Industry Report

GreySpark PARTNERS

Trends in e-Commerce and Electronic Trading 2012

GreySpark Partners second annual report on e-commerce and e-trading trends depicts the importance of e-commerce across the trading life-cycle alongside an overview of factors influencing its development.

An Introduction to ‘e’

e-Trading refers to trading through electronic platforms including direct connectivity and Application Programming Interfaces (APIs), Multi Dealer Platforms (MDPs) and Single Dealer Platforms (SDPs). ‘e’ is emerging from a market that had traditionally been voice based. Across asset classes and types of organisation, this transition takes different paths. The Buyside and Sellside have distinctive motivators and prerogatives when pursuing ‘e’.

The main objectives of ‘e’ trading are:

- e-Servicing – ease of access, personalised communication, leveraging client data and increased efficiency, responsiveness and security of interactions.
- Value-added pre-trade activities – research and news, pre-trade risk analysis, client services and sales.
- Correctly value execution and transaction costs – automated pricing dependent on client tier.
- Balanced cost reduction – by automating manual processing for standard orders, eliminating costly bottlenecks and reducing operational error.

The “electronification” (by notional amount) of the markets varies greatly by asset class:

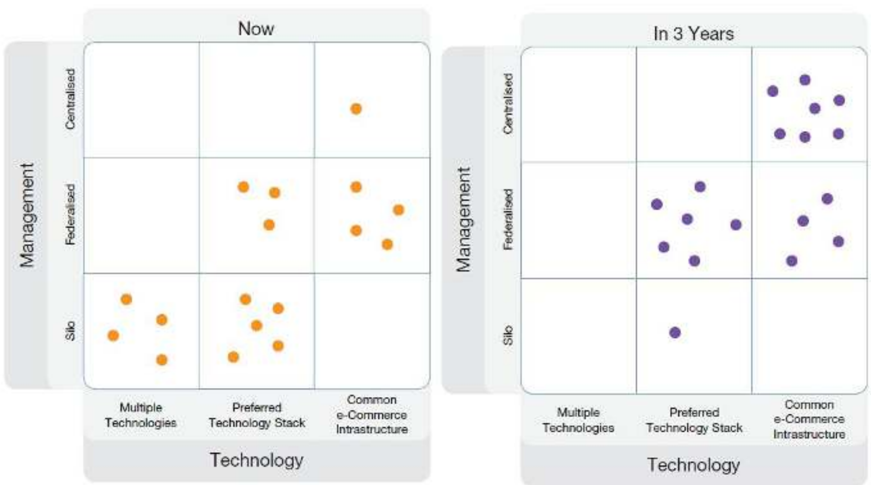
- Marginally electronic (<20%): Structured products
- Moderately electronic (20%-35%): Commodities and swaps
- Highly electronic (35-60%): Bonds
- Mainly electronic (60%-85%): FX and money markets
- Almost fully electronic (>85%): Cash equities, listed futures and options

In all cases, the proportion of electronic tickets versus voice transactions is on the increase, both for cash products and derivatives.

The Current Environment

Business engagement with the e-commerce offering is driven from multiple directions, including a desire to increase market share, to improve P&L, to protect the franchise and to reduce cost per trade. Among these drivers the greatest interest lies in protecting the franchise. Institutions invest in e-commerce to maintain their position against market competitors.

The Sellside e-Commerce Maturity Matrix



INFORMATION

Categories: Process management, pre-trade processing, post-trade processing, regulations, markets, e-commerce, algorithmic trading, infra-structure, connectivity.

http://grys.pk/ecom12

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Regulatory changes in the EU and US will have varying impacts on market structure, pre-trade, execution and post-trade processes. Market structure developments imposed by regulators will have the greatest impact on 'e', as products that are currently less liquid and less transparent are pushed to electronic trading.

The Trade Life Cycle

Considering the three core aspects of the trade life-cycle (pre-trade, execution, post-trade), with respect to e-channel preferences it emerges that SDPs are mostly preferred for pre-trade functionality, but clients perceive there to be a weakness in pricing. The preference for SDPs is driven primarily by client sales, services and analytics as well as cost.

Based on our investigation of Buyside institutions we identify the value associated with each functional component of the e-commerce life-cycle, as well as the switching costs of moving to another broker-dealer for that piece of functionality. This provides a measure of the competitive differentiators from a client perspective.

Developing an effective e-commerce strategy requires a client-centric strategy. It has to be adopted in an environment that is predominantly product-centric. As e-commerce consists of a management and a technology strategy, only through a centralised e-commerce strategy and a standardised technology approach alongside an integrated management policy, the value proposition can be achieved.

TOPICS COVERED IN THE REPORT

The Importance of e-Commerce

- Transition from 'Voice' to 'e'
- e-Commerce Grows Beyond Execution
- e-Commerce is Multi-channel

Five Stages of the e-Commerce Evolutionary Path

- Listed Product Markets are More Mature in e-Trading

e-Commerce is No Longer an Optional Capability

- 'e' is a Source of Profitability

Upcoming Regulations Change the Business Model for Non-listed Products

- Adaptation to the Regulatory Landscape
- Changes in the Business Model

Preparing for the New Competitive Landscape

- Client Priorities are Changing
- Competitiveness and Post-trade Services

Market Readiness: e-Commerce is Maturing

- Execution and Post-trade have the Best Coverage
- Offerings are Concentrated in FX
- Competitiveness Built on Three Pillars
- Centralised e-Commerce Management Drives Competitiveness

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