

**OrangeLFA**  
brought to you by **EQUIDUCT**

**February 2010**



## ➤ Introduction

The aim of the OrangeLFA is to provide a simple, unbiased view of what liquidity was available before a trade was executed and where in fact trading should have taken place in order to get the best **net price** (*including price and cost*).

OrangeLFA results indicate a significant potential for price & cost improvement by adopting a best execution routing strategy.

## ➤ Methodology – *stock selection criteria*

OrangeLFA covers over 1100 Pan-European liquid equities which satisfy set selection criteria:

- Equities in the CESR database of MiFID Instruments
- Continuously traded on at least two venues
- Eligible for clearing at a major European CCP
- Is a constituent of a major European national or international index, or is traded with sufficient liquidity

## ➔ Methodology – *venues considered*

Trade and order book data is collected from 7 major trading venues across Europe:

- BATS Trading Europe
- Chi-X
- Deutsche Börse (Xetra)
- London Stock Exchange
- NASDAQ OMX Europe
- NYSE Euronext (Paris, Amsterdam, Brussels, Lisbon)
- Turquoise

## ➤ Methodology : From best price to best possible result

- MIFID – art. 21 requires that :

*"investment firms take all reasonable steps to obtain, when executing orders, the **best possible result** for their clients taking into account price, costs, speed, likelihood and settlement, size, nature or any other consideration relevant to the execution of an order."*

