

Electronic Trading – Global Lessons Learned and Implications to Hong Kong

FIXGlobal Face2Face Electronic Trading Forum - Shanghai

Eric Yip
Head of Cash Market, HKEx

3 September 2009

Agenda

- **Global Developments**
- Lessons Learned
- Hong Kong's Current Status
- What Lies Ahead?

US and Europe marketplaces have undergone significant changes: Mission accomplished?

Regulation

- June 2005 - Regulation National Market System (Reg NMS)
- Designed to foster competition between markets and minimize trading costs
- Best execution and market data revenue sharing regulations

Technology

- Fast and deep distribution of market data
- Low latency trading across multiple trading venues
- Low cost barrier for new entrants in the trading venue space

Market Features

- Innovation came from upstart trading venues designed to attract liquidity from the incumbent exchanges, many with broker dealer shareholdings
- Maker taker model
- Single shares with decimalized spreads
- Non-displayed order books
- Order types designed to support automated trading

Some food for thought

- Central versus multiple venues?
- Price formation versus hidden execution?
- Consolidated market data?
- Flash orders and IOI?
- Changes in economics? (eg decimalization, surplus distribution)
- Implications of technological advancements?
- Business models
 - Broker dealers
 - Prop traders
 - Execution venues

Hong Kong at a glance

Regulation

- ATS regulations (part 3 vs. part 5)
- SEHK monopoly
- Reporting requirements
- Vertical integration of exchanges and clearinghouses

Alternative Liquidity Pools

- Broker internalization
- Crossing networks (mainly broker dealers owned, ie type 5)

Traditional Marketplace

- Product dynamics
- Trading dynamics (i) (order to trade ratio)
- Trading dynamics (ii) (retail versus institutional)
- Broker dynamics (> 465 brokers)

What lies ahead?

- Changes will be mainly regulatory driven
 - Level playing field
 - Trade reporting requirement
 - Consolidated market data
 - Transparency of operations
- Competitiveness in market infrastructure should be improved progressively
 - Trading system and network
 - Trading mechanism
 - Transaction cost
- Maintain prudent cost control
- Maintain operational focus