

ADVANCED TRADING

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Fox River Launches New ETF Trading System

Fox River Execution has collaborated with iShares to launch a new trading platform aimed at trading large blocks of ETFs.

By Kerry Massaro

Fox River Execution in collaboration with Barclays Global Investors' iShares to launch a new ETF trading platform aimed at trading large blocks of ETFs. "The goal was to create a system that could execute large orders, quickly and with little market impact," says, Ronald Santella, CEO of Fox River Execution. Santella notes that the system "is about ten months in the making." He explained that this timetable and process includes idea generation, to development, back testing and a three-to-four month beta period with six customers. One of its beta clients is Northern Trust.

The development of the new system, called Fox Spotlight, was primarily done by Fox's research and trading team, notes Santella. iShares, which is the world's largest manager of ETFs, provided research collaboration.

Santella says this system provides a unique view into the liquidity of ETFs. He adds that there are a fair number of ETFs that never get traction because their liquidity is not transparent. What Fox Spotlight does is create a process that accurately prices ETFs and makes that price transparent in the auction process.

"We spent a lot of time figuring out the equation to accurately price the ETFs to create the transparency needed to trade them," he notes. According to Santella, this is what makes this particular trading system unique and has enabled Fox River to be a first-mover by creating an automated system to trade ETFs.

The challenge with ETFs is that they are an equity product but trade like a derivative, Santella says. The ETF price is based on the net asset value (NAV) of the underlying equity, he explains. What Spotlight does figure out the price at which the order will be filled. The system will sweep the market electronically for all orders at the price or below and then post the order in the ETF displayed market.

Fox River's target audience is traditional asset managers, hedge funds, arbitrageurs, and others. In order to use the system, customers must go through Fox's pipes, Santella says. He explains that traders can send an order via a FIX message or through an execution management system like Bloomberg, Redi, among others. In addition, customers can call in an order and allow a Fox River trader to execute the order via Fox Spotlight. The systems official launch is today.