

MARKET QUALITY

SuperMontage is outperforming the competition, delivering fast response times



“With SuperMontage, we’re making executions in milliseconds, while this can take minutes on the NYSE” Chris Nagy, director of trading, Ameritrade

Following the launch of its SuperMontage platform last October, NASDAQ is delivering a faster, more efficient and more liquid trading environment. This is the message from *Results on the Introduction of NASDAQ’s SuperMontage*, NASDAQ’s first performance report on the platform and one which comes from a growing number of front-line users of the system.

Prepared by NASDAQ Economic Research and available on the NASDAQ web site, the performance report highlights faster execution times, improved fill rates and substantially more depth in the system since the October launch. It notes that even in the immediate aftermath of the platform going live, users and the wider investment

community are starting to reap the benefits of more immediate trading and enhanced all-round market quality.

Efficient market

“On a day-to-day basis, SuperMontage is working just as it was designed to work,” says Jack Hughes, senior vice president at Janney Montgomery Scott and currently chairman of the Securities Traders Association. “The system allows for a more efficient electronic market and any changes that are needed are done seamlessly and without disruption.”

The report looked at the key areas of trade executions and fill rates, noting that in terms of speed SuperMontage’s average time to first execution is already less than a tenth of a second – six times faster than SuperSoes and 18 times faster than SelectNet, the quote and order systems it has replaced. The new platform’s improved performance, it says, centers around the fact that as a single transaction engine it fully integrates quotation and execution functions to process quotes, order handling and executions as a one-system operation.

“The system is very fast,” says Chris Nagy, director of trading at the order entry firm Ameritrade (NASDAQ: AMTD). “With SuperMontage, we’re making executions in milliseconds while the process can take minutes when trading on the New York Stock Exchange.”

The other side of the coin, notes the report, is the system’s ultra-quick ability to check liquidity as an order comes in. Because the platform is fully integrated, its execution engine always knows how much liquidity is available – including reserve size and the AQR (automatic quote refresh) additional liquidity. This allows the system to simultaneously process multiple executions from several participants – again saving time and improving liquidity.

As a consequence, says Hughes: “This new platform makes it easier for one

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trader to monitor a greater number of securities.” What’s more, he notes: “In a multiple specialist environment such as the dealer market, more competition means better markets.”

Better markets, suggests Nagy, are more responsive markets with investors getting the best possible price thanks to state-of-the-art technology. “You want the price you saw and you want it now – and if you can improve on it so much the better. The difference between milliseconds on NASDAQ and an average execution time of 17 seconds on the New York Stock Exchange is an eternity.”

Effective execution speed

While SuperMontage is already proving itself highly effective in execution speeds, the average speed would be even more impressive, points out the report, were it not for the 30 seconds allotted for ECN response to delivered orders. “Average speeds,” it says, “are heavily skewed because of orders sent to an ECN, that failed to respond for 30 seconds, and only then returned to SuperMontage to receive an execution with the next liquidity provider.” In general though, even the orders delivered to ECNs fill exceptionally quickly and enjoy excellent liquidity.

In support of this ultimate solution, the report says that SuperMontage’s time to full execution is proving faster for all order sizes, be it 100 shares or large blocks. Larger executions, for example, are shown to move more quickly and without delay because of the easier access to liquidity across a single platform.

One finding of particular importance to market participants was a directional shift in market share. “Firms participating in SuperMontage have seen their own overall share of NASDAQ trading increase measurably,” says Mike Edleson, senior vice president and chief economist at NASDAQ. “This is exactly what we had hoped. In helping firms serve investors better, SuperMontage has directly improved their business prospects and success.”

The report also focuses on fill rates – the percentage of shares executed during the lifetime of an order – noting that around 93 percent of all marketable SuperMontage orders are receiving executions. SuperMontage’s order routing capabilities

and best price to more investors. **Nick Cottam** reports on the latest feedback.

mean that having sent the appropriate size order to an ECN, it will automatically seek out additional sources of liquidity for the remaining orders – an enhancement that the report believes is already producing a better than 25 percent improvement in fill rates over the previously used SuperSoes and SelectNet systems.

Greater depth

“More liquid securities trade more effectively [in SuperMontage],” says Hughes, “allowing market makers to post larger order sizes on behalf of clients.”

Again, the latest statistics on the depth of liquidity support the user experience. Following the launch of SuperMontage, says NASDAQ, aggregated depth has increased by more than 50 percent while average depth for stocks at the inside bid has risen nearly 70 percent to \$104,000.

