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Electronic FX option platforms

- transparency, flexibility and liquidity redefine standards

Social Media

- helping to facilitate FX workflows across all channels

Carrier Hotels

- FX checks in for co-location services

Picking up speed

- low latency trade execution for Retail FX traders

Focus on OTC FX Clearing

- spawning a new wave of technology innovation

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the Social
Forex Awards
in this edition



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Welcome to

e-FOREX

transforming global foreign exchange markets



WINTER 2012

Although there still remain many uncertainties surrounding the final rules governing OTC FX clearing, we have focused on the topic in this edition as it's a good opportunity to examine some of the challenges facing exchanges, clearing houses, banks and service providers as they try to make their preparations for the coming changes as future-compliant as possible. Designing new workflows for a central clearing environment is a very significant undertaking for industry participants, who are all searching for ways to minimise the operational strain on their FX back-offices. Banks engaged in clearing on behalf of clients will also need to consider the best way to manage the clearing process for their client trades, as well as their own.

The extra connectivity involved when building a clearing service across products, clearing houses and regions is a huge part of the puzzle that has to be solved. Gateways to multiple CCPs are going to have to be built and the existence of multiple clearers will require a new generation of smart routing technology to manage the routing of trades to the correct CCP and to continuously monitor and manage the various trade status updates from each CCP. Other issues involved, such as the need for real-time margining and collateral management are likely to raise the technology bar still further and present new business opportunities for specialist third party technology providers who have proven expertise in building clearing systems for other exchange-traded derivatives.

Given the amount of investment needed in new infrastructure to create a clearing solution and the complexities of connectivity to all the market participants involved, we tend to agree with those that argue that the build versus buy argument has been won by the latter in this situation. Only time will tell if this proves to be the case as further developments take place during 2012.

Finally, we are delighted to help launch the Social Forex Awards 2011 in this edition. These awards will honour those banks that have made the most significant achievements in developing social media tools and strategies to help them better engage with their customers and clients. We will be reporting on the various winners in our next edition.

As usual hope you enjoy this edition of the magazine.

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Manfred Wiebogen
Foreword
Currency Wars



Richard Willsher
Leader
OTC FX Clearing



Joe Morgan
Social Media
Facilitating FX workflows



Frances Maguire
Electronic FX options
Redefining standards



Stina Ekberg
e-Forex Interview
e-FX Trading and Distribution



Howard Tolman
FX Mythbusters
Cloud Computing



Eddie McDaid
Fast Track
Middleware technology



Heather McLean
Launching an FX brokerage
Avoiding the pitfalls



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Social Media
Facilitating FX workflows



Carrier Hotels
FX checks in for co-location services



OTC FX Clearing
spawning technology innovation

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200 YEARS  citi

RBS launches enhanced trading platform

RBS Global Banking & Markets has announced a comprehensive suite of design enhancements to its leading electronic trading platform, RBSMarketplace (RBSM). The new release fuses pre-trade, trade execution and post-trade services while also enabling users to customise their default settings, leveraging the scale of RBS's electronic trading business across different markets. RBSMarketplace now boasts significant improvements to its functionality and trading capability in addition to navigation enhancements for a superior user experience. The platform also hosts RBS Agile™, a new derivative algorithm that enables clients to automate their gamma hedging.

Commenting on the rationale behind the latest developments, Roger Hawes, Global Head of FICC E-Commerce, said: "The time has come for differentiation. We were confident we already had a competitive product but having listened carefully to client feedback, we have focused this delivery



more on the user experience. We believe one simple interface, more visual graphics, easier navigation and new integrated tools all contribute to RBSMarketplace offering its clients a comprehensive, user-friendly application which reflects their needs."

Nordea enhances electronic FX orders

Nordea has released new FX order functions via its electronic trading platform, e Markets. Automated trading capability and safety has been boosted by the ability to set take-profit and stop-loss instructions and significant rate thresholds will never be missed again with call-back or SMS notifications enabled.



"By developing our own proprietary FX Order functionality in e-Markets we have given our customers the ability to employ an automated FX trading strategy within the platform that also fulfils all their information, research and advisory needs," said Kenneth Steengaard, head of FX, MM and Commodities Trading in Nordea. "The ability to monitor and modify orders as well as track trades in the one log space also offers added control and convenience."

TradingScreen partners with JP Morgan for FX algorithms

Tradingscreen Inc. has announced that it has partnered with J.P. Morgan Chase to deliver FX algorithms to users of TradeFX. The new partnership allows users of TradingScreen's TradeFX platform to access FX liquidity through the J.P. Morgan Chase suite of algorithms. The move adds to TradingScreen's more than 40 broker algorithmic suites, providing access to over 375 unique strategies. "We are committed to providing the best functionality to foreign exchange traders and will continue to work with leading partners, like J.P. Morgan Chase, to add new functionality and channels to more efficiently access the foreign exchange markets," said TradingScreen CEO Philippe Buhannic. The new algos include the TWAP+, Timeslicer, Panther and Sliceberg strategies.



Philippe Buhannic

TMS Brokers celebrates Fifteen years

TM S Brokers, the first licensed operator in the Polish FX market, is celebrating the fifteenth anniversary of its trading and business activities.



Mariusz Potaczała

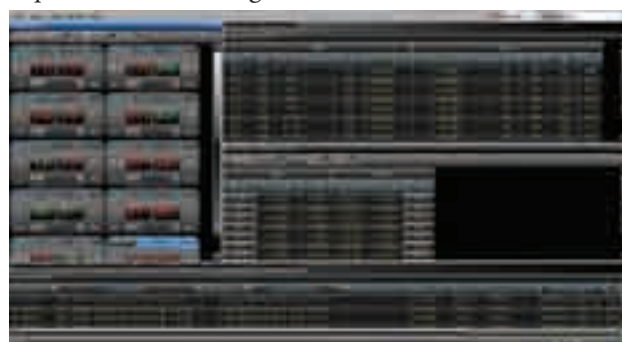
Commenting on the milestone, Mariusz Potaczała, CEO of the firm says, "Consistent development of the company, related to the expansion of our product portfolio and customer base has enabled us to achieve a leading position in the Polish domestic foreign exchange market. The company has also gained a stronger position in Central Europe. We are now planning further product launches during this anniversary year." TMS Brokers' portfolio is tailored to the needs of different groups of investors. The G04X platform is designed for beginners, with user-friendly and comfortable trading conditions, as well as over 120 financial instruments. For advanced investors, there are two dedicated platforms available, TMS Direct and TMS MT4, which are based on different models of processing transactions and offer various trading conditions. The company's portfolio also consists of the GOCash platform, which enables customers to exchange currency online fast and efficiently. Furthermore, an important component of TMS Brokers' offering is its professional FX advisory services, enabling companies to manage their exchange rate risks and use hedging strategies.

VT Systems launches new Online FX platform

Visual Trading Systems has announced the release of its VT Trader™ client as part of its VTSpot™ comprehensive trading platform. VT Trader™ 2.0. features an intuitive, multilingual docking-based GUI; customizable workspaces and charts; flexible position and order management, 1-click trading, and the ability to trade directly from the charts; integrated risk management tools, real-time market

Standard Bank goes live with TraderTools

South Africa-based Standard Bank, the largest African bank by assets and earnings, recently went live with a fully-hosted version of TraderTools' Liquidity Management Platform™ for its FX trading activities. The platform is being hosted at Equinix LD4 in Slough and NY4 in New York.



TraderTools' Dealing Pad showing full market depth

Richard De Roos, Standard Bank's Global Head of Trading, cited two reasons for choosing TraderTools' FX trading platform. That TraderTools was the only supplier to prove that its solution could help traders generate Alpha and that their Liquidity Management Platform was up and running in record time. Mark Mayerfeld, Executive VP, International Sales at TraderTools, summarized, "We were up and running in 60 days. That's the value of choosing an experienced vendor with a complete product."



news, and chart pattern recognition technology; a full arsenal of advanced technical analysis tools; 100+ built-in indicators and 100+ built-in trading systems; a powerful UI and scripting language with built-in algorithmic trading features for creating custom indicators and automated trading systems; as well as advanced API programming interfaces.



Never miss an important FX trade

With Nordea's automated FX Order functionality you can create an FX trading strategy that takes care of your currency interests while you look after your own.

Trade confidently with the safety of take-profit and stop-loss orders, or call-back instructions, from the one electronic platform that combines your entire markets information, research and advisory needs with powerful order and trade log functions.

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Nordea's vision is to be a Great European bank, acknowledged for its people, creating superior value for customers and shareholders. We are making it possible for our customers to reach their goals by providing a wide range of products, services and solutions with fast, good performance and innovation. Nordea has around 11 million customers, around 1,400 branch offices and is among the top largest universal banks in Europe in terms of total market capitalisation. The Nordea share is listed on the NASDAQ OMX Nordic Exchange in Stockholm, Helsinki and Copenhagen.

PFSOFT opens new office in Seoul

PFSOFT, the Protrader 2 brokerage platform provider, is continuing to explore new regions for developing the company's business activities. The next stage of the company's worldwide growth started in Asia on November 24th, when it opened a new branch office in Seoul, Korea. PFSOFT China & Korea, will give brokers, market-makers and hedge-funds from all over Asia an opportunity to take advantage of the Protrader 2 professional brokerage platform which offers a high-level of functionality.



Denis Borisovsky

Denis Borisovsky, the CEO of PFSOFT, who attended the opening ceremony commented: "We're creating the software to move electronic trading up to a new and more advanced level and we're pleased that now we can be closer to our clients from Asian countries".

D-3 improves quality of rates

The latest version of Digitec's D-3 system covers streaming APIs, rate adjustments for special dates, and plausibility checks that



eSignal 11.3 offers more functionality

New functionality is now being offered in eSignal 11.3 that includes trading integration with more than 30 brokers and service providers, including top Forex brokers. Other new features include trend line alerts and an advanced trade log to export trades for further analysis. The all-in-one application allows users to set up their trading systems once, then execute with their choice of award-winning advanced analytics and charting. eSignal's Forex offering includes data from GTIS (best bid / ask by contributor), the primary supplier for more than 20 years of foreign exchange information, as well as spot rates for more than 100 currencies and approximately 200 global bank and broker contributions. For additional information, visit: www.eSignal.com

once again improve the quality of all rates that are exported to several downstream systems. "Spreadsheet based pricing tools do not meet the requirements of a competitive FX infrastructure anymore" says Andreas Kiesselbach, sales director at Digitec. "I have no doubt that the number of banks that rely on D-3 for FX pricing will continuously grow over the next few years". The German company, which started operations in 1981 with a PC-based Cross-Calculator for local banks, has recently celebrated its 30th anniversary. Today, Digitec's D-3 is one of the leading systems in FX-forward pricing, thanks to the smooth integration into banks existing infrastructures.



NomuraLive

Algorithmic Execution

Expertise in global order management

Nomura's global FX trading platform, NomuraLive, now includes a range of execution algorithms that offer traders a greater level of control, efficiency, and order working transparency. NomuraLive algorithmic strategies will enhance your order execution by accessing a wide range of liquidity sources, including internal pools, to minimise market risk.

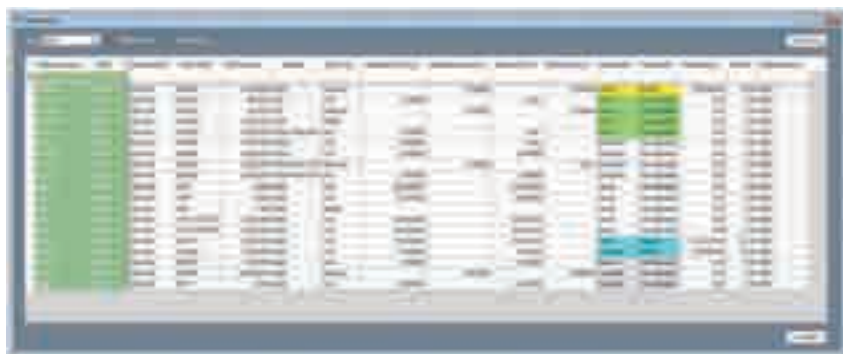
Key features

- Cost-effective
- Transparent
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- Access to all of Nomura's liquidity sources
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Find out more about our electronic FX trading solutions on www.nomura.com/nomuralive or email efx@nomura.com

NOMURA

Velocity Trade licenses Spectrum



Velocity Trade, headquartered in Toronto, Canada, but operating globally, has licensed the Spectrum System from Financial Software Systems ("FSS"). Velocity will leverage Spectrum to support its front-to-back-office Foreign Exchange dealings in spot, forward, Non-Deliverable Forward, swap, and option contracts. Velocity will now have a highly automated platform for supporting the collateralized trading activities of their clients' FX needs and enable Velocity to continue its growth within the institutional FX marketplace. The implementation will incorporate the Spectrum

Client FX Portal, which will allow a seamless channel for Velocity clients' to be able to deal, make FX payments and view, in real-time, all of their FX trade positions and margin and collateral utilization. In addition, the next release of Spectrum will include a cross-asset OMS initially with support for foreign exchange, fixed income and equities; additional asset classes will be supported in 2012. Users will be able to select from multiple order types (stop, limit, if done, OCO, etc) and strategies. Traders will be able to manage the orders in a configurable view which allows easy drill-down into specific clients, orders and types.

DealHub expands into Asia

DealHub (Option Computers Ltd) has announced that it will open a new office in Singapore to support growing demand for its FX trading solutions in the region. The move marks the return of previous DealHub Sales and Marketing Head, Tim Finch, who left the company in April this year to take up a position as Sales Director for FXCM Pro, based in Hong Kong. Commenting on Finch's appointment as Regional Director, Asia, Dealhub CEO Peter Kriskinans said "Asia is where the fastest growth is right now – in the global economy and in the FX market – and we're seeing ever growing interest in our solutions from customers in the region. As a result, it's become increasingly clear that we need to expand our physical presence in Asia-Pacific." This announcement follows Dealhub's recent launch of ultra-low latency hosted services in London and New York and confirms plans to expand these services with a hosting location in Asia, ensuring global, high-speed trading connectivity for all Dealhub customers.

Varengold launches Prime Brokerage service

Varengold Wertpapierhandelsbank AG, the German investment bank based in Hamburg, has launched a new Prime Brokerage service. Varengold has direct access to one of the deepest liquidity pools in forex and supports the continual development of innovative, client-focused solutions that meet their clients' trading needs. Commenting on the launch, Timur Coban, head of institutional sales at Varengold said, "Trading at Varengold gives institutional clients access to better

prices and deeper liquidity, with full-service FX functionality from straight-through processing. Core objectives for firms in cooperating with Varengold are the connection to the interbank market and high trading liquidity for their clients. Quotes from all multiple dealing banks are continuously screened and analysed by Varengold in order to provide customised prices to their clients in real time. Partners and customers also profit from STP order execution, excellent pricing and direct streaming liquidity."



Timur Coban



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SEB

Gold-i upgrades its Bridge

Gold-i has enhanced the functionality of its Gold-i Gate Bridge, with the launch of the 257 plug-in, which offers significant enhancements, providing even more control for brokers and extending opportunities for trading in Japan.



Tom Higgins

The main features included in the upgrade are:

- an enhanced limits mode, incorporating a new 'institutional style' logic for handling illiquid symbols and ensuring that all orders are only filled at the limit price.
- percentage and reverse percentage coverage, allowing the broker to partially cover their clients' order as a percentage. The broker can also execute an opposing order in the market through reverse percentage coverage.
- a price multiplier, providing the ability to display and trade in different units.
- enhanced monitoring, which enables the broker to see the previous five prices on the market for all executions.

Tom Higgins, CEO of Gold-i explains, "We have been working on the upgrade for the last six months. This significant development maps onto our strategy of continuous innovation in order to lead the global market in terms of speed, functionality and performance."

TradeStation launches new options platform

TradeStation has announced the launch of its all-new OptionStation Pro options trading platform. The launch will coincide with the forthcoming release of TradeStation 9.1. OptionStation Pro is an options trading and analysis platform designed with the help of active options traders. Key features include: advanced options charting with interactive 3-D position graphs; advanced order-entry technology to trade options spread strategies with a few simple clicks; configurable spread-specific options chain views;

Medibank selects Bloomberg FX platform

Medibank Private Limited, Australia's largest private health insurer, has chosen Bloomberg's Foreign Exchange (FX) trading platform to manage the exchange rate risk associated with its \$2.5 billion global equity portfolio. Medibank Private Ltd. uses the Bloomberg Professional service to research global news and data and perform analytics to hedge their interest-rate risk. Now, Medibank will also use the system's FXGO function to manage their foreign-exchange risk, execute FX trades and get requests for quotes (RFQs) in spot, forwards, swaps, options and deposits.

Tod Van Name, global head of Bloomberg's Foreign Exchange business, said, "Corporate executives all over the world are discovering that the Bloomberg Professional services' FXGO makes managing foreign exchange risk intuitive, seamless and cost-effective. They can get prices from their preferred banks, execute trades and integrate with their order management, risk management and back office systems all on one platform."



Tod Van Name



dynamic options pricing and Greek calculations; the ability to build, evaluate and track any options position; and spread-recognition logic that enables traders to easily transform existing positions and create hypothetical ones.

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bank expertise

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by managing your
own execution risk

**Take command
of your FX
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Kalita-Finance releases iTrader 8

Moscow-based Kalita-Finance, has released its new GUI iTrader 8 with embedded algotool Robot that allows traders to implement different correlation cross-asset strategies. The Kalita-Finance trading platform which has 115 derivative instruments, makes it possible to develop and implement hundreds of trading strategies. Among the most popular are strategies that relate the USDRUR currency pair to the price movement of Oil BRENT, Gold

or bi-currency basket of Bank of Russia.

“Such algorithmic trading tools embedded into a GUI have proved to be the most effective solution for retail and institutional clients,” says Igor Suzdaltsev, deputy CEO of Kalita-Finance. “It’s free, simple and very fast because it’s based within a client’s trading terminal. Since the Robot doesn’t require any API connection, it provides the highest speed of execution”.



OBOption.com launches platform for Asia

Online binary option broker OBOption.com has launched the first trading platform designed specifically for Asian markets, offering services in Mandarin, Bahasa Indonesian, Malaysian and English. In a pioneering move, OBOption.com has become the first broker to tailor their customer services and products to Asian traders.



Deborah Horowitz

Deborah Horowitz, VP of Marketing at OBOption.com, said “Until now, traders in Asia have been an after-thought for binary options brokers. Our unique platform prioritizes their needs, providing a personal service and the vital tools to make trading convenient and easy.”

trading. “At Boston Technologies, we strive to be the full service provider for all things FX.” said George Popescu, CEO of Boston Technologies Inc.

Boston Technologies offers FX Options Trader



George Popescu

Boston Technologies Inc. has announced the addition of options trading to its established spot trading solutions with FX Options Trader. By adding FX Options Trader to its already robust portfolio of forex trading solutions, Boston Technologies now provides a comprehensive and customizable platform for retail and institutional FX options trading. Boston Technologies is currently offering FX Options Trader to all foreign exchange brokers for free as a trial for the first three months of

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Hantec upgrades license

As part of its strategic expansion plan, Hantec Markets Limited has upgraded its license with the FSA to that of Matched Principal Broker. Hantec's fast growing client base can now also trade CFDs with 100% automated No Dealing Desk execution on its popular MT4 trading platform. Hantec Market's usual competitive pricing also applies to all CFD products. Other instruments are expected to follow. A full market range can be found by visiting www.hantecfx.com.

"This is all part of our vision to establish Hantec Markets Limited as a dominant player in the retail FX and CFD market place", says Hayel Abu-Hamdan, Chief

Operating Officer at Hantec. Hantec Markets will continue to also offer its institutional clients



Hayel Abu-Hamdan

the Currenex platform, which is one of the deepest forex liquidity pools.

Dukascopy Bank launches new currency pairs

Dukascopy Bank SA has expanded its currency pairs list with these additional financial instruments: AUD/SGD, CAD/HKD, CHF/SGD, EUR/DKK, EUR/HKD, EUR/PLN, EUR/SGD, EUR/TRY, HKD/JPY, SGD/JPY, USD/DKK, USD/HKD, USD/MXN, USD/PLN, USD/RUB, USD/TRY and USD/ZAR.

