

The Evolving Role of a Market Operator and the Providence of Insight



The contribution of a venue in effective risk exchange stems from its perceived role in the transaction. An economical risk exchange occurs when a client's market access intention matches a liquidity pool with an appropriate quality of service. The question is whether such an interaction needs facilitation, what nature it would assume, and whose business it is.

Certain market structures within which participants interact implicitly define intention, and hence the outcome, for example, interactions within "public" marketplaces, such as a central limit order book. In "private" aggregated marketplaces, this intention is less easy to determine. The venue needs to assume the responsibility to allow a client to define the intention of market access, filter the liquidity that matches these intentions, and route the order to the liquidity pool which provides the best outcome for the client's intention.

Everything begins with liquidity. A venue needs to empower its participants with choice. There are no rights and wrongs. There is a place and demand for both full amount liquidity and sweepable liquidity from liquidity providers and liquidity consumers. While full amount liquidity may be suitable for risk holding, sweepable liquidity may suit risk reducing strategies.

Then comes definition of market access intention – Does a liquidity consumer intend to employ a large ticket click-and-walk-away liquidity absorption strategy? Does a liquidity consumer intend a discrete risk transfer? Does a liquidity consumer intend

to slice risk over time? The venue needs to facilitate the expression of this intention, and enable matching these intentions to appropriate liquidity pools which can interpret and manage the nature of interactions targeted at them. **360T's stats from its Spot marketplaces puts discrete market access intentions at 85% of all its trades, which means that the cost of not managing intention to liquidity matching is significant for all participants.**

The liquidity consumer would need further refinement of the liquidity pools to satisfy certain quality of service parameters, be it hold time, fill ratios, market impact or cost of rejections. There is vast amounts of data, whose potential is wasted as dashboards and reports, which the venue could use to empower real-time decision making such as liquidity filtering.

While all of these narrow the scope of "expressed" intention to liquidity matching, the goal of achieving the most favourable outcome is far from accomplished. Price ties in an aggregated marketplace are all too common. **360T's stats places daily price ties at 25 - 30 % across all its Spot trades. The venue can remain a platform, a mere "routing pipe" or assume the role of a market operator to facilitate matching the "implicit" of the intention.** Data remains key here – the insight a market operator has over execution performance is tremendous. Using a metric such as cost of rejections to award order flow ensures equity.

In a market structure without counterparty disclosure, the challenges elevate a notch,

and so does the role of the market operator. Instead of throwing all participants in one large pool that gets carved out hundred ways, with some thought, data can be put to exceptional use to meet a liquidity providers expressed yield profile.

For example, an LP may desire full amount order flow that is positive at 30 seconds after trade on G10, or collect EM order flow that yields 20/mIn at 60 seconds, or target order flow where a higher than average inception yield can be captured on risk offset, but otherwise unsuitable for risk holding models. Order flow can be re-allocated to continually adapt the portfolio to adhere to the stipulated parameters. Such a facilitation by the market operator reduces risk, as well as encouraging good behaviour, as poor liquidity consumer behaviour would see the quality of liquidity diminish, and unfavourable liquidity provider behaviour would see quality of order flow decline.

This is a numbers game after all, and insight driven facilitation towards economically efficient outcomes, especially in an undisclosed market, takes away perceptive bias that may lead to unfavourable pricing or risk management practices.

All of this barely scratches the surface, but provides a view into extracting usable insights from data and leveraging it to drive non-discretionary decision making. This approach should be beneficial for all participants than merely presenting these data as reports or dashboards.

The referee does not take sides. Market operators need to move toward developing transparent models that systematically garner insights based on their broader and neutral view of participant interactions, and use these insights to create equitable marketplaces that drive favourable outcomes for all parties.



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