

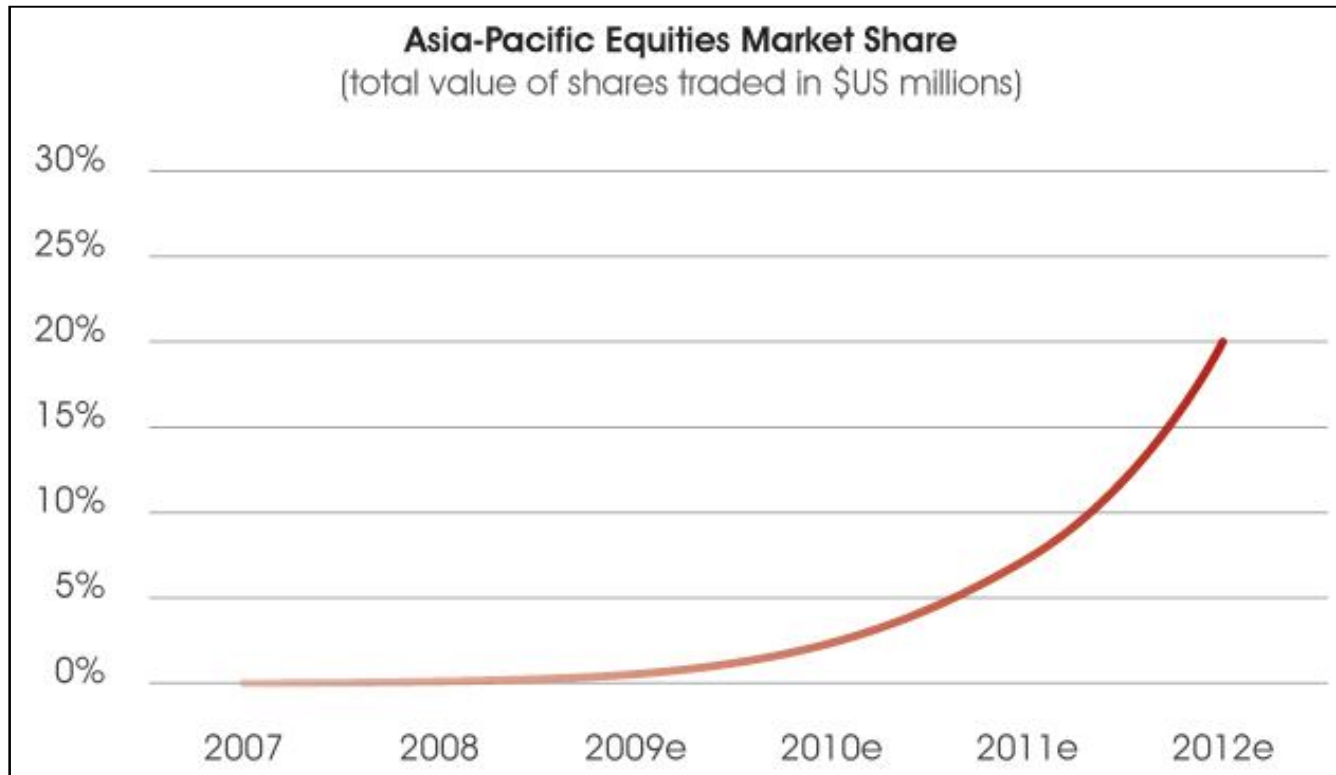
The Tipping Point for Alternative Liquidity in Asia

By Glenn Lesko, CEO of Asia, Instinet

The Tipping Point of SOR in Asia

- Increasing adoption of alternative trading venues including dark pools and ATS
- Benefits of alternative liquidity venues can include tighter spreads, additional liquidity, advanced order types, transparency options, lower latency, lower cost
- Competitive pressure on incumbents to improve performance in the aforementioned
- Challenges of alternative liquidity, achieving best execution in more complicated market structure