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Currency War or simply country debts out of control?



'Sovereign downgrade could hit eurozone lenders' was a headline in the Financial Times which I recently read on my flight back from a Bucharest meeting with local traders and representatives from the BNR – the National Bank of Romania. Standard & Poor had warned in this edition that it was looking to downgrade fifteen Eurozone country's sovereign debt! Having just re-rated 37 global banks a week ago, whereby seventeen of them subsequently became downgraded, this outlook was the next shock to the financial markets in particular to the Eurozone. Such announcements are certainly nurturing volatility in all market segments, including Foreign Exchange. But is there any reason or pattern behind them?

The past years disclosed those countries with more *deficit* than *surplus*. The UK and the US are known for borrowing from the rest of the world representing the deficit countries whilst it can be said that China, Japan, other Asian and emerging countries are known for the opposite. And what of the Eurozone? Well, in overall, figures show a balance between exports and imports within the zone. Germany and some others are known for running surplus, whilst countries mainly in the southern periphery like Spain and Greece run deficits.

Increasing exports

A key element to regaining competitive advantage in an economic recovery is achieved by increasing exports. Austerity in deficit

Manfred Wiebogen
President ACI, The
Financial Markets
Association.



spending might not be that helpful, risking recession for economies. So, a competitive spiral develops as advantage seeking through weaker currencies starts up. China is often blamed for manipulating its currency through interventions and fixed rates, but others too have intervened using the option of looser monetary policy. With interest rates nearly or even at zero, central banks pushed quantitative easing. The often feared printing of money may be used for buying debts or intervening in the currency markets.

With a new President at the top of the European Central Bank we recently experienced a change in the ECB's policy. The markets, initially surprised by a sudden cut in interest rates and market expectations, are anticipating another step. Well it seems there will be positive and negative impacts of policy easing by the ECB on the EUR exchange rate. A cut of interest rates on the one hand might undermine the Euro versus other major currencies. On the other hand the Euro can benefit from clear policy actions emphasizing continued confidence and viability of the EMU mechanism.

Recalling one of the consequences of quantitative easing is that the balance sheet of the ECB has expanded during the crisis. But whilst the balance sheet of the ECB has seen an increase of some 80%, the one by the Federal Reserve Bank increased by

some 230%, that of the Bank of England by some 205%, and that of the Swiss National bank by some 235%.

Room for maneuver

The figures above should provide further room for maneuver within the Eurozone. Whilst comparing the US GDP debt of more than 100% to that of the EU zone of 88% the current pressure by rating agencies might be overdone – in particular when considering the current US deficit of 10.8%! Some rumours are explicitly naming political motives behind such actions. Other sources are clearly talking of a '*War of Currencies*' between Europe and the United States. Within the past few years the EUR has managed to increase its portion of World reserves currency from 17% to 27%. A weak Eurozone would mean increasing support for the world's largest economy, the United States.

Whatever we might consider the cause for the ongoing market swings, one thing is certain, the weak bank environment in the Eurozone puts pressure on some single countries, which is one of the rating agencies justifications for their recent attack on sovereign debt. But we also cannot completely negate the impact of countries seeking advantage through competitive currency policy. So Foreign Exchange will stay in the focus of monetary policy.

OTC

2012 – OTC FX Clearing moves to centre stage

Lack of clarity about the extent of mandatory regulation for over the counter foreign exchange (OTCFX) derivatives persists but 2012 should bring greater definition and guidance to those in the market. Meanwhile, Richard Willsher reports on how exchanges, clearing houses and service providers are setting their strategies and gearing up their technology for the opportunities that may emerge.

As it stands we know that non-deliverable forwards (NDFs) and FX options will be mandated under the European Markets Infrastructure Regulation (EMIR) in Europe and the Dodd-Frank Act in the US. We also know that both pieces of regulation exclude spot FX and commercial

forward transactions. Beyond that a regulatory fog descends.

“Clearing of OTCFX continues to be an evolving topic with more questions than answers at this point,” according to Chip Lowry, Chief Operating Officer at New York headquartered FX platform Currenex. “Certainly, Dodd-Frank mandates the clearing of NDFs and FX options however the timing of this requirement is still being determined. Globally, some clearing houses already offer clearing services for NDFs but take-up has been slow.”

“The US appears to be the first jurisdiction that will mandate clearing of NDFs; however the industry is still waiting for solutions to appear,” continues Lowry. “Several important rules are awaiting finalisation from

FX Clearing

the [US] Commodity Futures Trading Commission (CFTC) such as block size and whether block size will apply to NDFs in general or by currency pair.”

NDFs

Although CME clears a large range of FX futures and options, in conjunction with ICAP, CME Clearport now provides clearing for US Dollar (USD) / Chilean Peso (CLP) NDFs. The model is a central clearing counterparty (CCP) one where CME Clearport becomes the guarantor to every buyer and seller of the product. It is an early offering that will lead to “a full suite of cleared OTCFX products,” CME reports. They anticipate offering 11 NDFs and 26 cash-settled futures (CSFs) in due course.

This example represents a pre-emptive strike by a major exchange for a share of the increasingly demanded forward market in restricted emerging markets currencies. It is geared to meet what is thought likely to be required under Dodd-Frank. It provides a secure platform for financial institutions that require hedging for their corporate clients or proprietary trading capability for their own account.

Noteworthy is the choice of a Latin American (LATAM) currency where the time zone is the same or similar to that of the US financial markets. The Chilean Peso is supported by a growing and resource rich economy and the general trend in USD/CLP rates has been relatively stable in comparison to more exotic or dramatically fluctuating currencies in the LATAM region. These key features are already being replicated for other emerging market NDF currencies in another time zone, i.e. South East Asia.

Asia

On 24th October this year Singapore Exchange (SGX) launched a clearing service for FX non-deliverable forwards in Asian currencies. Settling in US Dollars and with a maximum residual term from date of submission of 375 days, the currencies eligible for clearing are Chinese Renminbi (CNY), Indonesia Rupiah (IDR) Indian Rupee (INR), Korean Won (KRW), Malaysian Ringgit (MYR), Philippine Peso (PHP) and Taiwan New Dollar (TWD).

As Asia's only CCP facility for a variety of derivatives, the clearing members eligible to take part in clearing



Chip Lowry

“Clearing of OTCFX continues to be an evolving topic with more questions than answers at this point.”

include: Barclays Bank PLC, Citibank N.A., Credit Suisse AG, DBS Bank Limited, Deutsche Bank AG, HSBC, Oversea-Chinese Banking Corporation Limited, RBS, Standard Chartered Bank, United Overseas Bank Limited and UBS. As yet it is early days for this new on-exchange clearing activity and volumes have so far been relatively modest as compared with longer established SGX listed products, however, research carried out by the exchange ensures that the facility is demand led.

“We have chosen to clear trades that are between professional clearing members,” explains SGX co-president Muthukrishnan Ramaswami. “There have been pretty high bi-lateral risks that they are taking today. This way is more capital efficient for them as taking risk on a CCP carries a lower capital rating than bilateral risk, especially when Basle III comes into force.”

In due course Ramaswami expects SGX will extend this model to clearing client trades, and, in due course, probably FX options – of which more later. The introduction of clearing for NDFs posed a variety of challenges on the technical side which SGX dealt with in a pragmatic and system-agnostic manner. “We are not setting the agenda on what needs to be

cleared,” Ramaswami continues. “What needs to be cleared is determined by the capital requirements for each instrument and therefore what each of our participants wants to do for their various asset classes. It is different from an exchange led process. It is what our members want to clear. We are a need fulfiller in this context. As an exchange we work with probably 30 different order management systems in our futures and securities context but we work with them using a FIX protocol or a specific [application programming interface] API. The providers will usually be able to work with one of those. So it’s about standardising the interfaces rather than standardising the registration mechanisms. Moreover these providers also want to connect to many clearing houses. They want to be able to service their clients in multiple jurisdictions. So this is a two-way industry need between the registration systems and the clearing houses. The OTC execution remains as is. Putting it into a clearing house brings the rigour of margining and rigour of having collateral to support your positions. And having that held in a ring fenced manner in a clearing house and away from any risk you may run from having it with a broker or bank.”



Muthukrishnan Ramaswami

“What needs to be cleared is determined by the capital requirements for each instrument and therefore what each of our participants wants to do for their various asset classes.”

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Challenges and risks

Significantly however, while SGX has an eye towards EMIR and Dodd-Frank, no mandatory regulation is yet on the horizon in Singapore. This brings with it with the risk, or the opportunity, depending how you look at it, for regulatory arbitrage. This is an evolving story and it remains to be seen whether OTCFX clearing becomes a global phenomenon.

“The global nature of the FX market means that clearing infrastructure and processes need to be as harmonised as possible across the world’s financial centres. Regulatory harmonisation will be key to enabling participants to trade quickly and efficiently with their global counterparts, whilst avoiding the negative consequences of regulatory arbitrage.” says Wayne Pestone, Chief Regulatory Officer, at FXall.

However, where relatively rarely traded and unstandardised NDF currency pairs are traded in local emerging markets, less tightly regulated regimes will most likely still apply.

Meanwhile vendors providing trading platforms for institutional, global clients have some challenges to

overcome. “The biggest challenge we are going to have [in the new regulatory environment] is configuring a multi drop copy capability and sending it to enough people who are interested in that trade,” says Jonathan Woodward head of Asia-Pacific at FXall. “For example,” he says, “if you had some American money domiciled in Hong Kong but then traded with a Singaporean bank and cleared with SGX you are going to need to report that to authorities in the US, Singapore and Hong Kong. So, instead of just giving the client some straight through processing you have to think, “where else do they want us to drop this information so that they comply with any future regulations?”

What quickly becomes clear from this is that multibank portals or electronic communications networks (ECNs) that have global capabilities to connect with CCPs, clients and regulatory authorities wherever they are based, have a pivotal role to play. Which is not to say that single bank platforms do not, because they may provide additional, more specialised and less standardised services to their clients. However interoperability is vital. No portal can afford to be an island or its clients will quickly migrate to where communications to all relevant parties to its activities are easiest, most efficient and lowest cost.

So, for example, at Nomura, Mark Croxon who is executive director, prime services and global product manager for OTC clearing, says the objective is, “to build a clearing house agnostic service across products, asset classes and regions. That does present some challenges in terms of ensuring the connectivity to each of those clearing houses and venues. There are challenges with getting the plumbing set up, although there are a number of vendors who can help with this. You may also have a connectivity unit internally that is there to set up and maintain some of the connections.”

Minimising systemic risk remains at the core of the various efforts to develop OTC clearing. “The intention of the legislation is to reduce systemic risk by making OTC markets and counterparty risk management more transparent. Specifically around risk management, it is about having the collateralisation and default management processes prescribed and the margins and default fund contributions relating to those positions being posted and being held up front at the central clearing house. Furthermore rules in the US, and incentives from a regulatory capital perspective under Basel III, are leading to segregation of those funds risk and the exposure to significant institutions defaulting,” says Croxon.



Jonathan Woodward

“The biggest challenge we are going to have in the new regulatory environment is configuring a multi drop copy capability and sending it to enough people who are interested in that trade,”

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Mark Croxon

"The intention of the legislation is to reduce systemic risk by making OTC markets and counterparty risk management more transparent."

FX options

While regulatory guidance on the requirements for NDF clearing have been relatively straightforward there is still missing detail as regards FX options. "While NDFs are relatively simple instruments to clear in theory, FX options pose some logistical issues that still need to be sorted," says Chip Lowry of Currenex. "One issue is around auto-execution at expiry. In the listed world, auto-exercise is handled by the clearing house and is a standard process. Because OTCFX options are not standardised instruments, the question of who decides execution remains open. There is an ongoing dialogue between end users of these contracts and clearinghouses about this issue."

"The other issue to be tackled," he adds, "is guaranteed settlement. Industry authorities such as The Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO) have proposed that clearing houses guarantee the actual FX settlement of an exercised option. As the amounts involved can be quite large, clearing houses are not yet comfortable with this concept. This issue is fundamental to OTCFX

options. Without agreement on this topic, I doubt we'll see FX options cleared in the near-term."

Timelines

"Whilst a general framework [for which products will be eligible for clearing] has been provided by the Dodd-Frank Act in the US and EMIR and Mifid II in Europe, there has been no decision on the final rules. The challenge for industry participants is to make preparations that are as future-compliant as possible," says Pestone, "The industry knows that change is coming but is in need of clarity around what, exactly, these changes will be, and when and how they will be implemented. As such, it is important to prepare for every eventuality."

For the time being it is expected that the rules under both EMIR and Dodd-Frank will be in place during 2012. Institutions required to comply still lack the clarity to build the required systems. The timeline, which began with post-2008 crisis G20 talks looks like extending some distance yet and it seems likely that compliance will not become mandatory until 2013. Market participants are in general sanguine about



Wayne Pestone

"Regulatory harmonisation will be key to enabling participants to trade quickly and efficiently with their global counterparts, whilst avoiding the negative consequences of regulatory arbitrage."

MiFID II, EMIR and Dodd-Frank - where are we now?

MiFID II

For the first time the Markets in Financial Instrument Directive (MiFID) will cover market trading of OTC derivatives. London-based law firm Linklaters advise, "All trading in derivatives which are eligible for clearing and sufficiently liquid will be required to move to either:

- Regulated markets;
- Multilateral trading facilities (MTF); or
- A specific sub-regime of organised trading facilities, which must fulfil (as well as general requirements for organised trading facilities,) the following criteria:
 - Provide non-discriminatory multilateral access to its facility;
 - Support the application of pre and post-trade transparency;
 - Report transaction data to trade repositories;
 - Have dedicated systems or facilities in place for the execution of trades."

Pre- and post-trade transparency requirements will relate to all derivatives trades wherever they are traded.

MiFID II proposals were published by the European Commission on 20th October 2011. Consultants Deloitte say, "Given the timeframes set out, it does not seem likely that the G20 deadline for the trading of standardised derivatives on electronic platforms by the end of 2012 will be met."

EMIR

The UK Financial Services Authority (FSA) advises that European Markets Infrastructure Regulation (EMIR) "follows, and facilitates within the EU, the commitment made by G-20 leaders in Pittsburgh, September 2009, that:

"All standardised OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by end-2012 at the latest. OTC derivative contracts should be reported to trade repositories. Non-centrally cleared contracts should be subject to higher capital requirements. We ask the Financial Stability Board (FSB) and its relevant members to assess regularly implementation and whether it is sufficient to improve transparency in the derivatives markets, mitigate systemic risk, and protect against market abuse."

The European Parliament finalised its input in July of this year. Currently EMIR is being fine tuned in a "trialogue" process involving the European Parliament, the Economic and Financial Affairs Council (ECOFIN) and the European Commission. It is expected that this will be concluded in the first quarter of 2012.

Dodd-Frank

"The [Dodd Frank] Wall Street Reform [and Consumer Protection] bill will – for the first time – bring comprehensive regulation to the swaps marketplace. Swap dealers will be subject to robust oversight. Standardised derivatives will be required to trade on open platforms and be submitted for clearing to central counterparties. The Commission looks forward to implementing the Dodd-Frank bill to lower risk, promote transparency and protect the American public", Gary Gensler, chairman of Commodity Futures Trading Commission (CFTC).

While CFTC has finalised certain parts of Dodd-Frank it is not expected to have defined the precise rules for FX derivatives until the first quarter of 2012.

the prospects for their businesses and are taking what steps they can to ensure that they will be ready to offer compliant services to support their clients' needs. The greatest fear is that regulations will either mismatch across various jurisdictions - Europe, the US, the major financial centres of the Far East - and that they will be implemented at differing times. Both of these could cause competitors to avoid regulatory constraints perhaps by relocating their operations to unregulated centres. In the end however, as with so much of the

post-crisis regulation that has emerged from Brussels and from the US, there is a certain inevitability surrounding global compliance. The FX market will probably have no choice about whether or not to comply with OTCFX regulations eventually. Going forward the game is about minimising the effects and costs of regulation through the lobbying efforts of bodies such as AFME, SIFMA, ASIFMA and others and then ensuring that full clearing and transparency requirements will be met when the regulations take effect.



Social Media —

helping to facilitate FX workflows
across all channels

As a global market operating at almost every waking hour, FX has always been highly attuned to the flow of information, ideas and news. It should then come as no surprise that institutional FX firms and traders are starting to explore the new possibilities that social media communication tools bring. Joe Morgan investigates what these are.

Stefan Basiuk, co-founder of LetstalkFX, a specialist social network for market participants in the FX industry, says major sell side firms and institutional FX providers are certain to find that the nascent world of social media will have a major impact on their business model, perhaps sooner than they think.

“Governments are now being changed by social media. Anyone who somehow believes that the

financial markets are not part of this new world will be mistaken,” says Basiuk. “It is a slow process. But in the next 18 months I think we will see a huge shift in the way banks interact with their clients and do business.”

Linkages

Banks and FX institutions are awakening to the new possibilities offered by technology which links market participants together. For example, Equinix, the global data center specialists, in October this year launched “marketplace”, a networking service which enables more than 4,000 firms based within its network of data centers to forge connections with each other. Each member can create a “profile and store front” – similar to those which exist on business social networks – enabling them to sell services and reach out to potential partners in the Equinix data centre ecosystem.

By mimicking aspects of business social networks such as LinkedIn and Xing, Equinix is striving to facilitate more collaboration between its customer base. The specialist data centre provider is aiming to use the marketplace service to boost interconnections between its customers, which rose by 27 per cent in 2010.



Stefan Basiuk

“It is a slow process. But in the next 18 months I think we will see a huge shift in the way banks interact with their clients and do business.”

The migration of a data center network from “warehouses for storing large amounts of information” to an ecosystem in which market participants use social network tools to interact demonstrates how the financial markets are evolving in a world where social media is increasingly becoming a part of more peoples’ lives.

Given the traditionally conservative nature of high finance, the rapid rise of social media has been greeted by caution and resistance in some quarters of the industry. But some banks and major FX institutions are embracing social media as a new way to interact with clients and as a public relations tool.

In fact social media tools already had a place in the FX markets, pre-web2.0. Ralitzia Fortunova, executive director, FX electronic markets sales at Nomura in New York, points out that the messaging chat function on the Reuters dealing screen has been used as a communication tool by FX market participants for several decades.

“The definition of a social network is essentially a network that is made up of people and organisations that are connected by a specific interdependency. Institutional FX players already participate in two well-established networks, Reuters and Bloomberg. These are networks that we are all doing business through right now,” says Fortunova. “Both maintain directories of participants, their characteristics and facilitate connections based on some kind of common interest, acting as a channel for disseminating information distributing research and communicating trade ideas.”

New challengers

However, Fortunova argues that the hegemony of these established networks will likely be challenged by other FX market participants as they are able to exploit the new possibilities offered by internet-based technologies in enhancing the ability to communicate more efficiently with clients. “The platforms that will pose the challenge will not be just FX platforms per se, but portals like NomuraNow, which encompass a cross-asset approach and touch more parts of the trade cycle. The key to the new approach is to allow our clients’ experience to be enriched in a way that has not been possible in the past and is aligned with Nomura’s vision of a single point of access to our client tools,” says Fortunova.

“The aim is to enable our clients to obtain access to sales, trading and research and share information and knowledge across the enterprise. The vision is for a rich web portal, accessible via our proprietary platform NomuraLive that offers a highly customizable, intuitive customer experience,” says Mark Burroughs, executive director, FX Electronic Markets Sales at Nomura in London.

Burroughs says developing social media tools will enable Nomura to more closely connect with its clients, thereby boosting potential revenue streams. “This is an environment where revenues are hard to come by and competition is fierce. Social media allows us to deliver the firms expertise through one venue and allows clients to turn ideas and intentions into real transactions quickly and efficiently,” says Burroughs.

Extending services to clients

Nomura is not alone among sell side firms extending social media services to clients. Saxo Bank, the FX online trading specialists, has launched iPad and iPhone apps while BNP Paribas, the French investment bank, launched its MobileMarkets iPhone and iPad applications this year, using OpenSocial technology. BNP Paribas’s roll-out of the hand-held

applications enable clients of the French investment bank to obtain mobile access to its GlobalMarkets electronic commerce platform, and perform tasks such as downloading research items.

