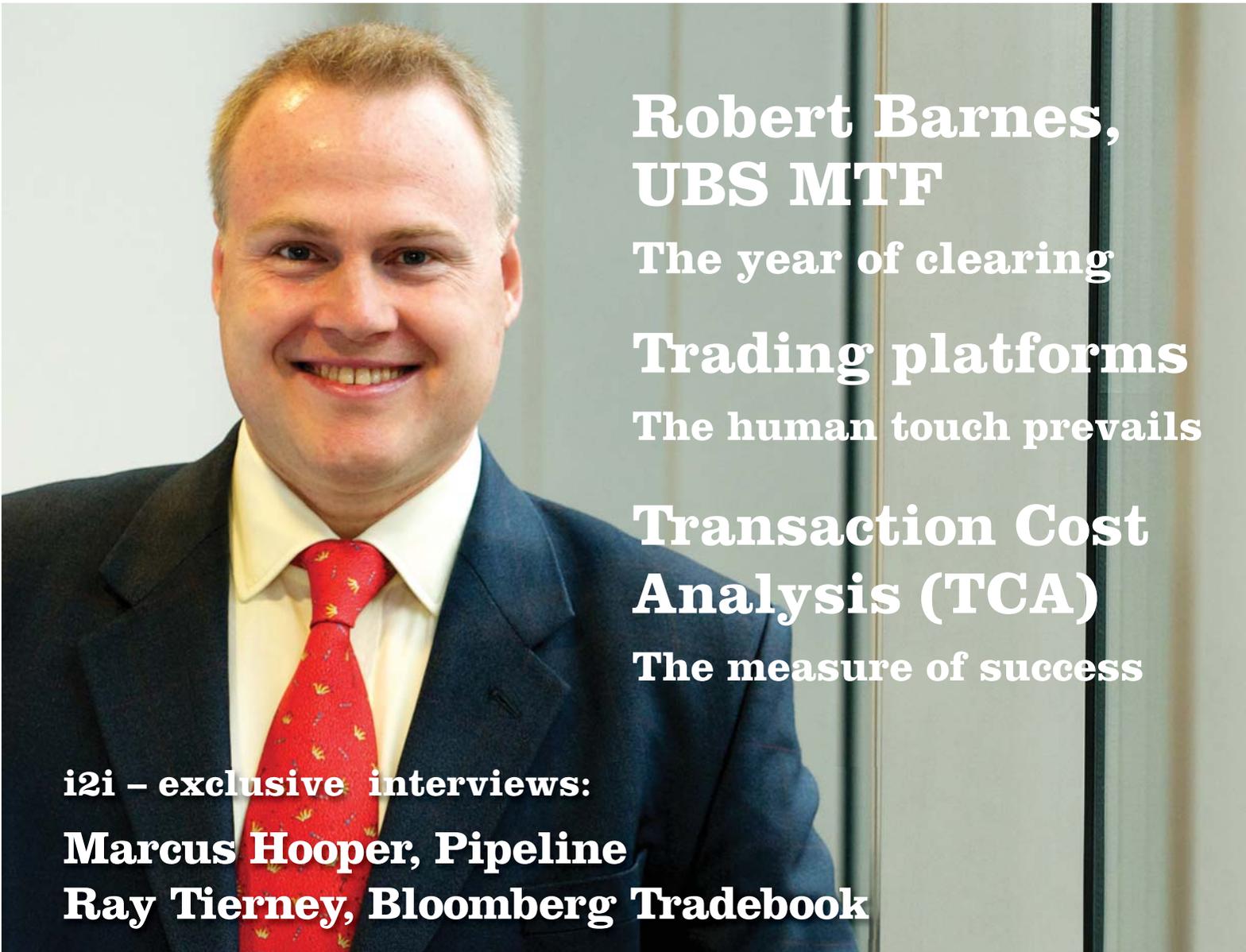


# best execution

ACROSS THE ASSET CLASS SPECTRUM

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**Robert Barnes,  
UBS MTF**

