

# Proprietary Trading Management Insight Report

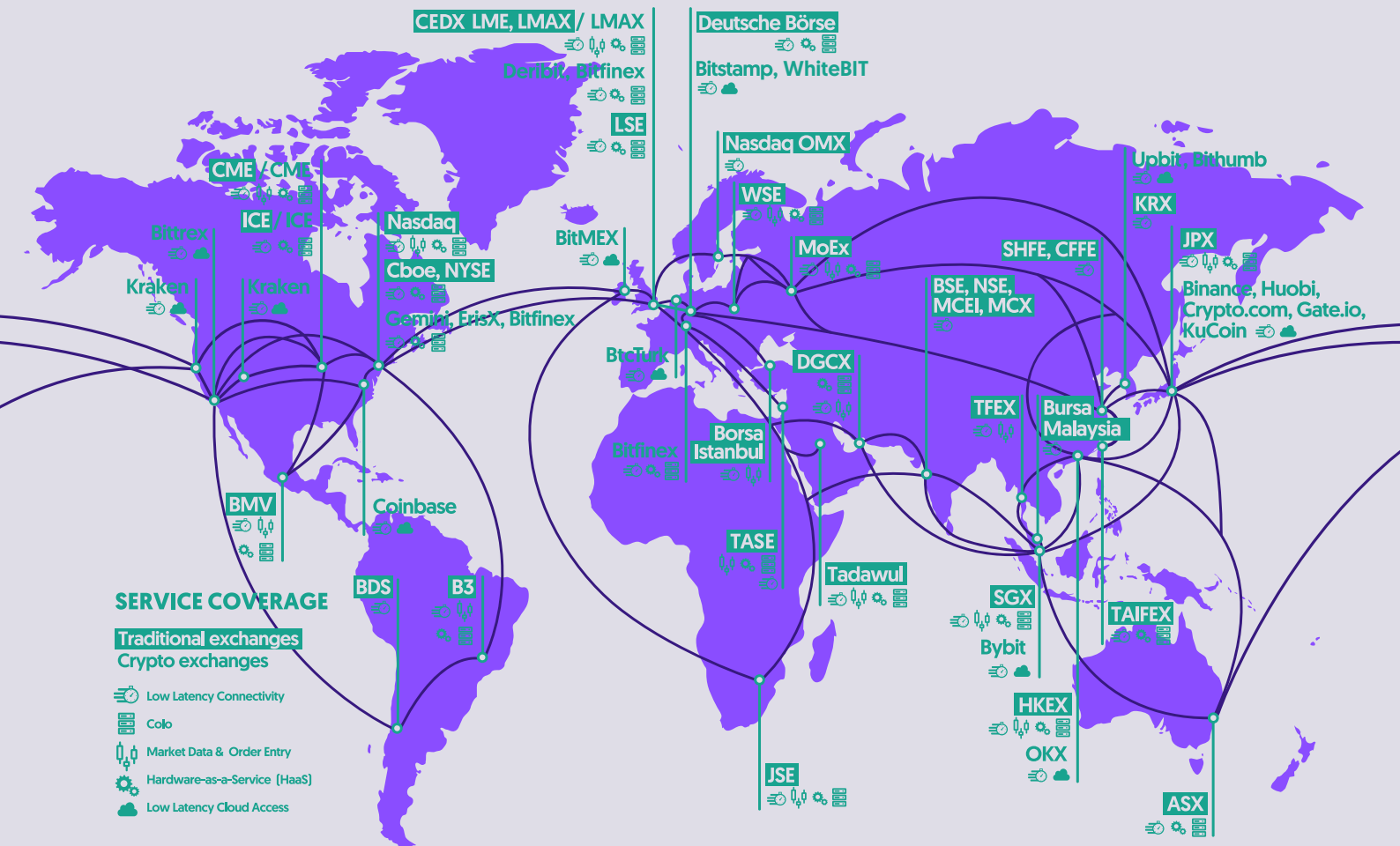
Q4 2023

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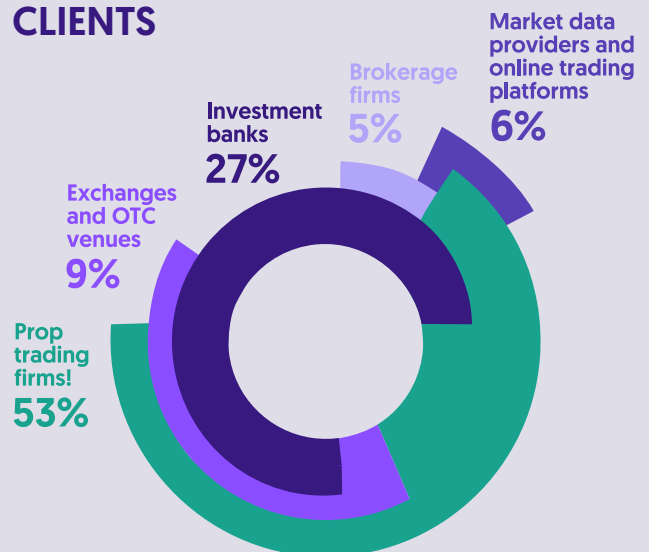
# AVELACOM



## #1 ULTRA LOW LATENCY INFRASTRUCTURE FOR MARKET MAKERS AND ARBITRAGE TRADERS



### OUR CLIENTS



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# Introduction

Welcome to the Q4 2023 Proprietary Trading Management Insight Report. This report is based on a survey of the Acuiti Proprietary Trading Expert Network, a group of senior executives at over 100 proprietary trading firms from across the global market.

This quarter we take a look ahead to 2024, asking what expectations are for the year as well as where firms are planning to invest.

In addition, we explore how rising costs from exchanges are impacting proprietary trading firms. Our hot topics this quarter cover DORA, crypto markets, hiring, CFD bans and ODTE in Europe and the long term impact of IFR/D.

Thank you to all those members of the expert network that have suggested topics and questions and contributed to this quarter's survey.