Clients downloading the apps are able to tailor their mobile portal by downloading mobile widgets to create a variety of screens to suit the profile of their interests. BNP Paribas’s Currency Radar and FX Forecasts are among the most popular services to be downloaded on to hand-held devices, according to the French investment bank.

Meanwhile, FX industry sources say that UBS, the investment bank, has launched a trading platform which – in terms of its look and feel – resembles Facebook, the leading social networking website.

Morgan Stanley named its electronic commerce platform “Matrix”. The single dealer portal, which provides its clients trade ideas, historical data, pricing information, charting functions, market commentary and trading applications can be viewed by users using handheld applications. Users can obtain access to the Matrix portal via iPhones and iPads, enabling them to use multimedia tools to digest the latest research published by the US investment bank.

Need to innovate

Basiuk says that while this method of delivering research to Morgan Stanley clients is currently a way by which the US investment bank differentiates itself from rival firms, he believes it will become standard industry practice in the future. “Investment banks will have to innovate. For example, sending out e-mails with PDF files attached with research that nobody now reads is surely pointless,” says Basiuk. “The social media format far better suits people’s desire to consume information, and their attention spans.”

According to Basiuk, another consequence of FX institutions using multi-media to make news announcements and interact with clients will be that senior executives assume a more public role, acting as spokespeople for their firms on the important issue of the day. This would represent quite a significant culturally change, given financial institutions’ conservative approach in projecting their corporate image.

Brock Arnason, Matrix product manager at Morgan Stanley in New York, says the US investment bank



Ralitzia Fortunova

“The definition of a social network is essentially a network that is made up of people and organisations that are connected by a specific interdependency.”



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Mark Burroughs

“Social media allows us to deliver the firms expertise through one venue and allows clients to turn ideas and intentions into real transactions quickly and efficiently...”

has also been closely watching social media such as Facebook and Twitter, examining how these social media tools can be used as sources of information for its clients.

“The answer is not as much as you might think but the ideas that those systems have. The concept, for example of having a landing page where you can go to access interesting information, the idea of intelligent tagging, the idea of creating followers and readership and being able to discover publications through collaborative filtering. All of these things we have borrowed heavily from in order to build the full offering of Matrix,” says Arnason.

By seeking to replicate what works best in social media, Morgan Stanley can offer its clients services such as a filtered screen to the Matrix portal, enabling them to obtain access to research, blogs, ideas and FX contacts relating to a specific theme or topic. Users can also obtain access to specific price spreads, which in FX can be executed directly from the portal. Matrix also flags up content that is most popular, in a way that could be analogous with topics ‘trending’ on Twitter.

Access to information flow

Elena Theodorou, founder of Social-Markets.net,

a specialist social media consultancy for the capital markets based in London, says the multi-media tools being developed by investment banks such as Nomura and Morgan Stanley – which in the case of the US investment bank includes pod casts which record morning meetings – are providing clients with timely and valuable information.

“One of the main features that investment bank clients have always wanted over the years is access to inside the dealing room. Access to that great information flow available and exposure to the buzz of what is happening,” says Theodorou. “This access is not just about being able to exchange information but also to get new ideas and tap into the buzz of information flow.”

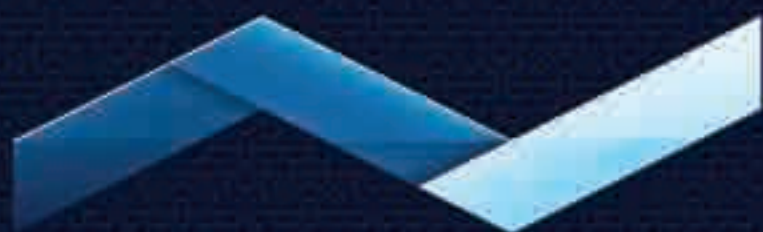
Theodorou, who previously served as global head of FX eCommerce Sales at JP Morgan, argues that the social media space is now in a stage of development similar to that of e-FX a decade earlier. “You have the first movers starting to jump on to these social channels. This could be dipping their toe in with mobile apps and starting to look more broadly around how can they integrate these channels into their platforms while a large component of banks are still holding back,” she says.



Brock Arnason

“Content is then pre-filtered, depending on who the client is. This ensures that users see only what they are legally allowed to see,”

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that while news feeds including social media like Twitter have proved reliable in predicting levels of volatility in markets such as FX, the nascent technology being used to decode trends on the social network is proving to be far less effective in detecting its impact upon directional price movements. "Some say they feel they're flying blind in a storm, if they don't have automated news feeds plugged into their trading algorithms. Meanwhile, others are still trying to understand the medium and have not yet found the secret sauce to make sense of news," Giffords says.

However, Theodorou points out that filtering out inconsequential "noise" which will not have an impact on FX markets has always been a skill which FX traders have needed. "I think in a few years technology will evolve to the point where tools will exist which will allow you to more accurately interpret data [from social media sources such as Twitter]," she says.

Social media also offers new avenues for FX firms to obtain access to potentially market sensitive information. LinkedIn has become an increasingly valuable repository of corporate information. For example, users can follow particular FX institutions,

which may provide an early notification of corporate acquisitions or staff moves. Should the FX trading arm of a hedge fund be poached by a major sell side firm, this may be revealed by a change of job status made by the employees on their LinkedIn profiles, regardless of if an official press announcement has been made or not.

Risk issues

As well as new opportunities, social media does of course also bring potential new threats to institutional FX firms. There are concerns within the FX industry about possible reputational risks that the new world of social media brings, along with new compliance and legal issues. "Some firms do get a paralyzing fear because everything is so public," concedes Theodorou. However, she says it is simply a case of banks and institutional FX firms adapting policies for how the business should be represented for the new social media medium. "Behaving in a professional manner is no different, whether that's online or offline. It just comes down to tailoring a policy so employees know what is expected of them."

Theodorou says broadening expertise around the different dimensions of social media provides an



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Elena Theodorou

"Just like everyone migrated to electronic trading, social media will become commoditized. The challenge will then be how do you differentiate yourself and have a unique voice,"

effective defence against potential reputational risks which social media brings. "The speed of how you handle any delicate issues is critically important. If an issue arises, it is better to address rather than just ignore it and hope it goes away."

Basiuk of LetstalkFX says in a financial world with increasing compliance and constant technology innovation there is a need to find a common ground for social media interaction and corporate protection. He says LetstalkFX understands this and has begun discussions with many parties, including the legal and compliance departments of financial institutions. "Our membership includes vendors who could facilitate the right environment to do business safely. The goal is to allow the FX professional to interact with social media in FX without compromising their livelihood," says Basiuk.

Compliance and Monitoring

SunGard, the financial technology company, has developed Protegent Website Surveillance, which enables firms to monitor and archive content published by employees on external websites and blogs such as Facebook, LinkedIn and Twitter.

The SunGard solution meets requirements from the US Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA) for financial firms to monitor the social media usage of employees. A recent FINRA podcast on electronic communications states: "Advertisements are required to be kept in a firm's records for 3 years from the date of last use, but websites aren't like a typical print ad since they are constantly updated. As a result a firm must have a way to reproduce its website as it appeared on any given day."

SunGard's technology provides a bank compliance department with automated alerts on employees' social media usage. The service enables bank and FX institutions to detect unauthorized blog or forum posts by employees, capture comments and posts made to blogs on a daily basis and print PDF reports of the historical viewing history of employees using social media. Notification alerts are used to flag items that violate the lexicon or content policies of FX firms. All content is captured and retained to satisfy FINRA 17a-3 and 17a-4 requirements.

Basiuk says banks and FX trading firms have varying views over how to manage the legal and compliance issues which arise from their staffs' use of social media. But he argues that the conservative ethos of banking



Bob Giffords

"People generally speak more candidly on video than through the printed word,"

ensures that staff ‘self censor’ their activities online – in much the same way as is done already in telephone and paper-based communication – which results in them using the new medium in an appropriate manner.

Nevertheless, a senior banker at a major sell side firm using social media says stringent legal and compliance rules represent an insurmountable obstacle to free usage of FX social networks and websites such as LinkedIn and Twitter. “It is difficult to see us leveraging these sites for the reason that their membership is not regulated and controlled in the same way that our clients are regulated,” the senior banker says.

While the free-flowing of ideas is the life blood of social networks such as LinkedIn – where an FX trading group may for example discuss a new trading strategy posted on a blog – investment banks maintain a close guard on all proprietary information. Sharing trading ideas in a forum which went beyond the client base of the investment bank would not, for example, be allowed. “We operate in a very regulated environment.

When information leaves the firm, it needs to have appropriate disclaimers and be directed at a specific client set,” says a senior banker at a major sell side firm.

Morgan Stanley has built “robust controls” which ensure its legal and compliance teams monitor content before it is published on the Matrix platform. “Content is then pre-filtered, depending on who the client is. This ensures that users see only what they are legally allowed to see,” says Arnason of Morgan Stanley.

However, Giffords points out that the mechanisms by which social media distributes information – where video blogs and pod casts are replacing the printed word – is facilitating information in a more free-flowing way which is possibly more difficult for banks’

legal and compliance departments to vet. “People generally speak more candidly on video than through the printed word,” he says.

Regulation

The nascent nature of social media as a communications medium will inevitably result in financial regulators looking closely at the medium, with a view to imposing new regulations. One area that a senior banker at a major sell side firm feels will be scrutinised is the way in which blog posts on external social media can be used to move FX markets. “We are seeing retail Forex blogs being moved around desks and the story in the subject box is moving markets. This is an interesting about face. A lot of these retail blogs are starting to have an impact on the institutional market. This is something that I imagine regulators will look at,” the senior banker says.

Given that the presence of social media in FX markets is still somewhat embryonic, financial regulators may develop further rules governing the medium as it becomes more entrenched as a communications tool. The desire of the compliance and legal departments of sell side banks and institutional FX firms to monitor the activities of employees using the new communication medium will also place restrictions on how the use of social media tools develop.

However, the growth of social media tools – whether in the form of iPad or iPhone apps to distribute FX research or sophisticated algorithms scouring blogs and social media sites for key signals of market sentiment – look set to inexorably rise. This should result in banks increasingly using social media channels for purposes such as making news announcement, rather than relying upon e-mail and press releases. While it remains unclear what the future holds for social media in the FX market, those firms who resist change and turn their back on such an increasingly influential medium are likely to find themselves being left behind.



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It is for this reason that LetstalkFX, the Private Social Network & Marketing Platform for the FX market and Social-Markets.net, a Social Media Consultancy Company have come together with e-Forex magazine and exclusive sponsor Chicago Mercantile Exchange (CME), to provide the market with a very different awards event. Different in that it is the first of its kind in both format and structure, and awards will not be given by virtue of sponsorship. Also, unlike many other market awards, you will be introduced to new, relevant and highly topical Social dialogues on topics that will add value to you and your business. The awards will focus on those banks that have made significant achievements in developing tools and strategies allowing them to have a dialogue and create an even closer relationship with their clients.

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being able to influence the remaining 25% of the votes. The event itself will be educational and informative in nature with interaction using Twitter, after all it's about being Social! As we say at LTFX, 'it's a Dialogue not a Monologue'. There will be no top tables or panel discussions, which may well please many of you. The FX market has an opportunity to cast its vote.

CME

To provide a little context and demonstrate some of the benefits of Social media let's look at one of the major changes in the markets, the move from the exchange floors to electronic markets. The CME Group went through a seismic change with its Brokers & Traders moving from the floor to an electronic marketplace some 20 years ago. At the time many felt that one of the biggest attributes to the "Pit" was the whole Social camaraderie, which many felt was something that could never be replaced. However, CME Group at the heart of this Social revolution has seen a sizable transformation with the rapid growth in the numbers of its members grasping Social media as a way to connect directly with new and old participants in the market. Allan Schoenberg is responsible for driving much of its Social media strategy for the CME Group and understands that the FX market is leading the other asset classes in utilising these tools to the full. These days by leveraging Social tools it's becoming a virtual trading floor!



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<http://letstalkfx.com/socialforexawards2011>

Transparency, flexibility and liquidity – redefining standards in electronic FX options

As the FX industry enters into a new era of electronic trading for FX options, Frances Maguire examines the key role that technology is playing in the provision of new and additional services whilst redefining standards in the way these instruments are traded.

There are high hopes that even instruments as complex as FX options can be fully electronically traded, bringing not only greater convenience to existing users but also attracting new customers. For this reason, both banks and systems providers are investing heavily in smarter trading technology, rich functionality and better integration techniques to smooth the transition to electronic trading for FX options.

FX options has already one multi-bank platform and now front office systems provider, SuperDerivatives (SD), has recently launched an anonymous multi-bank trading platform for bespoke OTC derivatives. As an anonymous platform, with no broker fee using prime brokers for clearing, it could almost be regarded as an 'exchange' for OTC products. In its first phase it offers bespoke FX options in major and emerging markets currency pairs and is aimed at transforming the way FX options are traded.

Electronic platforms

Zohar Hod, Vice President, Strategic Sales, at SuperDerivatives says there are currently two types of electronic execution of FX options: exchange-traded, such as the Chicago Mercantile Exchange (CME), and through e-commerce single bank platforms. Both are fairly limited in terms of the strikes and tend to be vanilla options. He says: "Creating a barrier or some kind of variation of a strategy for FX options can be not been done on a single-dealer platform, or on an

exchange. This is where the difference between the existing systems and SuperDerivatives starts."

SuperDerivatives started life as a pricing platform, not as an execution platform, and many banks use SDX to be able to do all their pre-trade analytics, bid and ask pricing, credit checks and back testing, as historical volatilities since 1994 are stored there. The additional integration of the new trading offering provides the first multi-dealer, anonymous, execution platform that shows 'the best of the book' trades. "What has happened is that not just due to regulation, and because FX options are going to be centrally cleared, but also because buy-side users have started using multiple prime brokers and multiple clearing agents, the need for a multi-dealer platform has emerged."

The new SD trading platform is anonymous from both sides, both the buyers and the dealers presenting the options' pricing. Few banks have the technology today to stream FX options' prices directly from their desks through an API. "What we have enabled is that prices can be both published through an API or entered manually to make markets. The buy-side is also protected from the fact that the market does not know who you are and what your positions are," Hod adds.

Cloud offerings

Hod believes that five years down the road the main technological changes to the way FX options are traded will be the ability to use a cloud. "All of our platforms are provided as complete cloud offerings. There are no applets to be downloaded, they can all be accessed by logging into the system, remotely, and they are completely provided in a cloud."

Where once there were security concerns about cloud computing, Hod believes the wider adaptation of cloud-based computing is overcoming this. The buy-

side is leading the way, he says, because they are asking for a reduction in IT and integration costs, and they are adopting more rapidly, so the tier one and tier two banks are following.

For now, Hod believes the banks are at a crossroads. On the one hand they want to keep their clients close but this is becoming less clear as a proposition. While single bank platforms serve well for spot trading, Hod believes it is natural for FX options to come into the foray of wider electronic services.

He adds: "The increased complexity of the e-service offerings, and the ability to offer more complex services electronically, is definitely something that everyone is looking to offer, whether it is a single

platform or a multi-dealer platform. The connectivity to multiple price brokers and execution venues through a single window is becoming more in demand and the ability to provide more added value services as part of e-commerce services is something everyone is working towards, not just the addition of more complexity into the execution but other services such as portfolio management and more analytics. All of these functions are slowly going to creep into the e-services, where once they were hard to produce due to the legacy IT infrastructure of the banks and prime brokers."

Central clearing will also push banks towards multi-dealer platforms, as it will put the focus on multiple credit lines. Hod says: "The move towards creating more centralisation of position-keeping and exposure





Zohar Hod

"The real time aspects of trading FX options, the ability to execute on a multi-dealer platform, the ability to reduce operational risk and enhance the workflow electronically and finally the delivery of these platforms over a cloud is where I see the future going and where I see the changes in the market coming."

will reduce banks' profitability because the process will become more electronic but at the same time it will allow them to look at their clients' exposure and give them some advantage to centralise assets."

High frequency trading and algorithms will also come into focus for FX options, Hod says, although it would be a little premature to say that it is happening now, due to the lack of transparency. It will take between three to five years from a technology perspective and from what the dealers are going to allow – when algorithmic trading first came into the equity market many dealers blocked those algorithms. "The risk versus the rewards for the dealers and for the participants in the market is still not there for FX options," he says.

Single platform initiatives

One major player in this market, Credit Suisse, is in the midst of incorporating its FX options platform, Merlin, under Credit Suisse PLUS, a suite of innovative client-focused electronic solutions which brings together the bank's research, analytics, trading and execution capabilities for fixed income clients.

While the process is ongoing, Merlin currently provides the ability to trade strips of vanilla and first-generation exotics alongside other more sophisticated products.

Additionally, about a year ago, Credit Suisse launched an automated securitisation platform which enables users to trade securitised FX strategies more easily. Joerg Schmuecker, Head of Fixed Income Derivatives E-Commerce, at Credit Suisse says: "This enables clients to choose the details of a trade and, with the click of a button, execute a transaction which automatically settles through Clearstream or Euroclear without the client needing any specific back office capabilities,"

Schmuecker says the bank is getting positive feedback from the roll-out of Locus, a bespoke Credit Suisse platform, providing live and historic data, research tools, and pricing engines for the foreign exchange market as well as other asset classes. This solution provides easy access to a vast range of market information that can impact exchange rates and delivers the tools and data needed for trading

All of these analytical tools will be accessible through Credit Suisse PLUS, and Schmuecker says that, together with Merlin, this will provide clients a powerful execution solution for FX options, giving them access to historical analysis on how volatility has moved as well as offering other tools all under one roof.

Client needs

By expanding the product range, Schmuecker says the bank is more able to provide for differing client needs. For example, corporates tend to trade structures that are subject to hedge accounting rules so the bank has added products to accommodate this. "Furthermore, we have built the securitisation platform specifically for third party agent banks, so they have an easy way of getting access to structured products without having to implement OTC settlement systems and related infrastructure, whereas hedge funds, and other relative value players, are more interested in Locus and Merlin because they bring together execution, research and analytics. For every group of customers, we are looking to develop the right products and bring them together under the Credit Suisse PLUS umbrella," says Schmuecker.

In some cases, catering to different client needs simply means building a different GUI (Graphical User Interface) to the same product, says Schmuecker.



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While high frequency trading is growing in other sectors, it hasn't taken off in the FX options market, according to Schmuecker." The Chicago Mercantile Exchange (CME) has 5% of the market liquidity, and there is no other electronic venue in FX options that has the kind of liquidity needed for high frequency trading. The current market structure is not suited to high frequency trading and the complexity of the product, the way it is quoted and how it works, is slightly less suited to this form of execution. However, it is very likely that HFT will be available in five years' time, he said. Few banks show electronic liquidity to HFT traders although Credit Suisse does have some clients trading directly with the bank on this basis.

Integration

The broader growth of electronic trading for FX options is, however, continuing and is attracting a new breed of customer through better integration with electronic FX options platforms. "We are seeing the same process in FX options as we have seen in spot – once the product is more accessible electronically, new players come in and volumes rise," says Schmuecker.

But, while customers are building interfaces internally across their different electronic trading platforms,

Schmuecker also says there is a move towards a less GUI-specific and service-orientated architecture. The focus is more on getting the immediate service than building specific user interfaces, he says.

"Electronic access is making it cost-effective for more clients to trade FX options. The securitisation platform means that any bank that can settle securities can now start trading FX options with us. They don't even have to have a credit line with us because securities settle using delivery versus payment. This changes how the product can be marketed."

Credit Suisse created PLUS to respond to client demand for cross-asset class trading and to integrate resources for clients. The bigger focus, says Schmuecker, is to deliver a full suite of electronic solutions under Credit Suisse PLUS, and to continue to integrate their specialized research and analytics capabilities as well as build out the STP capability for FX options which will make trading and allocations easier for clients.