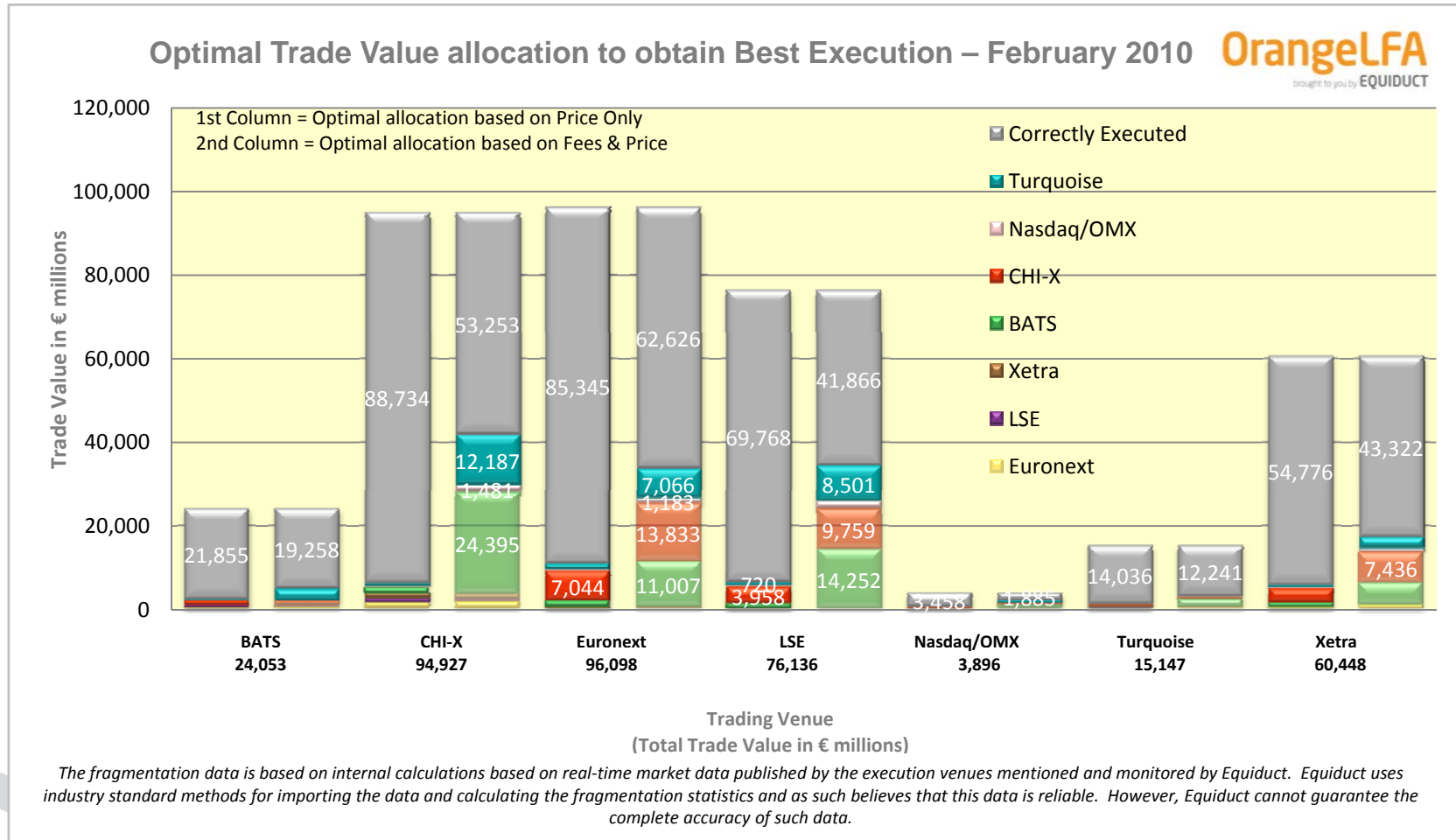
## Methodology

- Using published trade details, the OrangeLFA methodology considers a virtual stream of orders which represent observed trades.
- Thanks to *millisecond* granularity, OrangeLFA is now able to compare the real net price traded – *including trading fees* – with the historic consolidated order book information at a precise point in time.
- To determine the best execution venue for an order, it compares the **net price traded** against the **simulated net price available** across all relevant European venues.
- The result is a theoretical post-trade critique, based on pre-trade data, of order routing policies designed to investigate whether participants are routing orders to the best available price and the lowest trading fees.