# Looking ahead to 2024



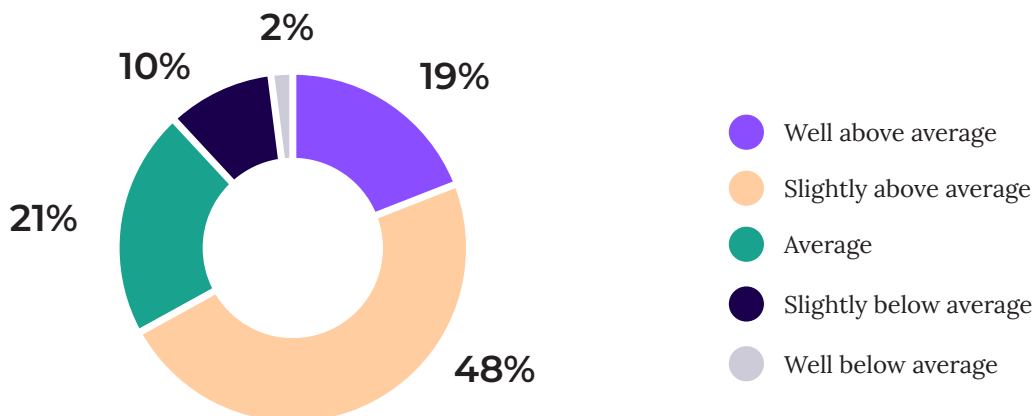
This year has been a mixed bag for proprietary trading firms as, in many markets, periods of low volatility have been punctuated by sharp market moves plagued by poor liquidity. This has presented challenges for firms trying to execute strategies and reduce risk exposures.

At the same time, rising costs have put pressure on the bottom line at many firms. However, there have been bright spots with volumes in Asia and in US options markets booming. We will take a detailed look next

report at the overall performance of firms in 2023. In this report we look ahead to 2024 and measure expectations for growth and investment.

With continued geopolitical uncertainty and inflation remaining persistently high in several core markets, proprietary trading firms are looking ahead to 2024 with optimism. Overall, 67% of the Acuiti Proprietary Trading Expert Network predicted a good year next year, with 19% anticipating a well above average year.

**Looking ahead to 2024, how strong a year for your business do you expect it to be?**



Firms that were predominantly algo but not ultra-low latency anticipated the best year, with 93% anticipating a better than average year compared

with 36% of ultra-low latency firms. Around half of point and click firms were expecting a better than average year.



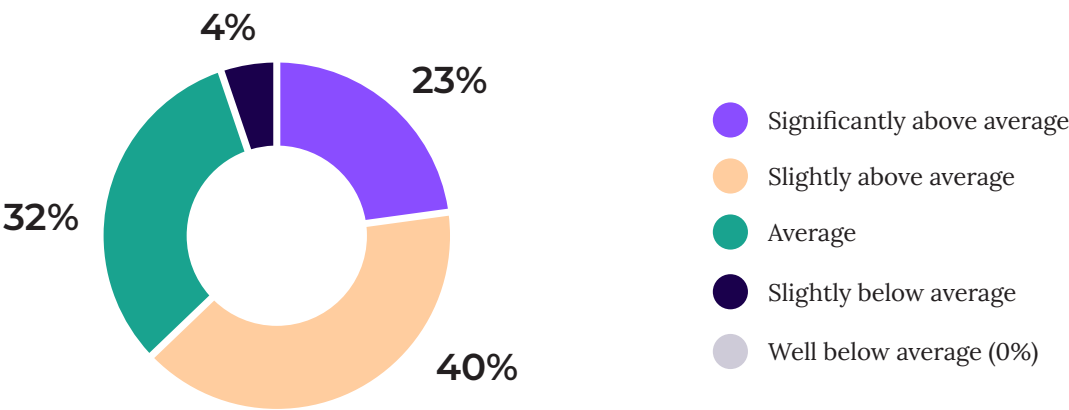


# Investment budgets

This optimism is feeding into investment budgets. Overall, 63% of respondents predicted a higher than average investment budget in 2024, with just under a quarter anticipating a

significantly higher budget. This represents a slight fall on last year, when 68% planned an increased technology budget, but still reflects optimism in the market.

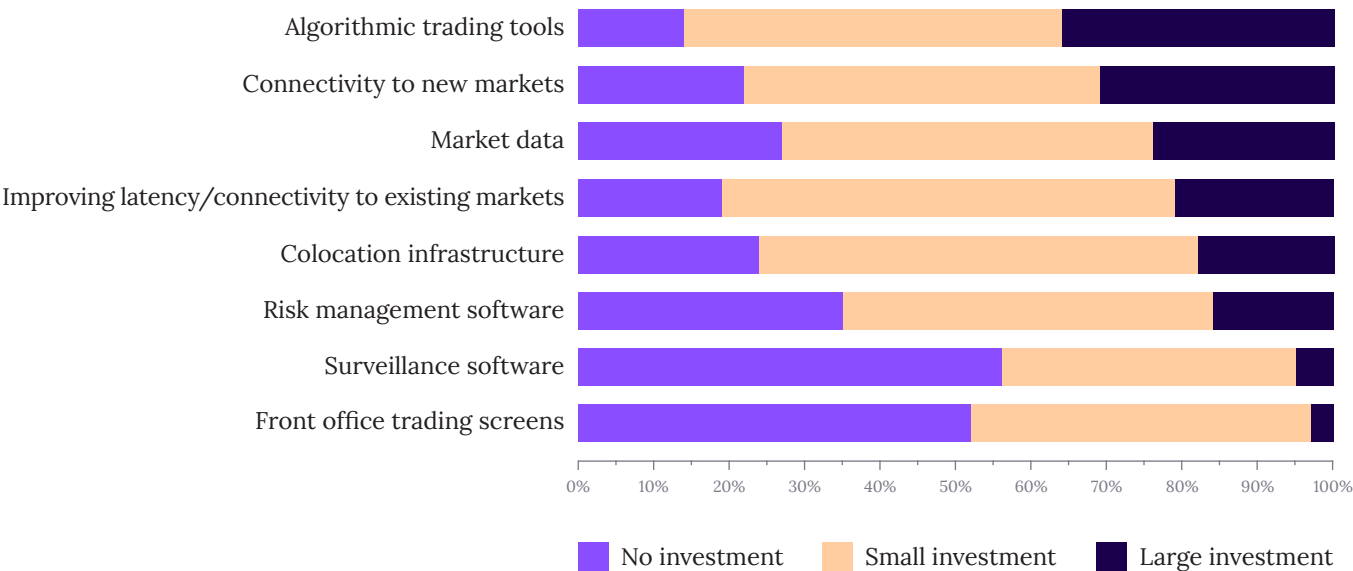
How big do you expect your technology investment budget for 2024 to be?



Firms were typically investing across most areas of technology. The functions with the most significant planned investment were

algorithmic trading tools, connectivity to new markets, market data and improving latency/connectivity to existing markets.

What are your investment plans with regards to technology in 2024?



