



## Transaction Banking

Regulation and challenges ahead of us

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15 June 2017

**Performance creates trust**

# Agenda

**Regulation**

**Market Structure**

**Liquidity and Price**



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## MiFID II / MiFIR

### Scope also for FIDLEG

#### Client requirements & Governance

- Client classification
- Client agreements
- Information & reporting to clients
- Client Assets
- Inducements
- Conflict of interests
- Client Order Handling

#### Trading requirements

- Best execution & client order handling
- Derivatives clearing & trading obligations
- Trade & Transaction reporting

#### Product & offering requirements

- Product Review & governance, Distribution Practices & Cross Selling

- Corporate governance
- Remuneration
- Knowledge and competence

- Algorithmic trading & HFT & DEA
- Clock synchronization, Recording, etc.

- Suitability and Appropriateness
- (Non)-Independent Investment Advice

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## MiFID II / MiFIR Trading requirements



### Best Execution (Art. 27 MiFID II)

- Vontobel operates its own SOR and Algo Engine infrastructure co-located in Zurich
- Vontobel offers a powerful and neutral Transaction-cost-analysis (TCA) tool and prove of Best Execution
- Publication of top 5 venues brokers

### Trade Reporting (Art. 6, 20 MiFIR)

- Trade Reporting information needs to be sent in near real-time and is to be made public
- Trade Reporting obligation to an Approved Publication Arrangement (APA) → Assistant Trade Reporting

### Transaction Reporting (Art. 24 – 27 MiFIR)

- Transaction Reporting requirements to all instruments traded/admitted to trading in the EU, and to derivatives of which the underlying instrument is traded on an EU trading venue
- Transaction Reporting obligation to an Approved Reporting Mechanisms (ARM) for an EU-Client
- Vontobel deliver necessary data to the ARMs

# Agenda

Regulation



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## Market Structure today

### Liquidity is key

Venues	Today
RM	 <p>very diverse clients, surveillance, transparent, auction monopoly, severe latency difference</p>
MTFs (Dark / Lit)	 <p>diverse clients, surveillance, no auctions, low latency, large interaction with HFTs, transparent</p>
BCN	<p><b>Broker Dark Pools</b></p> <p>Not transparent, no equal treatment, very large interaction with HFTs / risk books, high toxicity</p>
SI	<p><b>High Frequency Trading Firms / Market Makers</b></p> <p>Post transparency, no equal treatment, no surveillance, one counterparty, very high toxicity, only with HFT / risk books</p>
Block	<p><b>Brokers</b></p> <p>Not transparent, no surveillance, clients against clients or risk book, low market impact</p>



## MiFID II / MiFIR Market Structure will be impacted by the new regimes

### Liquidity is key

Venues	expect. changes
RM	+
MTFs (Dark / Lit)	+ -
BCN	-
SI	+
Block	+

We expect the following post MiFID II full implementation:

- BCN trading will move to SI
  - double volume caps
- Blocks will be essential to find liquidity
  - Crosses over the phone
- Dark MTF will increase to trade LIS and/or continuous auction pools
  - new models
- TCA to prove execution quality will be a key focus
  - quality an proof of execution

