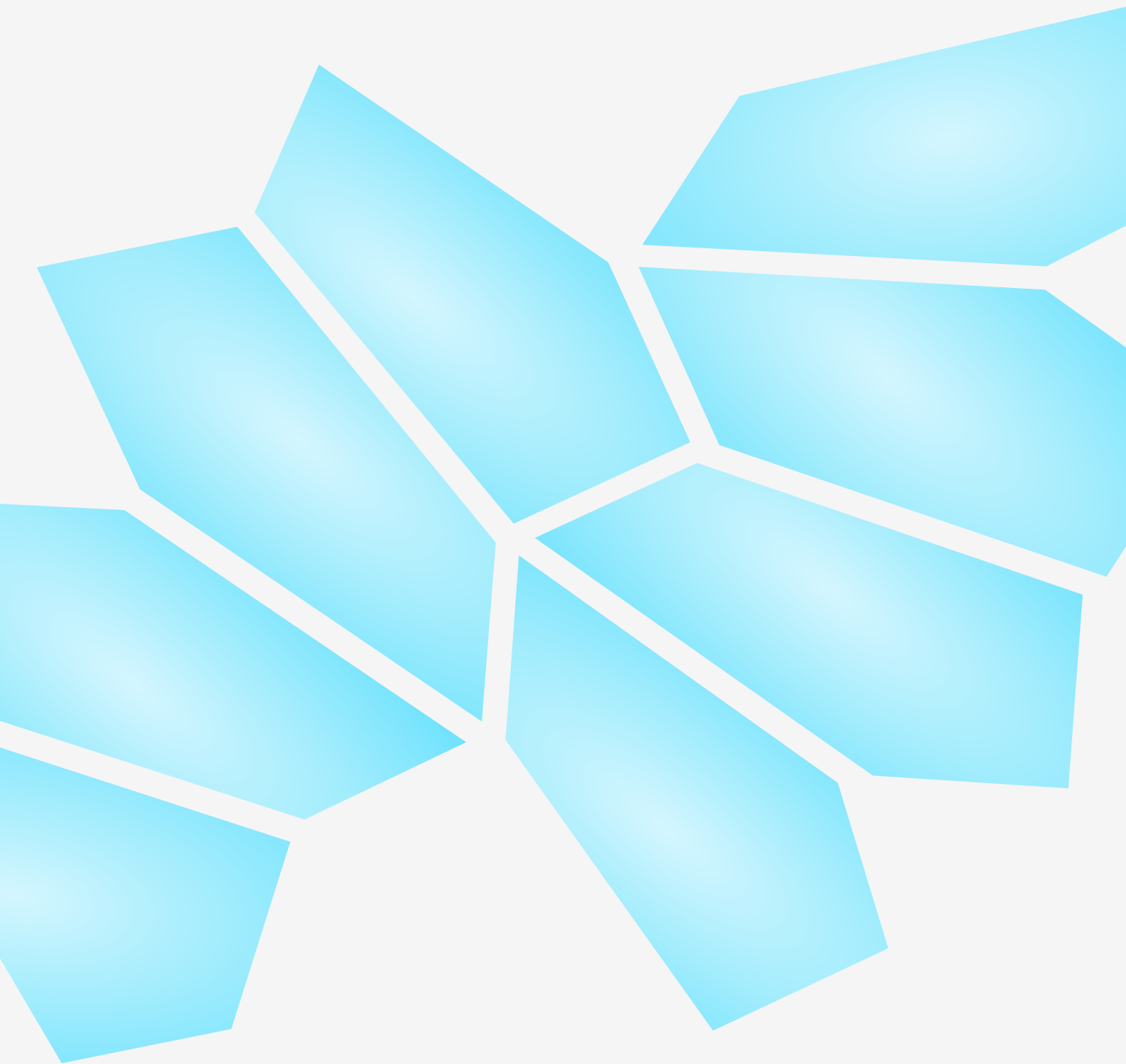


HOSTED ROOMS FOR RETAIL FIRMS

MAY 2025



INTRODUCTION

A hosted room is a product offered by Alternative Trading System (ATS) operators, such as Level¹, IntelligentCross² and OneChronos³.

Such rooms are an alternative to existing off-exchange trading avenues and have historically been leveraged by institutional investors to access tailored liquidity from selected liquidity providers. The investment bank Jefferies has publicly stated that ~15% of its US equities algorithmic trades by share count now occur in hosted rooms.⁴

More recently, retail brokers have been using hosted rooms to provide their retail clients with the benefits of order-by-order competition, which can result in increased opportunities to achieve midpoint prices or other price improvement over the national best bid and offer (NBBO). This competition comes from multiple liquidity providers chosen by the retail brokers, including non-traditional sources of liquidity for retail orders such as proprietary trading firms, delta hedging from options trading firms, hedge funds and other buy-side institutions. Traditional retail wholesaling firms may also provide liquidity in retail brokers' hosted rooms.

