Six partners with BMLL for best execution analysis

The Swiss exchange is using the vendor's data and analytics to provide insight to brokers around Swiss EBBO liquidity. By Jo Wright

Over the past 15 years or so, platforms like multilateral trading facilities and systematic internalizers have emerged to supplement the incumbent exchanges. This market fragmentation has made it difficult for brokers to prove best execution to their customers.

"To do so, they need to have a strong view over all these liquidity pools while maintaining the infrastructure costs to access these markets at a reasonable level," says Marc Berthoud, head of exchange data strategy at Six Securities and Exchange.

To address this challenge, the Swiss exchange provides a Swiss EBBO (European Best Bid and Offer) service for supplemental liquidity in Swiss equities. Now, Six has partnered with analytics provider BMLL for order book analytics, monitoring participant-level performance on the Swiss EBBO and providing post-trade best execution analysis.

"BMLL performs an ex-post benchmarking of the liquidity provider, quoting performance of the EBBO orders and EBBO execution quality. And then we

share the execution quality reports with our trading participants. They can in turn evidence best execution to their own end clients, and that is without having to invest in expensive liquidity discovery technology such as smart order routers," Berthoud says.

Six launched the Swiss EBBO service in 2019, but suspended it soon after during an equivalence dispute between Switzerland and the EU that saw Swiss stocks delisted from European exchanges. A new equivalence agreement with the UK saw Swiss shares resume trading on London

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exchanges in February 2021, and Six reactivated the service.

Berthoud says about 20 trading participants regularly post EBBO orders, mainly regional Swiss banks and brokers.

The Swiss EBBO service is intended to maximize the liquidity pools with which a broker's order can interact. The Swiss EBBO and SwissAtMid, Six's dark pool for midpoint execution on Swiss equities, are implemented in the same matching engine as the central limit order book. An order will automatically sweep across these three liquidity pools.

"In addition, there are liquidity providers ensuring quotes at EBBO level, so the best price across Europe and all competing venues," Berthoud says.

Exchanges must try to differentiate their offerings in a very competitive environment, and what differentiates Six's Swiss EBBO service is the reliance on BMLL's data, he adds. BMLL is providing Six with what it calls "Level 3" data—data that goes beyond the top of the order book to every message coming from a public exchange.

Elliot Banks, chief product officer at BMLL, says that Six wants to understand the amount of liquidity across all the venues. "It's not just aggregation down to the millisecond; it's about what is happening on a per participant, per order basis, and how can we create those analytics," Banks says.

Therefore BMLL believes that Level 3 data is important, he adds. "You wouldn't be able to get this from just the top of the book, or just an aggregated feed, or just by looking at the best five levels. You need to have every single message coming through with every single piece of information, the public order IDs, all of that. And you need to put that into a format. We've built that into a managed service."

For the Swiss EBBO service, Six enriches BMLL's Level 3 data in the BMLL data lake with the exchange's own "Level 4" data—trading participants' specific data. The data is stored in the BMLL cloud.

"BMLL processes the benchmarking on the order and execution within the Swiss EBBO book, and on the quality of the quotes of all the liquidity providers within this EBBO book. Once this is done, BMLL transfers the results of the metrics to the Swiss stock exchange data warehouse," Berthoud says.

Based on those results, Six provides automated daily reports for its liquidity providers and the trading participants that posted EBBO orders, aiming to give them a daily view of execution quality or the liquidity provider on the Swiss EBBO book.

This data normalization process is not a trivial undertaking, Berthoud says, and it's this heavy lift that BMLL helps Six to do for the Swiss EBBO service. Users must be able to handle a huge amount of data, capturing it from different sources in different formats and from different systems. And this work is not static: exchanges perform upgrades and change their protocols. "In the end, you face an enormous amount of data, potentially up to several billions of records every single night," he says.

The user must have adequate storage and computing power to handle all this data, and the expertise to transform it into useful, execution-quality metrics.

Banks adds that BMLL aims to ensure that data is consistent over time and across venues, so that quants and analysts at brokers and exchanges don't have to worry about the more mundane aspects of data normalization ad can focus on tasks that actually add value.

"It's increasingly important to be able to analyze what you're doing in the market, to be able to look back and see what has happened historically," he says. **wt**