

# GETCO, the white knight for competition if BATS disappears

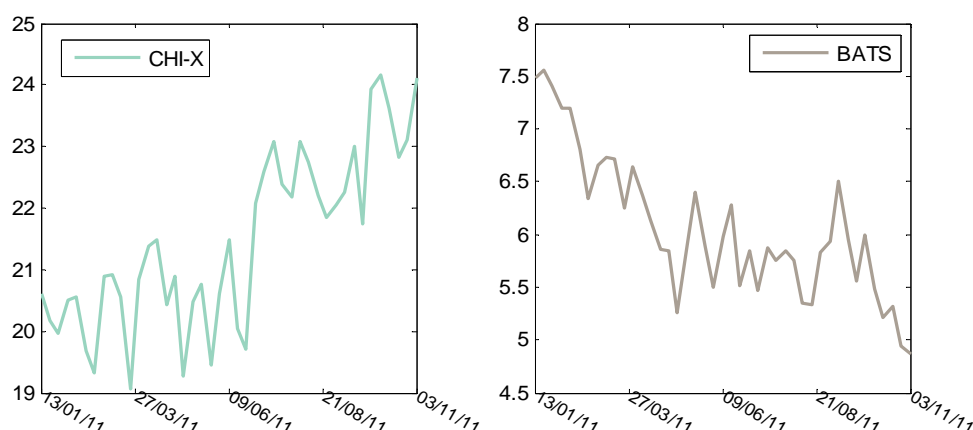


"GETCO said that it would invest in new MTFs for strategic reasons if it felt that consolidation in the marketplace went too far and harmed pricing or competition. It had already done so in the US with its support of BATS".

These words come from a summary of GETCO's hearing with the UK Competition Commission about the BATS-Chi-X merger. It would thus maintain a sufficient level of competition by investing and bringing flows to any new entrants that would compete with the new group.

**Chi-X** would certainly not be the one to need help, since its market share is on a long-term positive trend, while BATS is moving in the opposite direction (see chart below).

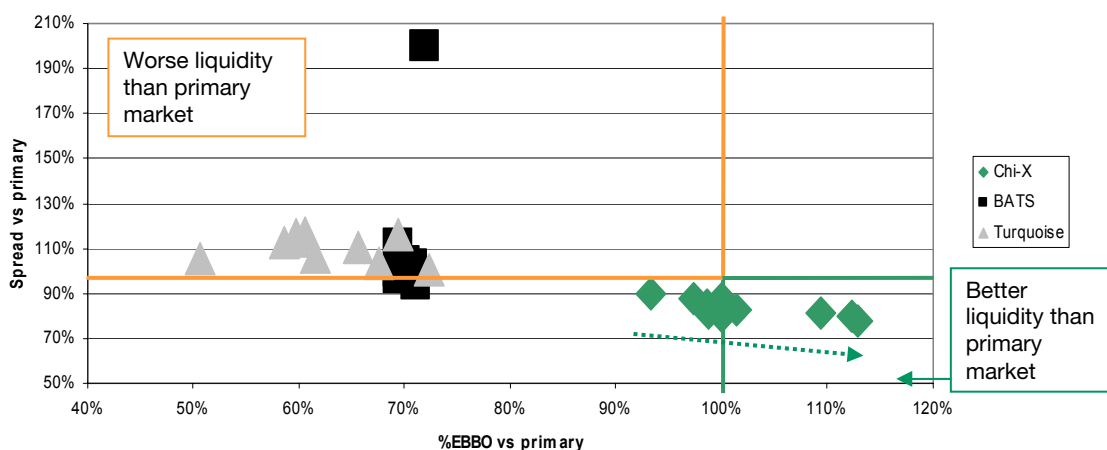
Weekly BATS-Chi-X market shares on European LMs since January 2011



**Chi-X's price formation process is dominating that of other MTFs**, in terms of the quality of bid-ask spreads and level of turnover. Moreover, it is becoming more like a regulated market. Bid-ask spreads are tighter than those of primary markets on many indices, the average daily number of trades have looked similar on some indices for a few months now, as has the percentage of time spent at the EBBO. Even percentages at the EBBO with greatest size are closer than ever (17% and 19%, respectively, in October). The chart below illustrates this phenomenon, showing monthly bid-ask spreads relative to primary markets (y-axis) and monthly % EBBO relative to primary markets (x-axis) since January on FTSE 100 stocks.