## Floor Trading

**Certain participants always had an advantage**

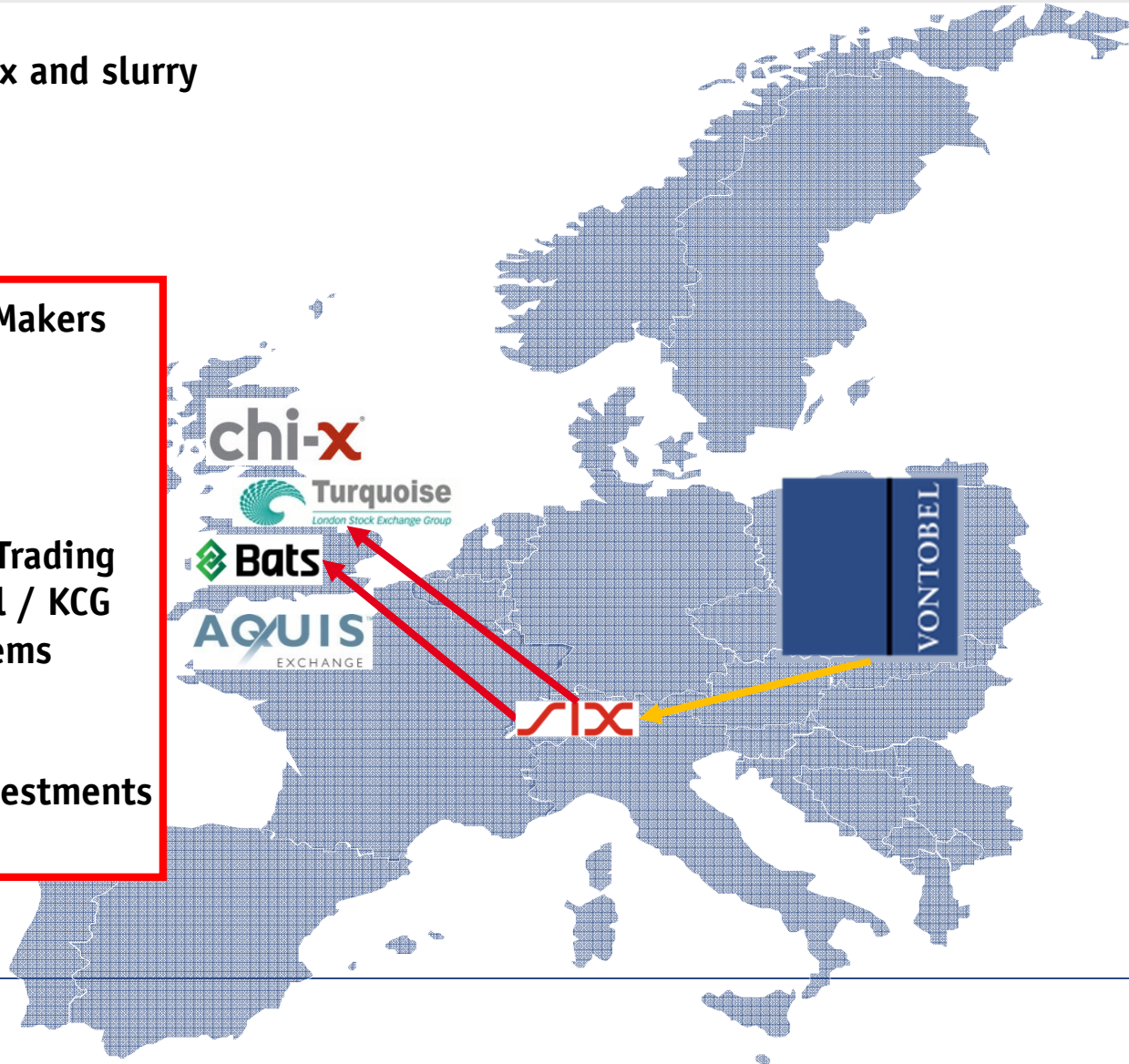


## Systematic disadvantage of certain participants

Markets are complex and slurry

### HFTs and Market Makers

- Jump Trading
- Optiver
- Spire Europe
- Citadel
- Hudson River Trading
- Virtu Financial / KCG
- Tradebot Systems
- Sun Trading
- Spot Trading
- Two Sigma Investments
- Flow Traders



