New algorithmic offering

Neonet adds lit “I would” functionality to the DARK executing algorithm offering automated access to the leading dark pools in Europe through one single, simple, interface.

Introduction & Benefits

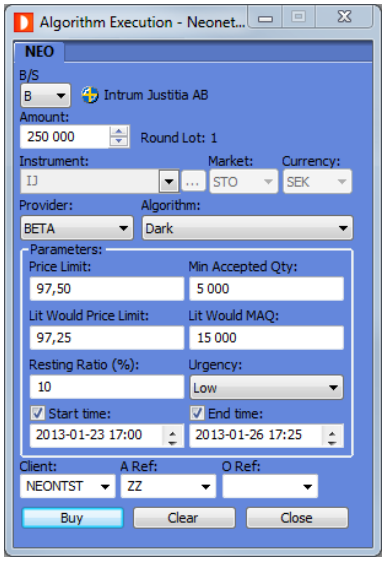
From February 23 2013, new functionality, lit “I would”, has been added to the DARK executing algorithm, available for all Neonet customers. With this addition, the executing algorithm will be able to complete the DARK strategy using lit liquidity in cases where available dark liquidity is insufficient to complete the strategy. Thus, the user will be able to finish an order at a preferred price level, lit or dark, automatically without the need to monitor the market. The user may set dark and lit 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 full range of Neonet-connected dark pools is 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 pools of lit and dark liquidity. The enhanced safeguarding mechanisms prevent information leakage and keep the market footprint minimized.

Implementation

The update of the DARK execution algorithm further builds on the new algorithmic framework launched 2012, designed to provide flexibility and performance. Two new user input parameters are added alongside the already existing parameters. All parameters are optional.

- Price Limit
- Minimum Accepted Quantity (MAQ)
- Lit Would Price Limit
- Lit Would 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 dark liquidity capture. Urgency adds further value by letting the user decide activity level of the algorithm. Start and end time now supports multi day validity.



Algorithm registration panel

Availability

The executing algorithm is available either via the Neonet Trader, Bloomberg EMS, 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: Does the algorithm place passive orders in the lit market at the lit would level?

A: No. The algorithm is designed to have a minimized market footprint, hence it will not place passive lit orders at the specified would level. The DARK algorithm will engage the lit would functionality when the lit cross spread bid/offer is within the specified lit would level. Should the lit spread move out of the specified would level, the algorithm will disengage the lit would functionality and continue with the DARK strategy as instructed by the user.

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 venues at all times. By keeping passive orders in the most liquid dark pools, probability of execution is increased. The non-resting quantity will be used to chase liquidity aggressively at the non-resting venues.

Q: How does the Urgency parameter work?

A: Urgency lets the user decide activity level of the algorithm. By selecting low urgency, the algorithm will enable a more passive strategy, keeping passive orders at each venue for a longer period of time.

Q: Can I place an order with a more aggressive lit would limit than the dark limit?
A: No. The lit would limit must be less aggressive than the dark limit.

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 Dark MAQ is set by the user, Dark 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. Set lit MAQ does not guarantee full lit MAQ execution.

Q: How is Dark MAQ handled when the algorithm has multiple orders in the market at the same time?
A: The Dark 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 Dark 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 (Oslo), 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: How does the algorithm handle Dark fills, does it reload to Dark 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" & " Dark MAQ"?
A: Dark 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 Dark 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 when there is a call auction, the orders will be cancelled, and will be kept out of the market until the trading phase at the primary market returns to continuous trading. Lit would is not engaged in call auctions and will not react to indicative prices.

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 contact Neonet Execution Services, +46 8 454 15 20 / trading@neonet.com or Neonet Product Management, productmanagement@neonet.com