Out of the box

With high penetration across both the sell-side and buy-side, it is no surprise that Murex is also investing heavily in a solution for trading FX options that can be easily integrated. A key feature of Murex's MX.3 system is to provide a rich integrated platform in which analytics, pricing, distribution and risk management functionalities are fully integrated and available out-of-the-box, while these components remain logically distinct to allow institutions to leverage on the openness in specific areas, such as analytics, without added integration cost.

Franck Dewannieux, Product Manager of Murex e-Trading platform, says: "When an institution integrates its own model for an existing product, no specific work is required for the distribution and risk computation components to use it. In order to facilitate the integration of these functionalities within the bank's architecture, MX.3 provides a layer of Web Services that give access to a broad functional coverage (pricing, limits checking, RFQ workflows, operations, reports, etc.) and that rely on industry standards to offer state-of-the-art scalability, resilience and security features."

All data generated by the trading activity is available to build MIS reports based on metrics such as the quote/hit ratio per product, currency pair, customer tier, volatility level, spread level, etc, an important feature for strategic analysis.





Franck Dewannieux

“When an institution integrates its own model for an existing product, no specific work is required for the distribution and risk computation components to use it.”

According to Dewannieux the MX.3 platform design was based on Murex’s vision that all supported financial products, from the simplest vanilla option to structures, hybrid structures and complex exotics needed to be available for electronic dealing. He says: “Our clients can natively offer electronic trading on any financial product available in the platform. An extremely comprehensive set of products are natively available out-of-the-box and our clients can use our structuring tool and extension framework to define their own; all these are available for e-services without the need for any specific work.”

Much of the development work for trading FX options electronically is in unknown territory but the fact that the focus is very much on integrating options into fixed income and cross-asset platforms means that the work is paying off and FX options are fast-catching up other asset classes in terms of electronic trading.

Customised solutions

Stephen Best, CEO of FX Bridge Technologies, says the company has recently added customisable strike price, date, and amount FX options pricing so users can trade any date or strike price and quantity they

need, as opposed to static exchange strikes, lots and dates. Further down the road, the FX Bridge platform will be further extended to offer pricing for exotics, such as knock-ins, knock-outs and binary options. FX Bridge is also building automatic execution capabilities for configured strategies.

In addition to offering an options platform, the firm provides banks and brokers with a derivatives platform. “We fully support contract for differences (CFD) trading and options on CFDs. This is notable because there is a groundswell of interest around our CFD initiatives, particularly single stock and equity index CFDs. Equity traders are huge users of options, so our clients are looking to offer CFD options. In conjunction with our FX and commodities capabilities, we provide clients with technology that support the products they need to grow their businesses.”

FX Bridge technology is highly flexible to serve the vendor’s wide range of bank and broker clients, which, in turn, serve a wide variety of retail and institutional market participants. In terms of pricing, there is flexibility to enable users to have separate spot and options price feeds from different banks, which can be integrated into one platform for them. FX Bridge’s platform can be further customised to support varied liquidity models, whether the bank or broker wants to manage an options risk book or pass the risk, in whole or in part, to one or more market maker banks. An analytics package enables end users and risk managers to look at the thousands of options available and come up with different strategies and risk scenarios.

He adds: “We have a range of trading, analytic, risk management, and post-trade solutions, delivered as modules and APIs. These are all tightly coupled to ensure low latency, something that is always going to be important regardless of what GUI or API the user is connecting through.”

Growing market

The FX options market is a growing business and there are increasing numbers of electronic offerings coming to market – it is market that is ripe for automation. FX Bridge’s clients are primarily market making banks, providing liquidity, and broker-dealers and CFDs dealers, who are taking that liquidity. Best says there is more room for automation in the institutional space and FX Bridge has spent a lot of time talking to the market about what products they would like to see. He says: “I think it is clear that on some levels they would like to see a lot of tools that they currently have



Stephen Best

"We have a range of trading, analytic, risk management, and post-trade solutions, delivered as modules and APIs. These are all tightly coupled to ensure low latency, something that is always going to be important regardless of what GUI or API the user is connecting through."

for spot FX trading, which means better pricing and better aggregation, and we are working on this."

While there are some HFT trading strategies being employed, Best agrees that the liquidity and connectivity needed for HFT in FX options is only available, in a limited way, on exchanges and, he believes, it will be more than a year before there is much broader API connectivity for HFT.

For the FX options market to grow as a whole, Best believes there needs to be broader support of electronic delivery from banks, similar to spot and forwards, where almost all banks have some kind of offering. "There is a diverse set of requirements. For example, one of the largest groups of users of FX options is corporates so there is a requirement to be able to deliver electronic execution for the typical types of hedging strategies they like to do – strategies to protect their foreign payables, imports, exports etc. Then, the broker-dealer market, dealing with hedge funds, is looking for electronic aggregation of pricing and liquidity. There is still a long way to go in terms of the development of functionality for competitive pricing."

The retail market is also embracing electronic trading platforms for FX options, with a growing number of retail aggregators in the spot market differentiating themselves by offering FX options. Best says the growing number of FX brokers offering FX options to retail investors will rapidly take market share.

He adds that because it is a lot easier for a client to be able to leverage existing technologies as opposed to combining multiple technologies, the strength of FX Bridge's solution is that enables clients to add asset classes, such as commodities, equities and equity indices, alongside FX.

Divergence

One of the early providers of FX options, Deutsche Bank, is continuing to add options strategies based on client demand, according to John Bartter, head of Autobahn Options E-Commerce, at Deutsche Bank. He says: "On the back of this, we extended our currency offering to include streaming rates in non-deliverable emerging market currencies. We also provide streaming volatility grids so clients have an expanded overview of current options prices."



John Bartter

"For more complex structures, you are seeing more exotic products being released onto platforms along with enhancements to multi-leg structuring geared toward making the pricing of multi-leg products more intuitive."

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In a bid to facilitate the better integration of pricing, distribution, analytics and bilateral trading features on to its FX Options platform, Bartter says the bank's biggest effort was to introduce an options orders platform that completely enhances the pricing and execution experience. "This platform addresses both pricing and efficiency by providing a price alternative to the displayed bid/ask spread. The best value to the client is when their order gets filled within the bid/ask spread," he adds.

Bartter says that as the FX options market matures there will be a greater divergence between simple vanilla trades and complex structures. On the vanilla side, there is a focus on quick pricing and execution as various platforms now provide streaming pricing similar to FX Spot. "You also have the ability for back-end STP to improve automation," he adds. "For more complex structures, you are seeing more exotic products being released onto platforms along with enhancements to multi-leg structuring geared toward making the pricing of multi-leg products more intuitive."

He agrees that the use of complex trade execution techniques involving algorithmic and high frequency FX Options trading is unlikely to be a strong focus for the main price providers in 2012. Bartter believes that price providers are investing most of their time and technology in addressing upcoming regulatory requirements rather than looking to manage individual complex execution streams.

Going forward he believes there will be still further divergence between flow options and complex options. According to Bartter, flow options will continue to focus on enhanced execution whereas complex options will focus less on execution and more on the pricing experience of the client.

As one of the first to market, Bartter believes Deutsche Bank has already dramatically changed the way the market trades FX options. He says: "We were the first platform to roll out an Automated Options Order Book. This is a major change to the way options can be executed on electronic platforms by allowing clients to request specific interests directly to the trading

desk. It also allows you to manage a specific interest over several time zones."

More accessible

Likewise, the first licensed operator in the forex market in Poland, TMS Brokers, is utilising more sophisticated technology to offer access to make spot, forwards and currency options, instruments that were until recently available only to banks and large international corporations, more widely accessible to new users.

Mariusz Potaczała, Chief Executive Officer, President of the Management Board, at Polish FX, CDS and derivatives brokerage firm, TMS Brokers, says that uncertainty about future exchange rates is encouraging more and more importers /exporters to take some action to eliminate, or at least reduce, the risk of adverse currency fluctuations and that small and medium sized companies are increasingly hedging currency risk by using currency forwards and options, because they can trade them using electronic trading platforms, like TMS Direct.



He says: "Most financial institutions, which provide foreign exchange advisory services, offer clients hedging strategies based on forward contracts, currency options and their various combinations and advisory services providers

focus on matching the opening and closing the forward transactions or develop more sophisticated strategies based on combinations of options and currency forwards."

Due to rising foreign revenues of Polish enterprises, the higher exchange rate volatility, as well as the dismissing perspective of the Polish accession to euro zone/ monetary union, Potaczała says it is expected that there will be increased demand from Polish companies for hedging business strategies. "What makes these more popular is also the fact that the rising foreign exchange risk directly affects the financial results of companies at the operational level. It seems that companies are increasingly willing to cooperate with independent advisors who will assist them in decisions on professional currency risk management," he adds.



Mariusz Potaczała

“An inability to carry out foreign exchange transactions, after the standard working hours of Polish banks, greatly reduces the effectiveness of hedging strategies they use and exposes companies to additional risks associated with price volatility.”

On TMS Direct, forward transactions are made on the basis of the so-called deposits, which, depending on the currency pair, typically range between 0.5% -2% of the nominal value of the transaction. The main advantage of this is that the possible loss of capital on the specific instruments is limited only to the amount of funds paid into an account. Potaczała says: “If these measures are insufficient to cover the required deposit, the transactions are automatically closed. This gives clients a sense of security, even when dynamic changes in the market occur, because the moment of closing our positions is known in advance.”

TMS Direct also offers attractive trading terms. Spreads on the Polish currency pairs, in standard trading hours, are as around 30 pips, much less than the quotations offered by the majority of Polish banks, where spreads are about 100 pips. Potaczała says: “Maintaining such low transaction costs is possible by accounting exchange rate differences of transactions, without physical delivery of currency.”

In addition to standard transactions of buying / selling currencies, customers can also use various types of

pending orders, e.g. limiting the potential loss (stop loss), or orders connected to purchasing currency, predetermined by maximum limit, which are realised only when the price reaches a particular price level, defined by the customer.

“It is very important especially because transactions can be realised on a platform almost 24 hours a day, five days a week. This is a key feature for institutional clients. An inability to carry out foreign exchange transactions, after the standard working hours of Polish banks, greatly reduces the effectiveness of hedging strategies they use and exposes companies to additional risks associated with price volatility,” Potaczała says.

The Polish broker has recently added a new application, Options Board, to the TMS Direct platform, enabling users to compare prices and sensitivity of instruments, depending on the type of option, strike price and expiration date. The application also enables traders to find an option with defined Greek ratio, as well as to compare the relation between strike and option premium very quickly. Moreover it can be used for advanced speculative strategies which consist of several types of options. Based on this it is possible to determine strategy rations such as: delta, gamma, theta and vega in advance, and modify them according to preferences.

Says Potaczała: “Therefore companies which hedge currency risk transactions can take advantage of this application both to find the option that will best suit their needs, including time, cost and break even point, and create so-called synthetic option with delta-hedge strategy. Having in mind the above, the application becomes a very useful tool in speculative, as well as in foreign exchange risk hedging transactions.”

Conclusion

2012 promises to be a pivotal year in the evolution of electronic FX option trading platforms in both the Institutional and Retail FX markets with many commentators predicting significant growth in the use of these instruments.

As always technology will have a key role to play in shaping demand which is neatly summarised by Zohar Hod who says, “The real time aspects of trading FX options, the ability to execute on a multi-dealer platform, the ability to reduce operational risk and enhance the work-flow electronically and finally the delivery of these platforms over a cloud is where I see the future going and where I see the changes in the market coming.”



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Modelling the FX trading environment with intelligent analytics



Nick Pratt

Analytics are the basis of any trading strategy. This is, of course, an obvious statement but, as Nicholas Pratt reports in this feature, the realisation that a more intelligent approach to the use of analytics leads to a more intelligent trading strategy is increasingly apparent in the FX world.

A report by consultant Grey Spark Partners titled “Trends in e-commerce and electronic trading”, conducted in 2011, showed that currently more than 60% of FX is traded electronically and this figure is set to grow to over 90% by 2014, thus equalling the level of electronic trading in the equities and futures & options markets.

This increase in adoption is sure to spark fierce competition between the providers of FX trading platforms, both from a bank/dealer perspective and among the software firms that supply the technology for these platforms. Therefore one way for firms to differentiate their offerings is likely to be the addition of built-in analytics to these trading platforms. The Grey Spark report cites a number of factors that will influence buy-side dealers’ choice of broker, such as competitive price and also functionality of trading platform, particularly if buy-side dealers are going to be using a single broker’s platform across all asset classes. And this functionality includes the provision of client static data, instrument static data, market data distribution and core pricing and analytics.

Use of analytics in FX

The use of analytics in FX has three different perspectives to it – trading performance, risk management and cost analysis. All three are of equal importance to most firms, although the toolsets and applications available to traders are generally focused in one of these specific areas. For example, the trading performance of a firm is being continually subjected to sophisticated analytics to determine the quality of execution, especially given the growing focus on low latency and high speed execution that is prevalent among the users of trading algorithms in the FX world – something that is no longer exclusive to a handful of high frequency traders but is in common usage among many institutional FX trading firms.

These performance-related analytics are being employed across the entire trade execution lifecycle so as to get a true and accurate picture of latency rather than partial snapshots of specific elements of an FX trade – an approach that has only limited use. Similarly, analytics are being used in a historical context so as to help with the back-testing of algorithmic trading strategies and to help firms examine both the effectiveness of their algos and the wisdom of their chosen strategies.

The cost of transaction also has to be considered when it comes to assessing the effectiveness of algos and this is something that it is just beginning to gain meaningful adoption in the FX world through transaction cost analysis (TCA), something which is challenging enough in the exchange-based world of equities but even more difficult to amass in an over-the-counter world like FX.

Finally, the use of ‘deep dive analytics’, three of the most popular buzz-words to appear in 2011, are being deployed by a number of high performance FX traders to improve their risk management applications.

Analytics toolsets

So what analytical toolsets and applications are now becoming available to help FX trading firms gain better insight into the overall performance of their trading platforms and trade execution?

“Toolsets and applications both exist in trading platforms internally and for the more sophisticated clients we are seeing dedicated reporting and tick capture systems developed to track a variety of key performance factors,” says Paul Allmark, head of Europe, for Thomson Reuters’ Marketplaces business.

“These include trading venue fill ratios, latency measurement tracking of pricing and execution times, currencies traded by venues, currencies traded by users and spread ratios to name a few. As part of the Thomson Reuters Dealing Aggregator we have built price improvement views tracking alpha gained by the use of aggregation tools in real-time.”

“Throughout trading sessions lots of valuable data is generated, and we’re now in a time where from a technical standpoint it can be both tracked and stored cheaply and efficiently. As we go forward, this is something we are taking advantage of in order to help our customers determine trends, trading performance and scenarios.”

There are a number of benefits that can be derived by using analytics to improve trading capacity and to lower latency throughout the entire trade execution lifecycle, says Allmark. “Analytics can drive improvements in trading capacity by showing, for example, which trading venues to use when markets become volatile or liquidity thins out. We often see that there is a preference for a particular bank or ECN’s liquidity in these particular situations.”

“Trading on an anonymous or bi-lateral basis also becomes very important to how small or big a splash a trader intends to make. Latency of course is not only something that needs to be considered from a distance and connectivity perspective but also from the perspective of how long a venue takes, for example, to credit check your requests on executable streaming prices.”

Visualisation

Visualisation is an increasingly important part of the way analytics are used by firms, especially those high frequency FX trading firms that are looking to gain competitive advantages by visualising the granular data harvested by next generation analytical engines, says Allmark. “Trading patterns shown by visualising levels of market depth displayed across FX venues can be valuable in interpreting when there may be support levels in the market or perhaps a sign of thinning liquidity.”

“Many venues have liquidity from buy-side participants so these are the players that may back away from a market first. In this scenario, charts and graphics to simply convey information is very powerful. Being able to see in an instant the likelihood of achieving an order’s entire quantity on a venue, or being able to show what venues are providing the



Paul Allmark

“Trading patterns shown by visualising levels of market depth displayed across FX venues can be valuable in interpreting when there may be support levels in the market or perhaps a sign of thinning liquidity.”

best fills and automatically routing to the appropriate venues is the competitive advantage this technology offers,” he adds.

TCA

There is clearly also an increase in the demand for reliable transaction cost analysis (TCA) to ensure best execution but the industry is showing two distinct brands or models of that presently, says Louie Lovas, director of solutions at OneMarketData, a US-based provider of data management and analytics products for the high frequency trading market. One brand focuses on historical data while the other looks at real-time data but, rather alarmingly, there are few participants looking to combine both models when compiling their TCA. “There are the well-known historical reports showing daily trade executions and how they compared to VWAP (TWAP) or market prices but these reports tend to be broker-specific. If you are using more than one broker, you have to merge all of these different TCA reports, which can be done relatively easily through Excel.”

“The other model is about real-time TCA which has become a prominent offering from vendors in this

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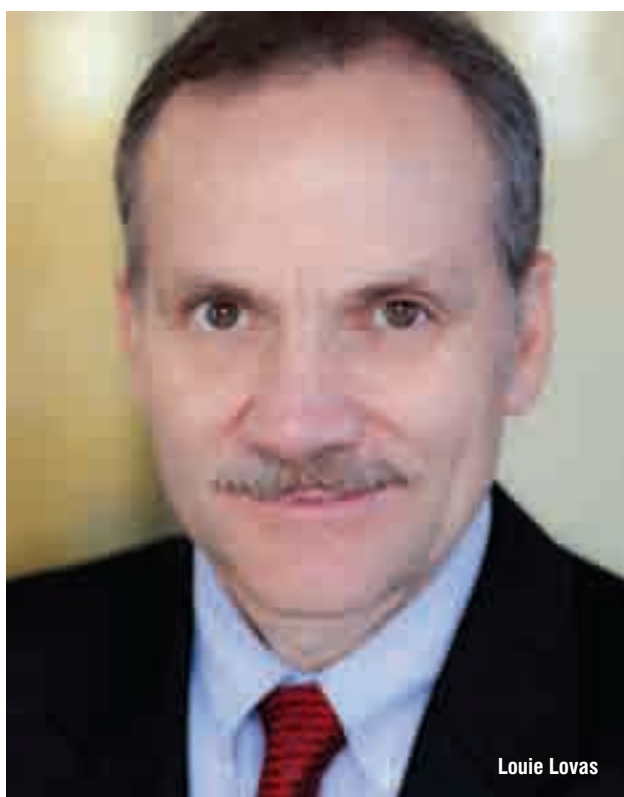
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space. The goal of these services is to evaluate trade activity and therefore provide the information to allow for dynamic adjustments to strategies in real-time. However, that information is limited in scope. Clients want to see this information in some form of context. Traders want to use previous intra-day TCA reports to create a benchmark for the next day or for the next week but that capability is beyond most real-time TCA solutions,” says Lovas.

Most conversations have viewed these two paradigms as mutually exclusive, says Lovas. The practical reality is that they cannot be. “Watching your trades intra-day with the goal of dynamically adjusting them for peak performance means to have to know what happened yesterday, last week or even last month. You cannot separate these two notions of TCA for effective trade management. Past performance and today’s executions have to be seen as a seamless model for slippage and other implementation shortfall calculations.”



Louie Lovas

“With the advent of high capacity capture, storage and query technology it’s now practical to manage FX data tick-by-tick. By doing so, your analytical options are much greater; you can look at trends, correlations and other opportunities intra-day at many levels and combine that with daily, weekly or monthly.”



Combining models

So why has there been no concerted effort to provide TCA services that combine the two different models of historical and real-time data? Lovas believes there are both technical and marketing reasons. “Vendors and brokers are concentrating on promoting their real-time TCA services and not integrating the two. This may change in the near future though as there is increasing noise about the benefits of ‘big data’. But there is also a technology challenge for many brokers and vendors. If you are blending historical data from order book with real-time tick data across multiple venues, it is no easy task, especially if you have not built this capability into your systems from the outset. You can end up trying to combine two different business models into one offering.”

The benefit of using analytics to improve trading capacity and to lower latency throughout the entire trade execution lifecycle is becoming increasingly apparent to FX participants, says Lovas. “While fragmentation is a relatively new phenomenon in equities, the decentralized nature of FX means it has had this sort of market structure at its very roots. It’s not uncommon for HFT/Quant firms to connect to multiple ECN’s and single-banks liquidity providers and managing a vast liquidity pool not just across a few of often 6-10 sources for alpha-seeking strategies (i.e. arbitrage, momentum, etc.) and market making.”

