

AQUIS

LAUNCHING A2X MARKETS



CASE STUDY

AQUIS HELPS NEW EXCHANGE TAKE ON 130-YEAR OLD INCUMBENT

The launch of A2X Markets, a secondary listings platform in South Africa, in October 2017, is a classic David and Goliath story.

The fledgling stock market had to leap through several hoops before it was granted a license to compete against the Johannesburg Stock Exchange which had ruled the bourse roost for the last 130 years. It is no wonder then that A2X turned to Aquis Exchange not only for cutting edge technology but also for advice on how to create a stock exchange from scratch.

“When we received authorisation to launch, we had only six months to get ready to open for business,” says A2X CEO Kevin Brady, a former managing director of securities at Investec, who set up the exchange in 2014 alongside Gary Clarke, a former JSE company secretary; and Neal Lawrence, who was head of information technology at UBS and an information technology principal at Absa Capital.

AQUIS HAD THE RIGHT TECHNOLOGY, THE RIGHT PEOPLE AND THE RIGHT CULTURE

“We were able to meet the deadline with the help of Aquis who had the right technology, the right people and the right culture,” he adds. The license agreement with Aquis covers a matching engine, message bus, data services, clearing, surveillance and ancillary support services that were configured for A2X’s specific requirements. Brady described the business relationship more as a “partnership” rather than a straightforward business arrangement. “Our aim was to partner with a firm that had new and innovative

ways of doing things,” he adds. “We found Aquis was the perfect fit because they had these qualities but also experience in setting up an alternative exchange so they understood the complexities.”

Aquis’ CEO Alasdair Haynes and many of his team cut their teeth challenging the status quo at Chi-X Europe, which was the first lit multilateral trading facility (MTF) to launch in 2007 in response to the European Union’s Markets in Financial Instruments Directive (MiFID), which paved the way for the introduction of alternative trading venues in Europe. Chi-X Europe took over 20% market share from the incumbent, national European exchanges within 48 months using the most advanced technology at the time.

Having had its own barriers to overcome, Aquis was well placed to be able to deliver technology prowess in a short space of time. It also provided consultancy and guidance on best practice, navigating the regulatory maze and optimal ways to position the business from a competitive perspective.

INNOVATIVE AND RECEPTIVE TO MARKET AND CLIENT NEEDS

Although Brady and his colleagues wanted to largely copy the Aquis MTF model there were certain limitations as the South African Financial Markets Act does not contemplate the concept of an MTF model; either you are an exchange or you are not. Instead, they had to find their own way to do what Aquis has done in terms of lowering trading costs, improving liquidity and being both innovative and receptive to market needs.

The A2X model is dependent on throughput – the more trades processed via the exchange, the greater the revenues for the Company. The view is that by using the latest technology and business practices, A2X will cut the end-to-end cost of transacting by around 40% which in turn will attract liquidity to the market.

CLIENT
A2X MARKETS



LOCATION
JOHANNESBURG, SOUTH AFRICA



PROJECT OUTLINE

A2X engaged with Aquis Exchange initially to provide consultancy on building a challenger exchange and proceeded to licencing Aquis matching engine, surveillance and post-trade products

PROJECT DURATION

2 years+

PRODUCTS & SERVICES USED

- ✓ AQUIS MATCHING ENGINE (AME)
- ✓ AQUIS MARKET SURVEILLANCE (AMS)
- ✓ AQUIS MARKET GATEWAY (AMG)
- ✓ CLEARING & SETTLEMENT
- ✓ CONSULTANCY

PROJECT OUTCOME

A2X launched successfully within a tight deadline. The technology is operating smoothly and A2X is now in direct competition with the incumbent exchange

It identified five key pricing points on the JSE: connection, transaction, clearing, broker dealer accounting and live market data fees. By contrast, Brady says A2X only has two pricing points – transaction and clearing fees.

As for the technology specifically, A2X was looking for agility, speed, flexibility and scalability, which could grow with the business as it expanded. One of the challenges was the post trade piece, which had A2X working alongside Aquis to create a bespoke, multi-lateral clearing system that was tailored to the confines of the South African infrastructure. Settlement has to be through Strate, the country's Central Securities Depository, and its Participants.

A COLLABORATIVE PROCESS, NOT A STRAIGHT SALE

The collaborative process typified the project as a whole, whereby employees from both Companies gained hands-on experience from spending time on the ground in each other's countries. For example, team members from Aquis went to A2X to gain a better understanding of the A2X business model and functionality required, while staff from South Africa sat in Aquis' London offices to learn and be trained in how to use the technology.

Implementation was much more than just a "plug and play," according to Brady who called Aquis "a responsive technology provider," where the IT team was always on call and the lines of communications were open whether it be about "kit, pricing or infrastructure."

The support given by Aquis at every level enabled the exchange to make its debut on time with three secondary listings – African Rainbow Capital Investments (ARC), Peregrine Holdings (PGR) and Coronation Fund Managers (CFM) and four of the industry's leading brokers on board. The pipeline is healthy and the fledgling exchange has already signed up another company – Afrimat – as well as leading institutional broker – SBG Securities. The process takes time as, unlike in the UK and Europe, secondary listings require company board approval in South Africa.

AQUIS – A RESPONSIVE TECHNOLOGY PROVIDER

Brady and his colleagues have demonstrated both their patience and resilience as it took almost two years instead of the roughly six-to-nine month process they originally thought would be required to obtain a license from the Financial Services Board. This is because, despite the 2012 Financial Markets Act prying open the door to competition, there were many regulatory twists and turns as the JSE tried to protect its turf.

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CEO, A2X MARKETS

Overall though, the FSB wanted to tread carefully and A2X had to prepare a 1,000 page blueprint detailing every aspect of the inner workings and operations of the new exchange. Initially, it is targeting the top 100 JSE-listed companies and it strongly believes that its value proposition – low fees and superior technology – will be one of its key differentiators.

Jonathan Clelland, Aquis' COO, says the A2X project has been a major one for the Company – both in term of the consultancy provided and the specific IT products developed and modified by Aquis. "It has been extremely gratifying to have been able to help a brand new exchange, on another continent, evolve from a mere idea into a fully-fledged entity with huge potential," he said.



CONTACT DETAILS

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ABOUT AQUIS EXCHANGE AND AQUIS TECHNOLOGIES

Aquis Exchange Limited is an exchange services group, which operates a pan-European cash equities trading exchange (Aquis Exchange) and develops and licenses exchange software to third parties (Aquis Technologies).

Aquis Exchange is authorised and regulated by the UK Financial Conduct Authority to operate a Multilateral Trading Facility. Aquis MTF operates a lit order book and does not allow aggressive non-client proprietary trading, thus market impact and signalling risks are lower on Aquis than other trading venues in Europe. According to independent studies, trades on Aquis are less likely to lead to price movement than on other lit markets. Aquis uses a subscription pricing model which works by charging users according to the message traffic they generate, rather than a percentage of the value of each stock that they trade.

Aquis Technologies is the software and technology division of Aquis Exchange Limited. It creates and licenses cost-effective matching engine and trading surveillance technology for banks, brokers, investment firms and exchanges.

For more information, please go to www.aquis.eu and www.aquis.technology

One day all trading will be like this