## Top investment areas by company type:

### Ultra-low latency

- 1 Colocation infrastructure
- 2 Algorithmic trading tools
- 3 Market data

### Predominantly algo but not ultra-low latency

- 1 Algorithmic trading tools
- 2 Market data
- 3 Connectivity to new markets

### Hybrid of algo and point-and-click

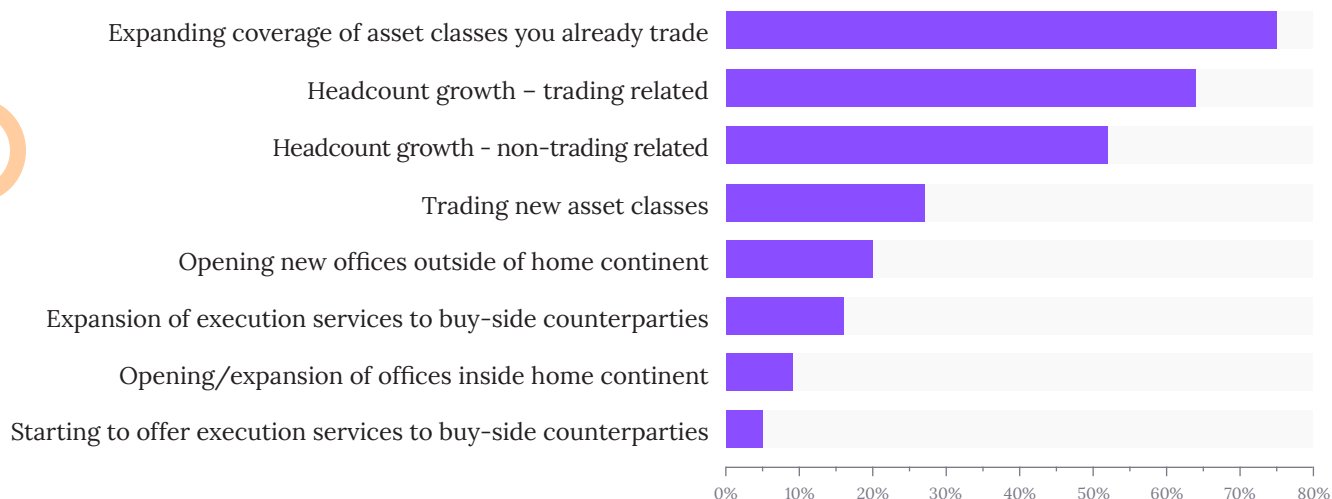
- 1 Improving latency/connectivity to existing markets
- 2 Connectivity to new markets
- 3 Algorithmic trading tools

### Predominantly point-and-click

- 1 Market data
- 2 Front office trading screens
- 3 Improving latency/connectivity to existing markets

In terms of non-technology investments, firms were predominantly looking to invest in traders to boost coverage of existing asset classes.

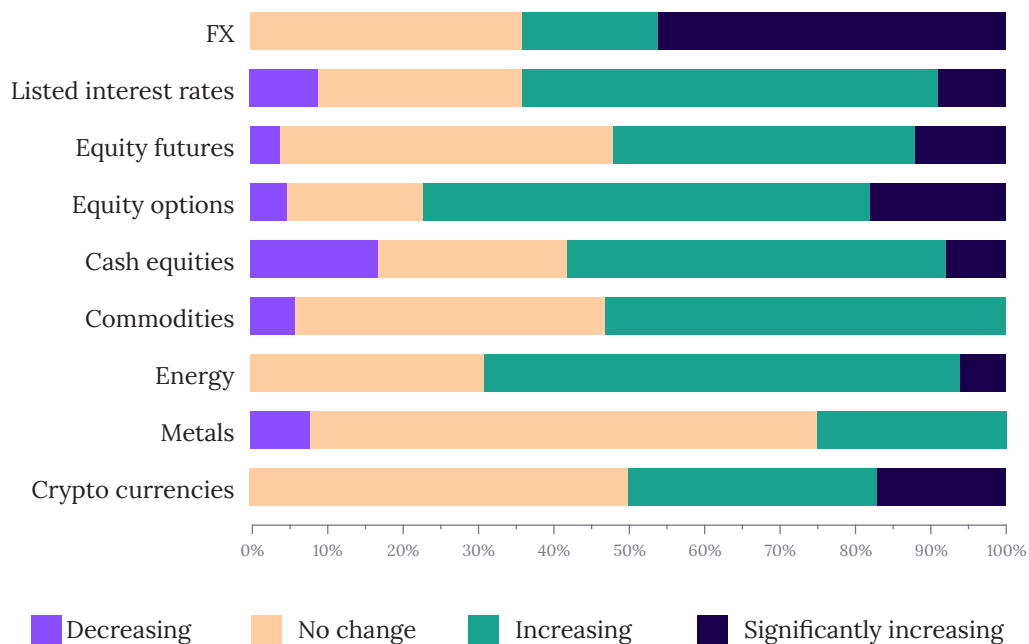
## What non-technology areas are you planning to invest in during 2024?



The percentage of firms planning to invest in existing asset classes has remained constant compared with the same time last year. However, planned investment in trading related roles has dropped, while planned investment in trading new asset classes has halved since 2022.

For firms investing in trading new asset classes, they were most likely to be expanding into fixed income, with cash government bonds the most likely area of expansion. Second was firms looking to expand into equity options, with energy a close third. A small number of firms were planning to develop crypto trading or FX.

Are you currently or planning on increasing or decreasing your exposures in any of the asset classes you currently trade in 2024?



In terms of expansion in the asset classes firms were already trading, FX was the area that firms were most likely to be expanding, a significant reversal on last year when it was the asset class the fewest firms were seeking to expand in. Equity options and crypto currencies were also areas in which firms

already trading the asset class were looking to expand. Almost a fifth of respondents were planning to decrease their coverage of cash equities. Three fifths of firms that were decreasing cash equity coverage were based in the EU, signalling a worrying trend in a market already suffering from poor liquidity.





