## Premature Slippage

Presenters: Katie Funk, Colin Neagle, Michael Foster, Philippe Volcy and Howard Edwards



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#### AGENDA

- ▶ Introduction Katie
  - Problems with traditional investment firms
- The Robinhood Citadel Dilemma/ What is
   Slippage and how does it occur
   Colin
- Our proposal Michael
- ▶ Code review Philippe
- ▶ Conclusion Howard

# THE GROWING CONCERN WITHIN THE GLOBAL FINANCIAL SYSTEM

- Current financial system
  - ► Extensive problems
    - Unnecessary costs
    - Fees
    - Delays
    - Time consuming paperwork
    - 45% financial intermediaries suffer economic crime annually
    - Slippage
- Financial transactions are inefficient and opportunistic for crime.

# TYPICAL FEE STRUCTURE OF A TRADITIONAL BROKERAGE FIRM

Assets Under Management	Program Fee	
First \$250,000 (\$0 -\$250,000)	1.35%	
Next \$250,000 (250K to \$500K)	1.30%	
Next \$500,000 (\$500K to \$1Million)	1.25%	
Next \$1,500,000 (\$1Mil to \$2.5Million)	1.00%	
Next \$2,500,000 (\$2.5Mil to \$5 Million)	0.80%	
Next \$5,000,000 (\$5 Mil to \$10 Million)	0.60%	
Over \$10,000,000	0.50%	

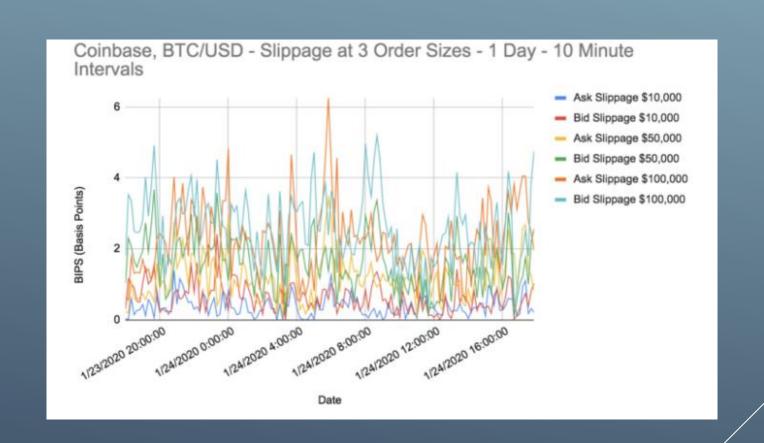
Additional Fees	Portfolio Fee
First \$250,000 (\$0 -\$250,000)	0.09%
Next \$250,000 (250K to \$500K)	0.09%
Next \$500,000 (\$500K to \$1Million)	0.08%
Next \$1,500,000 (\$1Mil to \$2.5Million)	0.07%
Next \$2,500,000 (\$2.5Mil to \$5 Million)	0.06%
Next \$5,000,000 (\$5 Mil to \$10 Million)	0.05%
Over \$10,000,000	0.05%



## THE MYTH OF ROBINHOOD TAKING FROM THE RICH AND GIVING TO THE POOR

- Robinhood's model relies on revenue from selling investment choices of its users
  - ► They charge investment firms fees to view real-time investment choices of their users
- Robinhood relationship with the Citadel Securities
  - ▶ Half their orders or re-routed to Citadel
  - Robinhood limited trading to certain stocks (pressure from Citadel?)
    - ► The restriction applied to stock Citadel had a short position

### WHAT IS SLIPPAGE AND HOW DOES IT OCCUR?





#### OUR SOLUTION

## A BROKERAGE THAT UTILIZES NON-FUNGIBLE TOKENS AND THE ETHEREUM NETWORK TO ENCRYPT ORDER FLOW UNTIL EXECUTION

Using the ERC-721Non-Fungible Token Standard, each individual order would be minted to contain all the salient information unique to the order (Account ID, Security ID, Buy/Sell, Timestamp). This Token would be decrypted only at the moment of execution. This ensures no market participant is capable of transaction with prior knowledge of any order on our platform. In this way, our platform would allow retail investors to trade with the anonymity previously only available to institutions via 'dark pools'

We would have a tiered subscription-based model, with monthly fees escalating for accounts with higher volumes of order. As such, we believe we can ensure that customers enjoy the autonomy and economic efficiency of other electronic trading platforms, while also avoiding the slippage that arises as a direct but undisclosed consequence of PFOF-based models.

### COIN MINTING AND DEPLOYMENT

(block:28 txIndex:0] from: 0x4bab6864 to: newNF	T.(constructor) value: 0 wei data: 0x60800033 logs: 0 hash: 0x935b27a9
status	true Transaction mined and execution succeed
transaction hash	0x9355b2ed19a58fa2a64c64db148fce91c870c903b4960c19f7eb7da1f05b27a9
from	8x4ba1474392826f86396F5bd1889AbA61b33b6864
to	newNFT.(constructor)
gas	2784138 gas (D
transaction cost	2784138 gas 😥
hash	0x9355b2ed19a58fa2a64c64db148fce91c870c903b4960c19f7eb7da1f05b27a9
input	ex6eseee33 Ø
decoded input	0 0
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#### CONCLUSION

- ▶ In 6 months, four eBrokers made \$1.107 Billion on user order flow.
- ► From Q1'20 to Q2'20, Robinhood's platform experienced a 138.7% increase in total trading volume
- ➤ The Robinhood/Citadel incident highlights an ongoing issue with exploiting user data through the use "free" online platforms.
- Our blockchain based exchange could offer protection for these user and future retail investors by charging a subscription to utilize the platform. This could help keep trading costs low, utilize the reduction in trade slippage, and allow trader data to be secure. Allocating gas costs would still need to be worked out.
- ► This platform would essentially work as a blockchain based dark pool.

#### Quarterly PFOF Received By Security Type Across eBrokers

	1Q20			2Q20		
	PFOF	Rate	Volume (1)	PFOF	Rate	Volume (1)
AMTD		1111	111111			111
Equity	\$72,782,936	0.0015	49,212,002,671	\$144,219,349	0.0015	98,364,165,054
Option	\$129,597,189	0.0053	24,255,637,772	\$179,991,996	0.0058	30,795,846,666
Total	\$202,380,125	0.0028	73,467,640,443	\$324,211,345	0.0025	129,160,011,719
DARTS			2,101,804			3,397,286
ETFC						
Equity	\$29,822,204	0.0016	18,562,366,184	\$50,210,044	0.0015	33,144,467,379
Option	\$49,829,545	0.0045	11,036,341,199	\$60,117,332	0.0046	13,122,443,101
Total	\$79,651,749	0.0027	29,598,707,383	\$110,327,376	0.0024	46,266,910,480
DARTS			657,183			1,009,956
SCHW						
Equity	\$25,447,153	0.0011	22,232,834,484	\$32,396,842	0.0011	28,482,112,023
Option	\$28,517,592	0.0036	8,024,553,916	\$33,745,172	0.0037	9,145,934,130
Total	\$53,964,745	0.0018	30,257,388,400	\$66,142,014	0.0018	37,628,046,153
DARTS			1,540,000			1,619,000
Robinhood						
Equity	\$31,116,950	0.0024	13,005,221,609	\$69,116,307	0.0017	41,347,550,375
Option	\$59,802,125	0.0048	12,394,283,097	\$111,148,089	0.0058	19,280,349,422
Total	\$90,919,076	0.0036	25,399,504,706	\$180,264,395	0.0030	60,627,899,797
DARTS			n/a			n/a