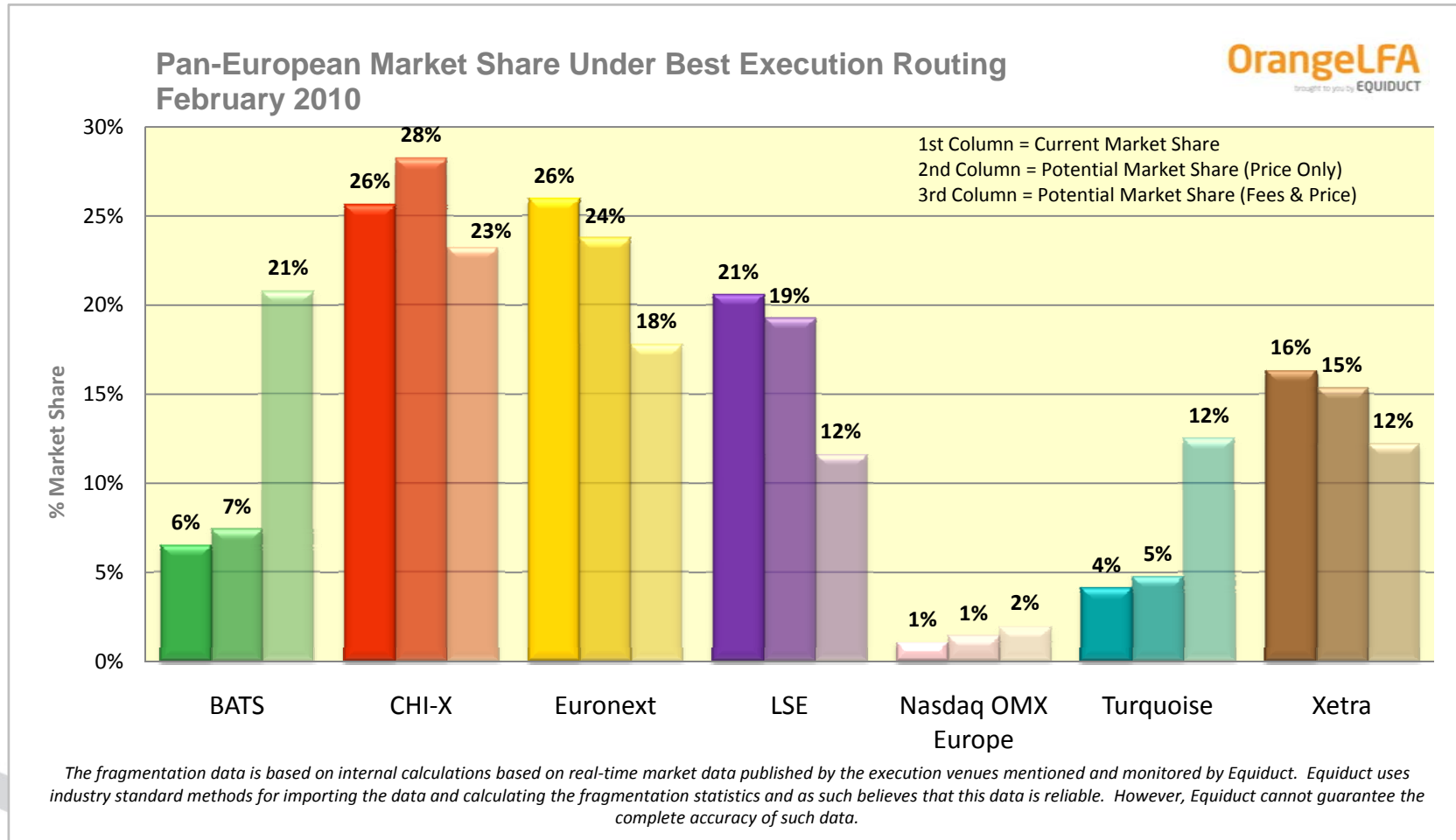
## Methodology

- **Net price** = price +/- trading fees of the execution venue
- Net price available : for the comparison, the consolidated order book information also includes the trading fees for each order from each venue.
- Exchange fees : the analysis considers the variable fees (incl floors and caps) published at the start of the month for the entire month. They will be reviewed monthly.
- Price improvement : the price improvement calculation now also includes : the real **price improvement** on the price traded AND the **cost improvement**.

