



# Buyside electronification and Eurex Improve – a perfect fit

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The electronification of the buyside has been advancing for some years now. Asset classes that were once traditionally dominated by voice-brokerage over the telephone are now increasingly shifting to the trading screen, becoming “low-touch” business handled by algorithms. And the trend has not lost any of its speed.

Specifically, the electronification of the buyside trading processes and workflows has combined with unprecedented levels of structural change to global marketplaces, increasing the transparency standards to which the buyside is held.

Buyside traders need the ability to provide their end-investor clients with best execution in line with post-financial crisis regulatory requirements. The solution must, ideally, serve as a tool for the generation of “Alpha” on a trade-by-trade basis by

identifying opportunities for the trader to execute on available liquidity across a variety of different asset classes and order types, regardless of market conditions at any given point in time.

## **Full execution at the best available price**

Eurex Improve is the perfect tool and add-on to manage these challenges. As a client flow facilitation service for all equity options and equity index options, it provides Eurex members with a tool that guarantees their buyside clients full execution of their orders at the best price available in the Eurex order book.

Similar price improvement mechanisms have been offered in the US for some time now. In Europe, Eurex is a first mover in providing a price improvement mechanism as an integral part of its order book.

Eurex reacted to market requests to have something tailor-made for Europe with the launch of Eurex Improve in February 2020. By June 2021, it reached a volume of 600,000 directly processed lots. However, the real measure of success for Eurex Improve is not the directly processed volume, but the “Eurex Improve Enabled Volume”.

Eurex Improve’s overarching goal is to generate additional trading volumes in the order book by providing tangible benefits to all parties or stakeholders involved in a transaction, with buy-side customers inarguably being the main beneficiaries. Not only does it add value to the overall market structure, but there are also attractive benefits for all participants, from the buy-side customer to the bank and broker, but also for liquidity providers.

### Eurex Improve Enabled Volume

Customers may use Eurex Improve as a back stop for their trading algorithm suite where full execution of a client order is guaranteed. To offer clients the best possible execution, the trading algorithm is structured in a way that it operates the underlying order in accordance to the respective liquidity situation in the order book of the relevant instrument. Not only to avoid adverse price movements, but also to achieve a price improvement.

This highly effective trading mechanism will take the “parent order” and slice it into “child orders” to limit the price impact of larger orders hitting the market. Once the algorithm detects that the “child orders” may have consumed enough order book liquidity so that the execution of outstanding “parent order” is not likely without an adverse price impact, it triggers a Eurex Improve request to guarantee full execution of the client order at a pre-defined price against the initiating broker, or at a better price against participating liquidity providers.

The Eurex price improvement process requires that the initiating broker enters both the client side and the opposing broker side into the Eurex system. This will trigger a Eurex Improve announcement to the market that then has 150 milliseconds to react to the signal. After these



**“Allianz Global Investors makes intensive use of the possibilities offered by algorithmic trading as part of its execution strategies. Eurex Improve is a good addition here to find additional liquidity and minimise our transaction costs.”**

**Tobias Windecker, CFA, Allianz Global Investors GmbH**

150 milliseconds, the client’s side of the order, as well as the opposing initiating broker, will be simultaneously entered into the order book and executed against each other. Should there have been better prices in the order book than the price provided by the initiating broker, or if there has been a price improvement within the 150-millisecond period, the client’s order will be executed first against this liquidity. The remaining client quantity will subsequently be executed against the initiating broker order.

Eurex Improve is a measure to facilitate client flow into the order book. When looking at Eurex Improve Enabled Volume, Eurex monitors the volume contributed by algorithms, which uses Eurex Improve as a back stop, as described above, and analyses how much of the volume contributed by these algorithms is sent directly into the order book for execution and how much of the flow is facilitated via Eurex Improve.

This analysis shows that 95 percent of the “parent orders” executed through one of the existing trading algorithms in the EURO STOXX 50 Index Options and 81 percent in Single Stock Options are executed in the order book directly, without making use of the Eurex Improve functionality. Eurex Improve – added value for the buy-side and its customers. ■

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