# Agenda

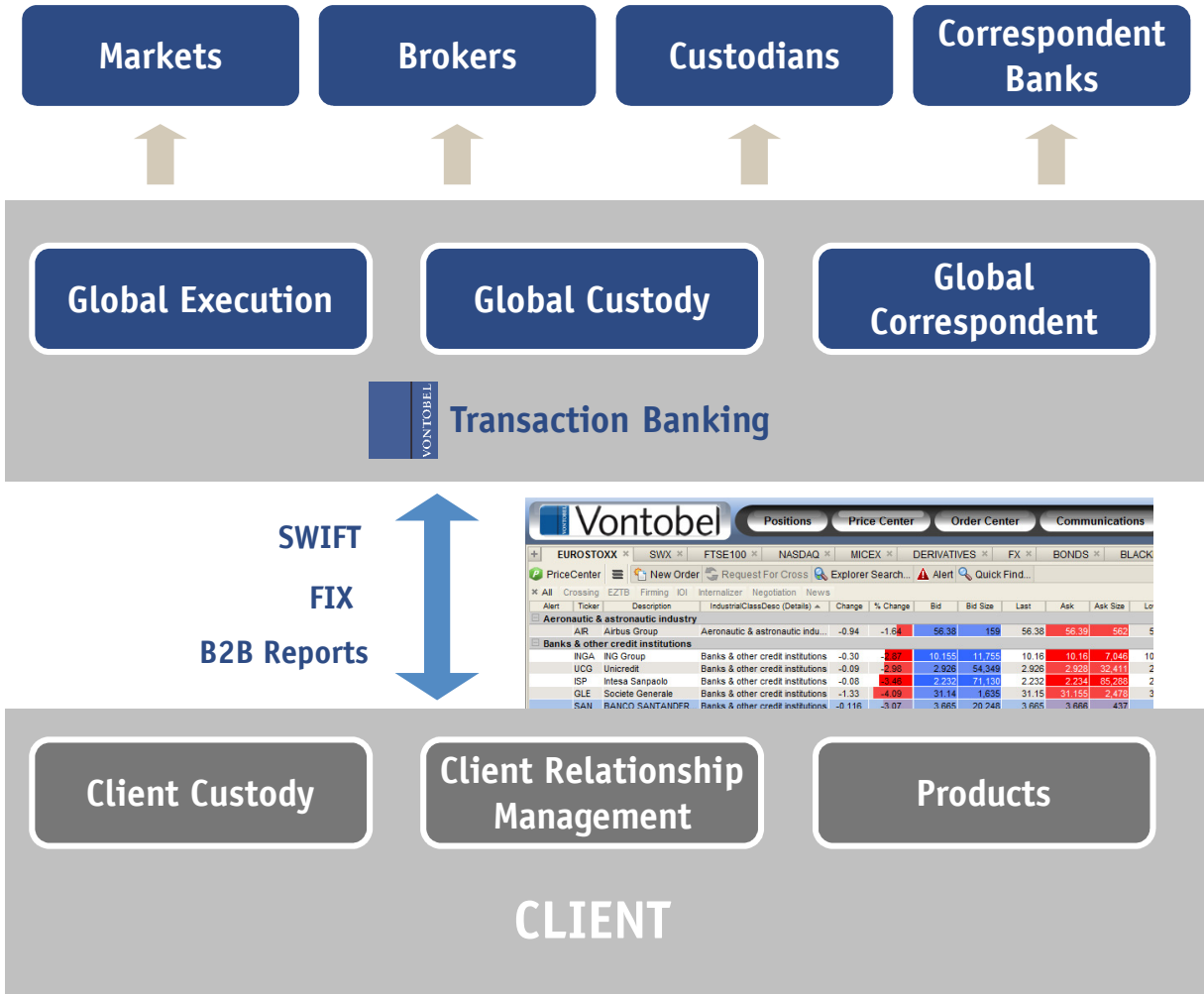
Regulation

Market Structure

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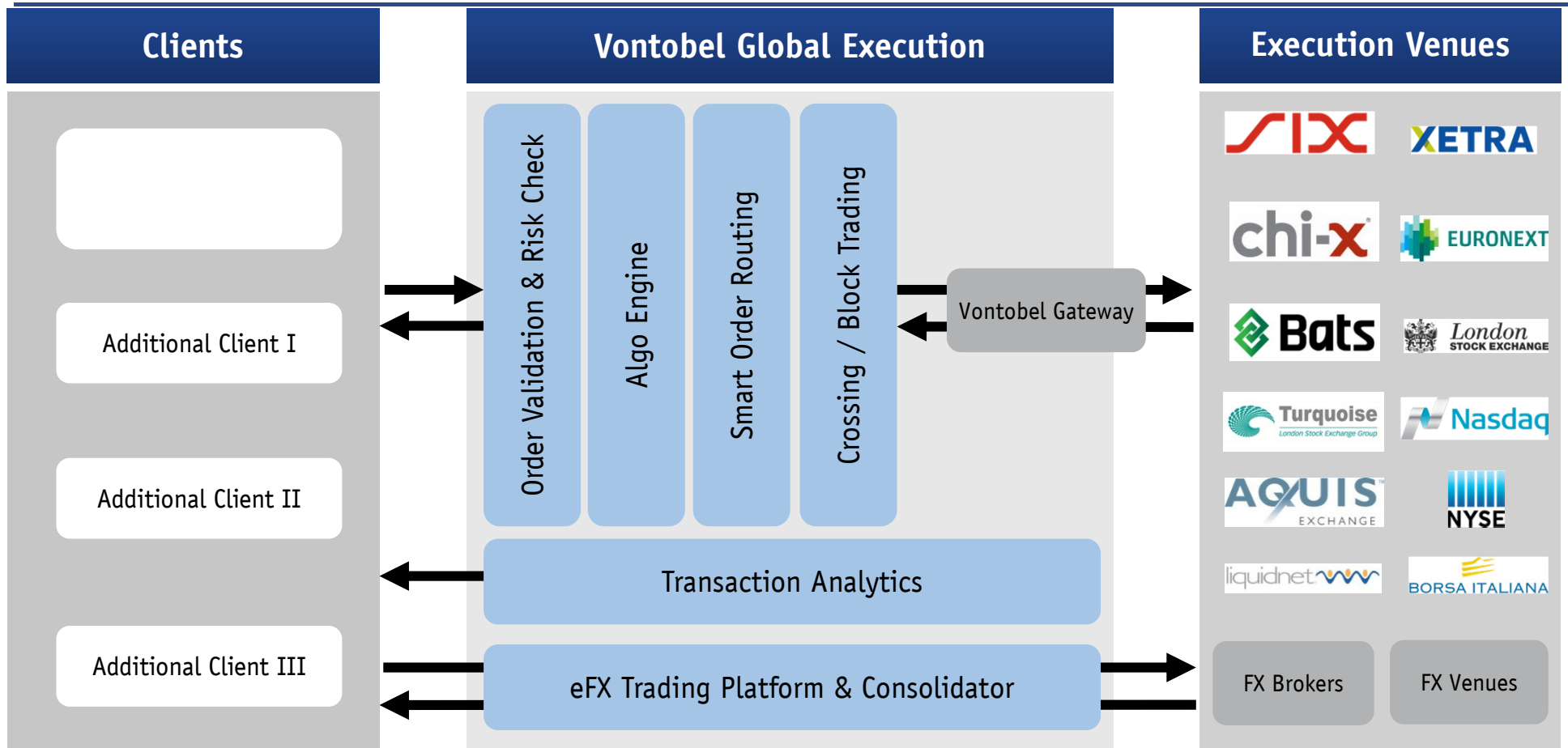
# Vontobel Global Partner Service Model



- § Vontobel is the global partner for the entire "street side".
- § The individual processes are **standardized and automated**.
- § The client can profit from a single and **automated interface** with Vontobel.
- § The client keeps **full control of any client data** and information.

# Integrated Business Model and Architecture

## Vontobel Electronic Execution



# Vontobel Smart Order Routing / Algo Services / Sponsored Access

## Smart Order Router

- Price improvement: > 5.00bps\*
- Trading Fee improvement: approx 0.75bps
- Co-Location in Zurich next to SIX Swiss Exchange matcher (Equinix)
- Low latency connection to XETRA Data Center (Equinix), and London Data hub
- Best Execution Report (incl. microsecond precision)
- low footprint

