

HOW SPECTRUM IS DIFFERENT FROM ITS PEERS

Interview with Tobias Stöhr; Spectrum Markets



Tobias, you joined Spectrum from Börse Stuttgart in 2019 as Sales Executive for the DACH region. Is Börse Stuttgart now your main competitor?

They are one competitor and, of course, a very important one. As is Börse Frankfurt and others at a European level. However, there are substantial differences between Spectrum Markets and our competitors. Some of those differences are more formal, others are quite fundamental.

So, what is Spectrum's main distinguishing feature?

IG Group - the parent group of Spectrum - decided to set up Spectrum Markets as a 'Multilateral Trading Facility' (MTF), whereas most of the entities we would consider our peers are Regulated Markets (RMs).

But the difference between an RM and an MTF is not that significant, right?

It is true that there are many similarities between the two types of venue, and the terminology is a bit misleading, too; despite the name, MTFs are also regulated. Both venue types bring together multiple third-party buying and selling interests. Operators of both RMs and MTFs have no discretion over executing an order when there is a match. Both types of venue may facilitate trading in equity and non-equity instruments and both are forbidden from trading on their own account and against their own funds.

But there is a very important distinction between RMs and MTFs. From a statutory perspective, an RM can only be run by a market operator while an MTF can be run by both a market operator and an investment firm. And the real importance of the differentiation in venue type lies in the historical development of classical stock exchanges.

What does that mean?

Since their foundation, in the 19th century or earlier, the major exchanges have always successfully adapted to changing requirements. However, technology cycles have become shorter and shorter recently and the same is true for legislation changes. As a response to the financial crisis of 2008/2009, we saw a massive increase in regulation. Unlike in former times though, not only are regulations being enforced much more strictly, they are also designed to constantly adapt to address changes in market structure and behaviour or the economic environment. A legacy organisation that needs to adapt their IT, their processes and their reporting and documentation framework is naturally much more change-averse than a company that is born into such dynamics.

But how does that make any difference for your clients?

Take for example the European legislative framework, which is subject to constant adaptations. Spectrum is committed to subjecting itself to a perpetual innovation cycle. During our first full business year - which included some tough challenges for market operators; unprecedented volatility, paired with exploding trading volumes - we've demonstrated the ability to keep operations stable and interruption-free while being open for trading 24 hours a day, five days a week. This is a clear demonstration of how our innovations are making a significant difference for our clients.

Talking of your clients, Spectrum claims to be an execution venue dedicated to the specific needs of the retail investor. At the same time, end clients cannot access the platform directly. How do you explain this?

The key to our product is the execution. All aspects surrounding this process are designed to provide the retail investor with conditions usually reserved to institutional clients, if they previously existed at all. All this is available to retail clients once their brokers or bank trading interfaces are connected to Spectrum. We have started with a group-internal infrastructure as a proof of concept but will be onboarding external brokers, issuers and intermediaries very soon.

Spectrum set out to come up with an entirely new trading experience for the retail client. The first product available to trade on Spectrum was the "turbo24", a turbo warrant to be selected from around 400 products with 20 underlyings covering indices, commodities and currency pairs.

Why did you opt for setting up Spectrum as an MTF rather than becoming a Systematic Internaliser or even an unregulated trading platform?

It is the option that solves the most problems for the retail investor. Execution speed and quality and price are very relevant. By price I don't mean transaction costs - which we don't charge anyway - I refer to transparency over price formation. By becoming an MTF, we can provide the greatest level of transparency. Prior to alternatives such as that provided by Spectrum Markets, retail investors could pick between trading on a traditional venue or over the counter (OTC) - or between the rock and the hard place, if you prefer this metaphor. Traditional on-venue meant a double punishment of high transaction costs and discriminatory opportunity costs. These occur because large institutional investors carry out block-trades in dark pools as they don't want competitors watching them and as they don't want the size of their offer moving the price to their disadvantage. This is totally opaque to the retail investor and certainly means the pricing is not fair. Having their orders executed OTC also exposes retail investors to the risk of a very unlevel playing field between them and the facilitator of the execution. These market structural circumstances drove us to find a better way for the retail investor.

Being an MTF alone is not yet a panacea, is it?

It is the first and most important step to underpinning our commitment to full transparency and non-discretionary treatment of buyers and sellers. But true, only in combination with other specific features and rules have we achieved the success seen in year one. There is, for example the pan-European ISIN, effectively passporting one prospectus - each of our securitised derivatives comes with its own one - to all European markets we're active in. This feature further supports liquidity at Spectrum that we oblige our market makers to provide for at any time. Liquidity is also enhanced by keeping the product range limited and tailored to the most sought-after basis instruments. Another important feature is that issuers on Spectrum can replace knock-out warrants, whose barriers have been triggered and that thus expire, within minutes. This intraday issuance was available in Germany and Switzerland before but not in other important European markets, let alone simultaneously. We're able to introduce such product innovations within extremely short periods of time which again distinguishes us from our peers.

Thank you very much!

today to discuss how the seamless market access that our venue provides, can help to grow your retail client business.

Please don't hesitate to get in touch if you wish to receive further detail.

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Spectrum is the trading name of Spectrum MTF Operator GmbH. Headquartered in Frankfurt, Germany, we offer a new way of dealing in leveraged products for the European retail market; introducing a purpose built 24/5 lit trading venue, with complete transparency, increased choice and maximum control