“The analytical engines must be able coalesce the data, merging it into seamless order book. Supporting analytical engines have to operate on this vast view of the market, performing derived calculations (trends/correlations/regressions/arb opportunities) and yet also provide the ability to post and repost prices



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across numerous venues (for those market makers) in microseconds.”

High Frequency Traders

The growing importance of analytics in FX trading is largely a result of the influx of high frequency traders from the equities world, says Lovas. “The razor-thin margins and threat of increased regulation in the equities market compared to the vast liquidity in the FX world has made it an attractive destination for high frequency traders and quantitative firms. And they bring their expertise with them.”

Part of this expertise is the use of visualization technology and its application with the granular data harvested by next-generation analytical engines. “With the advent of high capacity capture, storage and query technology it’s now practical to manage FX data tick-by-tick. By doing so, your analytical options are much greater; you can look at trends, correlations and other opportunities intra-day at many levels and combine that with daily, weekly or monthly. It is a well-known fact that 80% of information processing and learning is attained visually. State of the art visual tooling is an industry unto itself.”

Consequently, analytics firms such as OneMarketData are looking to ally the services of leading visualization providers with their own products. “There is a fair amount of dynamic use of visualisation. Our clients most commonly use visualisation for quantitative analysis. They use historical data for formulating

strategy and combine visualisation with our high frequency data.”

The analytics are also used to help with the back-testing of algorithmic trading strategies. “For accurate strategy back-testing, daily data is not sufficient, but capturing tick-by-tick prices across a multitude of sources provides a much better opportunity to source liquidity and better understand the market. High-speed replay analytical engines allow firms to play those ‘what if’ games against their strategies, running full trading day simulations in short order. The high-throughput/low-latency real-time processing you can achieve with CEP technology in concert with well-integrated tick databases lay that foundation of a backtesting platform to accomplish this goal.”

Too much data?

Spot currency, forwards and swaps make up the world’s largest and most liquid market, with average daily turnover exceeding \$4 trillion dollars a day. That translates to large-scale data capture for quant firms looking for new opportunities for alpha. Given this fact, is there any concern that with the increasing



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Peter Kriskinans

“Tools that give banks a granular view of latency across their trading operations allow them to optimise the performance of individual components and monitor that performance through the trading day, acting on bottlenecks and inefficiencies to minimise the impact on profitability.”

focus on data trade capture and the fact that data volumes are increasing that there will simply be too much data to analyse?

“There is a lot of data to capture but it is a relative thing,” says Lovas. “FX data is still a fraction of the options market. In the US alone there are 200,000 options contracts on any given day but the firms that trade in the FX market are not really the same as those in the options market so there are no significant concerns about the size of data. The biggest challenge for the FX market is the lack of centralisation. Co-location is of less benefit than it is in other asset classes so you have to look for other ways to shave off latency such as better technology.”

High-performance FX trading firms can also deploy deep dive analytics for their risk management applications. “Managing historical VAR as a means to forecast transaction risk, understanding historical/real-time volatility, monitoring directional trends (technical analysis), incorporating macro-economic

impact of debt and equity markets all play a huge role on currencies and trading strategies,” says Lovas. “It’s the interplay of these variables which from a technology point of view, combine multi-asset historical market data, captured executions and news. The analytics can leverage a variety of mathematical models such as linear regression and correlation.”

Improving trading performance

For the software industry, the realization of how important analytics are to the trading process is clearly good news and consequently there is a growing number of toolsets and applications available for firms to improve their trading performance. “At DealHub we are increasingly being asked to help customers get a real-time, holistic view of flow across all their trading platforms and venues,” says Peter Kriskinans, Managing Director of DealHub, a UK-based provider of trading software.

“This means combining millions of historical and real-time data points to provide a live, updating view of risk and performance across their trading operation. The result is insight that can help reduce risk, optimise trading infrastructure and improve client service far more efficiently than traditional back office systems and processes. An increasingly important overlay to this live picture of trade-flow is latency monitoring. Tools that give banks a granular view of latency across their trading operations allow them to optimise the performance of individual components and monitor that performance through the trading day, acting on bottlenecks and inefficiencies to minimise the impact on profitability.”

Aggregated, real-time insight into trade flow across interbank and e-commerce channels allows traders and sales teams to identify flow and trading patterns by individual customers or customer groups, enhancing decision making through the trading day and improving client service and relationship management, says Kriskinans.

“With a live view of performance data from eCommerce platforms, operations can be managed far more profitably, with real-time understanding and notification of critical flows and events such as price delays or trade rejections allowing proactive optimisation and resolution of issues. Overall, banks with a live overview of performance and activity across their trading operations are able to act more quickly

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Joanne Kinsella

“Most firms have more than enough data internally but it is held in too many silos for it to be used meaningfully”

to resolve issues and optimise pricing and systems in real-time to enhance profitability.”

New players

While software specialists in the FX trading space are set to gain as much as forward-thinking FX trading firms from the demand for analytics, there are analytics providers with a more general market focus that believe they have something to offer the FX market. Sumerian is a UK-based company that provides an IT analytics service that uses a firm’s own data rather than requiring additional hardware or software. “Most firms have more than enough data internally but it is held in too many silos for it to be used meaningfully”, says Joanne Kinsella, managing director, Americas at the company.

One of Sumerian’s clients is Bank of America Merrill Lynch. “The firm was seeing significant growth in its FX trading volumes and the head of rates and currencies wanted to test its trading infrastructure. It can be very difficult when the business heads are pushing more flow to actually assess latency. We model the flow in seven or eight top FX trading

applications and then we tell them how to optimise these applications.”

The advantage of Sumerian’s analytics approach is that it is very low touch, says Kinsella. It operates on a subscription service basis – the company doesn’t deploy any software – and provides recurring analytics. After an initial baseline analysis of the firm’s trading environment, Sumerian aims to tell the client how to increase trading capacity and lower latency without having to make investments in new technology or overhaul their infrastructure. “The client wants to know which part of their trading infrastructure is going to fall over first if their trading volumes exceed their current limits or whether they can meet all their reporting and compliance requirements with their current IT architecture. At Bank of America Merrill Lynch there was a latency issue with one of the FIX engines and we were able to redirect resources from the development team to address the issue. There were also certain currency pairs that were more affected by latency than others.”

Aggregated analytics

It is clear that analytics is an incredibly broad term that covers a whole host of issues – not just execution performance, transaction cost and risk management but also network health and trading performance of any kind. And as the industry-wide demand for more transparency continues to rise, so will the demand for and application of ever more sophisticated analytics.

However, FX trading firms will not want to employ a range of separately sold systems and services all with their own operating standards in order to satisfy their analytical appetite. The future, therefore, will likely lie in the partnerships that various providers can forge. As has been noted, traders are increasingly employing visualisation technology to help interpret their analytical data and strategic alliances between data providers and the vendors of visualisation technology will be crucial.

Some partnerships will be more fundamental than that, such as those made between the tier one brokers and the various data providers to ensure that the next wave of broker-based trading platforms have all the necessary analytical toolsets already built in. Just as aggregation of liquidity has proved to be crucial to firms’ trading systems, so will a similarly aggregated approach to analytics prove to be in the near future.

Trading the Right Curve™ for Cross-Border Securities

As an investor, have you been reluctant to trade cross-border securities due to the costs and complexities involved? As a portfolio manager, have you found it an operational hassle to deal with the FX cover trades? As a fund manager, have you found it difficult to measure the actual performance of your portfolio managers due to the different currencies between the underlying assets and the fund? As a state pension fund, do you balk at the exorbitant post trade FX spreads charged by intermediaries such as custodians?

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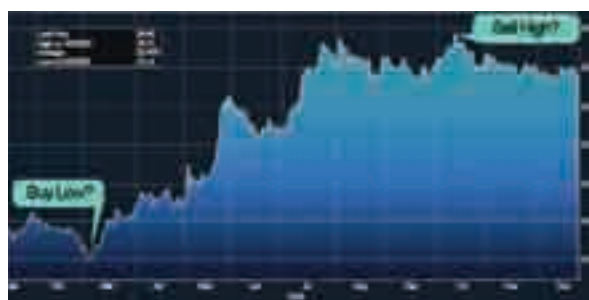
It also has the effect of creating an infinite number of "right curves" where the securities now has a number of foreign currency curves – which is local to the investor, removing the uncertainties and complexities of the two constantly changing and independent variables. For instance, a USD-based investor or fund which buys into the Japan market denominated only in JPY, would still be tracking the one-and-only JPY-based curve, ignoring all the effects of USDJPY movements – be it intraday or an annual curve. The correct curve, i.e. the curve denominated in the investor's home currency will be possible when Exchanges adopt the M-DAQ concept. This ensures all trading is based on the right entry and exit points, taking into account both the securities and FX prices.

Although there will be the ability for the same security to now be listed and traded in multiple denominations, there is only one liquidity pool and

a single order book. For example, the best Bid price in a USD virtual order book will be able to match with the best Offer price in a GBP virtual order book, on a JPY listed security.

Though the industry has talked about marrying Exchange traded securities with OTC FX for some time now, the biggest hurdle is a change in mindset to the current investment process. With this new Exchange's initiative, we believe its natural evolution will have far-reaching industry wide effect.

The top graph (which exists today) depicts MTR stock price in Hong Kong Dollar. The bottom graph (which does not exist today) shows MTR



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The 2011 Lab49 FX Platform survey results

What the buy-side really wants in their SDP

The results are now in from the buy-side. The 2011 Lab49 FX Platform Survey reveals what single dealer platform users really want from their FX trading platforms.

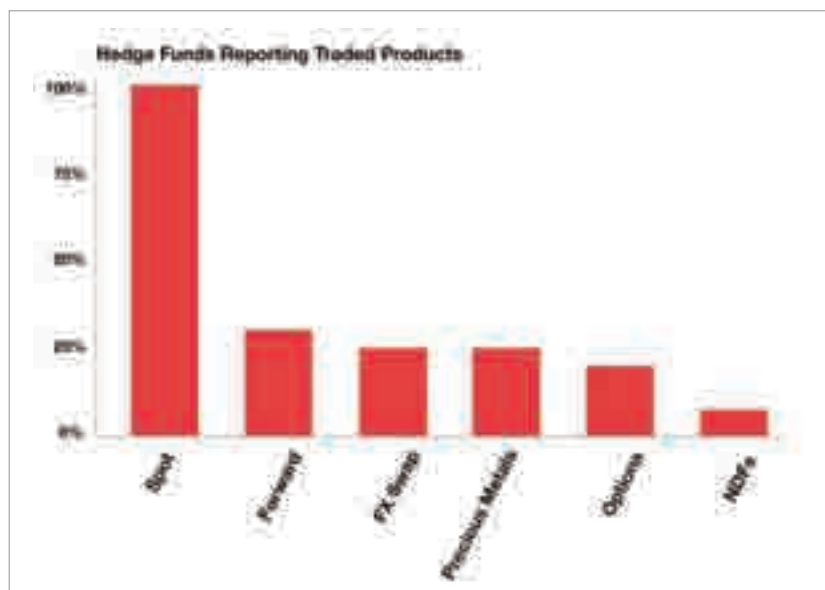
The survey was designed to solicit opinions on how well single dealer platforms deliver on their feature and functionality promises across the FX trading lifecycle. Traditionally, execution functionality in combination with the fundamentals of price, latency and liquidity was the top consideration for most users. While these fundamentals are still important, different user groups have different needs. Real Money users, for example, rely heavily on allocations and other post-trade functions, while many corporates need the ability to import groups of trades from Excel. Single dealer platforms need to be strong across the appropriate feature set in order to serve their target client segments successfully.

The FX platform survey was conducted online during the 4th Quarter of 2011. Lab49 conducted its inaugural survey of single dealer platforms in conjunction with e-Forex magazine polling Hedge Funds, Real Money Managers, Corporates, Regional and Private Banks and individual traders. We invited single dealer platform users themselves to participate in the survey via email.

Respondents were asked to identify their institution type and products traded before ranking the two platforms they use most often to trade FX. Next, respondents were asked to indicate the importance to them of a variety of features and functionalities across the trading lifecycle as well as the usability of the platform. Each respondent's selection of single dealer platform was then crossed with the list of features, and respondents were asked to rate their chosen platforms' performance along the range of features and functionalities. Results were further processed to remove incomplete or obviously biased responses from the final set.

Hedge Fund Market and Feature Importance

As an introduction to our analysis, the following sections discuss the hedge fund segment in detail (other segments in the complete analysis include Real Money, Asset Managers, and Corporates). All hedge funds reported trading spot through a single dealer platform. Forwards, FX swaps, and options were each traded by between 20% and 30% of respondents. For FX Options, banks are just starting to make



While fundamentals and post-trade automation are becoming prerequisites for hedge fund users, pre-trade features (alerts, analytics) were rated lowest in importance. This suggests that banks need to focus on the core of their platforms before investing in pre-trade functions such as research and analytics. However, survey results show that among top platforms, pre-trade features can provide differentiation.

Finally, survey results suggest that cross-asset trading is gaining in importance. A quarter of respondents indicated that they trade other asset classes such as precious metals via their single dealer platforms, often

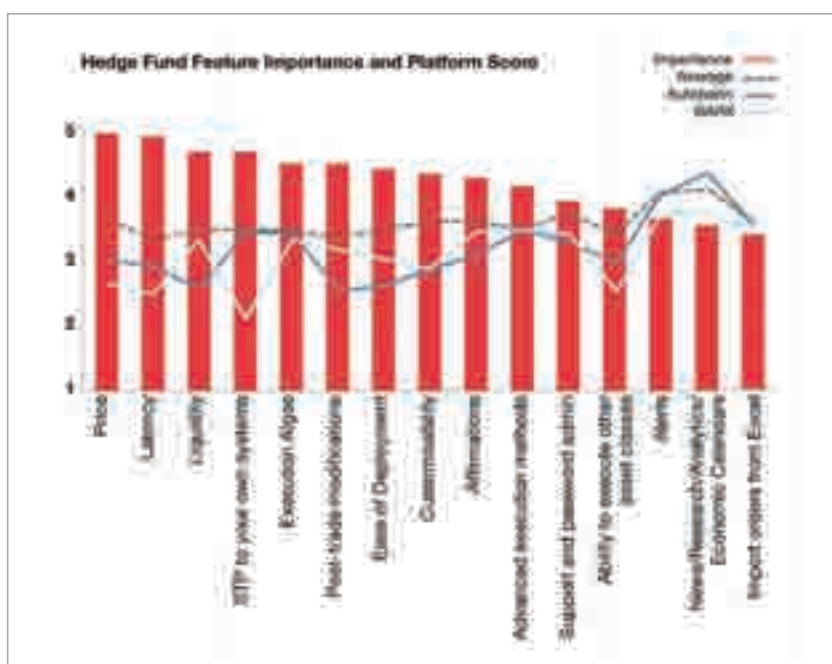
this a key part of the single dealer platform offering for hedge funds. For example, Bank of America has recently re-launched an FX options platform as part of their eFX trading capability. Two years ago, options barely featured in the single dealer platform market, making up just 1% of average daily volume. Though the FX platform survey does not give an indication of volumes for each type of traded product, compared to the market as a whole, the survey results are weighted toward trading of spot. For example, the Bank for International Settlements reports that FX swaps typically make up about 45% of average daily volumes, but much of this is traded by voice and/or on the interdealer market.

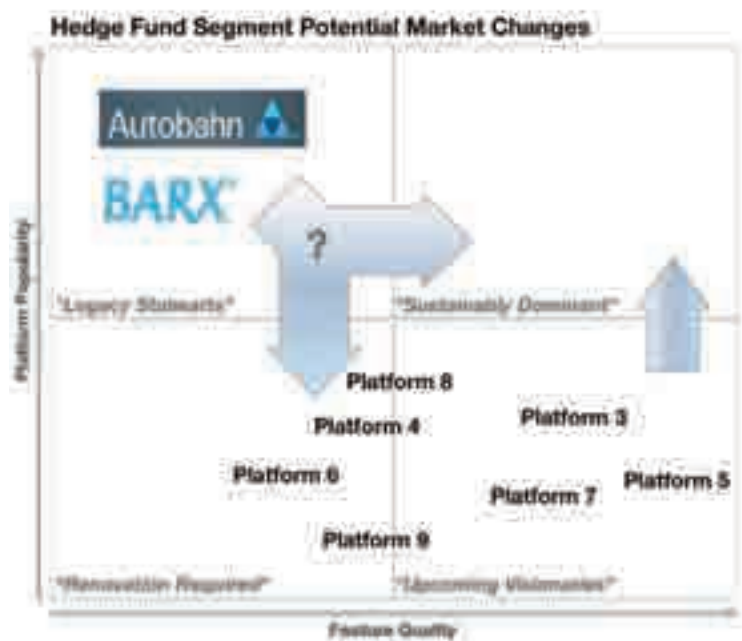
in conjunction with FX trades. Respondents gave the top platforms below average scores for their ability to provide cross-asset margining, which is coming increasingly into focus. eCommerce departments need to begin thinking about how they can provide this type of service as it is becoming increasingly important to those clients who trade cross-asset.

Single Dealer Platform Rankings

How did individual SDPs measure up to client expectations? Hedge Fund users reported using Autobahn most frequently, followed by BARX. Other leading platforms fell broadly into two groups.

What do end-users want in a single dealer platform? Respondents indicated that price, latency and liquidity are the most important features when selecting a single dealer platform, a result similar to previous analyses conducted by Lab49. STP to internal systems was also rated nearly as high, indicating the importance of automated processing for hedge fund clients. For many hedge funds, STP could be considered the '4th fundamental.' Usability (ease of deployment and customisability) and post-trade functionality are considered at a second level of importance suggesting that users are welcoming the shift to thin-client SDPs.





However, no single platform stood out for achieving high marks across all feature categories. Interestingly, Autobahn received its highest marks for pre-trade features such as alerts and news, research and analytics capabilities (demonstrating that this can make a difference among top platforms). However, results indicate that there is room for improvement in post-trade features and usability, particularly ease of deployment. This may reflect the thick-client nature of the Autobahn application. Respondents rated BARX most highly for its depth of book and its perceived strength in execution algorithms and advanced execution features.

Generally, the top platforms received below average marks for feature quality across the trading lifecycle. Users rated less frequently used platforms higher on nearly all features. This can be explained in two ways. First, we believe that many of the lesser-used platforms have small but extremely loyal groups of clients so they tend to receive higher scores. Those platforms also tend to be newer. Second, hedge funds are demanding clients and will expect the market leaders to continue improving their platforms.

The Future of SDPs

So how should banks be looking to the future in terms of their SDPs? Plotting all single dealer platforms on quality and popularity gives an indication of the expected future evolution of the industry. Top platforms such as Autobahn and BARX—we call them ‘legacy stalwarts’—are vulnerable as other banks

develop better platforms. Unless investment is made to other platforms on feature quality users are expected to gradually migrate towards other platforms that better deliver features that clients demand. Some of these platforms could emerge as sustainably dominant platforms as their high quality platforms lead to greater liquidity and market share.

A key area of focus should be the post-trade area, which is important to users but which is generally rated poorly. New regulations will also affect the post-trade process. Advanced platforms currently offer intraday margining and limited cross-asset capabilities. We see the trend moving towards portfolio-based, cross-asset margining, and even the ability to transfer the portfolio across clearing agents (products

for which central clearing is mandated). Forward-thinking banks are already building margin functions into their platforms in order to let clients view the portfolio impact of their trade before it is made.

Within execution functionality, new regulations will change the way prices are displayed and executed, particularly for standardised FX derivatives. We expect to see future functionality such as price aggregation across multi-lateral OTC trading venues (SEF aggregation). We also see algorithmic trading leading to high frequency, cross-asset algorithmic trading. Multi-asset hedge funds will also be looking towards platforms that offer true cross-asset trading in one ticket.