## Algo Services

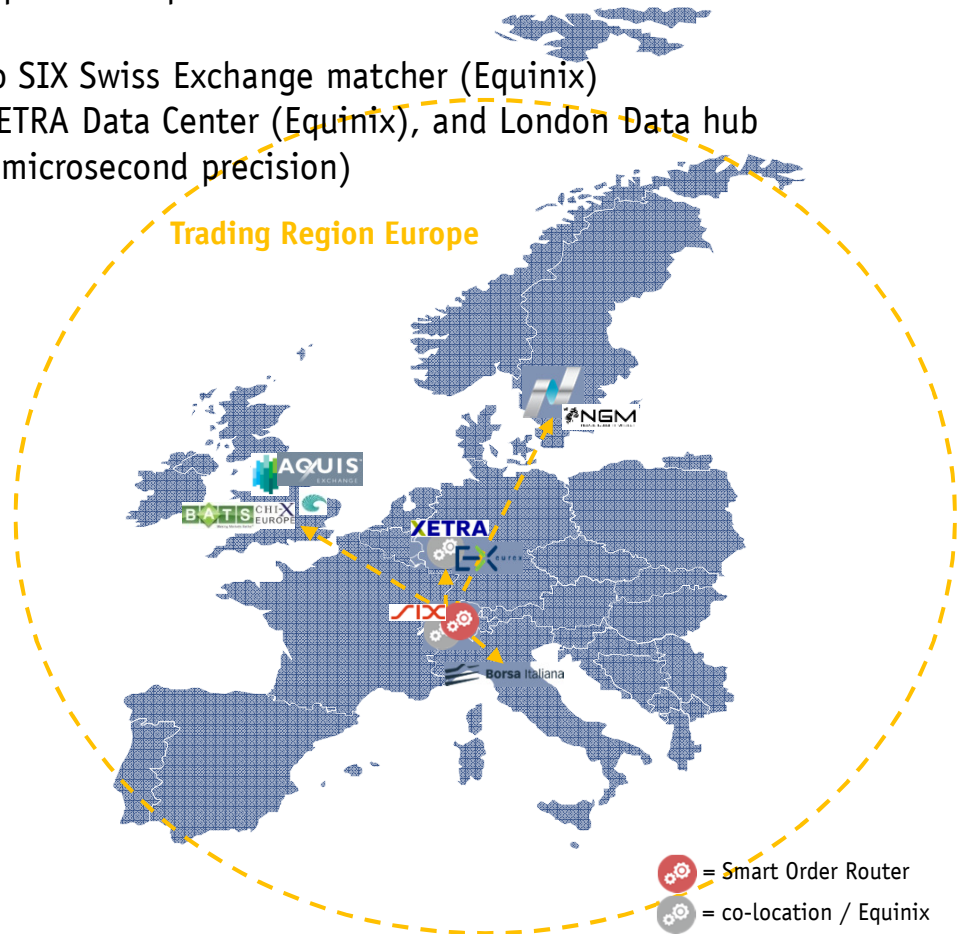
- VWAP
- TWAP
- Participation
- Dark Consolidator