Asia Pacific ATS Market Share Projections



With competitive forces hot on their heels, leading Asian exchanges in Australia, Japan, Korea, Hong Kong and Singapore are gearing up for a new phase of competition. Once these markets open to competition, Aite Group estimates steady growth and adoption of off-exchange execution venues; ATSs are expected to represent 20% of the market by 2012

Alternative Venues Available in Asia

	Displayed Markets	Dark Pools
Independent Players, Broker or Broker Dealers Sponsored	<ul style="list-style-type: none"> • SBI JapanNext • Daiwa PTS • Kabu.com PTS • Monex Nighter • Instinet CBX ASIA • Chi-X Asia Pacific (awaiting license in Australia and Japan) 	<ul style="list-style-type: none"> • BlocSec • Liquidnet • ITG Posit • Instinet JapanCrossing • Instinet KoreaCross • BNP Paribas BIX • Goldman Sachs SigmaX • Citi-Match • Credit Suisse CrossFinder • Merrill Lynch MLXN • MS Pool • UBS PIN • Nomura's NX
Exchange Sponsored		<ul style="list-style-type: none"> • Chi-East (SGX / Chi-X JV as pan-regional dark pool for Australia, Hong Kong, Japan and Singapore)

Source: Instinet

How does SOR work?

- SOR is order routing logic that allows users to source liquidity from multiple liquidity venues using one simple order type
- Designed to aggregate liquidity venues with anti-gaming protection , passive and/or opportunistic liquidity sourcing
- Defined by a series of
 - Sprays (reading market data from “lit” venues and sending orders)
 - Pings and Oversprays (searching for liquidity in non or partially displayed markets and rest of residual in final destination(s) often but not limited to the primary market)

How Does Liquidity Aggregation Work?

- Post orders to multiple un-displayed venues
 - Return to venues in which fill rates are superior
 - Monitor fill rates and venue impact
 - Optimize venue selection based on accumulated
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Key Considerations for Venue Selection

- Types of Venues
 - Public or private (private venues would necessitate agreement to allow access)
 - Lit or dark (dark pools require pinging for hidden liquidity, lit pools can be accessed by reacting to market data)
- Compliance and trade reporting
 - Licensed or offshore member (licensed offers regulatory protection, onshore can making clearing cheaper and easier)
 - Maker or taker – are rebates factored into decisions?
- Clearing
 - Access to CDS through primary clearer or clearing competitor?
 - Are multiple tickets necessary
 - Are trades viewed as “pari passu”?
- Value proposition
 - Liquidity – enough to justify the route?
 - Latency – is it acceptable?
 - Acceptable order types
 - Market data costs – how prohibitive can market data costs?
 - Cost of clearing and trading – can this be factored in without affecting routing decisions
 - Quality of participants – are you risking increased market impact due to interaction with short term trading strategies?