# Market data and rising exchange costs

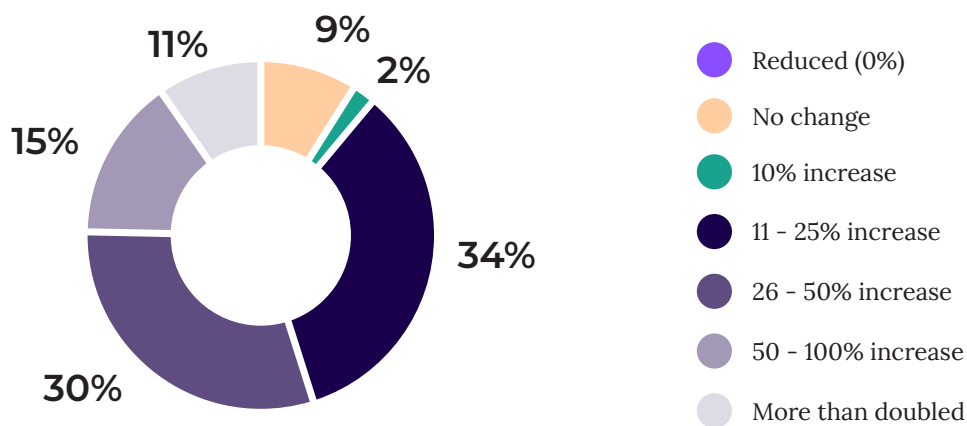
One defining trend of the past decade has been rising costs levied by exchanges on proprietary trading firms. During the period of low volatility in the wake of the financial crisis, exchanges sought to reduce their reliance on transactions by charging subscription fees for market data.

This has since become big business for

exchanges, with several exchange groups making more than a third of their revenues from market data fees and firms such as LSEG and ICE making multi-billion dollar data-based acquisitions.

However, for many proprietary trading firms, these costs represent a significant and increasing burden.

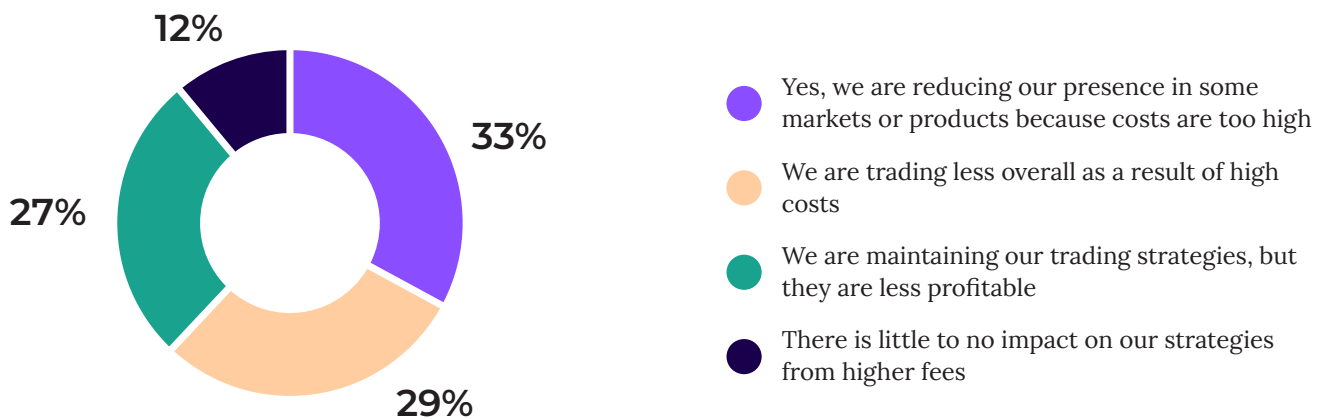
**Overall, how much do you estimate that the fees you pay to exchanges (covering everything from execution to market data) have changed over the past five years?**



Nine in 10 respondents reported an increase in fees paid to exchanges over the past five years, and almost all of those that had not experienced fee increases were predominantly or exclusively trading crypto. Of those that reported an increase, over a

quarter had experienced increases of more than 50%. These cost increases are becoming self-defeating for exchanges as they are forcing firms to trade less or reduce their presence in certain markets (see chart on next page).

## Is the cost of trading impacting how you execute your strategies?



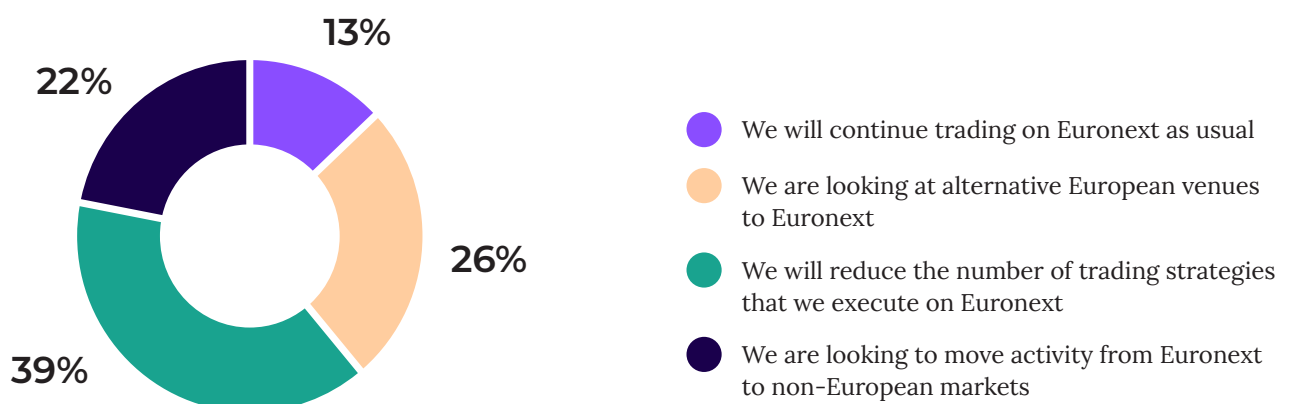
Of those that reported higher costs, only 12% said that the increased fees had not impacted their trading strategies. A further quarter were absorbing the costs but not changing strategies. However, almost two thirds of respondents were trading less overall or had reduced their presence in some markets or products because the costs were too high.

In markets where poor liquidity is a growing problem, the costs of trading need to be urgently explored by exchanges, regulators and the wider market. As noted above, market data has been the main area of concern for

firms and the costs here are only increasing. Members of the network reported that Euronext has told them that it will increase derivatives market data fees from January.

Responses from the network suggest that there is likely to be significant pushback on the proposed fee increases. Of those that traded on the exchange, 13% said that they planned to continue trading on Euronext as usual while 39% said that they planned to reduce the number of strategies they execute on the market and a quarter are exploring alternative venues.