## Results – Best Execution remains elusive



## Results



## Results



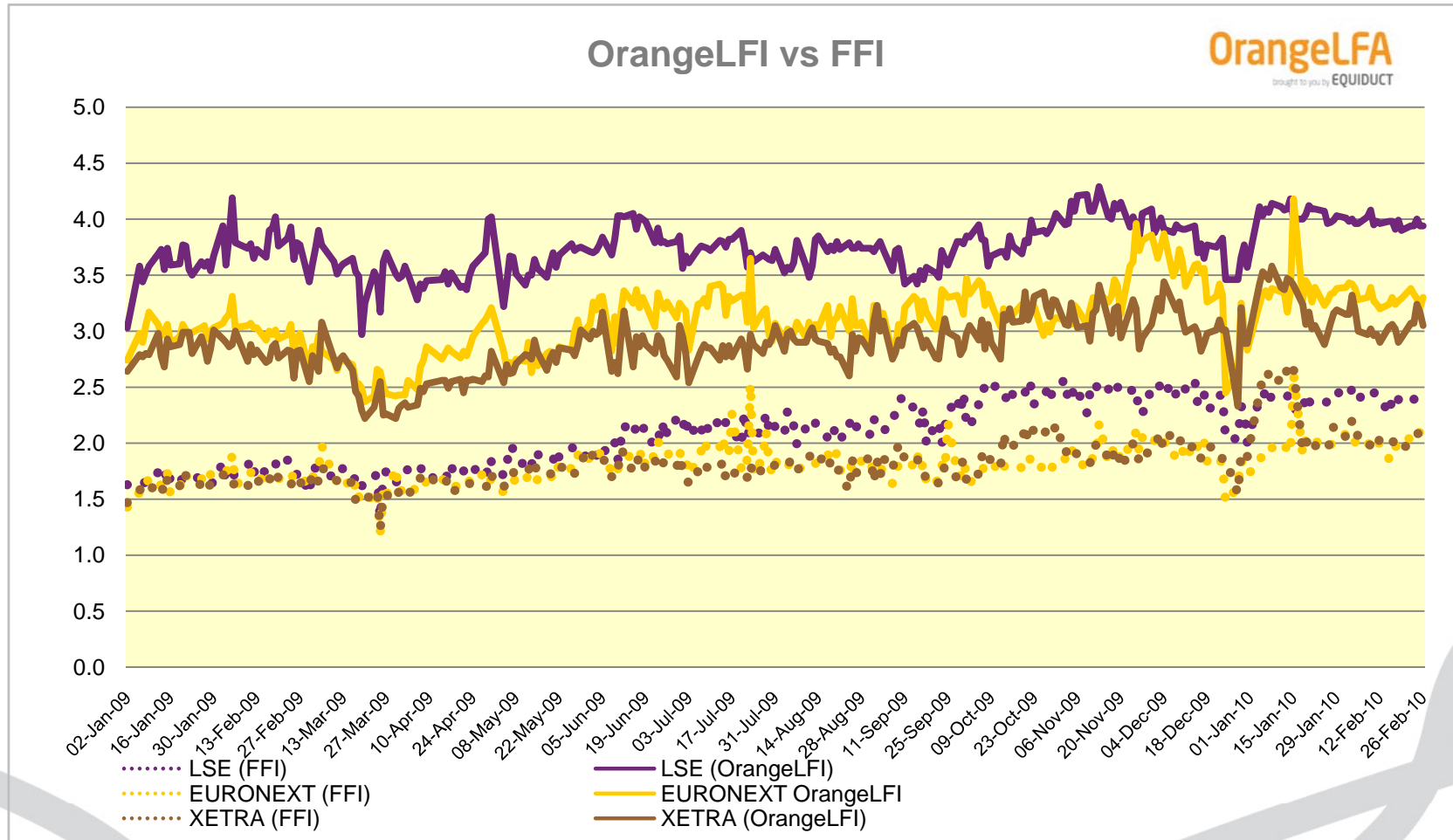
## 🔑 Delta Analysis FFI against OrangeLFI

- The Fidessa FFI calculation measures the fragmentation of observed, traded liquidity across European markets based on trading decisions made by market participants.
- The OrangeLFI enhances this by calculating a theoretical market share based on an optimal best price and cost allocation – ie where the order *should* have been routed, rather than where it *did* go to.
- Both calculations use the same inverse Herfindahl methodology<sup>1</sup>, but they differ in result because the OrangeLFI predicts a different market share for each of the venues; the OrangeLFI predicts what it *could* be, while the Fidessa FFI uses what it was.

