# EXECUTING AUSTRALIAN
# BLOCKS

Liquidnet's study of Australian block executions explores price behavior surrounding large trades through a number of Australian brokers. The findings show that the volatility is, on average, more than 103% higher for other brokers relative to Liquidnet in the one minute prior to a block execution. This heightened level of volatility suggests information leakage, which can have an adverse effect on execution quality.

For the Asia-Pacific region block trades keep booming as regional share prices climb. Australia is not only one of the region's major markets but it is also very block-centric with 13.4% of total trading volumes being of block size. The Australian market defines blocks on a three tiered system based on notional value: Tier 1: $1 million+, Tier 2: $500,000+, and Tier 3: $200,000+.

The upstairs market in Australia is busier than ever with the rise of specialist block desks. These desks leverage sales traders to find buyer and sellers, and then facilitate the transactions, often bypassing buy-side trading desks and going directly to Portfolio Managers. Not only does this increase the risk of information leakage, it is inefficient and contributes to a fragmented block market. Our study examined the potential for improved performance leveraging the efficiency and anonymity of a buy-side focused, electronic dark pool.

An increase in stock activity following a large block trade is generally expected as information contained in the block is absorbed by the market. If, however, there is significantly increased volatility prior to the block trade, this suggests that the market was aware of outsized liquidity before it actually executed.

**We set out to determine the extent to which information leakage occurs across the block market for Australian equities. Our study of Australian block executions across multiple brokers concluded that there are varying degrees of information leakage across the market, with block executions on Liquidnet exhibiting the least volatility immediately prior to the block hitting the tape.**

### WHAT IS THE "UPSTAIRS MARKET?"

The upstairs market is a network of broker trading desks and institutional investors where block trades are matched. Unlike trades that are paired at an exchange these trades are typically negotiated via phone. Once a trade has been consummated it is "printed" on a marketplace. In order for brokers to source liquidity for their clients' trades, they distribute details of those orders via phone calls and electronic indications of interest.

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# The study

Liquidnet's Execution and Quantitative Services (EQS) team set out to determine the extent to which information leakage occurs across the block market for Australian equities, by assessing the average incremental volatility in the minutes preceding and following blocks executed by Liquidnet and other brokers.

For the period 1 January 2016 to 30 June 2016 the dataset comprised 31,779 block trades (> AU$ 200,000 with appropriate condition code) spread over 600 distinct symbols.

The data was filtered to exclude the following:

· Irrelevant condition codes[1]

· Non-crossed blocks

· Opening and closing prints

· Executions not clearly attributed to a venue or broker

· Brokers not considered directly competing in block trading

We then assessed the average incremental volatility in the minutes preceding and following blocks executed by Liquidnet and competing brokers. The volatility comparison is calculated by taking a difference between volatility then dividing by Liquidnet's. In the previous version dated May 2016, comparison is calculated by dividing other broker's incremental volatility by Liquidnet's.

## AVERAGE INCREMENTAL VOLATILITY BEFORE AND AFTER BLOCK EXECUTIONS: LIQUIDNET VS. OTHER BROKERS
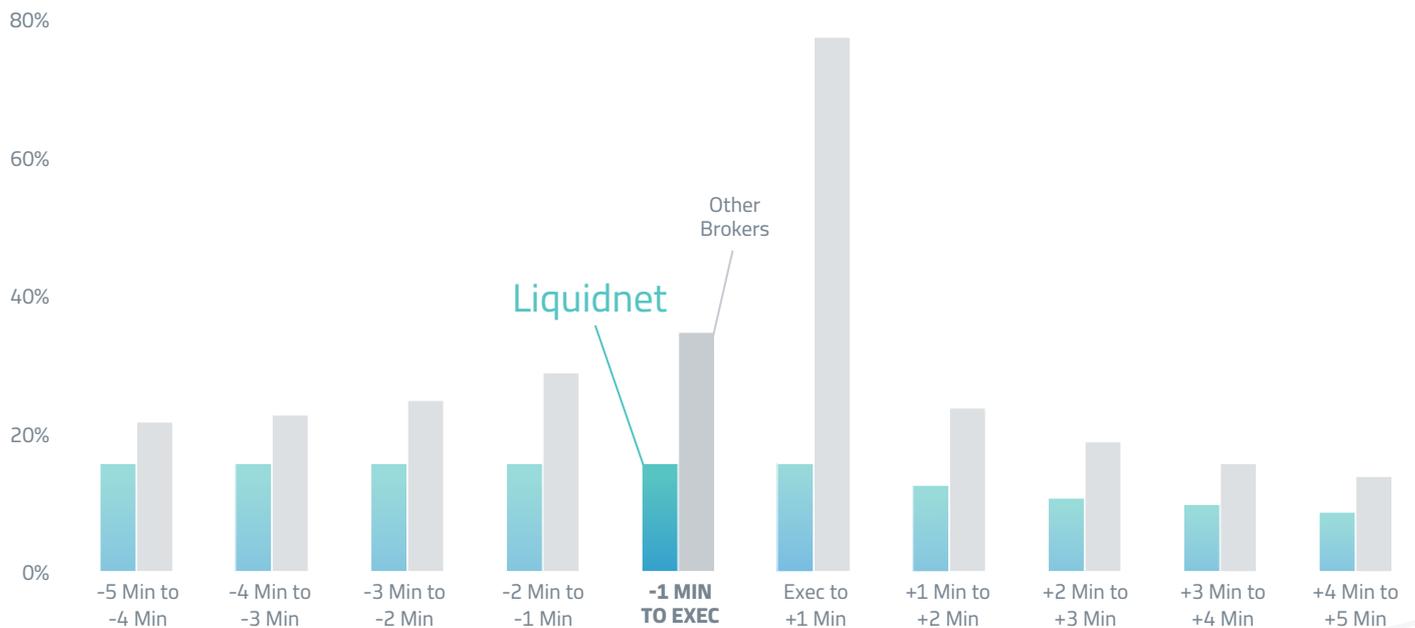


# The results

**Liquidnet has conducted research on Australian blocks for three consecutive periods, and across all studies, the findings are consistent. Our analysis shows that, when compared to our competitors, block executions traded through Liquidnet exhibit the least volatility immediately prior to the block hitting the tape.**

An increase in stock activity following a large block trade is generally expected as information contained in the block is absorbed by the market. However, an increase in volatility prior to the block trade, usually occurs when the market was aware of outsized liquidity before it actually executed.

Our most recent study shows that volatility through other brokers when compared to Liquidnet is,

## ON AVERAGE,
# 103% HIGHER
one minute prior to a block execution.

[1] Relevant condition codes: S1XT, S2XT, S3XT, NXXT, S, B, CXXT, CPCXXT