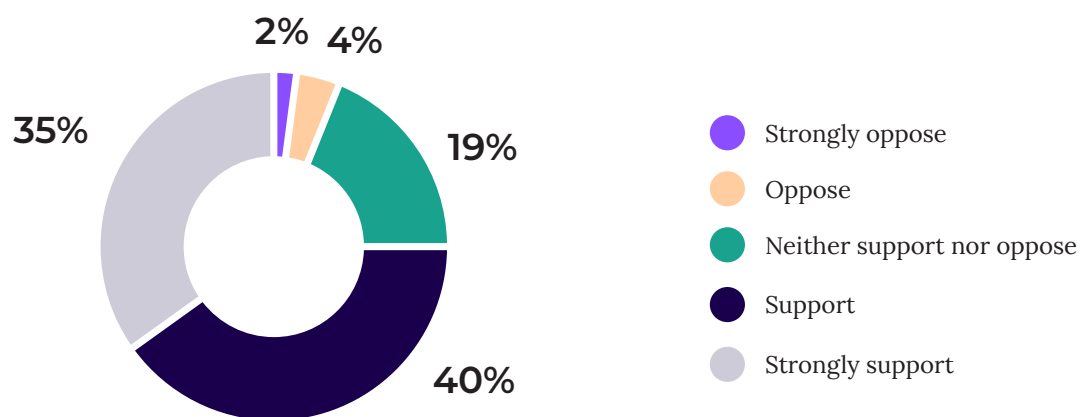
## What impact will Euronext's planned increase of derivatives market data fees have on your business?



Proprietary trading firms are looking to regulators to take action to address the seemingly endless rise in market data fees.

Three quarters of the Expert Network would support a limit on the mark-up and price rises that exchanges can levy for market data.

**Would you support a mandated limit on the markup and price rises that exchanges can charge for market data?**



# Hot Topics



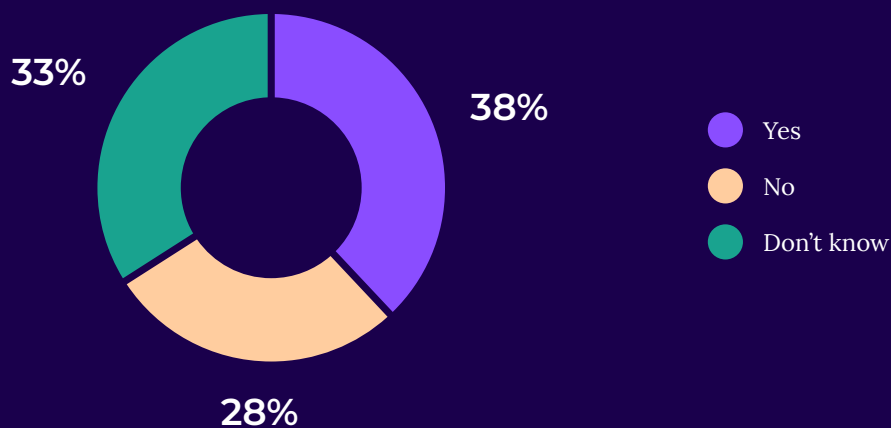
## The EU Digital Operational Resilience Act

On 27 December 2022, the EU's Digital Operational Resilience Act was published in the Official Journal of the European Union, setting in motion its implementation. DORA is designed to provide a regulatory framework governing technology infrastructure and

supply chains to strengthen companies' resilience against events like cyber-attacks.

Acuiti will publish a report into DORA this quarter. However, for this report we asked firms based in Europe whether they were impacted by DORA.

**Is your firm being affected by the EU's Digital Operational Resilience Act?**



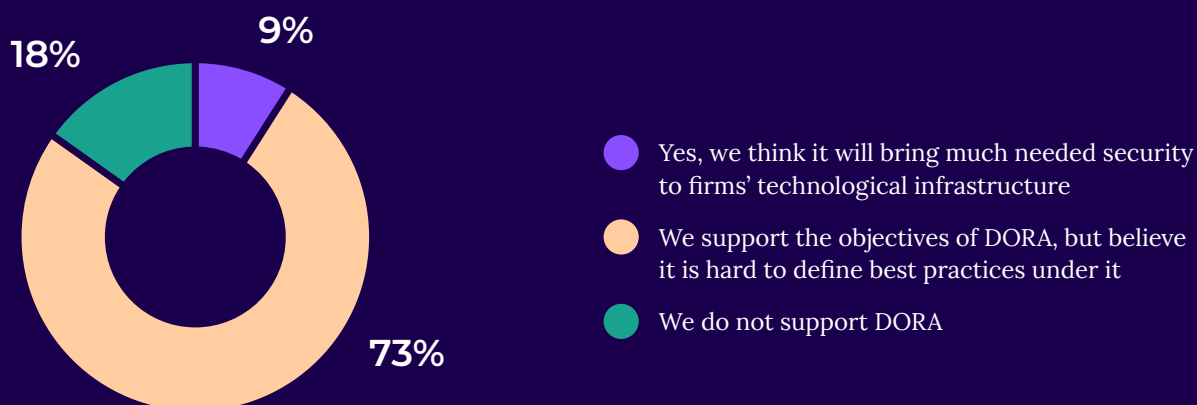
Significantly, we found low levels of awareness of DORA. 28% of respondents said that their firm was not impacted, while a third did not know.

DORA will apply to all Mifid II Investment Firms or firms that are seeking a crypto licence under

MiCA and so a large percentage of firms that don't think they are caught by DORA will be.

Of those firms that are aware of DORA, most agree with its intentions but question how it is currently being implemented.

Do you think that DORA will increase the robustness of European markets?



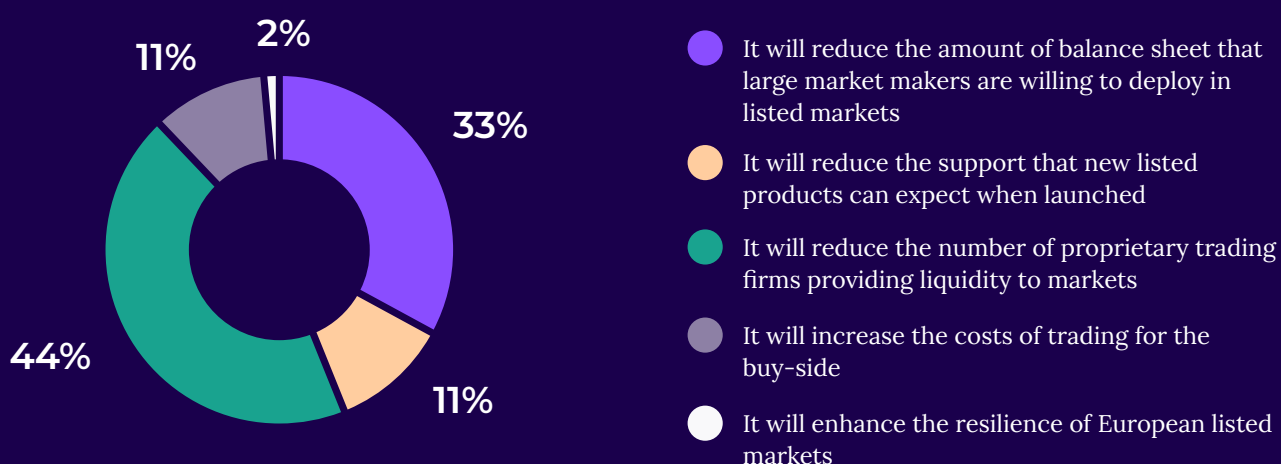
Compliance with DORA will require significant operational resources in order to pull together all the required information. Look out for our report on DORA, which will be published in November.

