THE TRADING DESK

Reference Handout

Stratadigm Education & Training Pvt Ltd

1. Trading in Securities Market

"Trades" are a result of trading wherein buyers and sellers agree to exchange securities for funds in accordance with agreed terms. Trading may take place at an exchange or multilateral trading facility ("public markets"), or in the over-the-counter (OTC) market ("bilateral/private markets"). Investors are those who buy, hold and sell securities.

Once a security has been issued in the primary market, it can be sold in the secondary market. Securities are often listed on a stock exchange – an organized and recognized market on which securities can be bought and sold. Issuers may seek to have their securities listed in order to attract investors, ensuring that the market is liquid and regulated and investors are thereby able to buy and sell securities. Securities are also bought and sold over the counter. OTC markets are used for unlisted securities.
Access to organised trading venues such as Exchanges is regulated/restricted. Further, investors may be able to trade directly in OTC markets, but they tend to resort to the intermediation of Brokers and Dealers. Therefore, trading in these markets is mostly done through intermediaries (Brokers/Dealers).
Brokers act as agents for investors, communicating bid and ask levels to potential principals and arranging transactions. They do not become principals, but take a commission for their services. Dealers are persons or firms acting as principals, buying (or selling) from their own accounts for position and risk.
Dealers try to make a profit by correctly guessing future price movements. In the securities industry, investment firms often act as both brokers and dealers, depending on the transaction, and the term "broker-dealer" is commonly used. Prices are determined by matching the bids and offers at an exchange, and by negotiation between buying and selling parties (through telephone communication, computerized networks of quotation terminals, etc.) in the case of OTC markets. "Trade Life Cycle" refers to the different activities, processes, components and stages of how a trade is enabled, how it fructifies and taken to its logical end. Thirty years ago, trade life cycle consisted of just two stages: trade execution and trade settlement. Trade execution corresponds to the birth of the trade; and settlement, its end. Today, increased automation and straight-through-processing have created three more stages: one before execution, another between execution and settlement, and an-other after settlement. Besides the five stages that repeat for every trade, there is one-time stage called client on-boarding, which occurs when the business relationship is established with the client or counterparty.

Stages:

Stage	Remark
Client on-boarding (COB)	Non-recurring and involve external interaction
Pre-trade (PT)	Recurring and involve external interaction
Trade execution (T)	
Post-trade pre-settlement (PTPS)	
Settlement (S)	
Post-settlement (PS)	Recurring and mostly internal processes

Each stage has its own processes and some processes span more than one stage in trade life cycle. The design of processes in trade life cycle has two objectives: (1) mitigate the two risks from counterparty:

- Counterparty credit risk and Settlement risk
- Errors at an earliest stage should be captured and corrected at subsequent stages before settlement.

The following is the list of processes in different stages, their applicability and the department responsible for its execution. It should be noted that there is no uniform practice for division of labour for different processes. What is given here is for indication only.

Client on-boarding

Process	Applicability	Ownership
Due diligence	All clients and counterparties	Legal, credit, front office, mid office and back office
Legal documentation	All clients and counterparties	
Account setup	All clients and counterparties	

Pre-trade

Process	Applicability	Ownership
Pre-trade analytics Order management	All trades Institutional trades	Front office

Trade

Process	Applicability	Ownership
Trade execution	All trades	Front office

2. Arbitrage

The act of purchasing a currency, security or commodity in one market and selling it immediately in another at a higher price is termed arbitrage, or specifically, deterministic arbitrage. It means taking advantage of discrepancies in the prices of currencies or commodities existing in various markets at the same or at different times.

- A combination of trades
- Executed at the same time
- Takes no risk
- Yields a profit to the Arbitrageur

Arbitrage could be a combination of one buy and one sell or many buys and one sell or many sells and one buy or any such combination.

These opportunities exist because of mispricing of assets, across markets, or across products, or across time.
Arbitrage opportunities arise when:

- There is a conceptual, practical and mathematical link between ANY two prices of an asset

- The actual market (tradeable; actionable) prices are different than what the links imply.

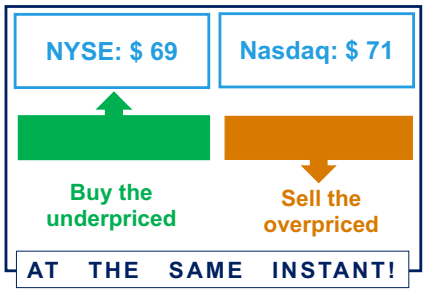
Arbitrage: A Really Simple Example

The rule in arbitrage is pretty straightforward: **SELL** the overpriced; **BUY** the underpriced.

