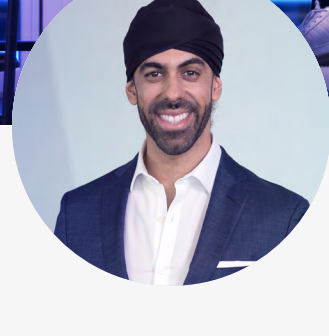


# WHY SPECTRUM MARKETS IS DOING IT FOR THE RETAIL INVESTOR

Nicky Maan, Chief Executive Officer, Spectrum Markets



**Nicky Maan, CEO, Spectrum Markets on why we designed a trading venue specifically with retail investors in mind, and how it's setting the pace and direction of change for the future of the industry.**

With the benefit of hindsight, would we still have chosen to launch Spectrum Markets when we did, in August 2019? Within months of our launch, the world would be rocked by an era-defining pandemic, swiftly followed by a deepening in geopolitical tensions which, combined, threw the markets into ever greater turmoil. The first three years of Spectrum Markets' existence was marked by market volatility the likes of which had never been seen before. But we need to look further back - to before our launch in 2019, in order to understand why we built our venue the way we did and what has allowed it to succeed through adversity. Spectrum Markets was conceived in response to an upheaval so far-reaching in its effects that few predicted its true impact: I'm referring to rapid technological advances over the past half century that have revolutionised the ways in which we communicate, work and shop; and that has changed the public's expectations around the way we all trade.

A generation of digital natives has entered the workforce. They have grown up with smartphones that put unfathomable quantities of knowledge at their fingertips, technology that make it possible to communicate freely with billions of other internet-connected people. We have grown accustomed to being able to go online and order food and consumer products - more varied and plentiful than at any other point in history - and expect our purchases delivered to our door with speed and efficiency. It is possible to work from practically anywhere on the planet, videoconferencing and exchanging large documents as easily as if everyone were in the same building.

The speed with which the Covid-19 pandemic necessitated changes in work culture and commerce forced countries and organisations that were lagging behind in developing future-proof digital infrastructures to accelerate the development and deployment of properly planned digital strategies. The technology needed for digital transformation has been ready for some time, the pandemic forced people to start using it.

Of course, where digital transformation strategies have been lacking in coherence, problems have emerged: proliferation of online misinformation has only deepened the political divisions that contributed to the market volatility which defined Spectrum Markets' first three years of operation.

However, while the internet has transformed so much about our lives, one sector has remained at risk of missing out on the revolution: our own. Before the launch of Spectrum Markets, the available legacy trading infrastructures were utterly inadequate in the face of the expectations of retail traders accustomed to complete convenience in every other area of life. Retail investors had limited choices: on-venue execution via a broker was one possibility, but venue fees were so high that this option was economically unviable. So, the majority of trading was conducted over the counter (OTC), which comes with its own issues of poor transparency and execution security.

Spectrum Markets' parent company, IG Group<sup>1</sup>, began investigating the possibility of building a new type of venue back in 2016. We started by looking at the EU Market, where we saw localised, monopolistic venues that lacked innovation and were not investing in new technology, causing them to fall behind the advancements in brokerage offerings. We chose to design and build our venue from the ground up in-house. It would have been possible to outsource this activity, or even to buy an MTF<sup>2</sup>. But our approach allowed us to analyse what the market needed and build a better trading venue in response: one that is more agile and scalable, and able to keep up with evolving technology and demand.

This process of research and development was initially prompted by regulatory changes: ESMA's imposition of new rules on OTC trading and, of course, the support of increasing competition for trading venues, for the ultimate benefit of the retail investor with presumably lower execution fees in a more competitive environment, and directly linked to this, the introduction of multilateral trading facilities (MTFs, of which Spectrum Markets is one) in the EU's Markets in Financial Instruments Directive (MiFID). I will discuss why we chose the MTF model for our venue in more detail later, but for our current purposes I will begin by pointing out that the decision to design a new type of venue at all was informed by a factor which convinced us that demand for retail investing would increase, not just as a short-term cyclical aberration driven by technology and by demand induced by increased supply of brokerage services, but on a permanent, systemic basis.

Previously, retail investors, while largely not having their needs fully met by the trading facilities open to them, had been becoming more independent, taking greater responsibility for their own financial future, and they were better informed than ever. The latter is a straightforward result of the ease with which members of the public can learn the skills and access the up-to-date news required to make well-informed investment decisions, thanks to the proliferation of digital technologies. But something else was driving that desire for greater independence and responsibility, too: a low-interest rate environment had persisted since the 2008 financial crisis, making saving less attractive compared to exploring the possibilities of retail investing. That era of low rates has passed, but the rise of the retail investor that it set in motion continues unabated.