## The long-term impact of IFR/D

A long running topic in this report is IFR/D. This quarter, a member of the network requested views on the most significant

change that the regulation, which will significantly increase capital requirements on most proprietary trading firms, will bring.

In its current state, what is the most significant change that IFR/D will bring to European listed derivatives markets?



Almost all firms thought it would have a negative impact, with almost half predicting a reduction in the number of proprietary trading

firms and a third that it would reduce the amount of balance sheet that market makers can deploy to listed markets.

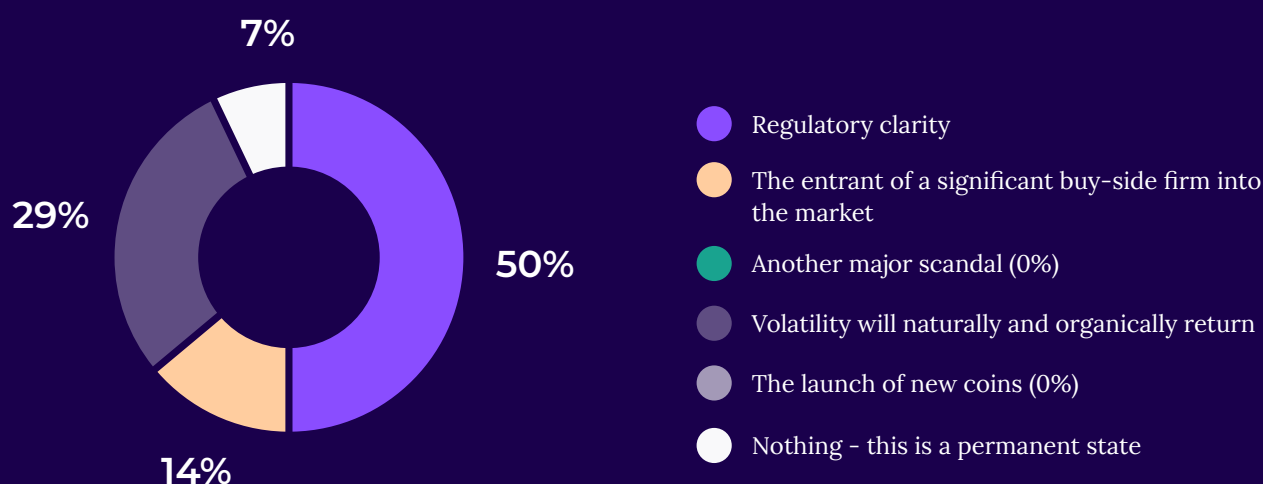
# Crypto markets: Coming out of the doldrums



Crypto markets have been depressed for most of the past 12 months, with record low volatility for what has previously been an exceptionally volatile asset class.

One member of the network asked for views on what the firms that trade crypto thought would end the cycle of low volumes and low volatility.

**What do you think is most likely to break the negative feedback loop of low volatility and low volumes in crypto markets?**



Half of the Expert Network that traded crypto thought that regulatory clarity would break the negative feedback loop, while just under a third thought that volatility would naturally and

organically return. None thought it would be ended by another major scandal or the launch of new coins, while 7% said that low volatility was now a permanent state.

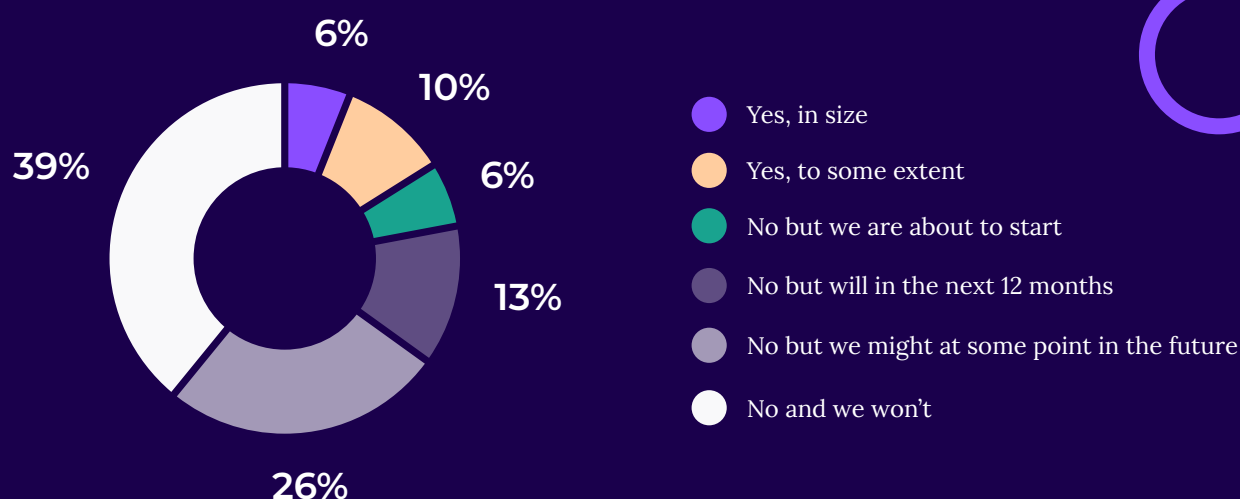
## ODTE in Europe

Zero day options have been the big story of 2023 in the US, with volumes skyrocketing. In response, exchanges across Europe have launched the product with Eurex being the first to do so.





