



Lee Hodgkinson became chief executive officer of SmartPool on 1 May 2009. Previously, he was CEO of SWX Europe (formerly known as virt-x) and head of the client and product group of SIX Swiss Exchange, a position he held from December 2006. He was director of market operations in the five years prior to this and a member of the management board of SIX Swiss Exchange from 2003. Hodgkinson began his career in the markets division of the London Stock Exchange, where he worked for nine years and is an alumnus of Harvard Business School.

NYSE Euronext has entered the dark pool fray with its SmartPool product and Lee Hodgkinson explains what sets this new platform apart from the rest of the pack.

Taking the plunge

What is the history of SmartPool?

There has been a perfect storm of change in Europe thanks to MiFID and NYSE Euronext has been at the forefront of change in this new environment. The rapid expansion of dark trading is a logical response to reduced trade sizes on the lit markets, driven by the widespread use of high-frequency trading and algorithmic strategies.

We cover the FTSE 100 and offer trading in stocks in the leading indices of the 15 European equity markets traded on SmartPool, including securities listed on the four NYSE Euronext markets. From September 2009 the SmartPool product universe will be expanded to include the constituents of important European mid capitalisation indices, which I think will be of great value customers who wish to trade less liquid securities in a non-displayed environment. The SmartPool value proposition is especially relevant for transactions in securities where liquidity is scarce and implicit execution costs tend to be higher. We have seen that price improvements could reach seven basis points in the mid-cap area where there is less liquidity and wider spreads.

So far 14 leading investment firms have joined SmartPool since launch including Credit Suisse, Exane SA, Instinet Europe Limited, Investment Technology Group (ITG), Knight Capital Europe Limited, Neonet, Nomura, Oddo et Cie, RBS / ABN AMRO Bank NV, Sanford C. Bernstein Limited and UBS. We have a healthy customer pipeline, with a number of new clients scheduled to onboard in the coming months.

In the second quarter of 2009, activity on the platform increased by over 90%, with buyers and sellers achieving price improvements of between three to six basis points. While I admit that volumes are increasing from a low base of business and that we still have a long way to go, we are significantly growing and have created a real buzz around the offering. For example, in mid-July we transacted over 6% of the total traded volume of Vodafone, which illustrates the growing depth of liquidity in our dark pool.

Was the potential of the platform one of the reasons why you decided to join?

Yes, but I also believe in the dark pool proposition in general. There is a great opportunity in the industry to improve on the wholesale transaction process which is why we launched Swiss Block (SIX Swiss Exchange's non-displayed liquidity service for Swiss equities) when I was at SWX. I joined SmartPool because it can deliver an entrepreneurial and agile culture with superior economies of scale driven by the technology and pricing power of NYSE Euronext. Technology and pricing, though, are only one part of the equation. Throughout history, there have been many examples where new entrants upset the status quo of an industry but then the incumbents fight back, reinvent the business model and reclaim a dominant position. I decided that people would find it hard to replicate SmartPool's value proposition and believe that it has a bright and exciting future. When I turned up, much a large part of the hard work had already been done and the foundation was laid. My job is to direct the strategy with greater renewed focus and energy.

There are several dark pool launches. How do you differentiate?

I think there are three differentiating factors. The first is that we will be here next year and I am not sure the same can be said about the other platforms. As an exchange-led dark pool, SmartPool is in a unique position in that it is not fighting for immediate survival, as others are, but can offer a long-term stable relationship to our members that won't be damaged by short-term concerns. Secondly, NYSE Euronext is also a global player and has scale that not many of its competitors can match. This means that we can draw upon over 200 customer relationships in Europe in addition to the major London based sellside customers and although we still have to convince them of the merits of the SmartPool business, we already have long established working relationships. Finally, NYSE Euronext is able to leverage its global platform and integrate it with SmartPool to give customers a cost efficient single point of connectivity for dark and lit pools which is more efficient.

competition and innovation rapidly evolve. Though MiFID provides Europe with an overarching regulatory framework, interpretation is permitted at national level across all member states. As such, discrepancies exist. The Committee of European Securities Regulators (CESR) is working hard to harmonise MiFID's implementation and has made a number of welcome declarations on pre-trade transparency waivers, but substantial differences remain. The MiFID review slated for 2010 is welcome and will need to address issues far broader than dark trading. For instance, fragmentation of post-trade data needs to be considered with the utmost urgency. In the interim, enforcement of the existing directive is as important as its amendment and improvement. We will of course support CESR, the FSA and the Commission in their ongoing work.

As for the US, the recent debate has been largely framed not by dark pools specifically but by the use of flash and bolt order types (which give equities and options traders on some exchanges an early look at orders before they are routed to

“As an exchange-led execution venue and a MTF regulated by the Financial Services Authority, SmartPool holds itself to the highest standards of regulation level.”

What do you think about the controversy that has surrounded dark pools?

In many respects, dark trading has existed for many years in the form of upstairs markets. Dark pools provide sophisticated technology solutions to help improve and automate that process. They are a complementary service designed to meet the needs of a particular style of business and market segment, rather than a new form of trading that will replace traditional methods.

As an exchange-led execution venue and a MTF regulated by the Financial Services Authority (FSA), SmartPool holds itself to the highest standards of regulation. Our business model is entirely consistent with MiFID's pre-trade transparency waivers. Furthermore, the fact that SmartPool has a minimum order size of €10,000 not only guarantees that blocks can be found but also reduces the risk of gaming.

MiFID has led to an unprecedented level of change, as

other markets). We strongly believe that the use of flash order types is wholly inconsistent with existing US regulations.

There is always talk of Europe moving in the same direction as the US but the trading landscape is different.

I think it is always dangerous to expect Europe to emulate the US exactly because there are many actors playing the same parts but under a very different regulatory framework. At the moment we need to be careful as an industry to not suffer from MTF fatigue. There are more and more new venues launching that look exactly like each other. As a result customers will have to be more considered in their approach as to whether they want to participate in these new venues. Looking ahead, I expect a great deal of attrition and consolidation. New venues can't continue to lose money over sustained periods of time paying for order flow in order to gain more market share, especially in these difficult market conditions. As a result, I do not expect to see the number of venues we have today in a year. ●