



ETF trading platform for institutional investors

If there is one thing that propelled Tradeweb's ETF platform to a second year of success in *ETF Risk's* European Rankings, it's the provider's relentless focus on efficiency. Mark Nicholls reports

"There have been three themes in our product development over this past year: efficiency in the search for liquidity; efficiency in execution workflow; and post-trade measurement of the efficiency delivered," says Enrico Bruni, head of Europe and Asia business at Tradeweb, which was once again ranked as the best ETF trading platform for institutional investors in this year's *ETF Risk* European Rankings.

European investors, in particular, were previously wary of tapping the over-the-counter ETF market, including ETF platforms, over concerns about the underlying liquidity available. It was in response to the fragmentation of liquidity in Europe's ETF market – where 26 exchanges list ETFs – that Tradeweb initially launched its ETF platform in 2012.

"We see a lot of demand from clients for more information on the market before they trade," says Adriano Pace, responsible for equity derivatives and ETFs at Tradeweb. The firm responded in March by launching axe functionality, which allows dealers to indicate whether they are a buyer or seller of a particular ETF, and are therefore likely to offer keener pricing.

More than 1,000 ETF axes are provided daily by dealers; Tradeweb data shows that, since the launch of the service, the proportion of trades executed by clients with an axed dealer is around twice that for non-axed dealers, indicating they are indeed providing tighter pricing. "The service is encouraging liquidity to flow towards where it is most efficiently handled," says Bruni.

The second theme has been to increase the level of automation in the order flow. One of this year's innovations was to develop a rules-based means of automated trading, where clients can set specific parameters dictating how orders are directed and executed for their 'low touch' trades, allowing them to focus on higher-value business. The ability to increase the automation of the ETF trading process is a key advantage of the Tradeweb platform over voice execution, according to Pace.

The third theme has focused on analysing the quality of the execution and measuring its efficiency. To that end, Tradeweb has introduced ETF reports to provide visibility on executed volume and prices by instrument. These reports, available on InSite, the platform's data and reporting portal, collect data from ETF trades carried out on Tradeweb.

Buy-side and sell-side participants, as well as issuers of ETFs traded on the platform, can see, on an aggregated basis, how the products



Enrico Bruni

are distributed to ultimate real-money investors. Tradeweb's ETF reports help to demonstrate there is liquidity available beyond the exchanges, making them particularly valuable for the issuers, who are keen to highlight the depth of the market.

Tradeweb also now provides data that compares the execution on its platform with that achieved on exchanges, with the exchange best bid-offer as a guide. "The ability to show that clients have traded in larger size, and with tighter spreads than are available on exchange, is a powerful argument for using the platform," says Pace.

That service also assists users with their 'best execution' requirements that are becoming increasingly important in light of the European Union's Markets in Financial Instruments Directive II. Evidence of a trade

taking place at large size and a tighter spread than on-exchange is one way of demonstrating best execution.

The enhancements to the Tradeweb platform are paying off: volumes are up some 100% year-on-year, according to Bruni. The platform is also attracting growing interest from fixed-income investors, who have traditionally used other tools to gain access to the asset class.

To help appeal to these investors, Tradeweb announced in July the launch of a market-standard methodology for key metrics for fixed-income ETFs. Developed in partnership with BlackRock, State Street Global Advisors and other stakeholders, the methodology standardises the aggregated cash flow approach used to calculate yields, spreads and duration for fixed-income ETFs. "It makes sure that everyone speaks the same language, to allow a fixed-income investor to compare a fixed-income ETF with other fixed-income investments," says Bruni.

Meanwhile, Tradeweb is also seeing growth directly from the retail market through firms that aggregate retail flow, and who are seeing more demand from their end-clients for ETFs. European retail demand is a fraction of that of the US market, where Tradeweb is targeting growth also. It recently introduced there, in beta form, a US-listed ETF platform.

"In Europe, ETFs continue to present a substantial opportunity," notes Pace. "The potential growth here is huge. When you look at the adoption of ETFs in Europe, and the proportion of assets in active versus passive strategies – if the market goes the same way as the US, there's reason to be extremely bullish."