## Client Order Protection

- Venue quality benchmarking
- Venue toxicity

## Sponsored Access SIX Swiss Exchange

- co-located
- fast trading interface (OTI)
- drop copy option

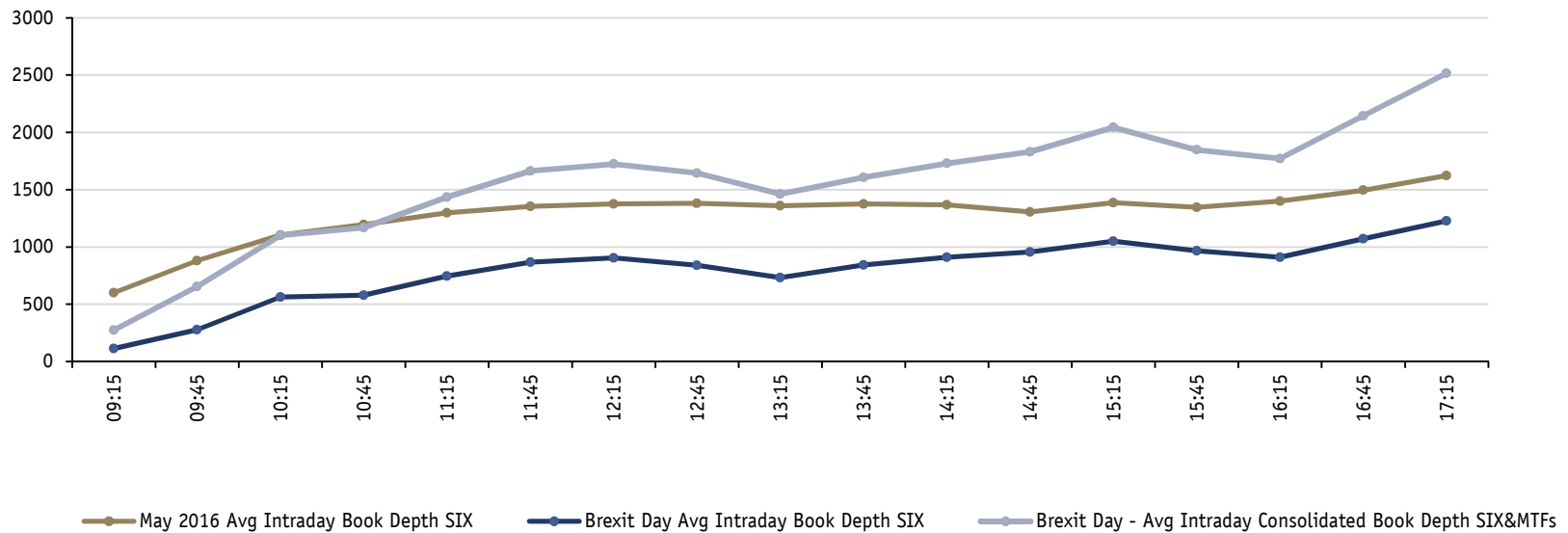


\* Benchmarked against far touch

## Liquidity at stressed markets

### Brexit impact on SMI-20 June 24th 2016

SMI-20 Intraday 10 BPS Order Book Depth [000's CHF]



#### Brexit Impact

- After the UK's vote in a referendum to leave the European Union, the activity on the European markets increased significantly. June 24th was one of the most active days in all European Shares since the beginning of 2016 so far. The daily value traded for SMI-20 was almost vs. first quarter of 2016. The average liquidity available in Swiss Stocks dropped from CHF 1'285k to CHF 797k (minus 38%) when considering the primary exchange only. However, by including the MTF order books **>96% additional lit liquidity** was available.



# Vontobel Transaction Analytics Post-Trade

## Post-Trade Analysis (TCA)

- PostTrade perspective
- Transaction Cost Analysis available
- Quality check for our Broker Benchmarking
- Client Order Protection
  - Trading behaviour of Venues
  - Benchmarking of Venues

VONTOBEL

### TCA Single Order Report

VWAP Arrival to Last [BPS]: 12.59

#### Order Summary

**sell 958600 UBSG @ market**

Order ID: V3e5aYUN-00

Note: -

Decision Time: 20160725-14:43:34.103

Arrival Time: 20160725-14:43:50.544

First Fill Time: 20160725-14:43:50.565

Last Fill Time: 20160725-16:16:09.018

Duration Arrival-Last: 0 1:32:18.474

Duration First-Last: 0 1:32:18.453

#### Trading Summary

<b>Value Traded [CHF]</b>	<b>12,795,505.31</b>
Value Traded in Original CUR [CHF]	12,795,505.31
Price Achieved	13.3481
Order Quantity	958,600
Volume Traded	958,600
Volume Traded [%]	100.00%
Number of Fills	371
Order Limit	Market
Participation Rate [%]	23.30%
Average Daily Volume [30 days]	27,535,642
% of ADV	3.48%
Volatility [90 days/BPS]	39.76
Historical Spread [90 days/BPS]	8.44

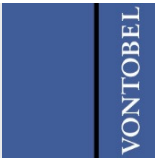
#### Order Execution History

#### Performance Summary

Benchmark	Price	Dev [BP]	Impr [CHF]
Price Achieved	13.3481	-	-
VWAP Arrival to Last Mkt	13.3313	12.59	16,084.41
VWAP Arrival to Last Pri	13.3312	12.72	16,254.53
VWAP First to Last Mkt	13.3311	12.79	16,338.28
VWAP First to Last Pri	13.3308	13.02	16,638.51
Opening Price	13.1700	135.24	170,743.31

#### Trade Price vs. BBO Spread

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# Vontobel Transaction Analytics Pre-Trade

## Pre-Trade Analysis (BestEx Proof)

- PreTrade perspective
- Report for BestEx Proof (Decision Proof)
- Stores Snapshots of all Order books contributing to the Best Execution Routing Decision
- Shows every iteration with Microsecond precision

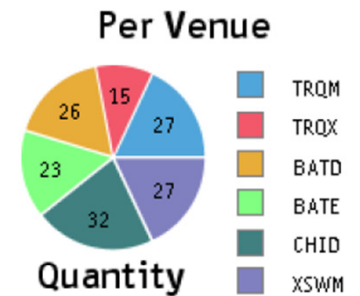


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Best Execution Proof Report

### Order Summary

Client Order ID:	V3qo382q-00	ISIN:	CH0319416936
Proof ID:	V3qo382q-00-20161207095936	Instrument:	FHZN (FLUGHAFEN ZUERICH N)
Client ID:	1604448.001	Order Type:	market
Policy:	Full Liquidity w/o VLEX (P1IOM1B1T0)	Side:	sell
Policy Version:	Wed Sep 28 2016	Currency:	CHF