**The year of clearing**

**Trading platforms**

**The human touch prevails**

**Transaction Cost  
Analysis (TCA)**

**The measure of success**

**i2i – exclusive interviews:**

**Marcus Hooper, Pipeline**

**Ray Tierney, Bloomberg Tradebook**

**TRADING SYSTEMS • PLATFORMS • TECHNOLOGY • REGULATION • MARKET INFRASTRUCTURE**



Dr. Robert Barnes is chief executive of UBS MTF and managing director, equities, responsible for market structures at UBS investment bank. He joined the proprietary trading team at Swiss Bank Corp in 1994, gained experience 'downstairs' on the LIFFE derivatives floor as a yellow jacket and 'upstairs' trading special situations via brokers. He served as chairman from 2004-2009 of the Securities Trading Committee of the London Investment Banking Association / AFME, a member of user advisory groups for a number of stock exchanges and pro-competitive initiatives world-wide, the FSA's Capital Markets Senior Practitioner Committee, Euroclear's UK MAC, European Commission's CESAME + CESAME2, FTSE's Country Classification Committee and Policy Group, and a Chartered Fellow and Non-Executive Director of the Chartered Institute for Securities & Investment. Barnes has a BA from Harvard, and PhD from Cambridge.

Dr. Robert Barnes, chief executive of UBS MTF explains why UBS MTF is more than able to compete with the other trading platforms.

# Clearing the decks

## *What is the history of UBS MTF?*

UBS has championed for more than a decade best practice efficiency, fair access and client choice. UBS MTF is the manifestation of that advocacy. UBS MTF launched 9th November 2010 as the first broker dark pool featuring a central clearing model. Members can trade shares of Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Hungary, Italy, the Netherlands, Norway, Portugal, Sweden, Switzerland and UK with Ireland and Spain coming soon. Our stock universe includes depository receipts and capability to match exchange traded funds.

## *How do you differentiate from other broker dark pools and MTFs?*

With regulatory permission, UBS Ltd operates UBS MTF as a segregated non-displayed multilateral trading facility. UBS MTF has material liquidity in blue chips and notably also mid and small cap equities. Our implementation showcases the industry's best tariff and a fully interoperable central counterparty (CCP) clearing model. As a 100% dark liquidity pool, there is no pre-trade signalling risk or display of any kind. With trading fees of just 0.1 basis points, brokers can be comfortable joining UBS MTF without feeling as though they are unduly enriching a competitor. As of 29th July 2011, UBS MTF became the first MTF to offer a choice of CCPs, SIX x-clear and EuroCCP. In August we announced the potential to add EMCF and LCH.Clearnet as CCPs subject to agreement and regulatory approval.

## *What are the benefits?*

From UBS's positive experiences gained from switching CCPs in the Swiss and London markets (2005 and 2008, respectively), we knew a multiple CCP user choice model was the safe and simple way to aggregate matched flows of different stock names across venues for immediate single volume discount benefits of reduced transaction and collateral costs. In a fragmented landscape where the same stock name also may trade on multiple platforms that initially use different CCPs, consolidating all matched bargains per stock into the single CCP of choice adds a further significant consolidation effect. For example, if a stock matches on 3 platforms, say on Exchange 1 + MTF 1 + MTF 2, where today none share a CCP, the user pays 3 net settlement fees per stock per day, due to one net message per CCP. With interoperability, a firm that consolidates all trades in that stock to its CCP of choice will reduce its settlement fees by 2/3 in this case. The beauty of this CCP user choice model is that each firm can achieve immediately 100% benefit on 100% of eligible flow in one step without forcing switching costs on those that wish to stay with the incumbent clearer. Full interoperability available on UBS MTF also allows 100% predictability that a matched order will clear through the trader's CCP of choice. With a selection of CCPs, UBS MTF members have more opportunity to consolidate clearing from a wider range of markets for substantial savings from simpler connectivity, volume discounts and margin concentration. Joining UBS MTF now qualifies firms for immediate clearing fee and collateral incentives respectively announced by our CCPs as a result of interoperability.