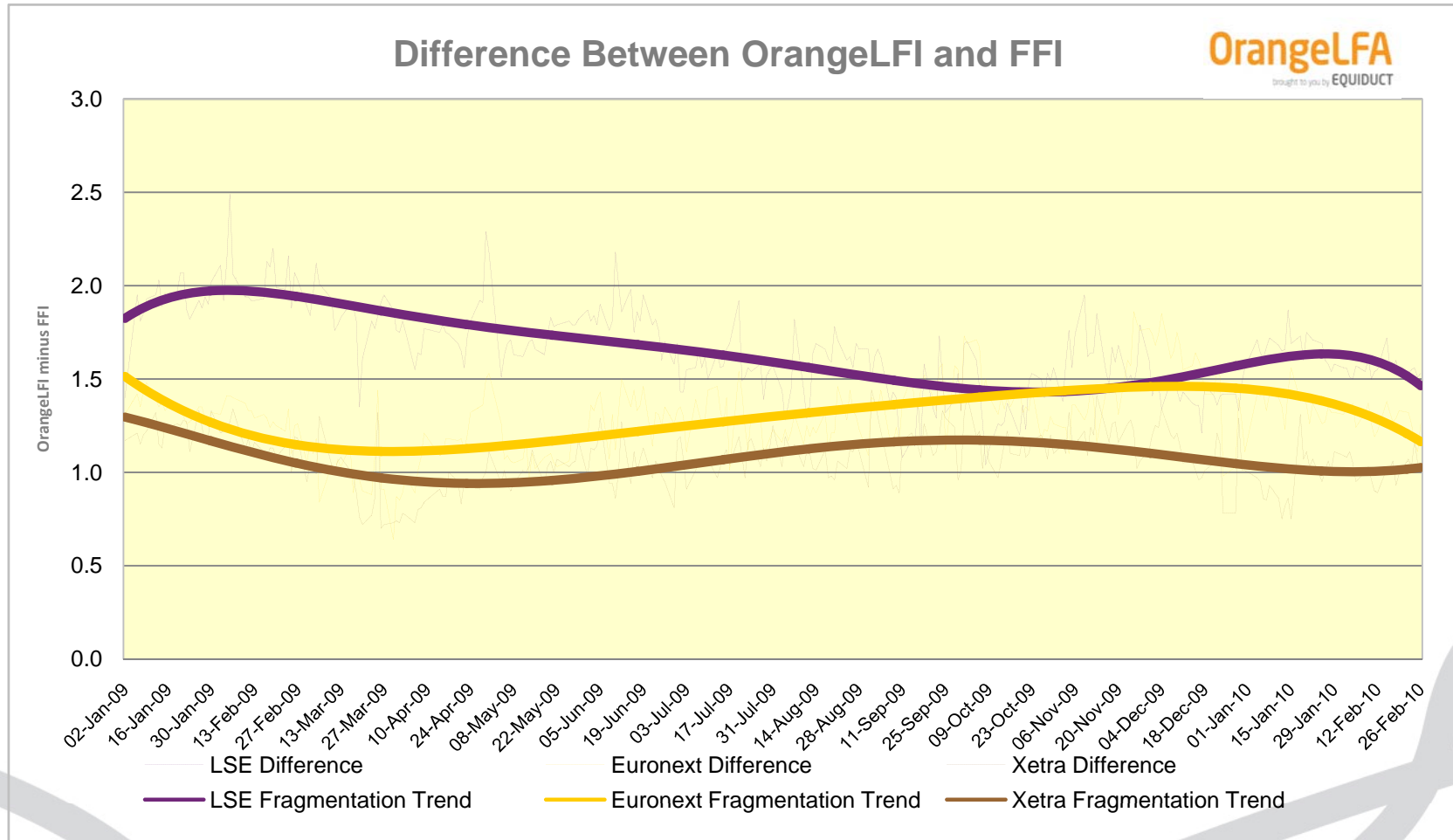
## 🔑 Delta Analysis FFI against Orange LFI

- The difference between the OrangeLFI and the FFI measures the *potential* for liquidity to move between venues if market participants were using an optimal routing strategy.
- A large difference suggests that the market is acting inefficiently, and therefore liquidity may shift if participants improved their executions.
- A low value suggests that the participants are acting in a very efficient manner – ie the market is approaching an equilibrium point.
- <sup>1</sup> For more information on the Herfindahl index, we recommend the Wikipedia explanation available at [http://en.wikipedia.org/wiki/Herfindahl\\_index](http://en.wikipedia.org/wiki/Herfindahl_index)