Here is a straightforward example:

charles SCHWAB

Online brokerage Charles Schwab is listed on both NYSE as well as on NASDAQ.



That is a clean profit of $ 2/-; rarely available in the real world! We have just used dramatic numbers to make the point. But stay with it.

Charles Schwab as a Case Study of Internet Broking

The launch of Internet technology provided Schwab with an opportunity to tap into new customer markets, where it pursued a “bricks-and-clicks” strategy, with more than70 percent of new accounts being opened at its branches. Customer education was a key component of Schwab’s online offering. WebShops, which were introduced in1999, were the first in a series of educational workshops designed to help investors increase their skills in using Schwab’s online services. However, Schwab began to reorient its customer focus to include the growing mass affluent customer market both in the US and overseas. Surveys showed that up to a quarter of mass affluent investors are prepared to make their own financial decisions with little or no advice, with almost half of these wired to the Internet.

Since the launch of its Signature Services program in 1999, Schwab has designed new products targeted at mass affluent investors. Schwab Advisor Source was also launched, which refers customers with more investable assets who seek a higher level of investment advice. In this case, clients must have a minimum of $100,000 to use the service, which offers referral to over 400 advisors.

Schwab does, however, face a number of hurdles with regard to its market repositioning: its acquisition of US Trust in mid-2000 could be viewed as direct competition to Schwab's substantial investment advisor client base. Schwab provides custodial, trading and support services to nearly 6,000 independent investment managers, who had guided the investments of around 1 million Schwab accounts containing $224.2 billion in assets at the end of March 2001.

Technology has been core to Schwab's online strategy, ensuring that the company is able to expand and improve upon existing services, such as Mutual Fund One Source.

This makes nearly 1,300 funds available from around 250 fund families with no-load, no-transaction fees. During 2001, Stock Explorer was developed as an online screening tool which enables clients to identify equities that meet certain screening criteria according to the investment strategy selected. Essentially, it is a tool that mimics the advisory function of a personal broker. At the same time, systems have to respond to the challenge of varying capacity demands. 1999 was a major growth year for Schwab, with total customer assets up 48 percent on the previous year to $725 billion, and with the number of new accounts opened up by 1.5 million to a total of 6.6 million accounts at the year end. This growth was reflected in a $126 million investment in systems capacity, which doubled trade processing capabilities as well as enabling the web site to handle single-day records of 78 million hits in December of that year. It is not surprising that, given Schwab's focus on multichannel delivery, the company has tended to focus on internal development of its technology to ensure a greater level of control. Its move to work more with outside providers was justified by the company's need to enhance existing services; its My Accounts service utilized technology provided by Yodlee Inc. to aggregate online financial information for clients and enable them to analyze and manage that information in one password-protected site. And most notably, in 2000 Schwab entered into a technology alliance with Ericsson to develop wireless trading applications.

[Source: Anjali Bakhru, Ann Brown; Cass Business School]

3. Advisory

Customers place orders, based on the market outlook which they receive. Research provides impetus to investors to take a position in the market. That translates to orders, at the Trading Desk.

Quality of advisory services is an important factor in bringing customers to the desk.

Specialist Trading Platforms: IB offers buy side firms, access to a wider range of markets, directly, using specialist trading platforms, and software, which are developed by the IB firm itself.

Algorithmic trading, and Direct Market Access, are offerings which attract buy side firms

Challenging Dimensions in A Sell-side Firm
There is pressure to provide Market Access
To as many Regulated, Public Markets, as possible, to meet customer needs

Similarly, customers want access, To each private electronic market.

And To any other trading venue, platform, necessary for a given product offering.

Middle & Back Office:

There are Huge demands, and pressures on these, because of the risk control failures, in the past.