Finally, among top platforms, pre-trade can be an area of differentiation. A strong pre-trade offering creates an incentive for clients to give the platform screen real estate. Banks should think about taking research and interactivity to the next level by allowing end-clients to interact with analysts via the platform, and allowing executable modules—charts, artefacts, and messages—that lead directly to execution.

To learn more about the future of single dealer platforms and discuss the 2011 Lab49 FX Platform survey in more detail, please contact Lab49 at www.lab49.com. You may also join a free webinar to discuss the results in more detail early in Q1 2012.

7 Reasons Why You Need eSignal 11

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4. Powerful Trade Analysis Tools
5. The World's Markets
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Regional e-FX perspective on South East Asia



Richard Willsher

South East Asia's increasing economic prosperity is driving growth in the region's foreign exchange trading activity and, as Richard Willsher discovers, the regions electronic FX trading capabilities have accelerated even faster.

The South East Asian region's main geographical markets include Indonesia, Malaysia, The Philippines, Singapore, South Korea, Thailand and Vietnam. Australia, China, India and Japan are all influential in the regions markets but separate. Statistics from the Bank of International Settlements Triennial Central Bank Survey: Report on global foreign exchange market activity in 2010 show that Singapore remains the principal regional hub. Its share of daily global forex market turnover remains at 5% as compared with the previous survey but volume has increased from US\$242 billion to US\$266 billion.

Also significant is the comparable figure for Hong Kong, which has grown from US\$181 billion in 2007 to US\$238 billion in 2010. If counted together, Singapore and Hong Kong would account for 10% of daily turnover amounting to the third largest foreign exchange market behind the UK and the USA. This indicates how important Asia has become in the FX markets.

Increased turnover in both centres has been aided by the move to electronic trading. “We have seen growth of anywhere between 20% and 40% year-on-year in the amount of foreign exchange business that is conducted via the electronic channels,” estimates Shankar Hari, regional head of FX - Asia ex Japan at JP Morgan. “Specifically in the bank space rather than among the corporates, as banks and financial institutions face fewer restrictions than corporates,” he says.

“South East Asia has seen a tremendous growth in e-trading over the past few years,” says Jamie Salamon Head of FICC eCommerce APAC at Royal Bank of Scotland, “and this is down to a variety of reasons. First, there is much more acceptance of e-trading FX as a beneficial way of conducting business that

is also complementary to traditional telephone business. Second, there is more pricing and functional sophistication available via single bank and multibank portals that will cater for the many needs of clients. And third, as more money comes into Asia, FX has become a much more attractive asset class to investors as some clients move away from other investment products.”

These trends have accelerated over the last ten years, explains Phillip Futures’ head of foreign exchange Joseph Ng in Singapore, as US and European financial institutions have either set up or expanded their operations in the region. “The landscape has become very competitive and resources have been invested in awareness and education. Clients now have choices



from single bank platforms to multiple bank pricing via electronic communications networks (ECNs) and multi asset class platforms to suit different needs.” “With e-trading becoming the norm,” adds Ng, “and with the presence of stronger competition, prices have also narrowed tremendously.”

Competition and price discovery

As an indication of the power of electronic trading to introduce competition and accommodate best pricing, the compression in bid-offer spreads has been dramatic, to as tight as three basis points for major currency pairs. But growth in the use of electronic trading channels on both the buy and sell sides still has some way to go.



Jamie Salamon

“..as more money comes into Asia, FX has become a much more attractive asset class to investors as some clients move away from other investment products.”

Mathew Kuppe is Managing Director at, Singapore based, 360T Asia Pacific Pte. Ltd., the multi-bank trading platform provider. 360T has 110 market maker customers worldwide who are the major global and regional banks that provide and price liquidity through the firm’s platform. Kuppe explains that 360T has been in Singapore for five years and has doubled its turnover every year. He anticipates 80% growth in 2012.

On the buy side the attractions for corporate treasurers, asset managers, hedge funds, second and third tier banks and broker dealers is easy to appreciate. “They can access liquidity from a single source on our platform, with a single straight through processing (STP) with full transparency,” says Kuppe. “Traditionally a corporate treasurer picked up the phone to three different banks, selected the best price, wrote the deal and then followed up with internal admin for their in-house treasury management system. Now they can check all the pricings of our panel banks, execute the deal, enter it in the treasury management system and complete the audit trail – all in ten seconds.”

Single bank offerings

The major banking and securities houses may feed into multibank platforms such as 360T’s while at the same time offering their own. Saurabh Sharma, vice president FX electronic market sales at Nomura says, “Our proprietary platform, Nomura Live, is increasingly gaining traction in the region. Our focus is on offering a bespoke solution to clients, be it developing an algorithmic toolkit or a currency basket to suit their specific needs.”

JP Morgan’s Morgan Direct platform is similar but incorporates a hybrid approach to price quotation, accessing the firm’s in-house prices as well as those from the wider market. At RBS Jamie Salamon says that their platform, RBSM, provides clients with a variety of advanced tools should they want to trade using a Volume Weighted Average Price (VWAP) or clients may want to use their new ‘RBS Agile™’ platform to specify automated strategies for their gamma hedging requirements. He adds that the buy-side is increasingly making use of algorithms.

Other major players offering similar platforms and services include HSBC and Citi among others. Meanwhile Standard Chartered, which reportedly has over 150 staff on the forex sales and trading side throughout South East Asia, now processes 80 per cent of its deal flow in the region electronically. Moreover it continues to offer innovative crosses involving more exotic Asian currencies.

Freedom from regulation

Speaking to market practitioners in the region it doesn’t take long before they mention Asian currency of crisis 1997 – 1998. It may be a long time ago but the scars run deep. Things are different now. Economies in the region have amassed large foreign currency reserves as well as substantial sovereign

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wealth funds. These enable countries like Singapore, Malaysia, Indonesia and South Korea to both manage their currencies if, as earlier this year, they feel they have become overvalued and also to invest in foreign assets to protect their value against local market downturns. Nonetheless fear of capital flows causing economic stress do persist in a subliminal way.

The best example of how currencies are managed is the Singapore Dollar. The Monetary Authority of Singapore (MAS) explains the position very clearly, “The objective of Singapore’s exchange rate policy has always been to promote sustained and non-inflationary growth for the Singapore economy. MAS manages the Singapore dollar against a basket of currencies of Singapore’s main trading partners and competitors. The trade-weighted exchange rate is allowed to fluctuate within a policy band, and where necessary, MAS conducts direct interventions in the foreign exchange market to maintain the exchange rate within this band. The exchange rate policy path and the band are regularly reviewed to ensure that they remain consistent with underlying economic conditions. Information pertaining to the policy band, composition of the currency basket, weighting system, or money market operations are not disclosed to the public.”

Singapore as well the other major economies in the region each manage their currencies and reserves very carefully. Informal regulation is to a significant degree, a fact of life. Meanwhile in Europe and North America no discussion of the future capabilities of financial markets is free of the “R” word, yet it is early days as far as South East Asia is concerned when it comes to OTC forex products.



Shankar Hari

“We have seen growth of anywhere between 20% and 40% year-on-year in the amount of foreign exchange business that is conducted via the electronic channels,”

“People are looking to see what happens in Europe and North America,” says JP Morgan’s Shanker Hari. “Nobody wants to impose restrictions just for the heck of it. Moreover from here when we look west at what they do, we see that many of the problems that the world finds itself with were not made in South East Asia but in Europe and the US. People will wait



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and watch. No one here wants to rush into regulatory reforms before examining them carefully.”

Achieving SEF and OTC status

“With APAC playing an increasingly influential role in the global financial markets [regulation] is a hot topic,” says Jamie Salamon. “We are already seeing clearing of non deliverable forward (NDF) products, foreign exchange options (FXO) are moving towards central clearing and trading is being focused on swap execution facilities (SEF) or organised trading facilities (OTF). We will start to see the current platforms increasingly gearing up their e-trading capabilities to meet the regulatory requirements and get SEF/OTF status. We will also likely see more requirements for post-trade transactional reporting”

However Joseph Ng at Philip Futures highlighted that, “From US to Asia, regulatory bodies around the world are looking to bring more transparency and accountability into the derivatives market, which will certainly have a major impact on the overall FX market. Controls and transparency are well and good if they can be implemented reasonably without

disrupting business flow. This will create high barriers to entry for investors, and possibly curb the growth of the industry, making the market place niche and opening it to only the big boys, high net worth and sophisticated traders. It is also foreseeable that market participants will move to set up business in countries not affected by such reforms.”

Forex clearing

In October of this year Singapore Exchange (SGX) launched a clearing service for FX non-deliverable forwards in Asian currencies. The eligible currencies are Chinese Renminbi (CNY), Indonesia Rupiah (IDR) Indian Rupee (INR), Korean Won (KRW), Malaysian Ringgit (MYR), Philippine Peso (PHP) and Taiwan New Dollar (TWD).

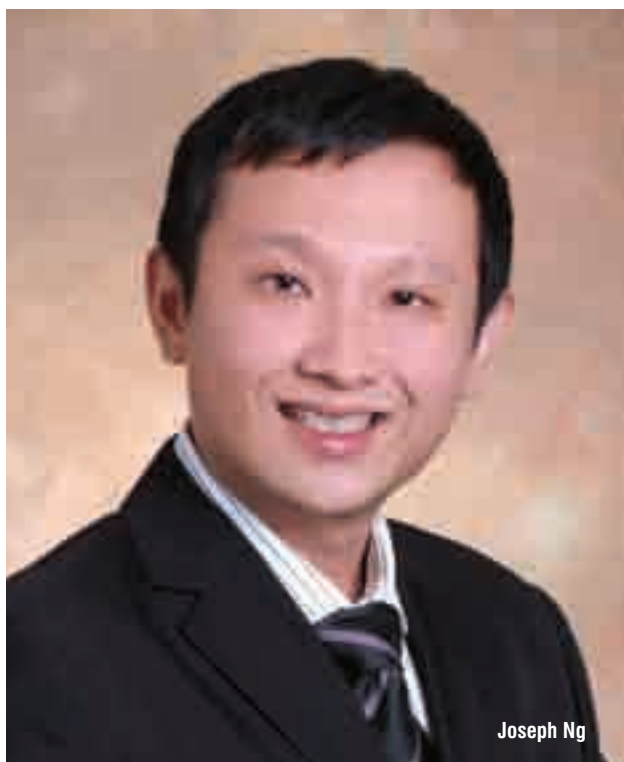
Regulatory pressure in due course may lead to higher volumes and additional products such as client clearing. In addition if it emerges in due course that FX options fall within new regulatory parameters SGX advises that this may be added to the range of products and facilities that it offers. Readers can find further details of the SGX clearing facility in the leader article of this issue of e-Forex.

Meanwhile several established global exchanges have launched new currency futures products over the past several years and Singapore is no exception Singapore Mercantile Exchange has launched EUR/USD Futures and CME has launched some Asia currencies futures.

FX prime brokerage

One of the currently growing business streams of the global banking groups and larger local players in the region is prime brokerage (PB). However while it may assist clients and capture business flow for providers, prime brokerage brings with it concerns which the current crisis in the Eurozone and the inexorable tightening in the interbank market are not helping.

“South East Asia is a highly fragmented market with many countries and different regulatory frameworks. Regulations in a lot of countries, unlike Europe, do not permit financial institutions to participate in the FX market,” says Nomura’s Saurabh Sharma. “Therefore we expect demand for FX prime broking as well as cross asset PB services to continue to grow as more hedge funds and high frequency players look to provide liquidity to institutions in the region but would have very limited access without a PB.”



Joseph Ng

“With e-trading becoming the norm and with the presence of stronger competition, prices have also narrowed tremendously.”



Mathew Kuppe

“Traditionally a corporate treasurer picked up the phone to three different banks, selected the best price, wrote the deal and then followed up with internal admin for their in-house treasury management system”

But the PB space is by no means a cakewalk. “It’s hugely competitive,” says RBS’ Salamon. “We have seen a number of the smaller banks in the region move to become providers of FXPB services over the last couple of years. This trend could increase due to clients’ desire to source more competitive pricing and a larger pool of liquidity. For certain types of clients this can only be accessed through a PB relationship. Additionally the requirement to centrally clear NDFs could lead to more PB relationships in the region.”

Risk

All good news then but what about risk? “There has been increasing interest in taking up FXPB to minimise counterparty risk and to add convenience to dealing with a single counterparty while at the same time enjoying the liquidity of several liquidity providers. The smaller FCMs use FXPBs to maximise their funds and to increase mid-office operational efficiency,” says Joseph Ng at Philip Futures. “We observed that regional financial institutions offering FX services are also deploying PB services to overcome credit and counterparty issues. However, looking at

the cases of Lehman Brothers and MF Global, this increasing reliance on a single clearing party seems to amplify rather than reduce inherent risk.”

The risk angle is further focused by RBS’ Chia Woon Khien, Head of Emerging Markets Research, Emerging Asia. “Prime brokerage can be quite capital intensive for providers of these services. At the moment a lot of banks are carefully managing their capital in the light of what’s going on in Europe and capital constraints. When you provide prime brokerage you take on risk and right now everyone is worrying about taking on everybody else’s risk.” The message is clearly that if there is a squeeze on interbank credit lines or worries about hedge fund risk for example, expanding prime brokerage services might have to take a back seat, at least until calm and trust are restored to the markets.

Retail FX

Meanwhile the growth of FX trading services to retail traders and investors is expanding throughout the region. Firstly, there are those individuals who trade FX as an asset class, perhaps as a hobby or to make



Chia Woon Khien

“When you provide prime brokerage you take on risk and right now everyone is worrying about taking on everybody else’s risk.”



a living and who deal with the providers of leverage. Hantec, OCBC Securities PTY Ltd, GK Goh and Saxo Bank are among such providers. Larger, global banks, such as JP Morgan and platform providers such as FXall in turn supply liquidity to these players. A second group is comprised of the private banks and the wealth management operations of local and international banks that have greatly increased the amount of FX they transact on behalf of their clients. There is a considerable volume of wealth being invested both by family offices and by private banks.

“Retail FX trading has gained traction in South East Asia over the last 10 years, being marketed by many overseas brokers over the internet as an easy alternative to equities trading,” according to Joseph Ng at Philip Futures. Nonetheless, Singapore is presently the only S.E Asia country with an approved regulatory structure for financial institutions to offer leverage FX trading.

Many traders who start FX trading seek brokers who are able to provide stable platforms, with competitive prices. The desire for additional features such as charts, news and advanced trading features are common

requests from more active traders. On the other hand, more sophisticated FX traders who are looking to trade with larger fund sizes would pay more attention to a broker’s financial standing and the regulatory regime that the broker operates under.

Financial institutions like Phillip Futures, which operate from Singapore, are popular with this segment of clients. “Singapore regulators has established a strict set of conditions governing brokers’ activities and rules administering the handling of clients’ funds,” he adds.

In addition although forex as an asset class in its own right does not figure in the latest Cap Gemini – Merrill Lynch “World Wealth Report”, what is clear is that Asian high net worth individuals in the region are investing a significant proportion of their wealth – of the order of 50% - outside their home territory, for example in the US. They are also becoming increasingly diversified into asset classes such as property and other alternatives. To do so they inevitably have to come to the foreign exchange market in order to purchase assets denominated in currencies other than their own.



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Saurabh Sharma

“Algorithmic execution is slowly starting to pick up in the region. Clients are not only looking for best execution but also post trade analysis to best gauge the impact of their trades on the market and also reduce costs related to and around execution.”

“With South East Asian economies expanding at a rapid pace, countries like Indonesia have a growing population of wealthy people,” says Nomura’s Sharma. “Many of these have FX needs arising out of investments abroad and a greater appetite to participate in the retail foreign exchange market. It has increasingly become clear to banks that catering to a diverse set of clients and achieving scale via a good electronic offering is paramount.”

Key importance of technology

“FX is as much about technology today as it is about financial markets,” continues Sharma. “Most serious players in the FX space are investing in technology to reduce latency, and have their data centres in optimal locations in order to eke out value from the business. Algorithmic execution is slowly starting to pick up in the region. Clients are not only looking for best execution but also post trade analysis to best gauge the impact of their trades on the market and also reduce costs related to and around execution.”

Thomson Reuters is one leading FX provider which has been steadily expanding its offerings in the region, “As banks have further embraced technology from a liquidity perspective we have developed a strong community of users in this region, especially where local currencies are allowed to be listed on Thomson



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Anthony Northam

"As banks have further embraced technology from a liquidity perspective we have developed a strong community of users in this region, especially where local currencies are allowed to be listed on Thomson Reuters Matching and Dealing."

Reuters Matching and Dealing," says Anthony Northam, the head of Asia for Thomson Reuters Marketplaces group. "Some of the major regional banks are adopting Reuters Electronic Trading (RET) for in-house process management, they are using it as a pricing engine and to automate their branches for spot and swaps currency exchange. Whereas before, currency exchange would have been done mainly by phone, the benefits to them of automation are straight-through processing and better risk management. In addition, banks are now starting to use RET as a pricing engine to push prices out to their customers."

Another leading FX provider whose business has been growing strongly in the region is New York based FXall. Their multibank portal is now used by many locals as well as international players in South East Asia. "It is all about workflow," says Jonathan Woodward head of Asia-Pacific, "reducing risk for the buy side, ensuring compliance with various international accounting standards and future-proofing them for the changing regulatory environment."

Future growth

Looking ahead, FX markets in South East Asia look well placed to prosper but where specifically is growth going to be felt. We asked market participants for their views. "I think there's going to be a generic shift to the Asian region," FXall's Woodward adds, "as everybody looks to Asia as the saviour of the world economy - the engine of growth. We will see a shift in asset allocation strategies as funds search for alpha generating investments and a lot of hedge funds have started to spring up in Singapore and Hong Kong. You may pick up investment capital from some of the local sovereign wealth funds and escape, for the moment, some of the regulatory moves that are taking place elsewhere. Prop traders from banks who have been impacted by the Volcker Rule and lost their jobs are thinking of setting up funds here; there's been a big growth in this area."

Woodward says that FXall has seen 150% annual growth in the NDF business traded on its platform. He sees this continuing at a similar pace for the next three to five years. He notes however that people tend to overestimate the amount of change that may take place in a two-year period but underestimate the change in a ten-year one. He believes that over the longer term NDF business could disappear in large measure as restricted currencies become freely tradeable.



Jonathan Woodward

"It is all about workflow, reducing risk for the buy side, ensuring compliance with various international accounting standards and future-proofing them for the changing regulatory environment."



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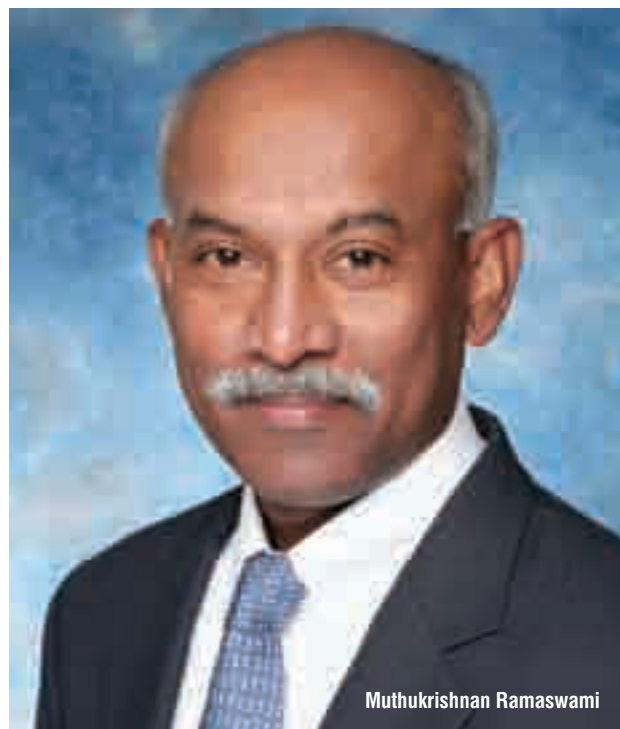
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JP Morgan's Shankar Hari sees the greatest growth potential in South East Asia as residing in the countries outside Singapore. "Most Singaporean clients have already been mined," he says. "But in other markets such as Philippines or Indonesia or Malaysia there is greater scope for growth. As local regulations become more relaxed it will also lead to higher liquidity in their FX markets."