Filings show that several retail brokers are now reporting 60%-80% of their marketable orders are executed at ATS venues that support hosted rooms.⁵ A Bloomberg article cites that execution quality⁶ for one firm across the aggregate portfolio of their retail client order flow is now "often far better" than prior to incorporating this workflow.⁷

While overall volumes in these hosted rooms are so far comparatively small, they are gaining traction. At IntelligentCross, the largest US ATS, hosted rooms account for 5.2% of its total volumes in Q2 2025.⁸

¹ <https://www.levelmarkets.com/level-ats/>

² <https://www.imperativex.com/imperativex>; XTX Markets has a minority ownership in IntelligentCross

³ <https://www.onechronos.com/>

⁴ <https://www.bloomberg.com/news/features/2025-03-16/wall-street-s-dark-pools-grow-murkier-with-private-rooms>

⁵ See the public repository at <https://www.finra.org/finra-data/606-nms-data>

⁶ As measured by the effective over quoted spread, a metric that compares the execution price to the midpoint of the national best bid and offer

⁷ <https://www.bloomberg.com/news/articles/2025-05-20/retail-brokers-sidestep-market-making-giants-with-private-rooms>

⁸ <https://www.imperativex.com/platforms>

HOW DO HOSTED ROOMS WORK FOR RETAIL BROKERS?

Hosted rooms are flexible products within an ATS that can be widely customized for retail brokers to access per-order competed liquidity.

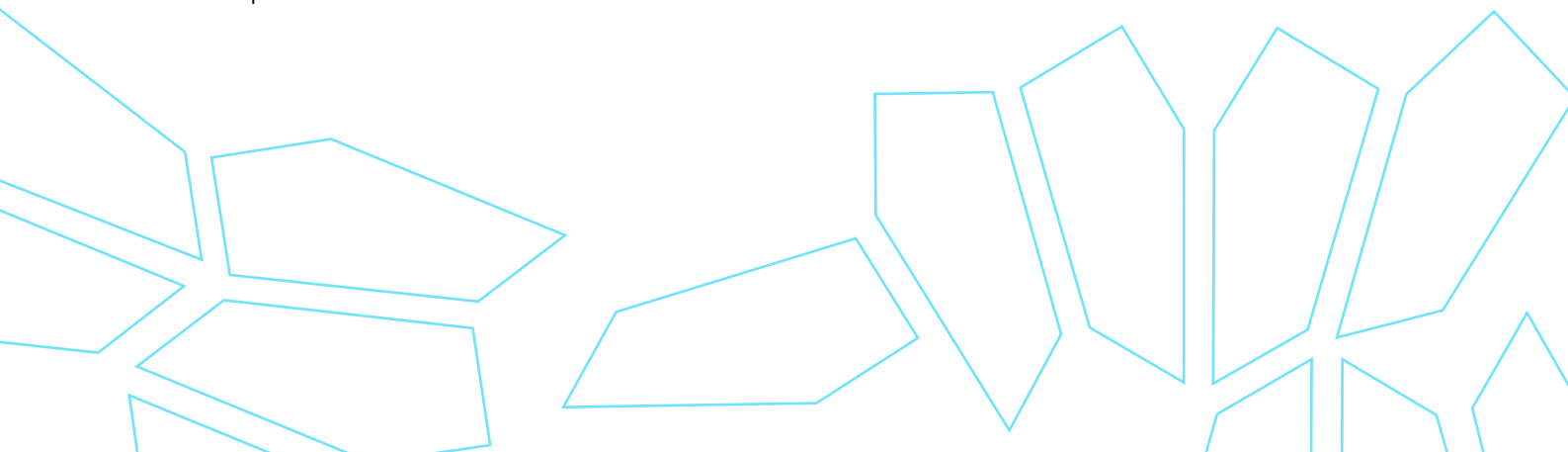
The most common use case is a “one-to-many” room where a retail broker host configures the room and invites several liquidity providers as counterparties. Typically, only a single retail broker – the host – can access this curated pool of liquidity providers, subject to the matching rules of the room as set by the retail broker host. One common example is a hosted room where the liquidity provided is only at the midpoint of the NBBO, and liquidity providers compete on presence to buy and/or sell at the midpoint across the universe of listed securities.