- Straight Through Processing, is the industry standard strategy, to manage both risks, and costs.
- Technology. Technology is an ongoing investment, especially considering the continuous change, in the markets landscape, with newer trading technologies emerging.
- Service Costs. Cost structures can be managed, by increased IT capability. Offshoring helps. Outsourcing is also widely seen. Typical Organization Chart Within Trading. Markets may be divided into divisions by product. Markets may overall be headed by a person, who drives the business in its entirety
- Traders and dealers, may also be organized by geography, and overseen by a chief dealer

The buy side firm

Investors are often, institutions
Traders in the market, too, tend to be institutions.
These institutions are called buy side firms, and, are customers of the sell side firms, the investment banks. The relationship is of a vendor with its customer

All Buy-side Firms Are The SAME

The Investor in a mutual fund puts money into the fund. Investors appoint a fund manager, who earns a fee for that service. the investor Appoints, an Investment Manager to manage the Fund.

When a person buys insurance, his or her money, goes into an insurance fund. That money is managed by a fund manager.

When a person buys a pension, his or her money, goes into a pension fund. That money is managed by a fund manager, too.

When wealth management customers put their money, or, fund in the hands of a wealth manager, the investment manager, who works closely with the wealth relationship manager, manages the money, hedge fund investors, put their money in a hedge fund, and, it is managed by a hedge fund manager, on principles that are quite different, from any other type of fund normally seen extending this logic, any investor, that puts money into any structure, and, appoints a fund, investment, or, asset manager, is essentially creating a buy side entity, which will now invest its money.

Buy-side Firms, bring the involvement of a number of its service providers, that a Sell-side Firm may have to deal with:

There is, almost always, a Service contract with a Service Provider. For services to be provided to the Fund, and its unit holders. The names heard here in this context are, the investment manager, Custodian, Transfer agent, Administrator, External auditor, Distributors, Sub-custodians, and Brokers who execute orders for the fund.

Buy-side firm, has core activities, related to Insurance, Fund Management, Hedge Fund operations, Pension Funds etc. Sales, Actuarial calculations, Underwriting, Claims, etc. will form part of the core activity. The Head of Fund Management handles the activity, of fund management separately. It covers all asset classes, that are permitted for the fund manager, by the investor, mostly, Equity, Fixed Income. The fund manager is responsible for generating returns, from each asset class. Investment strategies form part of this aspect, of the firm.

The Operations Head looks after:
Execution Management
Reporting
Order Management, and, Allocation
Order Routing
Settlement
Reconciliation
Accounting

Reporting involves internal reporting, client reporting, and regulatory reporting needs

Finance looks at management accounting, and financial accounts
Other service support activities are also required

4. Market Makers, Market Users and, Quotes.

Here is a different categorization, of those we see operating in markets.
There are Market Makers, and there are Market Users.
Market makers are Those who create a MARKET, by being willing to do both buying, AND selling: depending on what the Counterparty is looking for.
Market Users are Those who have an underlying requirement, with respect to the financial instruments, products.
That is the Sell-Side Firm. Meeting customer needs!
The Buy-Side Firm. Market Users could Also be other end users, like industry. Often a market maker comes shopping: that market maker too would be called a Market User in the circumstance.

Market Makers are Committed to Supplying, what the Market Users want.
That is what most suppliers would do. Meet their customer needs!

Market User wants to Buy
A Share
A Bond
A Money Market Instrument
A Currency
A Derivative Product
ANYTHING

Market Makers will Sell
The Market Maker is, the Market maker for that particular product.
Being a MM for one product in one market does not mean being an MM for all products; or in any other market

If the Market User wants to Sell, any of those financial instruments, the market maker will buy
If the market maker, is to sell in the market continuously, on demand, it needs to have enough securities, financial instruments
Likewise, if the market maker is going to keep buying, it needs money, to back up the buying
Without BOTH of those, one CANNOT be a Market Maker for that product.
As Soon as The Market Opens
The market maker will Publish, the Rate for Buying, and for selling, simultaneously
The market makers rate to buy, is the bid
The market makers rate to sell, is the ask
Market Users, Only Get to Respond To The Market Maker
At the market makers bid rate, the market user gets to sell
At the market makers ask rate, the market user gets to buy
The bid is always lower
The ask is always higher
And the market maker profits from, or, makes, the spread

Let's say the market maker's bid is at 45, and, the ask is at 47,
it earns the spread of 2
How does it earn this spread?
It buys the product, or, instrument, from the market user, at 45.
When it gets an opportunity to sell, it sells that product,
to some other market user, for 47.
You can see, in simple terms, that the market maker,
is left with a profit of 2. And that is the spread.

