RFQ 2.0
Transform the way you trade

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London Stock Exchange’s RFQ 2.0 will revolutionise the ETF trading landscape, offering auto-complete RFQ functionality with an innovative order book sweep and CCP clearing built in, all under one exchange. It helps investors get better execution outcomes by accessing different types of liquidity instantly and in one place.

How does it work?

Access RFQ 2.0 using your existing London Stock Exchange order book connectivity. The functionality allows execution directly on London Stock Exchange’s main market, achieving a “best full fill price” in a fully automated environment.

A tailored conditions-based execution model fits neatly into brokers’ “execution offering”. ETF investors will choose “London Stock Exchange RFQ” order routing via the normal equity execution channels.

Auto-complete has simplified RFQ trading, turning the multi-click model into a ‘one click’ “send & trade” approach. By not limiting the addressable liquidity pool to RFQ quotes only, RFQ 2.0 seeks to improve on the quote responses (i.e. risk prices) by trading against lit & hidden liquidity on the order book – achieving a better execution price where possible.

London Stock Exchange order book value traded is over £700m† a day, of which almost 9% are hidden executions. RFQ 2.0 will automatically sweep the order book liquidity pool.**

*RFQ 2.0 is a Request for Quote model with an order book sweep  †Jan–Feb 2021, ETF & ETC/N trading segments  **Order book sweep is only applicable for the Sub-Large In Scale “Anonymous to All” auction RFQ model
Leverage **bilateral relationships** in an exchange environment – request to trade with your chosen trusted liquidity providers in a centrally cleared model, reducing operational risk & complexity.*

**CCP clearing** delivers post trade operational efficiency and is ideally suited to the upcoming implementation of CSDR.

**Innovative order book sweep** combines both RFQ and order book liquidity into one single best execution trading event.

**Counterparty risk management** and balance sheet efficiency, offering an alternative to bilateral trading with liquidity providers.

**Harmonised Exchange Market Supervision**, improving market monitoring and surveillance.

**TCA friendly**, empowering more holistic analysis.

RFQ 2.0 is central to the evolution of the market – improved execution quality analytics and smart order routing offer greater automation and increased liquidity as more ETF investors and market makers adopt the platform.

“**CSDR will bring significant operational change and increased regulatory rigour around security settlement discipline.**

**RFQs incorporating CCP clearing instead of bilateral models are ideally suited to this new trading landscape.”**

**Michael Stanley**
Head of ETP Product Development & Product Management, London Stock Exchange

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**London Stock Exchange is revolutionising the Request for Quote market.**

*Large In Scale model, including polling using the optional, fully automated, liquidity provider ranking functionality*
ETF RFQ Trading Landscape

CURRENT ETF RFQ TRADING LANDSCAPE
- Interacting with Liquidity Provider (LP) liquidity only
- High barriers to entry for new LPs
- Bilateral relationships
- Operationally complex bilateral settlement model
- Counterparty risk
- Fragmented market supervision

FUTURE OF ETF TRADING
- Data driven best execution decisions
- Automation

LSE RFQ 2.0
- Central Securities Depositories Regulation (CSDR) “friendly” solution
- Dramatically reducing settlement complexity
- Electronic all-to-all centrally cleared (CCP) model
- Multilateral – low barriers to entry for new LPs
- Innovative LP selection methodology based on RFQ & order book market share to promote increased order book activity
- Empowering broker development of ETF algorithms
- Holistic real time market supervision (RFQ & order book)

LSE RFQ 2.0
As ETF algo usage grows, RFQ 2.0 further enhances the exchange offering by enabling different types of liquidity to meet in one place. RFQ requests can now be filled by passive orders resting on exchange, giving increasing confidence to traders using both the RFQ order type and passive algo orders.
If auto-complete RFQ conditions are met, then request will automatically execute at “Best Full Fill Price”

“Best Full Fill Price” is calculated based on best price outcome across all LP and order book available volume

Quote Request sent to Instrument A’s LP’s

RFQ Quote Response sent to accept the RFQ
- LP's can respond in less than full request size
- Multiple LP’s can form the “Best Full Fill Price”

Order book liquidity is put in direct competition with RFQ quote responses

Trade. All trade counterparties are notified of the end of the process.
If auto-complete RFQ conditions are met, then request automatically executes against best available LP quote.

**Auto-complete RFQ for Instrument A**

**Requestor**

**Quote Request** sent to Instrument A’s LP’s

**LP’s**

**RFQ Quote Response** sent to accept the RFQ

**LP’s**

**TIMER**

**Trade.** All LP’s are notified of the end of the negotiation process

**CCP**
Meet the team

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