### Are you trading ODTE at Eurex?



Of the Expert Network that traded equity options, around 16% were currently trading ODTE on Eurex with a further 19% planning

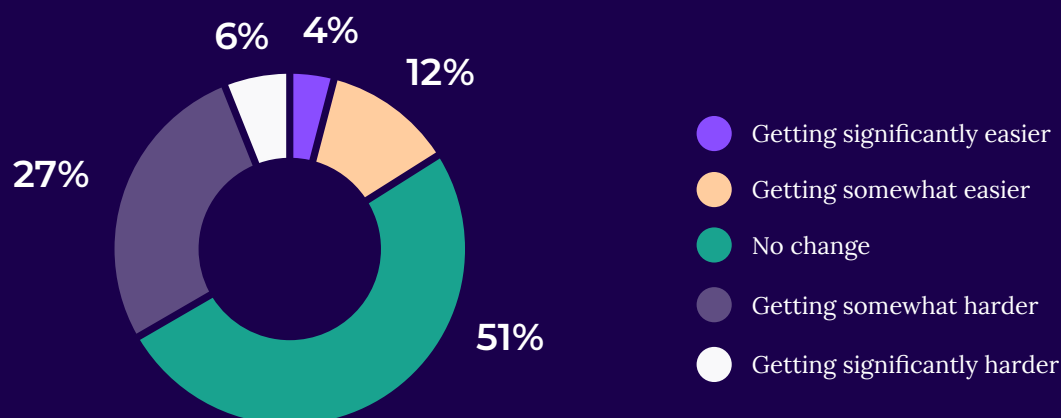
to start in the next 12 months. However, almost four in ten said that they were not planning to trade them.

## The challenges of hiring

Hiring has been a consistent issue for proprietary trading firms highlighted in this report over the past few years. Rising

salaries and intense competition for talent is putting pressure on firms seeking to grow headcount.

### Is your ability to attract and retain experienced trading talent changing?



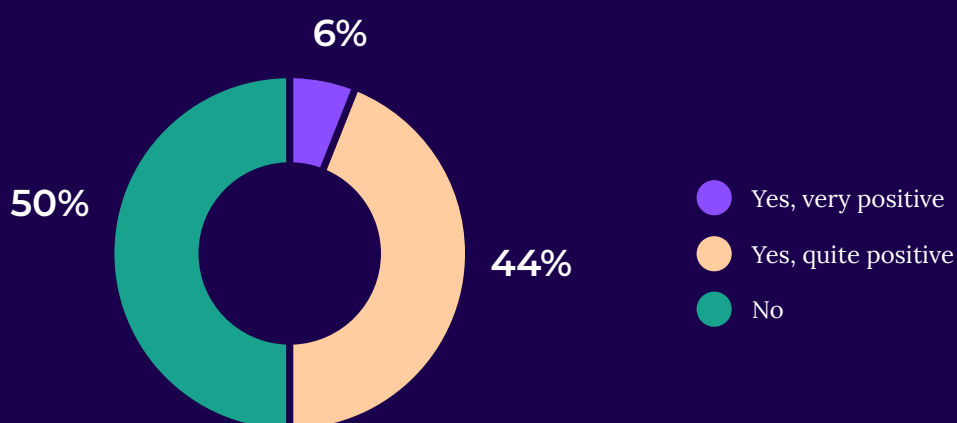
The signs are that the challenge is getting worse if anything, with a third of respondents saying it is either getting somewhat or significantly harder to hire trading talent.

# CFD bans in Europe

The persistence of products such as CFDs and Warrants in the European retail market has been a major barrier to attracting more retail flow to listed markets in Europe.

However, in September, Spain announced a ban on marketing CFDs and several other products to retail traders.

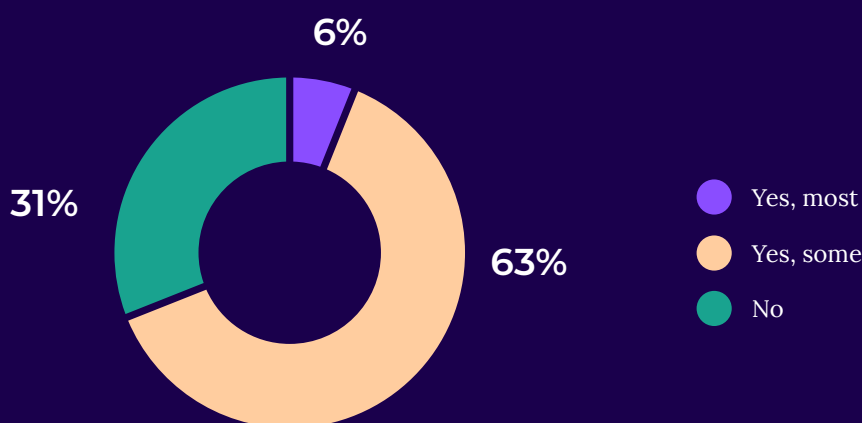
**Do you think Spain's ban on the marketing and distribution of CFDs to retail traders will be positive for listed derivatives markets?**



Half of the Expert Network based in Europe thought that the ban would not be positive for listed derivatives markets. Almost two thirds

thought that other countries would follow Spain in issuing similar bans.

