
ITG Block Trading Report: Q2 2009 Update

July 2009

In this report we track equity block trading across the Canadian market (TSX and ATSS) and provide an update for Q2 2009. Table 1 shows high-level stats for June 2009: **16% of consolidated dollar volume was attributed to block trading, up from 14% last quarter.**

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We define an **'upstairs'** block as either a principal or agency trade facilitated in the upstairs market and a **'downstairs'** block as an order that was matched on the board by two different brokers. Downstairs blocks include MOC, dark-pool, and iceberg trades which meet our definition of a block (please refer to the **Methodology** section at the end of this report). We have made three changes this quarter and adjusted last quarter's numbers retroactively:

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1. Blocks are now calculated based on consolidated volume and not just TSX trades.
2. Dark trades that meet the definition of a block are included as downstairs blocks as are anonymous block trades on venues with no broker numbers (Chi-X and Omega).
3. Going forward we will be producing this report semi-annually. The next block update will be published in January 2010.

Key Findings

- **Upstairs block trading** remains low, accounting for just **12%** of consolidated dollar volume compared to 11% last quarter (Figure 1). A large proportion of upstairs block prints continue to be diverted away from the TSX to Alpha. The uptick in May-09 was due in large part to the approximately \$1Bil of **control block transfers** in BCE and LUN.
- **Downstairs blocks** have risen from 3.4% in the first quarter to 4.3% of consolidated dollar volume this quarter.
- Block trading in **small caps** continues to fall (Figure 2) accounting for **9% of total dollar volume** in June versus 11% last quarter. In **mid caps 20%** of dollar volume was traded in blocks, down from 27% last quarter. Amongst **large caps** block trading has increased to **16%** in June from 14% at the end of last quarter.
- In the **United States**, block trading in **NYSE** stocks has increased from Q1 2009 and currently accounts for 15% of total dollar volume (Figure 3).
- The dollar-weighted average **trade size in Canada** is down to **260 shares** per trade (Figure 4).

Trading Implications

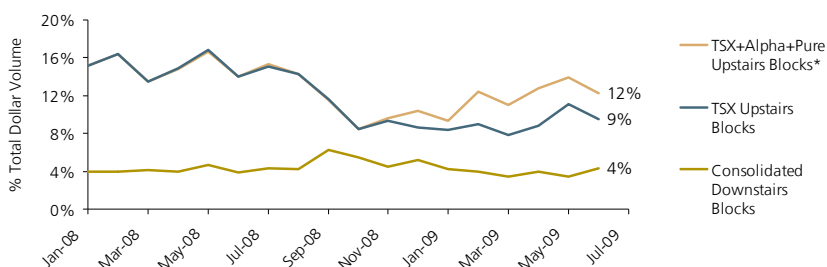
- While block trading continues to be a smaller portion of the market than in previous years, we have seen an uptick in both Canadian and US markets this quarter. We see the **10-15% range** as the **natural level for the proportion of block trading in upcoming months.**
- Within this range there may be a shift from upstairs to downstairs blocks as dark trading, algorithmic trading, and hidden order types become more prevalent.
- Given these trends, **block trading should be used in combination with other trading styles** including **agency trading, algorithmic trading, and dark trading.** Traders need to access all forms of liquidity both north and south of the border to ensure they are sourcing all available liquidity.

Table 1. June 2009 total (upstairs + downstairs) block trading stats

	Num. Trades		Trade Volume		Dollar Volume	
	All Trades	Blocks	All Trades (Shares)	% Blocks	All Trades (\$)	% Blocks
CAN Market*	19,571,734	31,642	11,729,701,537	15%	\$141,393,158,830	16%
Market On Close (MOC)	90,516	1,982	167,810,700	49%	\$3,963,865,693	44%
Options Expiry (MBF)	12,793	645	67,550,988	82%	\$1,989,306,366	93%
Extended Hours Trading	8,530	451	100,467,261	46%	\$1,529,054,779	46%
ETFs	1,689,316	10,464	1,856,307,076	12%	\$20,480,966,977	15%

* Includes blocks in MOC. Excludes blocks on options expiry day open (MBF) and extended hours trading.

Figure 1. Consolidated Canadian market: upstairs & downstairs block trading

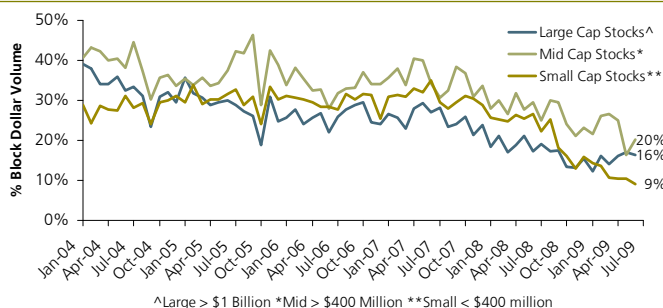


Uses ITG Research upstairs block trade definition (see Methodology section)

* Chi-X, Omega, and MATCHNow were excluded due to limited incidence of blocks and/or inability to detect crosses from tick data.

