

What's next, fragmentation or consolidation?

Pablo Garmon, European business development manager, TAG (Transaction Auditing Group, Inc.) Europe, provides a personal insight into what the future may hold.

NIn the June/July issue of Best Execution magazine, I outlined three potential scenarios for the new MTFs (Multilateral Trading Facility) in the marketplace. Since some previous events were still panning out my first scenario was to adopt a 'wait and see' attitude, but the second scenario was dependent on the economy and volumes recovering quickly, and the third on the economy recovering slowly and/or volumes staying the same. Current market conditions suggest the third scenario is what we are experiencing.

Within this scenario, volumes do not come back, at least not to the September/October 2008 levels. Consequently, there is a thinning out of venues in the marketplace and we see a consolidation period. For the current MTFs, I would suggest we are likely to see the following:

- Some will merge - especially those venues with platforms that have similar order-flow, client behaviour or market model.
- Some will disappear - especially those venues that aren't flexible or in a position to adapt.
- Some will be bought by larger or more financially stable venues.

The drivers for consolidation would be either order-flow or technology, with the main incentives determined by the amount of volume attracted and the market model. Observing the current environment, there are several factors to be aware of:

- When considering the top ten venues in the European MiFID landscape, the only MTFs that are ranked with the primary

markets are Chi-X, Turquoise, and BATS Europe.

- Chi-X is now the third venue in the top ten, ahead of Deutsche Börse, while Turquoise and BATS Europe squeeze in at eighth and ninth place respectively. It is easy to surmise that these are the newcomers that we'll be tracking most closely.
- Turquoise has chosen UBS to explore future developments, including a sale. My assumption is that potential suitors have also approached Chi-X.
- NYSE Euronext recently acquired NYFIX, not only for its connectivity to 100 other venues, but presumably also for their dark pool, Euro Millennium.
- Nordic MTF, Burgundy launched on June 12, and after a gradual run-up, Budapest-based Quote MTF launched on September 4, but otherwise this year has produced no mention of other new prospects entering the MiFID landscape, leaving us to conclude that those who might have been considering the launch of a new venue will wait for more clement conditions.

In conclusion, due to the slow pace of economic recovery, the scenario that is evolving in the European MiFID landscape is one in which market volumes are remaining static. Consequently, I predict that a period of consolidation will occur due to the thinning-out of venues in the marketplace. But whether it is consolidation or fragmentation, the market environment has changed permanently and only time will tell whether it was for the better. ●