**Do you think other EU countries will follow Spain?**

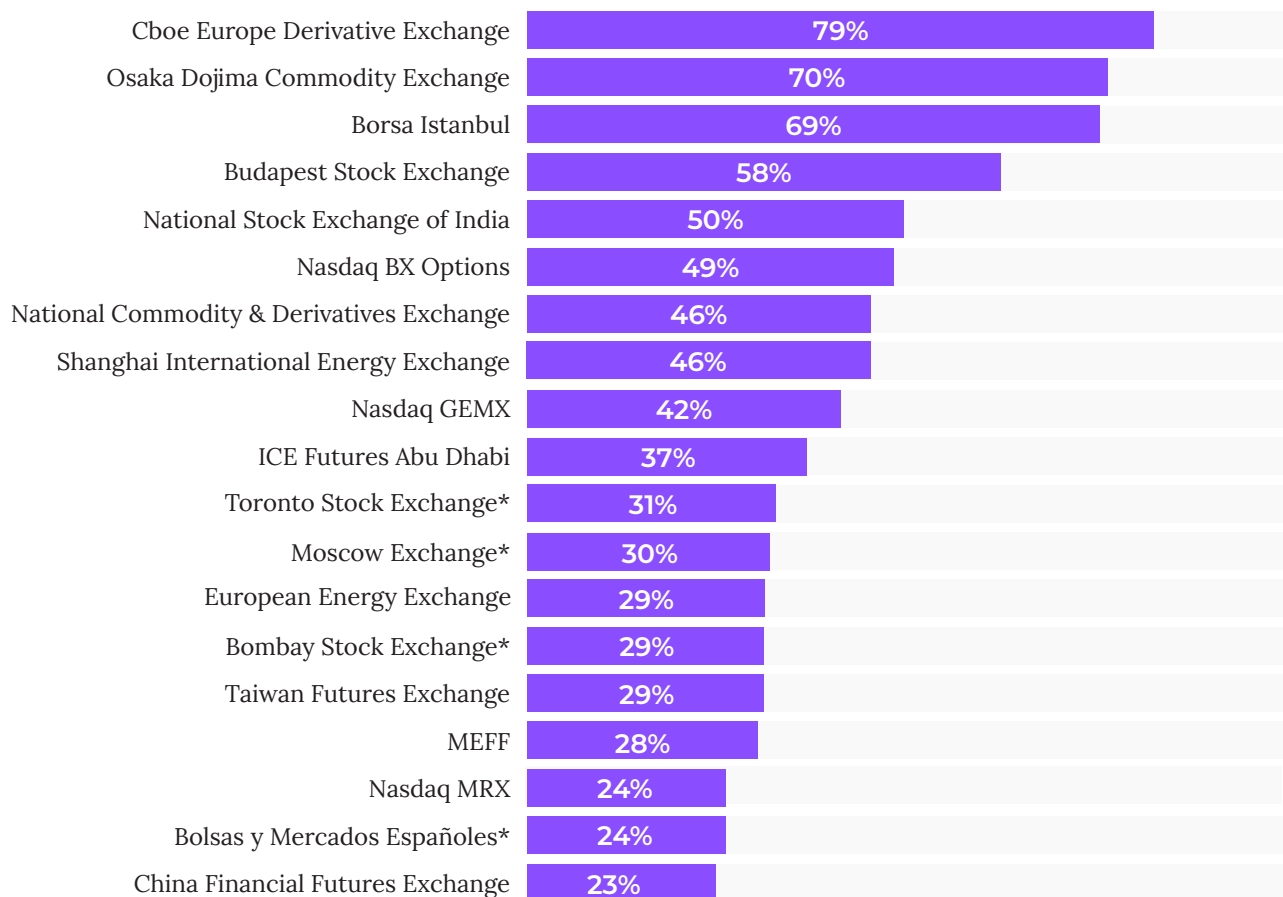


# New contracts

## The Avelacom Exchange Growth Index

The Avelacom Exchange Growth Index is a benchmark of quarter-on-quarter volume growth across cash equities and derivatives markets. Exchanges must have been trading

for more than one year to feature in the index. Futures and options data is provided by the FIA, cash equities from the exchange websites.



\*Cash equities

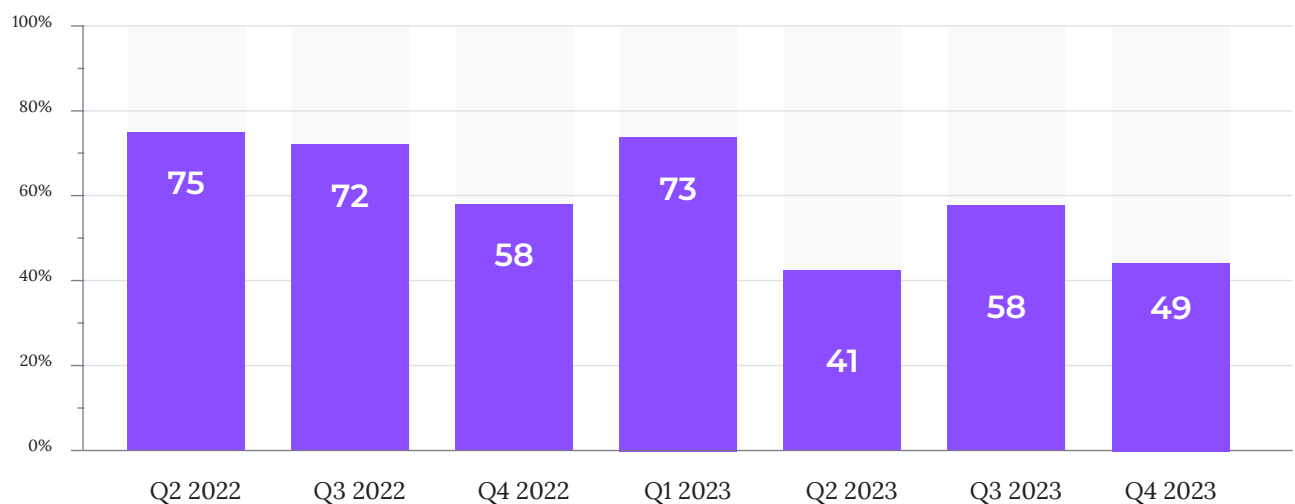
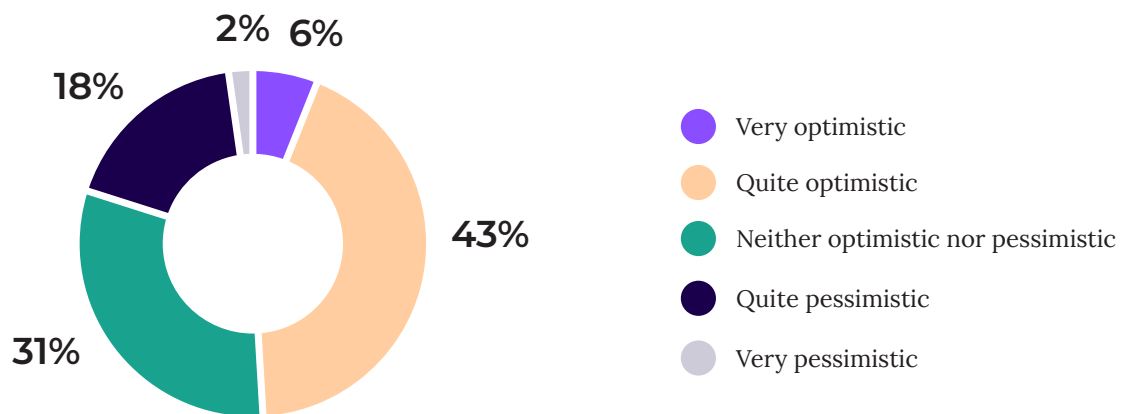
Source: FIA, Exchange Websites

# Sentiment

Optimism about business performance fell this quarter to 49% of respondents being either quite or very optimistic from 58%

last quarter. Significantly, the percentage of respondents that were pessimistic doubled from 10% to 20%.

Finally, looking ahead to the next three months, how optimistic are you about the environment for your business performance?





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