is particularly interesting for firms utilising VWAP (volume weighted average price) algorithms, which seek to execute trades at prices below the daily trading average, by following the historical volume curve, combining spread capture and cross logic.

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