Since liquidity attracts liquidity, this trend is not likely to be disrupted. **Traders are turning away from BATS and favouring Chi-X. Under these conditions, the former objective announced by both exchanges to keep two separate lit order books is still looking relevant but no longer looking easily achievable.**

Spread and % EBBO: Chi-X has set itself apart from other MTFs (since January 2011, on FTSE 100 stocks)



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How could Chi-X get even better? By improving its technology. That's what BATS is doing, notably by adding a native binary protocol to its FIX offer, which will reduce its latency for participants that invest to use it. And this will benefit Chi-X once the merger goes through. Conversely, it is highly likely that this will not help BATS get back in the running, since its technology is already among the best and has brought it substantial HFT. **The MTF might thus ironically be eaten up by Chi-X's success.** Nevertheless, BATS Europe will have the opportunity to follow the path of its US mother company, and provide listings to European firms. In this case, the new operator will be the first true pan-European regulated market.

European fragmentation would then have one fewer competitor, and might require intervention from GETCO, as indicated above, to avoid markets being governed by only two or three big exchanges. In October, **BATS was given provisional approval from the UK Competition Commission** for its acquisition of Chi-X. We will soon know the final word of this story, since the **definitive go-ahead is expected for 2 December.**

### OTHER MERGERS

**Deutsche Börse and NYSE Euronext** have been asked several questions by the European Commission with regard to the probable loss of competition in clearing for their derivatives platform if their merger goes through. The **London Stock Exchange** continues its expansion with the acquisition of the **FSA's Transaction Reporting Service**. It announced it got approval from the Office of Fair Trading in October.

### OCTOBER FIGURES

Daily volumes on Local Main Indices (LMIs) were back to normal (EUR22bn), the decrease versus last month was especially due to a smaller number of trades, while trade sizes were stable for the first time in three months. One day, Thursday 27 October, stood out from others with particularly high volumes and volatility following the European leaders' agreement on solving the euro zone financial crisis. This was also the case on 1 November, when a referendum was announced in Greece.

In terms of market share, **BATS has returned to its down-hill performance.** Its total market share on LMIs fell under the 6% threshold. Chi-X and Turquoise had mixed performances depending on the indices. Primary markets remained relatively stable.

One phenomenon to note from a more general point of view is the increased uniformity of trade sizes between four of our indices: AEX, CAC40, DAX30 and FSE 100. This is clear from the table below. **For each exchange, average trade size has become relatively similar across countries.**

Average trade size (EUR) in October				
	Primary market	Chi-X	Turquoise	BATS
AEX	6 771	4 417	4 371	3 821
BEL20	4 797	3 738	3 290	2 843
CAC40	6 704	4 523	4 401	3 832
DAX30	12 854	5 216	5 342	4 173
FTSE 100	6 383	4 790	4 580	3 822
SLI30	14 401	8 336	7 593	6 782

Contrary to volumes, **dark market share rose significantly** vs. September for all venues and indices (from 1.7% to 2.2% of visible volumes on all European LMIs). **Liquidity during auctions decreased** sharply. **Bid-ask spreads were also tighter** than in September. These three facts are relatively consistent with **lower volatility.**

### FACT OF THE MONTH

Chi-X Australia was launched on 31 October. It received ASIC approval to start trading on more equity securities and ETFs as of 9 November. This is Australia's first major step into a multi-market environment. Bear in mind that Chi-X Global owns every Chi-X platform in the world, with the exception of Chi-X Europe, which is owned by Instinet (soon to be replaced by BATS).

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# MARKET LIQUIDITY INDICATORS OCTOBER 2011

## BREAKING NEWS:

On 9 November, the **French Senate** adopted an amendment aimed at limiting High Frequency Traders. It seeks to tax all orders from traders with an excessively high cancellation rate. To be continued...



