New algorithmic offering

Neonet's new DARK algorithm offers automated access to the leading dark pools in Europe through one single, simple, interface.

Introduction & Benefits

From September 26, 2012 a new version of the DARK executing algorithm will be available for all Neonet customers.This executing algorithm introduces new functionality where multiple pools of dark liquidity can be accessed and scanned automatically. The full range of Neonet connected dark pools are probed using multiple parallel execution strategies through a single interface, simplifying the workflow for the user. The algorithm selects the optimal strategy based on user input parameters, order size and available dark pools. The user can set limit to prevent execution at levels that are not preferred. The volume threshold (Minimum Accepted Quantity, MAQ) adds further value by giving the user flexibility to set liquidity thresholds, in essence protecting against execution with liquidity less than preferred. The enhanced safeguarding mechanisms prevent information leakage and keep the market footprint minimized.

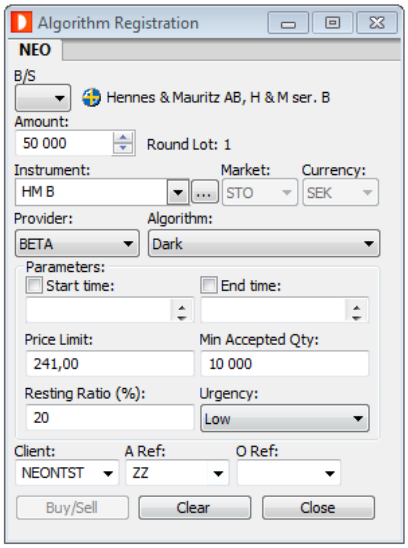
Implementation

The all new DARK execution algorithm is based on a completely re-written algorithmic framework, designed to provide flexibility and performance. Four user input parameters are available for the DARK executing algorithm. All four are optional.

- Price Limit
- Minimum Accepted Quantity (MAQ)
- Resting Ratio
- Urgency

Depending on user input the DARK algorithm will choose the optimal execution strategy. If no user input parameters are provided the algorithm will base execution style on default server side settings,

venue availability and order size. The absolute price limit prevents execution at levels not preferred. MAQ prevents execution with liquidity less than preferred. Resting Ratio may be applied to maximize passive liquidity capture at selected venues. Urgency adds further value by letting the user decide activity level of the algorithm.



Algorithm registration panel

Availability

The executing algorithm is available either via the Neonet Trader or via FIX. The DARK algorithm utilizes other Neonet system components, hence system dependencies might apply. Please contact Neonet for more information.

Q&A

Q: Can you show me some examples of how the algorithm works?
Yes, contact the Neonet Execution Services at +46 8 454 15 20 or trading@neonet.com for additional examples

Q: Does the algorithm take venue availability into consideration when routing orders?
A: Yes. The algorithm adapts venue usage by checking venue availability. Should one or more venues not be available, the algorithm will drop the venue(s) in question from the routing decisions. At regular intervals, the algorithm will reevaluate venue usage.

Q: How is MAQ implemented?
A: If MAQ is set by the user, MAQ will be inherited to every suborder sent to market in order to provide exchange supported thresholds. If the user submits an order where MAQ > order quantity, the order will be rejected by the system.

Q: How is MAQ handled when the algorithm has multiple orders in the market at the same time?
A: The MAQ flag takes predominance, meaning that the algorithm will adjust the number of venues used, and subsequently venue order quantity, in order to comply with the MAQ set by the user. If MAQ is set to 100% of the order, the algorithm will use sequential mode, placing 100% of the order at one venue at the time.

Q: Which dark pools can I reach through the DARK algorithm?
A: Currently, all connected dark venues: BATS Europe Dark Pool, Chi-Delta, Irish Stock Exchange, North Sea, Nordic@Mid (NOMX), SmartPool (Euronext), Turquoise, UBS MTF, Xetra MidPoint (Deutsche Börse), Sigma X MTF (Goldman Sachs) and POSIT (ITG).Please see www.neonet.com for an updated list.

Q: What is resting ratio and how do I use it?
A: Resting ratio is typically used when a part of the order should be resting at selected venue at all times (resting venues are set using server side parameters). The non-resting quantity will be used to chase liquidity aggressively at the non-resting venues.

Q: How does the algorithm handle fills, does it reload to venues where quantity has been exhausted?
A: Yes, if one or more sub orders get fully filled but the algorithm still has active quantity unfilled, the algorithm will engage the balance of the order and reload to the venue(s) in question. If no more liquidity is discovered, the algorithm will revert back to its normal behavior.

Q: What if I combine "resting ratio" & "MAQ"?
A: MAQ has predominance over the resting ratio, hence actual venue usage will be affected by the MAQ setting, thus the algorithm will override set resting ratio in order to fulfill the MAQ.

Q: How does the algorithm handle call auctions?
A: If the executing algorithm is placed when there is a call auction in the primary market, the algorithm will not send orders until the primary market has entered continuous trading. If placed in continuous trading and the algorithm have orders in the market, those orders will be cancelled, and will be kept out of the market until the trading phase at the primary market returns to continuous trading.

Q: What if I submit a small order, will that affect venue usage?
A: Yes, if the order balance is smaller than 1 average trade size, parallel mode will not be used. If the order is larger than two ATS but smaller than three ATS, only two venues will be used in parallel mode. Venue selection is also based on venue priority, meaning that the highest prioritized venue will be used if the order is too small to be split.

For additional questions, please contatct Neonet Execution Services at +46 8 454 15 20 or trading@neonet.com