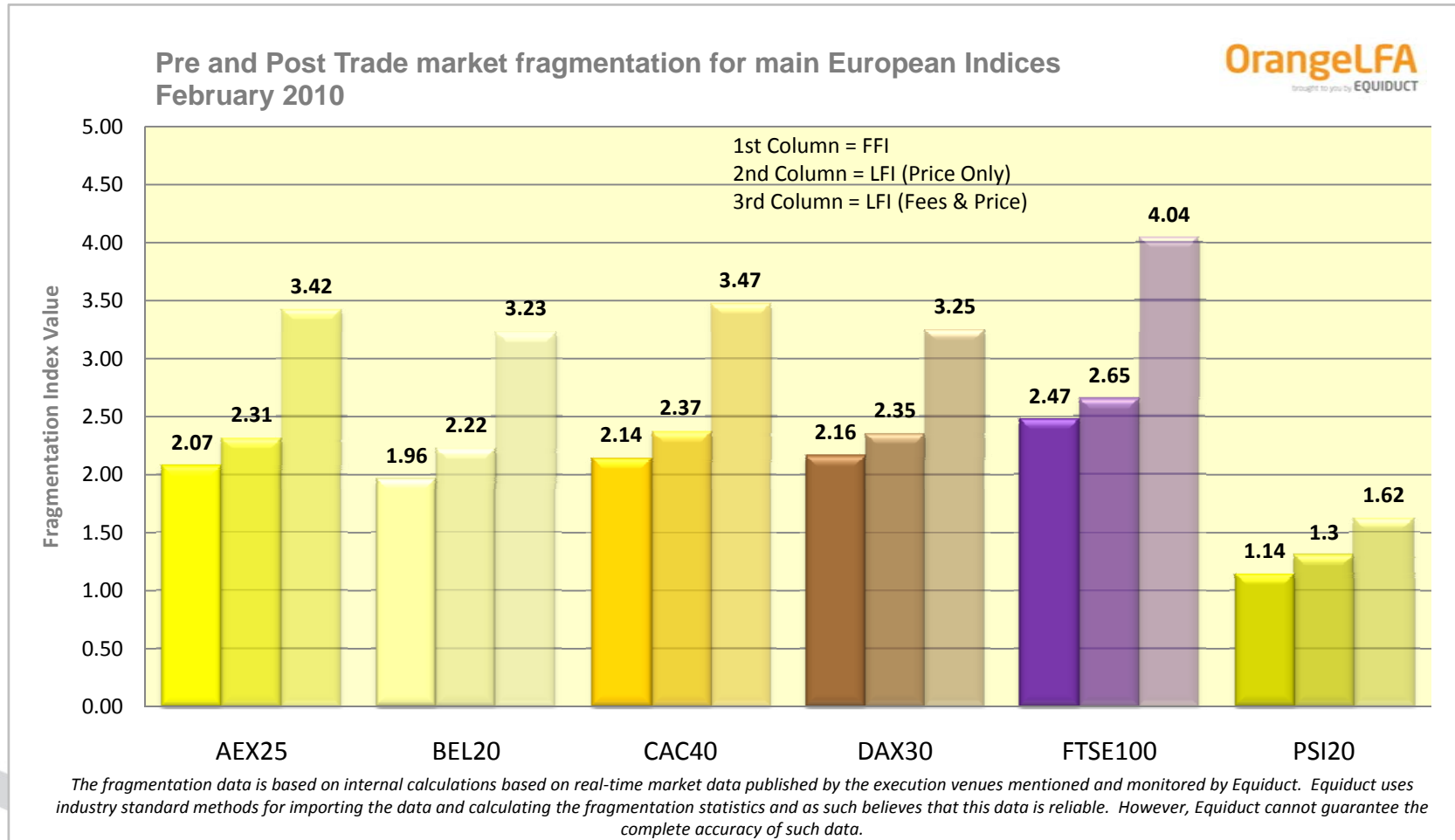
## Results



## Results



## Results





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