

Citadel Securities: more TCA in 2020 to expose liquidity recycling

TCA should show difference between providers who hold risk and recyclers of liquidity, says market-maker



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Kevin Kimmel, Citadel Securities

Fresh scrutiny of the quality of execution and the performance of liquidity providers executing foreign exchange trades in the New Year will mean market participants increasingly distinguish between true providers of liquidity and recyclers of it, says Citadel Securities.

A greater push towards the use of tools that measure execution quality, most notably transaction cost analysis (TCA) offered by independent technology providers, will support liquidity consumers in that aim, says Kevin Kimmel, global head of e-FX at Citadel Securities. He believes this trend began in earnest in 2019.

“We think greater transparency around execution quality will not only lead to better algo performance, but also help banks and other liquidity consumers [to] differentiate between the liquidity providers that are able to hold risk and those that just recycle liquidity,” he says.

Non-risk-taking recycling of liquidity has been blamed for creating only an illusion of adding to the market by distributing existing liquidity and even contributing to flash crashes.

Kimmel says that while greater use of impartial TCA will encourage a more constructive dialogue between liquidity consumers and providers, it will also provide the added benefit of seeing algorithmic execution scrutinised. As the focus on execution quality makes greater inroads in 2020, this will invariably benefit the take-up of algos by the buy side and corporates.

“In 2019, some of our clients began to use third-party TCA tools, which allowed them to better refine their liquidity pools and evaluate their own execution styles

to determine if changes in their behaviour could lead to tighter spreads,” he says. “Over time, we expect clients will continue to deepen their partnerships with market-makers that provide quality liquidity and can customise solutions to fit the client’s specific needs.”

Hybrid execution

While the type of liquidity that algos access varies significantly, Kimmel expects to see a continued rise in the hybrid execution model, where external liquidity sources are combined with a bank’s principal price and internalisation capabilities – and he thinks this plays to Citadel Securities’ strengths.

He says: “As a major liquidity provider to bank algo flows, we are confident in our execution quality, and want to be measured not only by the banks but also by their end-users via TCA reports. This creates opportunities for market-makers such as Citadel Securities to provide more liquidity to the market by partnering with banks.”

As these trends gather pace in the industry, Kimmel believes they will enable Citadel Securities to differentiate itself from its competitors.

“We plan to continue focusing on our core strengths, which include low market impact execution and the ability to leverage our technology to provide custom liquidity solutions that address individual client needs,” he says. “We will also focus on deepening our partnerships with key client segments, including top-tier global banks, regional banks and retail brokers, while also expanding into new product areas.”

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