For the liquidity providers invited to join these hosted rooms, the benefit is access to more benign order flow than what is otherwise available to them. This in turn enables the liquidity providers to improve their liquidity provision, in the form of increased willingness to trade at the midpoint, and if not, still with price improvement over what they could offer the market as a whole in a traditional central limit order book. For example, XTX Markets’ midpoint liquidity quote for a well-curated retail broker in a hosted room may be present up to 80% on one side. This liquidity is then complemented by other liquidity providers who may have differentiated trading interests at the midpoint on either side of the market because of their diverse strategies and risk horizons.

If no enhanced liquidity can be found in a hosted room, the retail broker may also grant permission to the ATS operator to access its main midpoint-book for availability. If this also fails, the retail order can be routed onward to a standard execution path such as a wholesaler wheel.

The economics of such rooms are configured by the retail broker host and can support inverted rebates which mimic those received when trading on exchange or with a wholesaler (e.g. via Payment For Order Flow), while retaining the benefit of per-order competition.

Hosted rooms are also attractive from a connectivity point of view as they are hosted on widely used ATSs which are already connected to a variety of routers. From a liquidity providers’ perspective, once an ATS is on-boarded, supporting additional hosted rooms is a simple, seamless process.



BENEFITS TO RETAIL BROKERS

BENEFITS

Access to Tailored Liquidity Pools

Hosted rooms enable retail brokers to leverage their high-quality order flow for improved pricing and execution, enhancing outcomes for their end clients.

Order-by-Order Competition

Order-by-order competition ensures room hosts extract best execution for each individual order by leveraging the asymmetric strengths of different liquidity providers. Each order matched in the hosted room gets its fair competed price.

Engage Non-Standard Liquidity Providers

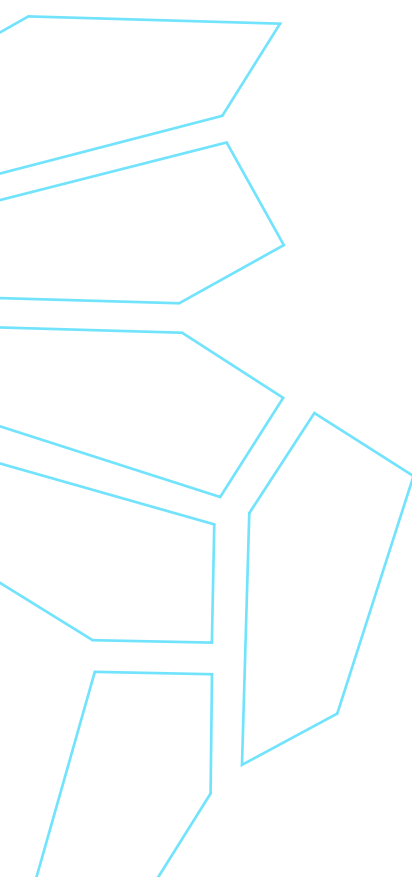
Hosted rooms can facilitate interactions with specialized liquidity providers, such as options hedgers or systematic funds, who may prefer controlled environments over open markets and may not offer a wholesaling or Single Dealer Platform service. Certain hosted room operators support both conditional and firm order types, at the host's discretion, making it possible for diverse firms to provide their liquidity.

Internalization of Orders

Hosted rooms enable financial institutions to match their retail client orders cleanly vs other business units or client segments such as institutional orders. This practice has been commonplace in the market for some time and is employed by several financial institutions. Certain hosted room operators offer a "broker preferencing" feature, which allows the host to ensure that internal orders – for example from a bank's institutional desk – have matching priority when there are multiple orders capable of satisfying an incoming retail order.

Minimal Development Overhead

For the retail broker host, hosted rooms provide a standardized and simplified form of on-boarding for liquidity providers with scalable, robust and competitive matching technology.



COMMON CONCERNS

CONCERN

RESPONSE

Hosted rooms are opaque and there is no control over who provides liquidity

Control of the room and its liquidity providers is a core feature of hosted rooms. The retail broker host determines which entities can provide liquidity in the room and can analyse each provider's performance by using the liquidity provider ID on each fill message. This ensures transparency and alignment with trading objectives. The retail broker hosts are in full control.

Hosted rooms are leaking information

Hosted rooms ensure order information remains confidential by using the "dark" ATS as a neutral intermediary between the room host and liquidity providers.

Hosted rooms are further fragmenting the market

The proposed workflow is aimed at attracting volume from retail brokers that is already largely conducted off-exchange into a more competitive framework that provides better outcomes for their retail clients.