### Parent Order Status

Time	Status	Price	Avg Price	Order Qty	Open Qty	Traded Qty	Text
2016-12-07 10:59:36.732344	PENDING_NEW		0	150	150		
2016-12-07 10:59:36.733676	NEW		0	150	150		
2016-12-07 10:59:36.740578	PARTIALLY_FILLED		176.7	150	123	27	
2016-12-07 10:59:36.7546	PARTIALLY_FILLED		176.7	150	96	54	
2016-12-07 10:59:36.755279	PARTIALLY_FILLED		176.7	150	70	80	
2016-12-07 10:59:36.755989	PARTIALLY_FILLED		176.7	150	38	112	
2016-12-07 10:59:36.756725	PARTIALLY_FILLED		176.682963	150	15	135	
2016-12-07 10:59:36.757628	FILLED		176.664666	150	0	150	

## Example Flughafen Zürich

Order sell 150 FHZN Primary only	Executions	Exchange Fees
SIX Swiss Exchange Lit	15 @ 176.60	1.672
	135 @ 176.50	3.048
<b>Total</b>	<b>176.51</b>	<b>4.72</b>

Order sell 150 FHZN Multi Market	Executions	Exchange Fees
SIX Swiss Exchange Dark	27 @ 176.70	1.81
Turquoise Dark	27 @ 176.70	0.119
BATS Dark	26 @ 176.70	0.114
Chi-x Dark	32 @ 176.70	0.141
BATS Lit	23 @ 176.60	0.101
Turquoise Lit	15 @ 176.50	0.06
<b>Total</b>	<b>176.665</b>	<b>2.353</b>

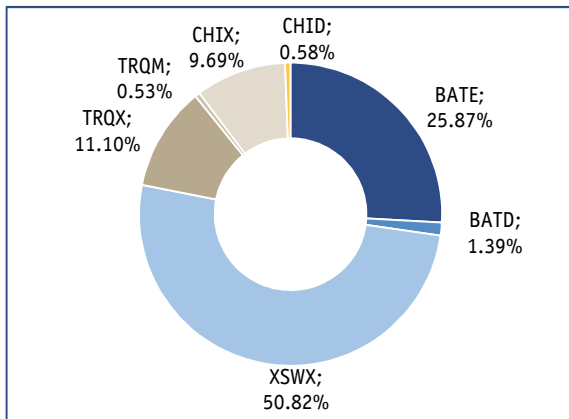
8.78bps  
Price Improvement

CHF 2.367 lower  
Exchange Fees

# Outstanding price and liquidity improvements achieved in 2016

## XSWX & XVTX

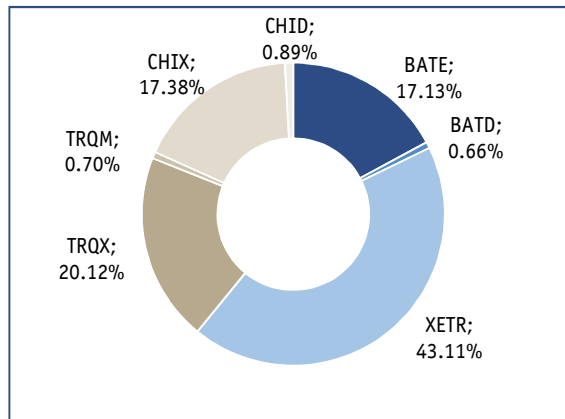
Venue Fragmentation by Number of Trades



Price Improvements: 6.35 bps\*

## XETRA

Venue Fragmentation by Number of Trades



Price Improvements: 1.38 bps\*

## Conclusions

### SOR Price Improvement

SOR Price Improvement vs Primary only for all Member Markets: **5.60 bps\***

### Liquidity

MTFs provide additional liquidity > 84% liquidity on top of the primary market:

- DAX-30 88.10%
- SMI-20 84.08%

- Alternative market places provide > **84% additional liquidity** on top of the primary market.
- SOR clearly improves execution quality if compared against Primary only, especially for less liquid products:
  - **Improvement for Blue Chips up to 3 bps\***
  - **Improvement for Small Caps up to 10 bps\***
- Dark pools give us appx. 50% spread capture, additionally they have an overall **5.6 bps improvement\*** and beneficial market impact.