"Japan remains the largest retail margin trading centre in APAC despite the de-leveraging regulations brought in over the last couple of years," explains Jamie Salamon at RBS. "However there is a definite trend for growth outside of Japan and this is centred mainly in Hong Kong, although pockets of substantial retail FX business also exist in South East Asia." He anticipates continued growth in the retail space.

Other influences

Regulation is likely to remain a significant influence for the foreseeable future. The credit risk challenges currently confronting FX options business lead many to believe that it will be necessary for there to be clearing houses located in each time zone to cover each



Muthukrishnan Ramaswami

"We want to be the clearing centre of choice in Asia,"

FX derivative product, whether NDFs, options and perhaps futures.

Consequently as co-president of the SGX exchange Muthukrishnan Ramaswami surveys the future he sees it as holding great prospects for his business and for Singapore as a regional hub. "We want to be the clearing centre of choice in Asia," says Ramaswami.

"OTC transactions by nature are borderless but there will also be instruments that are principally domestic and participants may want those to be cleared locally. We will have to wait for the regulations to emerge. We currently list on SGX over 95% of the bonds listed in Asia that are issued cross border. But not domestic issues of which there are a great many. With other products it will be the same way. We see that the risk management will have to happen in each time zone where the risk happens. Therefore, broadly speaking there will be the need for a clearing centre in each of the three time zones."

His message, like those of others in the vibrant South East Asian market, is that this is a region where FX is a rapidly growing, technology facilitated business. This is where there is going to be a lot happening as continued strong economic fundamentals power the development of new FX products and capabilities over the coming years.



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Siena eTrader evo® – the next generation of Single Dealer Platform

With trade volumes through single dealer platforms growing faster than multi-dealer platforms, Frances Maguire talks to **Joe Locke**, Operations Director, and **Carl Martin**, Banking Products Director, at Eurobase Banking Solutions about the launch of its new electronic trading platform – Siena eTrader evo®.

The latest statistics show that single dealer platforms have gained market share, year-on-year, and now carry about 50 per cent more flow in the spot market than the multi-bank platforms. As banks continue to invest in their single dealer platforms this growth is tipped to continue. Eurobase has been investing in the build of its next generation of single dealer platform, Siena eTrader evo, delivering the ultimate customer experience via a highly flexible and functionally rich web interface.

FM: How can banks use their platforms to gain a competitive edge in a rapidly maturing e-commerce market?

CM: With margins now so tight, value-added customer service has moved more to the forefront. A bank's customers will typically have varying and increasing requirements and therefore the ability to provide tailored views on a customer by customer basis is critical. So to is the ability to rapidly deploy additional products, whether they be new asset classes or cross-asset products – a visible trend recognised elsewhere in the financial sector.

FM: What are the key considerations for dealers when selecting, building or upgrading their e-trading platforms?

JL: Long-standing requirements, including performance, latency and standard business functions, still hold. Traders/sales desks are also aware they operate in an evolving landscape where the ability to extend

product offering is more important than ever. Where significant market events occur, as we have seen in recent years, those with more flexible systems are least affected and may even benefit from these opportunities. These more flexible systems will allow the bank to adopt new technologies, expand asset coverage and benefit from integration to external systems and tools.

FM: What value-added services, besides pricing and trade execution, does Siena eTrader evo enable dealers to offer their customers?

CM: Siena eTrader evo recognises the importance of value-added services, delivering many new features including an app bar enabling banks to plug in additional applications, tools and services. Siena eTrader evo comes with chat, research and cash flow management apps as standard, with a wide range of further apps under review. Cash flow management is a good example of where Siena eTrader evo delivers a unique service, enabling clients to upload their cash flow, both actual and forecasted, and match them against pre-defined hedging strategies, resulting in a list of recommended trades. These can then be automatically executed or registered as orders. Early presentations of this feature have been extremely well received.

'Anytrade' builds upon Siena eTrader evo's established multi-asset capability and enables requirements for any asset classes to be managed through a single platform, without the need to integrate to back-end systems in order to support them. This means banks can trial further assets and products prior to fully integrating them into their platforms. This enables the banks to offer their clients, including those with specific requirements, a more complete customer service.

FM: How can web-based technologies optimise desktop trading space and enhance the user experience by offering advanced features?



Carl Martin



Joe Locke

JL: People are becoming ever more familiar with and expectant of more attractive user interfaces, whether via desktop, phone or tablet. This phenomenon is primarily driven by advances in interface technologies as opposed to real user needs. Siena eTrader evo recognises this expectation and offers a wide range of panels that can be docked or floated to optimise desktop real estate. Each panel can be customised by individual users in a way that makes them feel they are creating their own personal application. Various studies have proven that the more sophisticated user interfaces attract much higher user time. Therefore, banks are recognising that even details such as rounded corners, graduated fills and drag and drop components can indirectly attract more revenue.

FM: How can faster and smarter FX e-commerce engines further empower clients in their search for best execution and more flexible FX order management?

CM: FX orders have always been a key part of the e-FX process. Providing customers with a comprehensive range of clear and concise order options, coupled with fast and accurate pricing, installs the confidence customers require in their search for best execution. This is further supported by a highly comprehensive auditing system, enabling banks to provide detailed information to support their pricing and execution decisions.

FM: To what extent can Siena eTrader evo be customised to both the client and the specific asset classes they are dealing in?

JL: For any platform to be taken seriously it has to be flexible and customisable. In this regard, Siena eTrader evo provides banks with the ability to customise the platform as required in terms of both functional offering and user interface.

This is taken further by the introduction of our Siena eStudio, which provides a drag and drop interface allowing banks to build their desired interface based upon existing components. Siena eTrader evo also empowers the banks' customers to create their own personalised montage.

FM: How do you see the future of electronic trading platforms evolving in the light of the current regulatory pressure for greater transparency and reporting?

CM: We believe that while regulators will look to assert regulatory change, it is unlikely that they will have an overly significant impact on the mainstay products for fear of over regulation and pushing trading further east to Asia. We do expect to see ongoing requirements for additional reporting and auditability in order to provide greater transparency and evidence of sensible risk management and fair play. We would perhaps also expect greater regulation being introduced in some of the less traded products. So while interest in trading fixed income and commodities is likely to grow, this will not necessarily be matched in asset categories such as derivatives and options.

The e-Forex Interview

e-Forex talks with Stina Ekberg, Head of e-FX Trading and Distribution at SEB Merchant Bank.

Stina, how long have you been working at SEB and what are your day to day responsibilities within the bank?


I've been with SEB since 2001, where I started on the sales desk in London covering Financial Institutions in the UK. I am currently heading the global e-FX Trading and Distribution team which is covering e-sales and trading for the electronic flows as well as the product development for FX. My previous position was Head of Algo Trading.

Why do you like your job?

It's a privilege to have been able to take part in the transformation that FX has undergone during the last 10 years. The increased competition has forced us to

constantly develop and re-think our business which is a challenge I just love! The atmosphere in our team is characterized by creativity and leadership which is a key for success. The fact that my team covers all aspects of e-FX from client relationships, cross sales, trading, prime brokerage, product development and support gives us the mandate to take fast decision and drive the business forward in a much faster pace which really is inspiring for me.

Do you agree with some commentators that the role of e-FX has now moved beyond the basic transactional process and how is your team working to provide value added services which can help to differentiate SEB from many other leading FX trading platform providers?



"Whether it is combining execution with hedging programmes or with cash flow forecasting, we have adapted our platform to be flexible for different needs working close with Advisory and Research."

It is still a lot about transactions, keeping time and operational errors to a minimum, but over the years our client's demands have changed towards more customised solutions. Whether it is combining execution with hedging programmes or with cash flow forecasting, we have adapted our platform to be flexible for different needs working closely with Advisory and Research. To meet our client's requirements we are constantly expanding e-FX into other SEB venues where our clients are active.

SEB has always been highly regarded for its top class FX Research. In what ways has the bank been enhancing its FX advisory and trade research products and utilising electronic channels to improve the way these services are delivered to clients?

Our experience is that clients appreciate selectiveness. So nowadays you can of course customise your Trading Station interface when it comes to research, expanding your start page to move into different research areas. We complement the on-line delivery of research with a research distribution engine that sends only the specific information that the client has expressed an interest in receiving and in the format and frequency of their choice. Listening to and delivering what our clients want is the key to staying relevant.

As FX trading volumes continue to increase and new types of clients are entering the market, what steps has SEB been taking to broaden its suite of FX e-commerce services to cater for the demands of a wider and more diverse customer base?

SEB continuously develops its business to provide targeted FX services to clients in the Nordic region





as in the global markets where our core clients are growing. By listening to our clients and meeting their requirements, our classic FX portal - Trading Station - has for several years also been accessible in our traditional Cash Management and Custody portals. Together they hold a dominant position in Nordic markets. The investments we continuously make in Algorithmic trading, FX Prime Brokerage and low latency trading environments are other examples of how we are broadening our offering to serve the global FX community. Our position as the leading e-bank in the Nordic region (Prospera) as well as no 1 global bank for Scandinavian currencies (FX Week) suggests that we are finding the right balance between innovation and stability.

We have recently been reporting on a surge in new FX algorithms being launched by leading FX banks who are aiming to give some of their clients a competitive edge. In what ways has SEB been working to integrate strategy, research and quant toolsets to develop algorithmic FX trading solutions and more advanced trade execution applications?

Internally we are risk managing more and more of our volumes electronically, thus using all information to feed our algorithmic trading suite. Although this approach applies to most major markets, when it comes to Scandies the model to manage risk is quite different to more liquid currencies. Algorithmic execution products by nature work better in currencies with deeper liquidity so we have developed various hedging programmes according to the characteristics of each underlying market.

Given the changing regulatory environment in FX, many banks have been developing new post trade processing, reporting and settlement solutions. What work has SEB been doing to re-engineer your back-office operations and help clients to address any future changes to their FX workflows that may arise?

SEB actively participates where appropriate in regulatory dialogue and monitors the impact changes may have on our clients and how we serve them moving forward. SEB is already an FCM on many



Exchanges and, as such are well positioned to provide whatever services our clients may require under an OTC Mandatory Clearing environment.

How important is FX Prime Brokerage for SEB and in what ways have you been ramping up your FXPB services to offer improved automation and better integration with your e-FX platforms?

Over the last years we have been investing in a fully automated Prime Brokerage (PB) platform which is integrated in our e-FX offering, leveraging technologies both ways. We find that we through our PB offering we have reduced the cost for transactions in many areas which down the line is beneficial for our clients. We sell PB on a global basis and take on high frequency trading 24 hours a day. The experience in running a collateralised FX business plus existing work flows will help us going forward with OTC Clearing.

Scandinavian companies have always pioneered the use of mobile technologies. Do you expect to see the FX market make significantly more use of new digital media channels, including mobile and smart phone devices over the next few years and can we expect to see SEB playing a leading role and innovating in this field?

In some of our client segments I believe that trend will become more significant. Amongst our core clients

we currently use mobile technology as a complement and I'm convinced their trading pattern will change moving forward. SEB is already a part of the global bank community that is both driving and adapting to change.



"...when it comes to Scandies the model to manage risk is quite different to that of more liquid currencies. Algorithmic execution products by nature work better in currencies with deeper liquidity so we have developed various hedging programmes according to the characteristics of each underlying market."





Despite heavy investment in their trading technology infrastructures and e-commerce services, most FX sell-side firms continue to stress the importance of traditional client relationships. What factors might place pressure on electronic FX trading platforms to become even more client focused and less product focused in the future?

This is a topic that is always high up on our agenda internally. Long-term relationships are key for us which means that no matter how the clients access SEB we have a close relationship.

To ensure our clients have the best possible service from us we cooperate closely among all our global sites. We are lucky enough to have a large and diversified sales force (100 FX sales staff in 15 offices around the world) and we find this ratio enables us to maintain excellent client relationships and focus when clients require a more bespoke execution capability.

We recently opened up a new office in Hong Kong, increasing our current FX presence in the Asia region even further, complimenting our Beijing, Shanghai & Singapore centres and strengthening our footprint in Asia. As the market has changed with most of the volumes being executed electronically staying close in the relationship with clients has never been more important.

Do you think clients should consider treating their investment in e-FX as a strategic asset and not just as an added cost and if so, what reasons would you give for making that case?

e-FX truly makes an organisation's transactions more transparent. By employing a well defined cash-flow structure or portfolio management structure, inefficiencies, weak spots or unhedged exposures can easily be identified and managed. To invest in electronic systems, all the way from back office to front office you become less dependent on specific persons and of course minimise time and operational risk involved in risk managing your FX exposure. e-FX is most definitely a strategic asset, both for buys-side and sell side firms, and when such an investment is well executed, it can transform a business.

What feedback have your clients been giving you on where they would like the resources of SEB to be focused on future e-FX development in the near to medium term?

For lower tier segments feedback is generally tighter relations into the middle office area, to assist with market evaluation and reporting. Other areas we will continue investing in is our Prime Brokerage offering, advanced order functionality as well as enhanced access to emerging markets.

Looking ahead, how important do you think e-FX will be in helping SEB to grow its FX business and in what ways might the development and adaptation of your pricing and execution models help the bank to meet the rising expectations of your existing clients and also attract new ones?

e-FX will continue to expand into new areas to meet client demand. The way the FX market has transformed has naturally changed the way we price and risk manage our liquidity. In our Scandinavian niche we are now combining the best of traditional execution strategies with new technology to ensure best pricing and consistency to our clients. In the long term, SEB is focussed on leading our core markets and expanding in our growth regions by investing to out-serve our clients and consistently exceed their expectations; for FX Products in the Nordics and Nordic FX Products in the world, we aim to be the obvious choice.





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Eddie McDaid, Head of Business Development at my-Channels, a leading technology firm specialising in Messaging solutions takes part in the first of the new e-Forex speed interview series.

Eddie, you have been with my-Channels since the firm was founded in 1999. Why has it taken so long for the FX market to really embrace streaming technology?

Well, in reality, the FX market has long embraced streaming technology. I would say most of the leading platforms have been using streaming for over ten years, and newer entrants to the market now employ streaming as standard.

While streaming technology has been visibly present for all this time, it was previously used by organisations on a rather piecemeal basis. The earliest entrants tended to implement their own streaming technology, which was usually tied in to their specific application. As a result, these organisations regularly found themselves writing maintenance code to keep up with technology changes rather than focusing purely on business logic.

Nowadays, the use of dedicated streaming infrastructure is more widely accepted as a key architectural component for trading platforms, and this goes some way to explaining what appears to be its recent rise in profile. Added to this is the fact that today there are many more banks building trading platforms than there were ten years ago.

Why should FX trading firms be taking more interest in middleware technology? Isn't it just a black box that is best left to the back-room boys and platform developers?

Many of the advances in FX dealing platforms have been technology led, and so to treat a key component such as middleware as a black box would be foolish. If anything, we are seeing the opposite: financial institutions are far

more aware of the business opportunities presented by direct methods of communication with their clients, and are therefore keen to understand how different middleware technologies can help them take advantage of these opportunities.

Leading middleware products are an enabling technology allowing you to do more with existing data, and leverage it in new ways. New delivery channels are emerging all the time, and present a fantastic opportunity for those who are first to market. Those organisations that achieve this often develop a considerable and lasting competitive advantage.

FX trading firms have realised that their choice of middleware technology will actually play an important role in determining how they can react to new opportunities: how they deliver their data, how and even whether they can reach new clients, and ultimately how they can maximise revenue streams.

We are now starting to hear the terms Unified Messaging and Last Mile Messaging, but what do these really mean in practice?

Unified Messaging brings together multiple delivery channels, and recognises that one ubiquitous piece of infrastructure, end to end, can underpin all of your data distribution. It needn't be an ad hoc process, involving often complex integration of disparate components, and all the inefficiencies this entails.

Last Mile Messaging is the delivery of your data and rich content to a client, across the channel of their choice - whether that be enterprise, web or mobile, using both established and new standards such as HTML5 WebSocket.



Eddie McDaid

What are the main challenges of bridging the gap between a trading firm's internal data and their external customers?

The first major challenge is that of control. Beyond the boundaries of their own business, trading firms really have no control over the standards used, services expected, or infrastructure between their boundary and the client. A trading firm's best solution is to use a messaging layer that abstracts the delivery of data from the infrastructural complexities that exist in the marketplace.

Change is a constant, both in the market and in the external delivery channels available to participants. A messaging product, which allows you to easily leverage new technologies while insulating you from the underlying implementation, reduces cost and time to market significantly thus offering tremendous value.

Nirvana is the my-Channels middleware platform. What are the key benefits of deploying it in the development and construction of FX trading architectures?

There are many benefits to deploying my-Channels Nirvana: rapid delivery to a multitude of devices and platforms without additional changes to middle or back end systems, a proven track record of performance across the full range of market conditions, and considerably less developer work required to handle continued changes in technology. Many of our single dealer platform customers have quickly capitalised on new delivery channel opportunities without modifying their overall architecture.

"A messaging product, which allows you to easily leverage new technologies while insulating you from the underlying implementation, reduces cost and time to market significantly thus offering tremendous value."

Can we expect to see Nirvana increasingly being used by developers who are working on bidirectional communication applications for mobile devices used for example, by FX traders?

Yes, this is happening today. We have many customers who are already deploying mobile applications that use my-Channels Nirvana for streaming. Amongst them, we have to date seen a mixed approach, with some developing native applications, while others have chosen to adopt HTML5. It will be interesting to see how this evolves moving forward. We will of course be focused on providing a best of breed solution for both approaches.

What does my-Channels hope to achieve during the coming year with respect to further developing your products and overall business?

The global economic situation seems, to an almost surprising degree, to have further spurred many businesses into seeking and developing competitive technical advantages. For the fourth year running, my-Channels have seen a consistent growth in new clients, including additional tier 1 banks. Their feedback is exceptionally valuable and has helped us further refine my-Channels Nirvana.

Since we are, first and foremost, a unified messaging company, we strive to give our clients ultra low latency performance across a range of deployment scenarios. Historically we have always improved upon my-Channels Nirvana's performance with each release, and will continue to do so with our next major release. In particular we have some very interesting announcements coming up regarding features for ultra low latency messaging.

We will also continue to support new and evolving delivery channels to help our customers remain a step ahead of the market. We view standards as being a hugely important area of innovation and we invest considerable effort in evaluating them for applicability. my-Channels is often first to market in delivering such standards within a commercial product. We will continue to focus on leading in this area by adopting open industry-recognised standards as they emerge.

OTC FX Clearing - spawning a new wave of technology innovation



Frances Maguire

The introduction of centralised clearing for OTC instruments is heralding a major re-engineering of technology. Trading infrastructures are being re-designed to support it and banks are investing in new systems to facilitate improved front to back-office transaction processing and risk management. Systems upgrades are also being undertaken to handle the new margining requirements and collateral management, Frances Maguire explores how all this activity is creating a demand for a new generation of trading and risk management systems, based upon innovative and highly scalable technology architectures, as clearing providers start thinking about how to differentiate their clearing offerings.

Jim Dennelly, senior vice president, Sierra, SunGard's capital markets business, says that clearing activities are going to become much more important than in the past and the company has been gearing up for the extra connectivity that will be

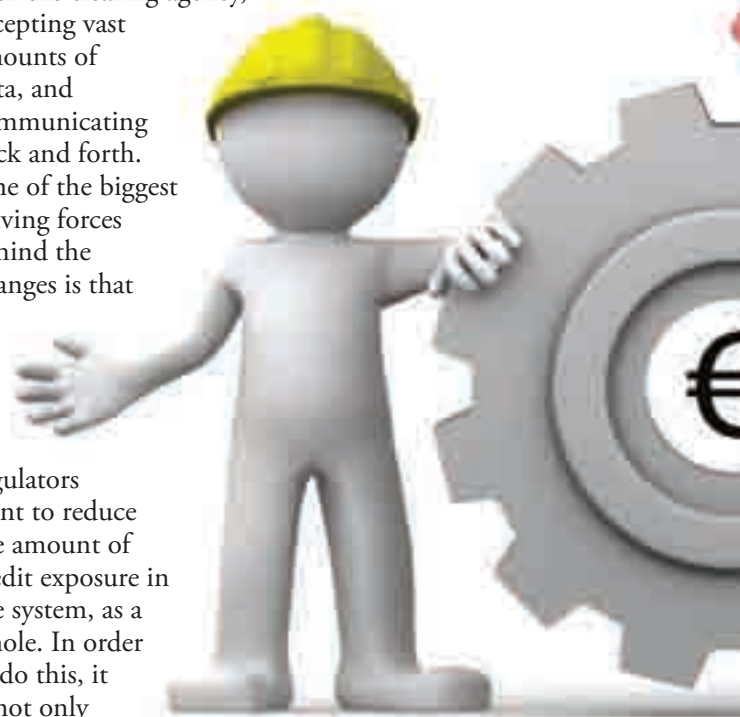
needed, as well as the exception management that will be involved to process transactions and associated activity. "The workflow for clearing is not going to be trivial," he comments.