Two Strategies for Multiple Venues Trading

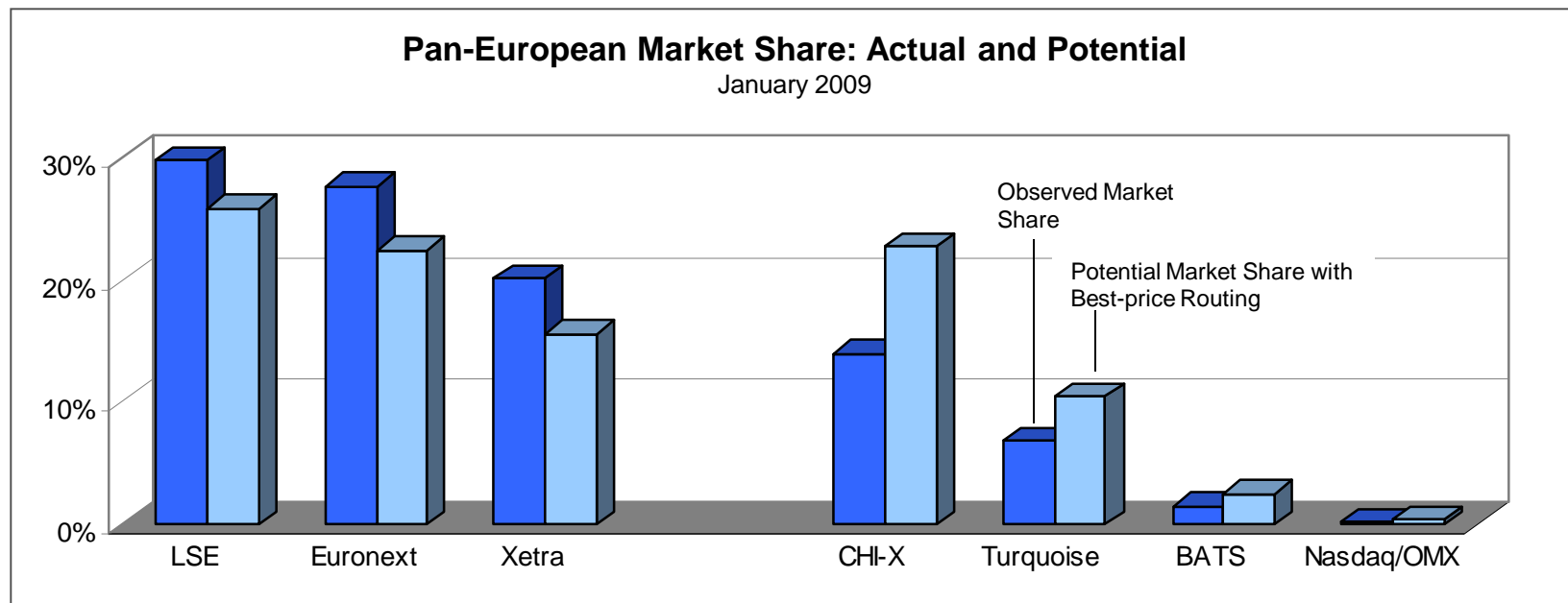
	Smart Order Router	Liquidity Aggregator
Venues	Displayed, low latency, including primary	Non-displayed, may not include primary
Execution Urgency	High – “DMA” orders	Low – liquidity without signaling risk
Alternative Venue Interaction	Pinging, spraying	Posting, venue analysis
Differentiator	Latency, in-place revision, switchback, venue selection	Anti-gaming logic, venue selection

SOR and Liquidity Aggregation Tipping Points

Markets					
	US	Europe	Japan	Australia	Hong Kong
	<ul style="list-style-type: none"> • Consolidated quote and tape • Trade-through protection in public markets • Reg NMS (Tipping point) 	<ul style="list-style-type: none"> • Consolidated market data by market data and front-end providers • No trade-through protection • Best execution policies • MiFID (Tipping point) 	<ul style="list-style-type: none"> • PTS and TOSNET reported broker internalisers • No trade-through rules • No consolidated quotes • Non-member PTS to be able to clear with JSCC from 1st July 2010. (Tipping point) • Chi-X expected to launch in Q3, 2010 	<ul style="list-style-type: none"> • ASIC taking over as regulator from ASX • Removal of "10 second rule" to enable broker dark pools • New ASX order types including volume match and centre point matching • Chi-X approved as First AMO • Clearing access still an issue for AMOs 	<ul style="list-style-type: none"> • All trades to be entered into the HKEx, inhibiting independent ATs • Active broker dark pools • Liquidity aggregation is an option but not a tipping point for SOR

Case Study in Europe

- In Jan 2009, 33.4% of total traded value could have achieved a better price
 - €97bn (33.4% of total traded value) of executed consideration could have achieved a better price.



* Based on January 2009 data. Fragmentation data are based on internal calculations from real-time market data published by the execution venues and monitored by Equiduct. Equiduct used industry-standard methods for importing the data and calculating the fragmentation statistics and as such believes that the data are reliable. However, Equiduct cannot guarantee with complete accuracy of such data.

THANK YOU

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