

## Liquidity Management, Low Latency Dominate SIFMA Buzz

*With liquidity in U.S. stocks spread across so many electronic trading venues, several vendors are showing products that aggregate the feeds across liquidity pools.*

By [Ivy Schmerken](#)  
June 20, 2007

As Wall Street IT executives walk the SIFMA show floor searching for innovative electronic trading technologies that could deliver a competitive edge, they will notice that the big buzzwords are liquidity management and low latency.

With liquidity in U.S. stocks spread across so many electronic trading venues, several vendors are showing products that aggregate the feeds across liquidity pools.

Addressing the problem of market fragmentation in U.S. equities trading, Reuters (booth #1101) teamed with Skyler Technologies (booth #3118) to aggregate the exchanges' North American order book feeds. Skyler's C3 Order Book Solution aggregates direct data feeds via the Reuters Data Feed Direct (RDF-D) for all North American venues.

Skyler takes all the Reuters Level 2 feeds and inserts them into an order book, according to Valerie Bannert-Thurner, VP business development at Skyler. "The Skyler system aggregates all the liquidity information from the liquidity venues all into one view," she says. "It's a liquidity discovery solution."

Reuters offers a whole suite of Level 2 data feeds — including Nasdaq Level 2, Itch, INET, NYSE Arca and NYSE Open Book as well as the Toronto Stock Exchange Level 2 feeds, says Bill Ruvo, VP Reuters Datafeeds, North America. "The value that Skyler brings to Reuters customers of those Level 2 venues is that they aggregate them so a customer through one view gets a complete picture of all the fragmented liquidity from all those different venues."

There's a trend toward more-sophisticated algorithms increasingly using liquidity information, adds Skyler's Bannert-Thurner. "We get more traction with the aggregated view of the feeds," she notes.

For those traders looking to do algorithmic trading in foreign exchange, Progress Apama (booth #2217) has produced an algorithm that aggregates all the liquidity pools in the FX market. The vendor announced Progress Apama FX Aggregation Accelerator for the SIFMA Conference.

"The liquidity is so fragmented," says John Bates, founder and VP, Apama Progress, Progress Software. In addition to the banks quoting prices, "You've got aggregators like EBS and Reuters, and ECNs like Hotspot, Currenex and FXall — while all the FX pools provide APIs to connect with the pools, they use proprietary formats." However, Apama has built adapters to provide connectivity to all of the pools, he says.

"What's very attractive is to create an aggregated order book view across all those liquidity pools," continues Bates. The next stage is for firms to build algorithms using Apama's building blocks and its underlying complex event processing engine (CEP). "Our graphical modeling tools can build algorithms that can trade this aggregate view," Bates relates.

Sang Lee, managing partner at Aite Group in Boston, agrees that the issue of fragmented liquidity is one that everyone is facing. "As you're looking at the marketplace where there is a lot of focus on low-latency trading and massive issues around fragmentation, how do you get the data in as quick as possible and identify opportunities in the marketplace and get that done in a second?" asks Lee.

Low-latency trading also is a factor in complying with Regulation NMS, for which firms will need to route orders to the best price. "You have to get to the price as quickly as possible. That's why you see all these colocation deals," says Lee.

Broker-dealers gearing up for the implementation of the Pilot Phase of Reg NMS on July 9 can get some last-minute guidance at the conference. Jordan & Jordan (booth #3000), a management consulting firm, has unveiled Enterprise Compliance Solution (ECS), a compliance dashboard that will combine Reg NMS topics with more-traditional compliance activities, such as OATS, ACT and OTS reporting, and monitoring employee watch lists.

On the Reg NMS side, ECS will give an indication of whether firms have traded through the best price and also provide tools to measure latency in their market data, says Tom Jordan, president and CEO, Jordan & Jordan. "You are responsible to make sure you have reasonable latency in terms of getting market data," he says. "If the market data is 30 seconds out of date because internally within your organization you have all these bottlenecks, then you'd be violating the rules."

As electronic trading expands beyond U.S. equities, and interest in international securities trading grows, exchanges recognize they need to provide faster access to their data. Yesterday, the London Stock Exchange announced that it had partnered with San Francisco-based Yipes (booth #1610), a provider of global network services, to offer access to the exchange's Infolect market data service. Yipes will provide access to Infolect, the exchange's market data platform and ticker plant, via Yipes Financial Connect!, the first Ethernet-based financial extranet for electronic trading, according to the vendor.

The strategic alliance with Yipes enables customers to access the LSE data via the Yipes network as an alternative to running direct lines, according to James Baugh, manager, vendor alliances, at the LSE. "Once you're outside the U.K.

and some of the metropolitan areas, it becomes cost prohibitive for some of the buy-side firms to take the point-to-point connections," he says.

According to Colleen Dennis, head of market data audit at the LSE, "We're seeing more activity on the buy side looking to get access to that data and looking at every option to do that. ... This is the closest you can get to direct connectivity without being directly connected."

Traditionally, firms accessed the LSE data through third-party vendors, such as Reuters and Bloomberg, that would take the data and pass it out to the market. But that builds in additional latency, notes Baugh. "Now we are building a solution that allows that low latency, which is attractive ... particularly with the proliferation of algorithmic trading."

The LSE executives say they plan to enter into more alliances with other network service providers. "We're actively trying to get the network service providers up and running. The next step is to work closely with the network service providers — including Yipes, Sawvis and BT Radianz — to ensure that the market knows that London data is available to them in this way," says Dennis.

While all of these new technologies claim to offer ultralow latency and optimize performance, there has been no way to prove these marketing claims — until now. Eyeing the opportunity to help firms evaluate innovative technologies in capital markets, the Securities Technology Analysis Center (STAC; booth #1720) announced that it would open a New York branch of STAC Labs in July 2007. In the New York Lab, STAC will test combinations of technology or technology stacks in many areas of the trading process, including market data distribution, tick data basing, complex event processing, messaging and order execution, according to the organization.

"The problem that all this new technology creates is no one has time to evaluate it anymore," says Peter Lankford, director of STAC, which already has a lab in Chicago. "Clients that want to evaluate a new technology ... need people ready to test, usually they're not familiar with the new technology and there's a learning curve," he says. "If we have a place where the technology is all set up, the tools are all integrated, there's a testing environment — that can be tremendously valuable to them," Lankford notes.

Aite Group's Lee says the concept of a testing lab is a good idea. "I've yet to find anyone who comes to us and says we're the second fastest," he says.