Market Makers

Provide Liquidity: the availability of buying & selling
Are Sell-side firms; the treasury of a bank; all market facing entities
Market Makers also deal with each other, in the inter-broker market, to find, or, locate what their customers want
So yes, sometimes a Market Maker who is shopping, is actually responding to quotes from other market makers, in the manner that a Market User might
Market Users are users, of all sorts; including buy-side firms, end-users etc.

5. Orders and Trades

Orders happen, because the Sell-side cultivates Buy-side, by providing advice - continuously
The Advisory Process, is run by specialists, and traders, from the desks for, Forex, Money Markets, Fixed Income, Equities, Derivatives etc.
Finally, when the client has a need, owing to regular contact, and quality of advice, orders start to flow
All orders do not become trades.
A customer places an Order
Let us say, it is to Buy 100 shares, of Great Global at $ 45
1. A Trade happens, when an Order is matched by a Counterparty
that person wants to sell 100 shares, of the same company, at that same price. The trade goes through
2. A Confirmation is generated, if accepted, not challenged, the Trade is legally enforceable
Clearing and Settlement, happens: as a result, the intention of the trade, is properly completed, with money, and shares, changing hands
It can happen, that no matching order is found, and, the order does not go through. In that case, none of the later steps will happen, either.

Orders block resources.
$ 4,500 have to be held, towards the order placed.
If the order becomes a Trade, $ 4,500 will be paid in settlement
If the order remains pending, the amount will remain blocked
If the order is cancelled, the $ 4,500 will be released.
Orders block resources, for sellers, too.
100 shares will be blocked and held.
If the order becomes a Trade, 100 shares will be paid, in settlement
If the order remains pending, the shares will remain blocked
If the order is cancelled, the shares will be released.

1. In both cases, resources are blocked.

2. The resources could belong to the customer: they could belong to the broker representing the customer. But they will be blocked.

3. They will be paid out in settlement.

4. They will be released back if the order is cancelled before it goes through.

The Universe of The Sell-side Firm
The firm deals in all instruments, in the financial markets
Some are traded on the marketplace, known as the exchange
The rest of the instruments, are traded on what is known as, the over the counter market
The O T C market, is now categorized, into cleared, and bilateral trade markets
All products traded on an exchange, follow identical, similar work flows
All products traded in the cleared trade World, follow identical, similar workflows
All products that are bilaterally traded, follow identical, similar workflows
Exchanges typically list Equities, Listed Derivatives

The Classification of Markets by Product. The Market for Immediate Settlement
Cash or, Spot Market. Buy, or Sell Today. Take, or give delivery immediately. No gap, between the trade date, and, settlement date; a settlement date, within 2 days of the trade, is considered the normal gap; such a gap is, operational: the settlement date is not deliberately planned for later, on the basis of an agreement

Market for Deferred Settlement - Derivatives Market
Agree to Buy, or Sell, Today. Take, or Give delivery, on agreed future date. There is necessarily a separation, between trade date, and, settlement date, by agreement.

We can create a matrix, of markets by product, and, markets by operational process

Cash products such as equity, which are exchange traded, have a common operational flow
Listed derivatives, follow the same kind of operational flow

Two more products that fall within a box, have the same operational flows
Data standards, flows and, other characteristics, are different from one box to another

In an Exchange, the Trade platform, and, the Settlement Platform, are architected together. So, they work smoothly. Settlement is guaranteed, by the exchange, through its mechanisms.
Trades are on Trading Platforms. The Settlement Platform is an independent piece of market infrastructure, both links up using middle-ware. Once the link up is achieved, the arrangement works like an exchange: but there is NO settlement Guarantee, of the kind available with an exchange
Trades happen on trading platforms. Settlement happens by arrangement, between the two parties to a trade. This is the riskiest kind of trade, in every way.

The Trading Ecosystem, for an Exchange Trade
All the parts of the ecosystem, that relate to an exchange, were part of the exchange's original design. They are architected to work together

All transactions originate from clients, and, go through these different systems, and, processes in the sequence of the numbers, as shown below
Let us understand, what each of these components means.
Ecosystem Component # 1, Firm Client Management
This the interface, between client and, the Sell-side firm, including:
a. Sales Processes
b. Client sign-on
c. Advisory Processes
d. Securing orders to buy, sell
Money Laundering Checks happen, at this stage
The firm makes its product, and service offering, known to the client.

It understands client needs. Research reports, and, advice is provided, to strengthen the relationship

Orders are taken, triggering the rest of the processes.
The Client assesses the firm. Agreeing to deal, is a factor of how the firm is perceived.