This level of liquidity is all important to Ameritrade and its clients, adds Nagy. “We’re using SuperMontage to seek out liquidity on behalf of our clients and it’s proving a robust and stable bridge between different sections of the market. The immediacy of the system is unparalleled as is the access we get to breadth and depth in the market.”

Looking ahead, adds Nagy, “I’d like to see SuperMontage build centrally based

Q&A | RAISING THE COMPETITIVE BAR

SuperMontage has become the system of choice for traders at Bernard Madoff Securities. **Andy Madoff**, head of NASDAQ trading at the firm, assesses the platform’s day-to-day performance.

Q: SuperMontage is designed to support a reliable, liquid and streamlined trading environment. How is the platform working for you on a day-to-day basis?

A: SuperMontage is working very well for us on a day-to-day basis. The increased amount of liquidity we can see and access, the lightning-fast speed, and the rock-solid reliability have made it the system of choice for my traders.

Q: What individual features of SuperMontage do you rate highly and how are they helping you in your work? In addition, is the system helping you to deliver a better service to the end customer – namely the investor?

A: The ability to choose whether I want my firm’s identity advertised or hidden on an order-by-order basis is a terrific feature. This enables me to better serve my customers by giving my traders increased flexibility in choosing how to work orders.

Q: What about relative ease of trading – how does trading on NASDAQ with SuperMontage compare with trading on the New York Stock Exchange?

A: SuperMontage is so much faster and more efficient than the NYSE SuperDOT system that they are not at all comparable. On NASDAQ’s SuperMontage, you can always get at least as much liquidity as you can see, plus also whatever is in reserve – and you get it instantly.

On the New York Stock Exchange, however, the turnaround time for an order is very slow. In addition, there’s no certainty that you will be able to access the liquidity that the specialist chooses to display.

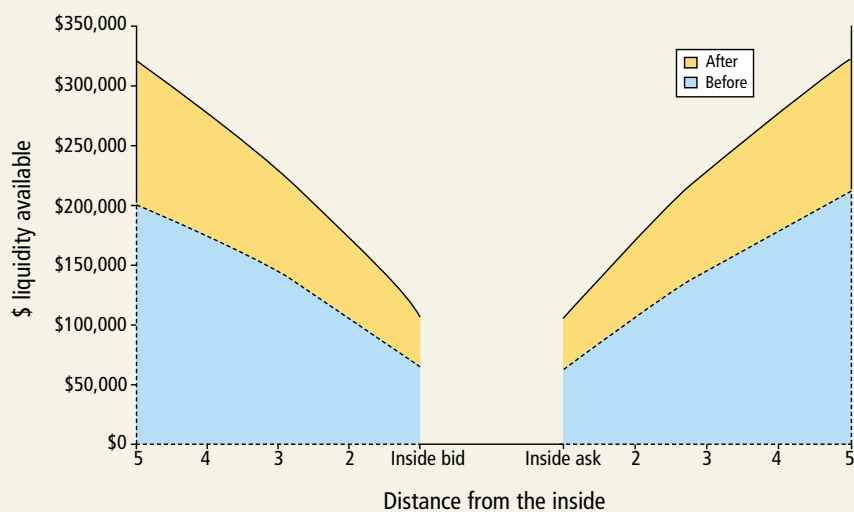
Q: From your point of view, is the platform helping to improve market quality?

A: Absolutely. NASDAQ has raised the competitive bar for all ECNs, and the public investor and NASDAQ market makers will be the beneficiaries.

Q: What additional features would you like to see incorporated into the platform?

A: I would like to see NASDAQ offer anonymity through settlement, and I’m eagerly awaiting the roll out of its new opening mechanism [due for launch later this year].

**AVERAGE LIQUIDITY:
BEFORE AND AFTER SUPERMONTAGE**



connectivity more effectively, thus furthering the ability to eliminate locked and crossed markets by matching quotes and orders at the appropriate price”. “It’s an area in which NASDAQ has been listening to our needs and the technology is making a big difference,” he says.

According to Edleson, enhancements to the platform are continually being added. “This year, we’ll continue to provide the enhancements that our customers want in order to build on SuperMontage’s role as the natural center of liquidity for NASDAQ firms,” he says. “We’ve already beefed up liquidity by opening access to the platform’s order facility to all brokers, provided enhanced data views on available liquidity and by April we’ll have introduced a NASDAQ Official Close to give investors better prices. These are just a few of more than 60 enhancements in the works to help our firms address customers’ needs.”

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