\* Benchmarked against far touch

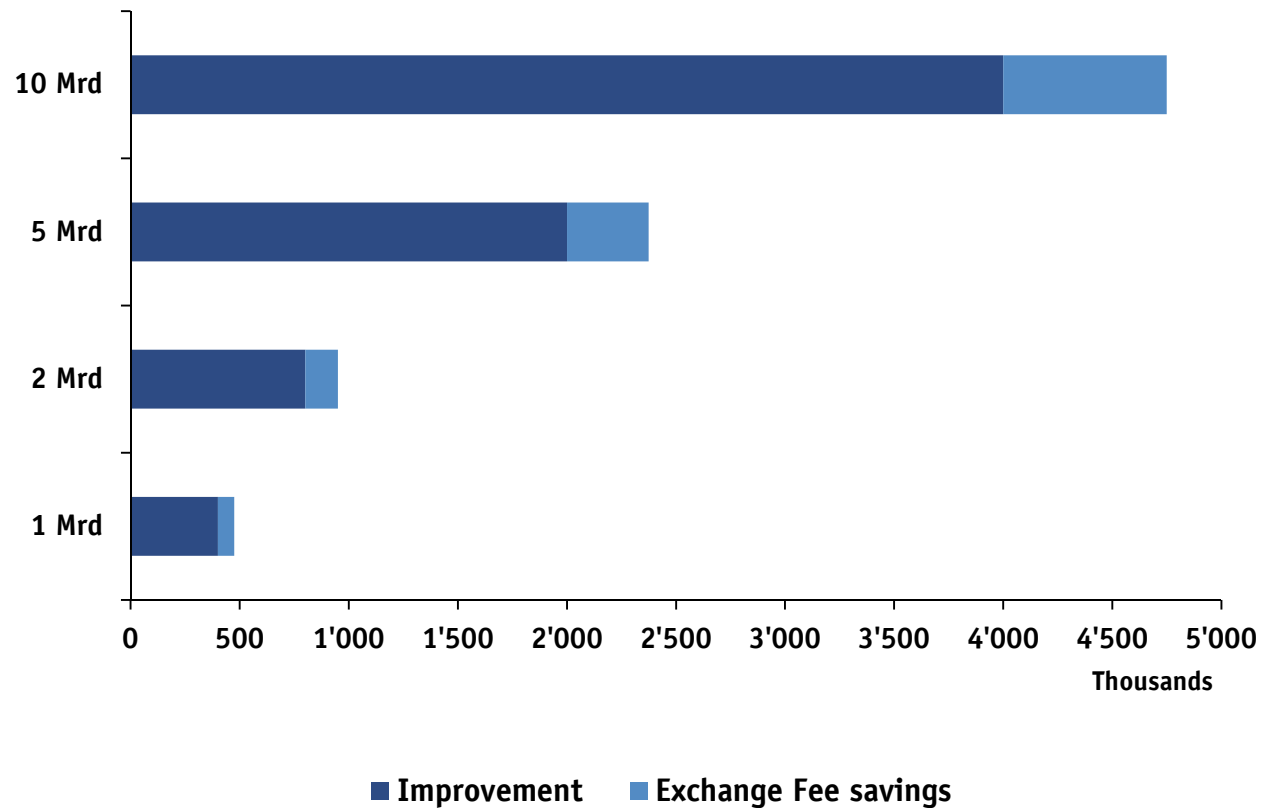
## Price improvement and exchange fee savings

### Price improvement (4bps)\*

- Tradingvolume 1 Mrd: CHF 400'000
- Tradingvolume 2 Mrd: CHF 800'000
- Tradingvolume 5 Mrd: CHF 2'000'000
- Tradingvolume 10 Mrd: CHF 4'000'000

### Exchange Fee savings (0.75 bps)

- Tradingvolume 1 Mrd: CHF 75'000
- Tradingvolume 2 Mrd: CHF 150'000
- Tradingvolume 5 Mrd: CHF 375'000
- Tradingvolume 10 Mrd: CHF 750'000



\* Benchmarked against far touch

# Execution





"Switzerland – Leading Brokerage Firm": Vontobel ranks **first place** for the seventh consecutive year in the Extel Pan-European Survey 2017.



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