So, returning to the question from the outset: with hindsight, would we still have chosen to time the launch Spectrum Markets as we did in 2019? The answer is an emphatic, yes. The disruptions suffered by the world's financial markets only serve to underline the essential nature of what we set out to do. And the analysis of the situation that we based our planning on has been vindicated by our venue's results. Despite launching directly into the headwinds of possibly the greatest combination of global financial crises in history, our venue grew quickly and consistently from year one: year-on-year growth of trading volumes on Spectrum Markets hit 68% in 2022, with 1.42 billion securitised derivatives traded in what was only our third full year of operation. In the course of that year, we also accelerated the rate at which new members joined our venue, with UniCredit, Societe Generale, Intermonte, Equita and iBroker all putting their trust in what we have built, and technology partners such as ICE Data Services Italy and Euronext Securities Milan expanding our venue's connectivity.

What, then, is it that we built which has proven so attractive to this new generation of retail investors? We opted to register Spectrum Markets as an MTF within the framework set out in the EU's Markets in Financial Instruments Directive 2014, better known as MiFID II<sup>3</sup>. The MTF concept was introduced by MiFID II<sup>4</sup> in an effort to improve competition and pricing transparency for investors. Under MiFID II, MTFs are obliged to provide pre-trade and post-trade transparency and non-discriminatory access requirements to all parties buying and selling instruments on the venue; prices and charges must be published and must be consistent for all members.

As an MTF, Spectrum Markets adheres to rigorous regulatory standards. But none of this would be of interest to the average retail investor if it weren't for the innovation that this regulatory framework enables. The aforementioned digital natives have come to expect a level of convenience and speed that traditional exchanges are simply unable to offer. The USP which has set Spectrum Markets apart from the beginning is the ability to trade on a 24-hour basis, five days a week. Again, our intuition that this would be an attractive proposition to the modern retail investor has been proven correct: consistently since launch, over one third of trades on Spectrum Markets have been made outside of traditional trading hours.

Enabling 24-hour trading is not as straightforward as running a 24-hour operation in, for instance, the retail sector. Yes, running 24-hours a day is a logistical challenge for any business, but for a trading venue it requires immediate client support to be available at all times of day and night, continuous monitoring of trading activity for potential market abuse or manipulation, detecting and acting on any unusual trading patterns. The systems that achieve this must be resilient enough to run through the peaks and troughs in trading volume from 11pm CET every Sunday night until 11pm on Friday. There is just two minutes every night during which all system maintenance can be carried out.

We can proudly say that, throughout even the periods of severest market volatility, our systems have maintained 100% uptime for over three years.

But the resilience of our systems is only half the battle when it comes to satisfying the demands of retail investors. Provision of liquidity is another major concern, after all, what use is 100% uptime if there is nothing to trade on the venue at a competitive price? Our regulatory obligation to impose liquidity obligations on the market makers connected to Spectrum Markets helps ensure this provision of liquidity. The availability of products appropriate to the prevailing market conditions is also enhanced by intraday issuance. This allows, for example, the issuer of a leverage product that has expired upon reaching its knock-out barrier to replace that product with a new one with new characteristics, within minutes.

The pan-European ISIN is one further feature of Spectrum Markets that truly defines our vision for the future of retail investing and sets us apart from all other venues. Our venue is a product of European integration and of the belief on the power of a single market. Spectrum Markets is listing a pan-European ISIN in a unique order book per instrument, allowing products to be traded across multiple territories under a single ISIN, resulting in uniform pricing and transparency across territories, and a deeper liquidity pool for each product.

Spectrum Markets was designed from the bottom up to meet the needs of future retail investors. We designed it to grow, and that flexible design has proven resilient throughout a period of rapid growth for our venue: we didn't break a sweat when, in preparation for Societe Generale joining us as an issuer in 2022, we increased our capacity by five times to handle the anticipated increase in instruments, volume of order flow and quote data.

But we have been discerning, too. Rather than offering a bewildering range of products, we have focused on those products that best meet the demands of retail investors. We began by offering securitised derivatives, as these allow investors to take a position on an underlying asset and participate in the movements of the price of that underlying, without having to invest as much capital as if they invested directly in that underlying.

Our focused approach to Spectrum Markets' product offering means that we avoid having products on our venue that are traded in very low volumes, and which would become impossible to make a market for in times of high volatility. It also makes it easier for retail investors to identify which product is best-suited to their needs from the available selection. Our focused approach also ensures the continued scalability of our venue, even as we gradually introduce a broader range of products in order to meet the needs of retail investors with medium and longer-term investing strategies.

We believe that the growth in popularity of retail investing is set to continue. As individuals take ever more control of their own financial futures and access to financial education drives further democratisation of trading, Spectrum Markets will be at the forefront of driving that growth, providing a fair and transparent trading environment and creating more opportunities to trade than have ever existed before. We will continue to invest in leading our industry through an ever-changing landscape of regulatory obligations and client needs, never losing focus of the fact that Spectrum Markets is a venue designed and built for the retail investor.

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1.

2. Multilateral Trading Facility

3. <https://www.esma.europa.eu/publications-and-data/interactive-single-rulebook/mifid-ii>

4. Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments

**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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