Upstairs block trading has been rebounding from its low in Oct-08 and now accounts for approximately 12% of total equity dollar volume.

Figure 2. Consolidated Canadian market: percentage of block trading within each market cap

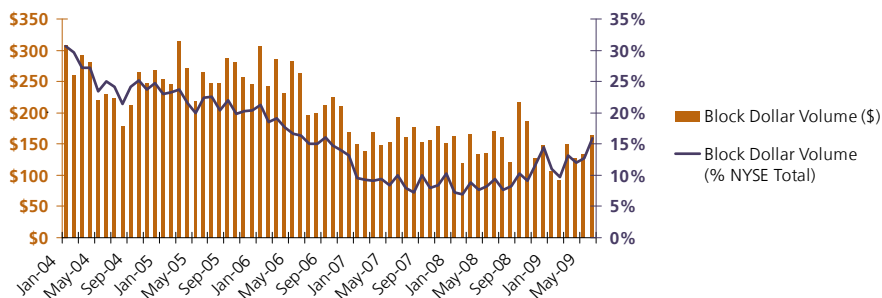


^Large > \$1 Billion *Mid > \$400 Million **Small < \$400 million

Note: In last quarter's Block Trading Report we reported TSX-only block trading stats for each market cap and showed large cap blocks to be steeply diminishing since Jan-08.

Blocks in large caps have leveled off since Jan-08. Mid caps exhibit a significantly higher incidence of block trades than large and small caps. Small cap blocks continue to exhibit the steepest decline.

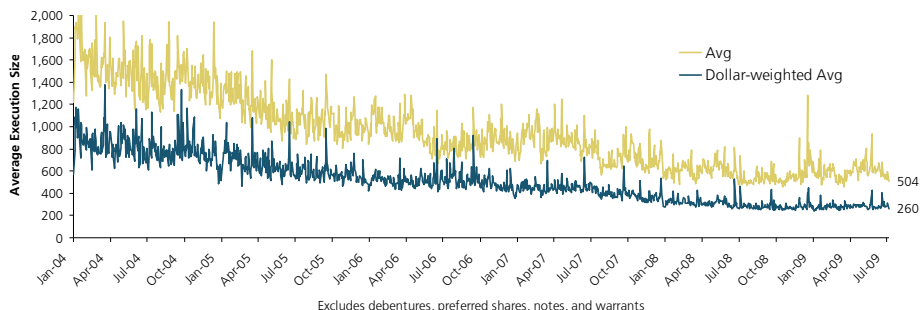
Figure 3. NYSE Group block dollar volume in NYSE-listed stocks



Includes block volume done at NYSE, NYSE Crossing Sessions, NYSE TRF, and ARCA, in NYSE Listed stocks. Source NYSE Euronext. Blocks are trades of 10,000 shares or more.

Block trading in NYSE stocks has decreased substantially over the past 5 years. It currently accounts for 15% of total dollar volume.

Figure 4. Consolidated Canadian market: average daily execution size



The average trade size on the TSX is 260 shares, less than a third of what it was 5 years ago.

Note: The dollar-weighted average trade size, *excluding* blocks, is 250 shares as of July-09.

Methodology

Data:

- TSX, Alpha, Pure, Chi-X, Omega, MATCH Now ticks for complete universe of symbols from 01/01/2004 to 04/01/2009 provided by ITS.
- Debentures, preferred shares, notes, and warrants were excluded

Block definition:

- 10,000 shares or more AND \$100,000 or more (consistent with TSX definition)
 - Internal crosses and specialty cross types (STS, Basis, Contgt) were excluded
 - Blocks in Extended Hours (16:15-17:00) trading were excluded (we assume most of these are swap and guaranteed VWAP prints)
 - Blocks on option expiry day (after MBF Session) were excluded (we assume all blocks printed 09:30-09:31 on 3rd Friday of every month are orders to offset expiring derivatives positions)

Upstairs block definition:

- A traditional cross (Buy Broker #=Sell Broker #). Excludes portion of block that was used to move bid/ask spread. Assumes orders by same broker did not meet on the board.
 - Further to Block Definition (above), also excludes blocks in Market On Close (MOC)

Downstairs block definition:

- A block printed with Buy Broker # *not equal* to Sell Broker # or Buy Broker Num=Sell Broker Num=1 (the latter are small in number). Assumes most of these trades were not originated upstairs. We believe many of these are Fill Or Kill (FOK) orders on Icebergs.
- Dark trades that meet the definition of a block are included as downstairs blocks as are anonymous block trades on venues with no broker numbers (Chi-X and Omega).

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