

SmartTrade Brings Liquidity Management Up to Date

NEW YORK — **Smart Trade Technologies**, a firm founded in 1999 by an IT maven and an OTC trading professional, offers a liquidity management solution called SmartTrade that could be likened to a toolkit. In that, it is of value not just to investment banks, but also large buy-side firms that need to navigate through a variety of liquidity pools to achieve best execution. Potential users of SmartTrade would seek to aggregate liquidity from dark pools, exchanges or ECNs and ATs. They may wish to apply rules that allow them to publish quotes or distribute liquidity to clients or simply across portfolios when they seek to execute an order.

SmartTrade includes a matching engine and set of business logic components, accessible through various existing front ends or through a custom front end offered by Smart Trade Technologies. This process lets users decide if and when to cross flows internally before going to an exchange or other liquidity pools.

European customers are particularly interested in liquidity management because of the European Union's Markets in Financial Instruments Directive (MiFID), which takes effect in October 2007. Best execution requirements within MiFID will force more brokers to develop dark pools and centralize their matching and quoting abilities, according to Matt Simon, Research Analyst at consultancy **The Tabb Group**.

Smart Trade's focus is not just on equities, according to Harry Gozlan, Chief Executive Officer and co-Founder, Smart

Trade Technologies, whose career has included OTC trading activities at **Credit Agricole Indosuez** and **Citibank** in Paris, London, New York and Brussels. The other co-Founder and Chief Technology Officer is David Vincent, whose previous IT design work included OTC derivatives operations projects at **Société Générale**. Besides equities, their company also offers solutions for foreign exchange, bonds, derivatives and futures. For each category, market players need to know how to get the best price, whether that is an over-the-counter or listed price.

"Lately, Smart Trade sees interest from market players who want to manage their liquidity before they send it off," says Gozlan. SmartTrade is not solely an execution management system, order management system (OMS) or portfolio management system, because it allows users to apply different rules. "We are a trading middleware," he says.

SmartTrade retrieves liquidity from fragmented sources to construct an internal virtual market within the organization and manage flows actively. It offers cross-asset product coverage that can be used by a single product or on a full asset class basis and achieves best execution by creating an internal liquidity pool to match and route orders.

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HSBC selected SmartTrade because it is asset class-agnostic, according to Ken Yeadon, Chief Executive Officer, Yeadon Financial Concepts Ltd. and business lead and chief strategist for FIERCE. "We selected the fixed-income and interest-rate derivatives markets as a proof of concept asset class," says Yeadon. "The idea is that it develops an application for fixed income and derivatives."

Many fixed-income products trade in multiple external liquidity pools, such as those provided by **BrokerTec**, **eSpeed**, **TradeWeb** and **Bloomberg**. As with equities, fixed-income products also can be found in dark pools of liquidity. For fixed-income, dark pools are combinations of the market making interest of the organization's own market makers, plus traders who have positions, such as proprietary desks and those who buy and sell securities on the balance sheet.

HSBC doesn't just include the tops of the books in its trading platform but also the full level-two depth-of-book in every market, at whatever resolution that data can be accessed. HSBC has a model of the behavior of the external liquidity pool, which is also replicated, with as much visibility as possible in the internal liquidity pool.

Users get information plus ability to execute through SmartTrade. "HSBC can cross an internal instruction with an external instruction," says Yeadon. "If the corporate bond trade-derived price crosses the observed price in the market, the system will execute that transaction. We are looking to serve and sequentially populate external liquidity pools and pick up more product on that platform."

HSBC uses one SmartTrade engine for Europe and one for the US, and plans to add a third. HSBC routes both these engines to its OMSs. The SmartTrade architecture is very open, because it is

difficult to ask a big bank to abandon all existing infrastructure and move to a new product, Gozlan points out.

"Whatever technology you want, we are open to interact with it," he says. HSBC wanted a relationship that didn't displace everything that pre-existed, explains Yeadon. "Typically, when we add a new product, if there is an existing OMS for that product, the simplest thing to do is proxy that existing OMS," he says. "Where there isn't, HSBC must decide whether to build the OMS logic on top of the liquidity management system infrastructure. It is an economic decision rather than an infrastructural one. The general parameter is that for any mainstream new instrument which we don't have on an OMS, we build OMS capabilities for it on the SmartTrade infrastructure."

For foreign exchange and equities, however, there were existing capabilities. That is why fixed-income and interest-rate derivatives were the focus. "When there is orchestration across asset classes, SmartTrade will always serve as the master," says Yeadon. "The most important part is the ability to change internal liquidity. We will be able to construct transactions that have multiple legs, a list order, or a butterfly trade or a switch trade without being only half executed. We have imposed an all or nothing condition on the success of the order."

SmartTrade can address foreign exchange with automation, as well, notes Gozlan. Interest-rate derivatives, futures and bonds have high growth potential, he adds. For these types of securities, tight prices need to be produced at a high speed for many different populations, he explains.

A liquidity management system like SmartTrade offers traders more ways to cross orders, whether they execute those orders internally or on Nasdaq. Having more options makes it possible to make more money, says Gozlan. There are an infinite number of combinations, he adds. □

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