*Do you think other markets will follow?*

Yes, because of the efficiency and lower costs. Europe's different clearing silos multiply costs as fragmentation increases and orderbook trade sizes shrink. UBS MTF insight as a market operator is that, technically, implementing interoperability within the revised regulatory framework is straightforward. Helpfully, MTFs and exchanges are moving this way and interoperability is set to become the rule rather than the exception. As more international markets embrace clearing choice for efficiency, one can envision global equities evolving towards the way developed currencies can trade 24 hours and settle in one place, CLS bank.

*How does UBS MTF differ from PIN?*

UBS MTF is separate from UBS the broker and its discretionary mid-point crossing network UBS PIN. Designed as an external venue and qualifying as a multilateral trading facility under MiFID, UBS MTF is segregated by legal entity, line management, systems and physical separation. UBS the broker has the right to decline access to UBS PIN as it is a discretionary and selective process employed in furtherance of UBS broker's best execution obligations. UBS MTF instead is non-discretionary and non-discriminatory which means all participants that satisfy UBS MTF public criteria can become members of UBS MTF by simple FIX connectivity.

*So far, how has UBS MTF performed?*

Of the 16 venues that match dark liquidity recorded by the Thomson Reuters Equities Market Share Report, UBS MTF from launch through June ranked approximately 9th overall, even during the spike of volatility in July that surged volumes to set at that time the record value traded month for UBS MTF. Once UBS MTF became the first MTF to offer full interoperability from 29th July, values jumped 73% and UBS MTF finished August at rank 4 of 16. Since then and September month-to-date, thank you to our members, UBS MTF has advanced to 2nd overall by value traded with days recording the largest among non-displayed venues for values matched in country blue chip indices of Germany, Italy, France, the Netherlands, Belgium, Portugal, Austria, and Russian DRs. Prospective members are contacting us to say that our liquidity and rising rank makes UBS MTF a priority destination for connection to satisfy best execution policies.

Another metric we follow is the number of times UBS MTF matches the daily value of a stock that is more than 5% of activity on the primary exchange including the auction. The orders available in UBS MTF to match at just 0.1 basis point trading fees are vast and span a wide spectrum of names, but as a 100% dark pool, we do not communicate any messages that would risk signalling. So watching the evolution of liquidity from a starting point of zero has proved empirically fascinating. In December 2010, the first full month of operation, there were 34 instances of stocks matching more than 5% of the primary plus auction representing constituents of 4 indices.

By February, there were 72 instances across 10 indices. Since launch through September, UBS MTF has recorded more than 1400 instances across 30+ indices, including blue chips, mid and small caps, those very smaller names not cultivated by other MTFs with a focus on blue chips. The insight is that members widening the order deployment by geography and also down the market capitalization table are surprised, pleasantly, by the quality of liquidity available. The growth of number of names matched reinforces this observation. UBS MTF in November used to receive orders in 800 names per day and match only in 50. Today, members are sending orders daily spanning 1500+ names and recording exceptional growth in matching trades spanning more than 750. UBS MTF is performing ahead of our expectations and we shall continue to listen to members to enhance functionalities and our comprehensive stock coverage.

*Can you tell me more about your expansion into DRs and ETFs?*

We decided to offer Depository Receipts (DRs) and capability to trade ETFs because investors want the option to diversify risk by geography while trading during the time zone of their home markets. UBS MTF has capability to trade 142 of the most liquid ETFs from Switzerland, Germany, France, the Netherlands and the UK. Outside of America, the irony of the term 'Exchange Traded Fund' is that most of these trade 'over the counter' and some with wide spreads. The opportunity post-Lehman where investors wish to mitigate broker counterparty risk is to encourage ETFs to match on orderbook and clear safely in a CCP model with the potential for price improvement. UBS MTF added DRs to complement this offering and international user demand. ●