Research reports play a role, in building the image of the firm.

The Client gives orders once it is sure the firm is the right one for it.
Ecosystem Component # 2: Trading Systems
'Trading Systems refers to any Trading Platform, or, method, by which the firm completes buy, sell orders, in the market place.
For some financial products, notably equities, the trading system is, the Stock Exchange. Exchanges include other infrastructure, that facilitate the remaining processes, necessary to settle a trade.
Examples of exchanges: the New York Stock Exchange, NASDAQ, the London Stock Exchange, Deutsche Bourse, National Stock Exchange etc.
Ecosystem Component # 3: Clearing Systems
Clearing System' refers to the method, process and, technique by which the obligations of buyers, as well as sellers, are worked out. The Trading Platform smoothly links to the Clearing System, to enable this.

The system also matches, the availability of cash with buyers, to their obligations, and, of securities with sellers, to their obligations. It sets the stage for the settlement, which is to follow.
The system requires buyers to settle, pay in cash, and, sellers to settle or pay in securities
The cash settled must
1. Match the obligations of buyers
2. be sufficient to meet the needs of the sellers

The securities settled must
1. Match the obligations of the sellers
2. Be sufficient to meet the needs of the buyers
Note that in this stage, every participant, buyer and seller, settles, or, pays in.

6. The Trading Ecosystem

Exchange-Traded and O T C, Over-the-Counter, Traded Products
There are Ecosystem differences, between Exchange, and OTC Trades. How trades happen, and are managed, are fundamentally different.

The Ecosystem presented earlier, needs to be modified for the OTC Trades as below:
Let us focus on the changed components.
The Need for Documentation in OTC Trades
In OTC trades, there is no Settlement Guarantee, as is available from the Exchange for exchange trades.

Therefore, there is a need for Documentation, to cover the rights, obligations, liabilities and, situations arising from this uncertainty.

The Market's Definition of Liquidity:

Liquidity is, the presence of a large enough number of buyers, and sellers: such that no one buyer, or, seller can influence the price, in the market.

Some of the features of a highly liquid market are:

1. Trades get executed fairly quickly
2. Spreads tend to be narrower
3. Markets tend to be fairer in pricing.

A liquid market is considered more successful, than an illiquid market. Since there are plenty of traders, and trading, happening such a market, it is more profitable, for the entity operating the market place itself.
Visibility of Liquidity in Marketplaces
In an Exchange, all trades are reported in great detail, in real time
In the O T C World, Trading Platforms are private, even if registered. They do not constitute a public market place. There is no visibility, on trades and transactions, completed there.
Private Trading Platforms are known as, Dark Pools
There is no visibility on the liquidity available there: or on the availability, of buyers, and sellers, and at what prices, and quantities: nothing is known.
Public Markets, by contrast, are "Lit Pools"
There is completely visibility, on the liquidity, the numbers of buyers, sellers, quantities, prices: and at every, and, any point in time.
Small Pools of Liquidity Vs. Large Pools of Liquidity
Less True Price
Potentially greater time to execute trade
Greater spread

A Truer Price
Potentially lesser time to execute trade
Smaller spread

Trading takes place in trading sessions. The two types of trading sessions are continuous trading sessions and call market sessions. In continuous trading, traders can attempt to arrange their trades whenever the market is open. In call markets, all trades take place only when the market is called.

Trading forums are the places where traders arrange their trades. In physically convened markets, traders must be on a trading floor to negotiate their trades. Physically convened futures markets trade in trading pits. Physically convened stock markets trade at posts. In distributed access markets, traders use telephones or screen-based trading systems to arrange their trades from their offices.

Various systems move information in and out of the market, present it, and store it. Order routing systems send orders from customers to brokers, from brokers to dealers, from brokers to markets, and from markets to markets. These systems also send reports of filled orders back to customers. Order presentation systems present orders to traders so that they can act upon them. The systems may use screen-based, open-outcry, or hand-signaling technologies. Order books store open orders. Market data systems report trades and quotes to the public.

7. Trading Sessions

Continuous Markets

In continuous markets, traders may trade anytime the market is open. Trading is continuous in the sense that traders may continuously attempt to arrange their trades. In practice, they usually trade only when a trader demands liquidity. Continuous trading markets are very common. Almost all major stock, bond, futures, options, and foreign exchange markets have continuous trading sessions.