												
		THREE-MONTH TREND	ONE-MONTH TREND	TWO-WEEK TREND	MARKET SHARE	DARK (MID-POINT) MARKET SHARE	AUCTION LIQUIDITY*	AVG DAILY NO. of TRADES	Average Trade Size (ATS)	Bid-ASK Spread (VWAS in bp)	% time at BEST BID &OFFER*	% time at BEST BID & OFFER with greatest size*
AEX	EURONEXT	→	↑	↓	63.0%	0.2%	7.3	6 883	6 769	5.4	45%	18%
	CHI-X	↓	↓	↑	25.0%	0.6%		4 869	4 422	4.3	41%	7%
	TURQUOISE	→	→	→	6.7%	0.5%		1 313	4 363	8.3	14%	0%
	BATS	→	↓	→	5.3%	0.4%		1 182	3 821	9.1	12%	0%
	BEL20	EURONEXT	↑	↑	↑	65.1%	0.1%	9.8	3 097	4 815	8.7	45%
	CHI-X	↓	↑	↓	21.3%	0.5%		1 612	3 745	8.0	36%	7%
	TURQUOISE	↑	→	→	8.2%	0.7%		704	3 296	13.0	26%	3%
	BATS	↓	↓	→	5.4%	0.5%		543	2 843	13.9	15%	1%
	CAC40	EURONEXT	→	→	→	64.1%	0.2%	9.3	9 859	6 709	6.0	47%
	CHI-X	→	↑	→	23.5%	0.8%		6 592	4 525	4.3	46%	9%
	TURQUOISE	→	→	→	7.2%	0.6%		2 073	4 416	7.4	20%	1%
	BATS	→	↓	→	5.2%	0.5%		1 703	3 840	6.9	13%	0%
	DAX	XETRA	→	↓	↑	64.9%	-	5.5	7 528	12 833	4.2	46%
	CHI-X	↑	↑	↓	24.2%	1.0%		8 372	5 221	3.8	45%	11%
	TURQUOISE	↑	→	→	6.7%	0.4%		2 267	5 334	7.0	15%	2%
	BATS	↓	↓	→	4.2%	0.2%		1 828	4 175	7.7	11%	1%
	FTSE 100	LSE	↓	→	↑	52.1%	-	10.8	4 057	6 398	6.6	65%
	CHI-X	↑	→	↓	31.0%	1.3%		4 138	4 791	5.3	73%	17%
	TURQUOISE	→	→	→	8.6%	0.9%		1 208	4 570	7.0	40%	1%
	BATS	→	↓	↓	8.2%	0.7%		1 376	3 821	6.4	46%	1%
	SLI (30)	SIX	→	↓	↑	68.5%	-	8.8	3 316	14 403	8.1	62%
	CHI-X	↑	→	↓	20.4%	0.6%		2 123	8 314	8.2	58%	9%
	TURQUOISE	↓	↑	→	6.1%	0.5%		746	7 555	9.7	40%	2%
	BATS	↓	→	→	5.0%	0.6%		636	6 770	9.8	32%	1%
	EUROSTOXX 50	CHI-X	→	↑	→	19.7%	0.7%		8 524	5 446	4.0	54%
	TURQUOISE	→	→	→	5.3%	0.4%		2 571	5 496	6.3	27%	1%
	BATS	↓	↓	→	3.9%	0.3%		2 235	4 819	7.2	27%	1%

Reference period: 1 October to 31 October 2011

\* Exclusive CA Cheuvreux – TAG

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## DEFINITIONS:

**Market Share:** For local main indices, this is the ratio of the venue's turnover over the sum of the turnover of all the four considered venues. For the Eurostoxx 50, it is the ratio of the venue's turnover over the sum of the turnover of all venues trading Eurostoxx 50 components.

**Dark (mid-point) Market Share:** For local main indices, this is the ratio of the venue's dark turnover (mid-point type) over the sum of the visible turnover of all the four considered venues. Euronext lines correspond to Smartpool turnover, whereas Chi-X represents Chi-Delta figures, Turquoise Dark and Bats is Bats Dark.

**Auction Liquidity:** This is the ratio of the proportion of the turnover traded during auctions by the typical time ratio between the continuous auction phase (generally 8½ hours) and the fixing auctions (usually two 5-minute phases), which is less than 2%. It is only available for primary exchanges. The higher it is, the more turnover one will find during auctions.

**Average Daily Number of Trades:** The higher it is, the more chance an investor has to be present when a trade happens. *Contrary to block venues, the granularity of a venue is a must to attract different order flows.*

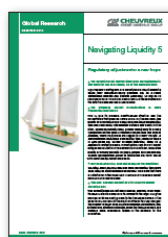
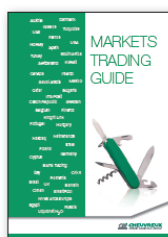
**Average Trade Size (ATS):** Mean trading size in euros. This can be considered as the "natural size" of orders on the venue

**Bid-Ask Spread (Volume Weighted Average Spread):** The average spread when a trade occurs, weighted by the turnover of the trade. It is the bid-ask spread from the liquidity provider's point of view.

**% Time at EBBO at Best Bid and Offer:** This is the proportion of the day during which the venue offers a spread equal to the EBBO.

**% Time at EBBO at Best Bid and Offer with Greatest Size:** This is the proportion of the day during which the venue offers the greatest sizes at a spread equal to the EBBO.

## OTHER CA CHEUVREUX PUBLICATIONS:



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