Transparency

Some ATS operators do not identify hosted room volume from the overall volume executed on the primary ATSs, which decreases visibility on general accessible volume. XTX Markets agrees with this concern and supports more granular reporting by the ATSs. IntelligentCross now provides such disclosures on its website.⁹

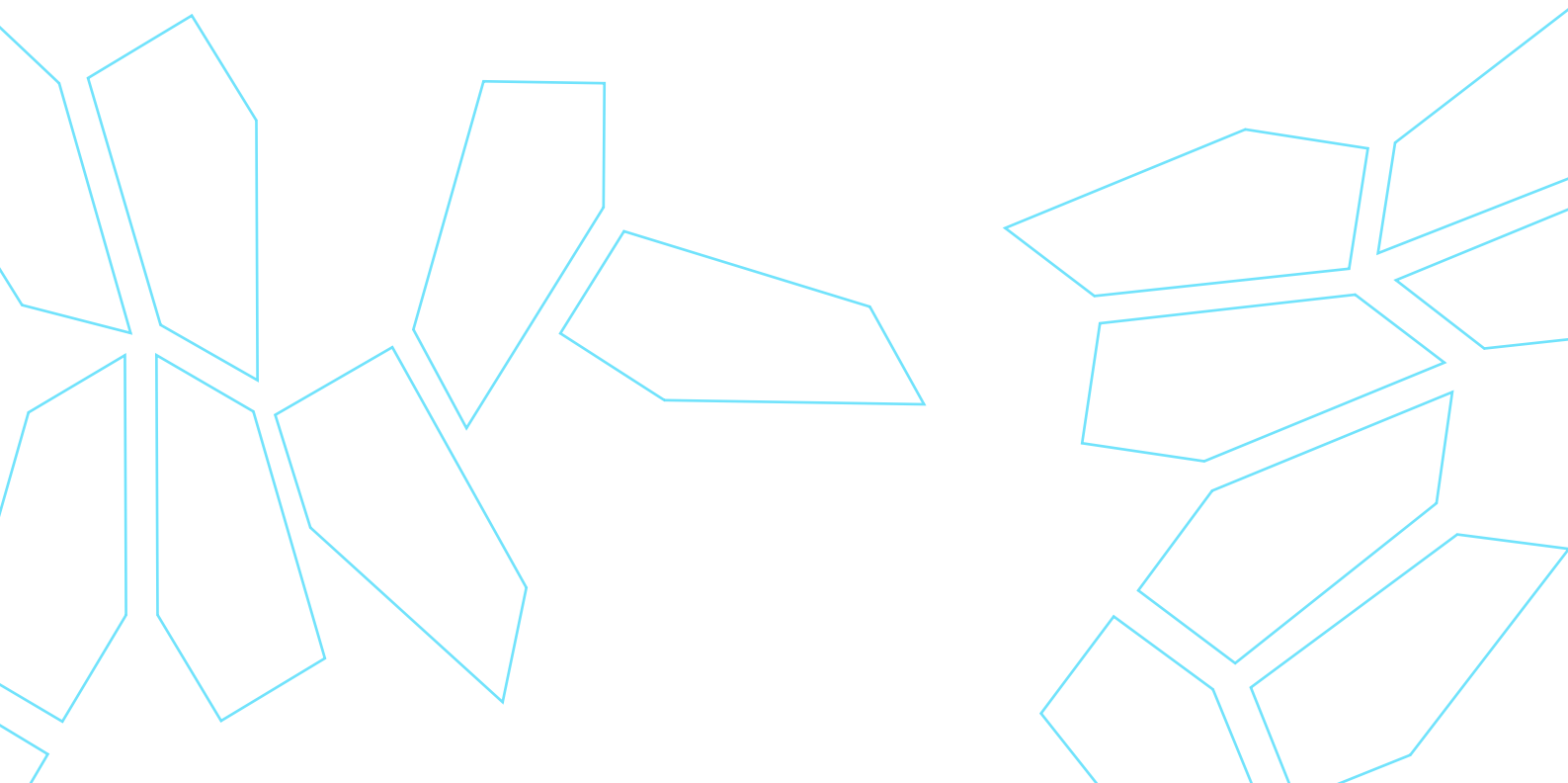
⁹ <https://www.imperativex.com/platforms#midpoint>

CONCLUSION

Retail broker-hosted rooms embody the kind of marketplace innovation that was envisioned from the outset of the ATS regulatory framework – a sandbox for experimentation to optimize execution outcomes for investors.

Although it is still early days in the development of retail broker-hosted rooms, the initial indications are positive, with some retail brokers achieving fill rates for their retail clients of 60%-80% at the midpoint of the NBBO. Continued innovation and disclosure of outcomes for retail brokers will drive broader adoption and improved outcomes for end-clients – delivering better execution quality for those willing to embrace competitive change in the US equities markets.

We encourage our partners to research and partake in this development, subject to rigorous A/B testing to ensure that the potential benefits of the workflow are realized for them and their clients.



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