Call Markets

In call markets, all traders trade at the same time when the market is called. The market may call all securities simultaneously, or it may call the securities one at a time, in a rotation. Markets that call in rotation may complete only one rotation per trading session or as many rotations as their trading hours permit. Markets that call in rotation were once very common. Now only the stock markets of a few small countries call in rotation.

Trading Hours

A market's trading hours specify when the market accepts orders and arranges trades. Continuously trading markets schedule their regular trading sessions during normal business hours. They often open an hour or two after the start of the business day and close an hour or two before the end of the business day. The New York Stock Exchange (NYSE) and the Nasdaq Stock Market, for example, open at 9:30 AM and close at 4 PM EST. Traders use the hours before the open to collect and submit orders. They use the hours after the close to settle trades and to report the results to clients.

Some markets permit trading after normal hours in special after-hours trading sessions. Exchanges provide these sessions to appeal to clients in other time zones

or to permit traders to clean up (adjust) their positions after the regular trading session. For example, the Chicago Board of Trade (CBOT) runs nighttime trading sessions in many of their contracts. Many electronic trading networks provide extended trading hours for their clients.

Execution Systems

Every market has procedures for matching buyers to sellers. These procedures define the execution system of the market. Since the executions system is the defining characteristic of a market, analysts frequently classify markets by their execution systems. The three main types of markets are quote driven markets; order-driven markets, and brokered markets. Hybrid markets use some combination of these three systems.

Quote-driven Dealer Markets

In pure quote-driven markets, dealers participate in every trade. Anyone who wants to trade must trade with a dealer. Either the trader negotiates with the dealers themselves, or their brokers, acting as their agents, negotiate with the dealers. The dealers frequently trade among themselves, but public traders cannot trade with each other.

For example, if Barbara wants buy a security, she must find a dealer who will sell it to her from his or her inventory. Likewise, if Saul wants to sell a security, he must find a dealer who will buy it from him to add to his or her inventory. Although Barbara might be willing to buy the security directly from Saul, in a pure quote-driven market they generally cannot arrange such trades. Instead they trade indirectly with each other through the intermediation of one or more dealers. Such markets are called quote-driven markets because the dealers quote the prices at which they will buy and sell. They are also known as dealer markets because dealers supply all the liquidity.

Quote-driven dealer markets are very common. Almost all bond and currency markets, and many stock markets, are quote-driven markets. Most dealer markets are informal networks of dealers who communicate with their clients and among themselves by telephone. More structured dealer markets usually have proprietary electronic data systems to facilitate communications with and among dealers. The Nasdaq Stock Market, the London Stock Exchange, and the eSpeed government bond trading system, and the Reuters 3000 foreign exchange trading system are examples of quote-driven markets organized, respectively, by a dealer association, an exchange, a broker, and an electronic data vendor.

Order-driven Markets

In order-driven markets, buyers and sellers regularly trade with each other without the intermediation of dealers. These markets have trading rules that specify how they arrange their trades. Their order precedence rules determine which buyers trade with which sellers, and their trade pricing rules determine the trade prices.

Most order-driven markets are auction markets. In an auction market, the trading rules formalize the process by which buyers seek the lowest available prices and sellers seek the highest available prices. Economists call this the price discovery process because it reveals the prices that best match buyers to sellers.

In order-driven markets, traders can offer or take liquidity. Traders who offer liquidity indicate the terms at which they will trade. Traders who take liquidity accept those terms.

Dealers can-and often do-trade in order-driven markets. In pure order-driven markets, they trade on an equal basis with all other traders. In some order-driven markets, dealers provide most of the liquidity. These markets are still known as order-driven markets because the dealers cannot choose their clients. Instead, the exchange rules require that they trade with anyone who accepts their offers.

Order-driven market structures vary considerably. Some markets conduct single-price auctions in which they arrange all trades at the same price following a market call. Other markets conduct continuous two-sided auctions, in which buyers and sellers can continuously attempt to arrange their trades at prices that typically vary through time. Still others conduct crossing networks, in which they match orders at prices taken from other markets.

Brokered Markets

Brokers actively search to match buyers and sellers in brokered markets. Most searches start when their clients ask them to fill their orders. Brokers, however, also initiate many searches when they suggest trades to their clients.

The distinguishing characteristic of a brokered market is the broker's role in finding liquidity. In markets where traders usually do not make public offers to trade, brokers must search for traders who will make those offers. These markets are typically illiquid markets in which dealers will not normally trade.