Even before the regulations are fully finalised, Dennelly believes it is already clear that operational efficiency in the lifecycle of an FX trade needs to improve, and more reporting requirements will mean FX transaction data will have to be centralised and transparent.

Managing risk

Dennelly believes that the main focus will be on managing the risk of processing all the associated cleared trades. He says: "This involves working with the clearing agency, accepting vast amounts of data, and communicating back and forth. One of the biggest driving forces behind the changes is that

regulators want to reduce the amount of credit exposure in the system, as a whole. In order to do this, it is not only







Jim Dennelly

"This is a new requirement for some in FX --monitoring and managing client exposure, and the associated collateral, in real time. There is also most likely going to be a drive towards cross-product margining from more sophisticated customers."

a matter of getting the transactions into centralised clearing, but also of how fast this can be done, and how quickly this can be translated into the risk management, of both the firm and the clearing agent."

Wherever possible, Dennelly says, SunGard is leveraging the existing, and well-established, clearing systems it has built for clearing exchange-traded derivatives, especially in terms of the reconciliation and confirmation processes, however he stresses this can only be a starting point, or a framework, for further development is needed to process the work-flows of more complicated OTC trades. "It is not just a case of modifying a few identifiers, while the process is similar, the underlying instruments differ greatly in complexity and variations," he adds.

However, he believes that the new clearing requirements provide an opportunity for SunGard's users to consolidate their clients' clearing activities into a single pipe, which will mean much higher volumes going to the clearing entities and exchanges. One of SunGard's strengths, he says, is handling large volumes to the exchanges, a deep understanding of the clearing

environment and the tools needed for connection, reconciliation and the associated work-flows to the exchanges.

Managing margins

The introduction of clearing for FX options, currency swaps and non-deliverable forwards (NDFs) will bring with it a new requirement within the FX market to manage initial and variation margins for the first time. Dennelly believes that this is something the interbank market could learn from the FX retail market, where margin trading is well-established. "This is a new requirement for some in FX --monitoring and managing client exposure, and the associated collateral, in real time. There is also most likely going to be a drive towards cross-product margining from more sophisticated customers. Where collateral is already held, customers will want it to be able to better leverage this across different asset classes."


The spotlight on liquidity management means that a very important issue going forward is the speed of processing. "I don't think that intra-day is going to work in this new environment," says Dennelly. "The push for higher levels of collateralisation means that it is going to have to be in real-time." SunGard developed a real-time margining tool some years ago for retail introducing brokers, and has been approached by several large banks about expanding this to manage margin requirements for FX cleared products. Clearing entities are currently building both connectivity solutions and margining monitoring tools.

Despite this, Dennelly does not believe there is much to be gained through building proprietary solutions for clearing FX OTC. He says: "One of the key issues when deciding whether to build internally or externally has got to be the cost to bring it to market. Many will find that third party solutions make more sense."

Dennelly believes that the introduction of clearing will simply put greater operational strain on firms' FX back offices, and that is where much of the work needs to be done.

Flexibility

Given the complexity of the underlying instruments and systems, and the likelihood of change in the months ahead as regulators and providers evolve their rules and responses, Peter Kriskinans, managing director of DealHub believes the critical factor to consider in any technology response should be flexibility.



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He says: “The existence of multiple clearers requires new smart trade-routing technology to manage the routing of trades to the correct CCP and to monitor and manage the various trade status updates from each CCP – and critically the ability to adapt and re-route over time as regulations and providers change.” He adds that gateways to multiple CCPs will be required to ensure banks do not have to build and manage physical interfaces to several CCPs. Furthermore, FX trades are not centrally matched – some clearers will match each side of a trade while others will require submission of a matched pair of trades, driving further technology and network investment.

Kriskinans says: “Banks engaged in clearing on behalf of clients will need the ability to manage the clearing process for their client trades, as well as their own trades. To manage risk and provide optimum client service, it will be critical for a bank to be able to see both cleared and non-cleared positions for a customer in a single, unified view. To make the most efficient use of margin, banks will look to leverage existing clearing technology for other asset classes as much as possible when deploying solutions for clearing FX trades.”

Dashboard applications

Kriskinans believes that a new breed of dashboard applications will provide real-time homogenous views of the clearing workflow, giving transparency within the bank of all trades submitted for clearing. The same applications can provide an overview of the cost, speed and status of the various clearing providers, giving banks insight not only into their position and market activity, but also the efficiency of their clearing operations. “Routing of trades to SDRs will promote transparency across the market of all non-spot FX trades,” he says.

There will be some points in the clearing lifecycle that will offer opportunity for firms to differentiate their services and provide market participants with value added offerings. For example, Kriskinans says that building and maintaining several physical interfaces to multiple CCPs would be a significant overhead for banks, so the provision by vendors such as DealHub of a ‘gateway’ that makes the individual interfaces transparent to the bank is very attractive.

“At the same time the bank needs to be able to see a single view of all activity related to clearing across



Peter Kriskinans

“To manage risk and provide optimum client service, it will be critical for a bank to be able to see both cleared and non-cleared positions for a customer in a single, unified view.”

all CCP venues in one place and so the ability to implement a dashboard view for the bank that shows all activity across internal and external systems is a key component of clearing solutions. The value we provide is a connectivity manager layer that not only provides the multiple physical interfaces to CCP venues but also provides the flexible workflow management required to route trades and expose the status of all trades during the clearing process,” he adds.

To comply with the new requirements, sell side banks will need to push forward prices and volatilities to CCPs for use in margin calculations. Bank’s portfolio valuation, collateral and margin management systems will need to absorb intraday updates from CCPs and use these to monitor CCP exposures and according to Kriskinans margin call settlement systems and counterparty default management systems will be driven by data received from the CCPs.

Increased volumes

Initially, Kriskinans believes that is likely that NDF and options flows will be of a manageable volume and relatively easily absorbed by existing infrastructure.



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However, if forwards and swaps are ultimately cleared as well, then the volume increase would be significant. He says: "In addition to scaling capacity of existing systems, clearing houses may want to look at smart solutions that ensure trades likely to have a significant market impact, such as those with a particularly high value or risk profile, are prioritised during peak flow, helping maintain an accurate market picture at all times."

He adds that there are certain aspects of the clearing process such as trade matching that can easily be purchased from vendors as the technology exists and is readily available, but other aspects may be seen as differentiators by clearers and may therefore be more likely candidates for in-house build. Time to market is likely to be a major part of the decision making process as in-house build is often costly and time consuming and subject to extensive project risk. "If the solutions exist, then choosing best of breed technology for key components can provide the clearer with a real advantage," he says.

For Kriskinans, the fundamental requirement of any participant at this point is to have a flexible framework in place – a set of physical interfaces coupled with an intelligent, rules based workflow engine. He says: "This is what DealHub offers in its Connectivity Manager – a solution that connects you to the various CCPs, SDRs and SEFs and helps you manage your response to the evolving regulatory landscape now, but more importantly provides a basis for quickly responding to changes in regulation and regulatory service providers which are inevitable in the coming years."

But with the regulations all but finalised, time is running out for the amount of change and preparation work needed within the banks to adapt to new processes and get all their clients onboard.

Banks

Gil Mandelzis, CEO of post-trade specialist, Traiana, says that the company is focusing on building client



clearing technology for the banks because he believes that this is where a lot of the complexity will come from. He believes the key issues are around settlement and confirmation, credit, margining and collateral requirements, which are actively being worked upon between the banks and the clearing corporations.

Although the rules have not been finalised, Mandelzis says that even once published in final form by regulators, the approach to implementing the rules will evolve for months if not years as clearing for OTC products is such huge change to the infrastructure that it will be an ongoing process of adjustment and finer detail to be able to achieve such change.

He says: "As new SEFs enter the market there are going to be new requirements, new challenges and new thoughts. There are a lot of topics that are still open for debate and we think they will remain so as people come to market with new trading ideas and new models. We are entering a period of time that is going to be characterised by many changes, so one cannot assume that integration to a clearing corporation from a client or counterparty is a one-off process." The finer points of integrating new venues and instruments will be fine-tuned for years to come.

At present there are four clearing corporations set to offer clearing for FX options and/or NDFs – Chicago Mercantile Exchange, LCH.Clearnet, ICE and the Singapore Exchange – but Mandelzis says that Traiana is in discussions with others and that there will be



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more, rather than less, clearing participants. He says: “Some of them might be small, or initially ‘niche’ players but if they are an important enough client or jurisdiction the banks will need to support it. This all amounts to a very significant challenge for those building a robust, scaleable and flexible architecture, which we have in Harmony CCP Connect. No one wants to re-integrate the flow of additional counterparties, so infrastructures need to be highly scaleable and flexible, but at the same time forcing players to agree to a standard will not work either.”

CCP Connect provides a low-cost solution to connect banks to CCPs and clearing clients, without imposing rigid technical protocols and standards on the client. The client sends information in their preferred format using their preferred delivery mechanism. The advantages of this client connectivity solution is most apparent in the bank-to-client space where a client can be connected to their bank through a single service consolidating allocation and confirmations, give-ups, and netting on flows for a range of currency products including cash, options and NDFs.



Gil Mandelzis

“No one wants to re-integrate the flow of additional counterparties, so infrastructures need to be highly scaleable and flexible, but at the same time forcing players to agree to a standard will not work either.”

“As a clearer, having a very flexible approach and being able to accommodate client choice is very important,” adds Mandelzis. “We are providing the tools to the banks which allow for diversity, but at the same time don’t burden the clearer with the work that goes with it, into their back offices and technology.”

New complexities

The introduction of central clearing for OTC instruments also means that certain market participants will now have to have margin management systems, and this is but one of the new complexities. Interbank activity moving to a cleared model is going to have some complexity, but nothing compared to the client trading activity, with processes for allocations and confirmations in flux.

Recently, Nomura chose Traiana to expand its ETD client service platform. Using Traiana Harmony, Nomura’s clients will be able to reconcile their executions and allocate across one or more futures commission merchants (FCMs), with real-time clearing status monitoring in Nomura’s client service portal. In addition, high volume clients can be integrated directly into the solution in their preferred protocols and message formats, allowing them to match and allocate their trades electronically. As a result, exceptions and breaks are identified intraday, not end of day, streamlining the clearing and allocation processes.

It is early days, says Mandelzis, and too early to say how banks and clearers will differentiate their services and add value, as they are simply focused on understanding the changes and implementing them to comply and work out the economic model of this business going forward.

However, he adds, the amount of investment needed in infrastructure to create a clearing solution and connectivity to all the market participants weakens the build versus buy case greatly. “Given the current challenges, the amount of work facing the banks, internally, is already huge. They should focus on where they can differentiate their services and not on the connectivity work where they cannot differentiate,” he adds.

But with still more CCPs expected to come to market, perhaps with new clearing models, there is still much work to be done to accommodate the differing needs and choice demanded by the market.

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Carrier Hotels:

where FX checks in for co-location services




Joe Morgan

The need for greater capacity and more efficiency of time to trade, otherwise known as latency, is becoming increasingly important for many FX market participants. Joe Morgan examines why growing numbers of globe-trotting FX trading firms are therefore checking in for co-location services, where specialist service providers' host traders' servers as close as possible to a trading platform's matching engine.

Frank Reuter, director, global business development at BT Global Banking & Financial Markets in Frankfurt am Main, says FX market participants are now setting up trading hubs in major global financial centres such as New York and London, connecting to vendors, banks and brokers which provide services covering the full FX trade





cycle. These include market data aggregators such as Interactive Data and DealHub, the currency trading and price distribution software vendor, trade execution specialists such as 360T Trading Networks, the multi-asset trading platform along with major sell side firms such as Citi, Deutsche Bank and Goldman Sachs and Logicscope, the post-trade software vendor.

“To achieve the lowest possible latency from a connectivity point of view, you just can’t beat a cross-connect from your trading algorithm server to the matching engine of an execution venue. This works quite well when you want to connect to one venue only,” explains Reuter. “However, as we all know, FX trading firms are looking to connect to a variety of FX liquidity venues and market data providers. As a result of this, FX trading firms are more focused on being hosted in a data centre that gives them access to the widely fragmented FX market, globally.”

Faster Connectivity

Leading the charge for faster connectivity to global FX markets are the growing number of hedge funds and proprietary trading arms of major sell side firms pursuing high frequency trading (HFT) strategies. Celent, the financial consultancy firm, published a recent report, *Technology Choices in High Frequency FX: Infrastructure, Hardware and Software Decisions*, which found a rapid adoption of HFT strategies in the FX space. Celent estimates that 28 per cent of FX volumes are executed via HFT strategies. Furthermore, the report predicts that HFT volumes in the spot FX market will grow above 30 per cent by 2013.

Mark Akass, chief technology officer for the global banking and financial markets division at BT, says the FX market is emulating some of the key trends that have taken place in equities over the past ten years. This includes a proliferation of high-speed trading and currency markets becoming increasingly connected between different global jurisdictions.

However, he highlights the differing characteristics of FX, which is further enhancing demand for co-location and proximity hosting solutions among market participants. “FX is different to equities in that it is not a direct venue business. There are portals and multi-currency hubs. But it is not quite the same sort of market. So it does follow equities but it has not got quite the same infrastructure issues. There is a lot more fragmentation and you have to connect to a lot more parties to get access to the different parties to get the



Frank Reuter

"To achieve the lowest possible latency from a connectivity point of view, you just can't beat a cross-connect from your trading algorithm server to the matching engine of an execution venue."

best prices. Typically most people are connecting to six to eight FX providers to get their service provided to a business," says Akass.

New services

FX trading venues are launching new services to meet the needs of the increasing band of high-speed FX trading firms. Thomson Reuters earlier this year launched proximity hosting services for its Thomson Reuters Matching FX Spot via its Elektron hosting site, which is located in Savvis's LO4 data centre in London. The service enables FX trading firms to obtain access to a variety of spot and derivatives FX liquidity providers along with single dealer price feeds from banks via a cross connect at the LO4 facility. This initiative follows interdealer broker Icap's Electronic Broking Services (EBS), which launched i-Cross in 2006, a proximity hosting service for spot FX traders in North America, Europe and Japan, providing low-latency trading and market data solutions. Meanwhile, Hotspot FX, FXall and Currenex have all developed co-location services to meet demand for high-speed trading.

BT Radianz has launched a proximity solution, which is designed for hedge funds, prime brokers and

quantitative trading firms pursuing algorithmic and HFT strategies without a regional presence near an execution venue. Akass says the proximity hosting service – which has also been taken up by smaller trading firms lacking the IT infrastructure to compete with larger players along with those pursuing global trading strategies – was launched to meet "the original latency challenge of liquidity fragmentation across different venues".

The BT Radianz proximity solution was launched in conjunction with its ultra access service, which provides low-latency access to market data and trade execution for low-latency trading firms pursuing automated and direct market access strategies. "The services provide a common central point between all the different venues. Then we aggregated that. So that provided a sub-millisecond low-latency infrastructure and cost effective performance," says Akass.

Partnering

Varghese Thomas, global head of financial services at Savvis, a global IT infrastructure company which provides co-location and proximity hosting services to a wide variety of financial markets participants, as well as hosting the matching engines and trading



Mark Akass

"Typically most people are connecting to six to eight FX providers to get their service provided to a business,"



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infrastructure of key FX platforms and venues, says that unlike equity exchanges, FX venues do not offer their own co-location services. Thomas points out that there is, for example, no equivalent in FX of NYSE Euronext's European data centre in Basildon, which provides access to NYSE Euronext cash equities market, NYSE LIFFE, NYSE Arca Europe and Smartpool.

"You are not seeing these types of ventures from FX venues. Most FX venues have instead partnered with service providers that can offer a full set of hosting and network infrastructure solutions for them," says Thomas. "In addition to the venues we host in our data centers, we offer connectivity to an ecosystem of service providers covering the full trading lifecycle from price discovery to execution to confirmation. The FX venues don't need to figure out how to build this as they can leverage what's already in place."

Thomas points out that many FX trading platforms do not have direct connectivity to platforms in other markets in place. "Not all platforms have matching engines in multiple regions. Typically they locate their platform in one region and they connect over a

managed network [such as that provided by Savvis] where they bring in their clients from other regions," says Thomas.

Robin Manicom, director, financial services Europe, Middle East and Africa (EMEA) at Equinix in London, says the carrier-neutral global data centre has recently experienced an uptake in demand for low-latency trading solutions from FX trading firms. "One of the fastest growing markets for co-lo requests is among FX participants," he says.

Manicom says the global footprint of Equinix – which has over 95 interconnected data centres in 39 markets around the globe – is a good match with a global, 24-hour market such as FX, which is characterized by fragmented liquidity across different venues. FX trading platforms benefit from access to a global network of trading centres, which in turn offer a wide ecosystem of FX market participants.

"We have over 60 exchanges and trading venues across multiple asset classes, strategically located within Equinix data centres throughout the top 16 global financial markets. If, for example, a high-speed



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equities trading firm decides to migrate its trading strategy into FX, it can utilize the services already provided within our financial services ecosystems. The multi-tenanted, network-neutral data centre flourishes because the customer ecosystems within them are far larger and far more diverse than those in exchange and network-owned facilities. In essence Equinix has a marketplace, an open platform which enables firms to do business with each other, as part of a machine to machine (M2M) e-commerce environment,” says Manicom.

Equinix’s data centres contain an ecosystem of FX market participants, including ICAP’s EBS platform, Currenex and HotSpot, which has helped pioneer algorithmic trading in FX.

Customers can cross-connect to different trading platforms at an Equinix data centre within 24 hours, utilizing direct connectivity to matching engines or access nodes. Local cross-connects within an Equinix data centre to an execution venue’s matching engine or access node support high-speed data transfer of 1 Gbps or 10Gbps at fixed monthly rates.



Hirander Misra

“In FX there is a reliance on bank pools. Execution can be a lot slower than equities. Banks don’t like guys [hedge funds and HFT firms] picking them off and then arbing them on platforms such as EBS,”

Diverse facilities

A key benefit for FX market participants in installing co-location and proximity hosting services in a carrier-neutral data centre also lies in the diverse range of inbound and outbound connectivity options available. Hirander Misra, an independent e-trading consultant points out that FX trading firms based in carrier-neutral data centres can leverage its global network. For example, a firm may be co-located next to the matching engine of a major FX platform in Asia and have proximity hosting services next to the matching engines of the platforms’ major hubs in other regions, ensuring that it can execute low-latency trading strategies 24-hours a day.

“Because there are pockets of liquidity. Some of these firms that are really latency sensitive and have to be as close as possible to these key pockets of liquidity and equally the FX venues are generally in neutral data centers,” says Misra.

Manicom of Equinix points out that a reverse trend is also taking place, where trading venues relocate services in other jurisdictions as means of expanding trading volumes and countering the threat of greater competition. “One trend since the end of last year is a lot of these trading venues are looking outside their domestic market because their liquidity is being challenged by other alternative trading venues stealing flow,” he says.

Equity market blueprint

Manicom points to an emerging trend in the equities markets which could provide a blueprint for how FX platforms and trading venues augment their offering in the future, through the use of proximity hosting and co-location services. The Australian Securities Exchange (ASX) in Sydney, in response to the growing competitive threat from Chi-X Australia, has installed a trading node at Equinix’s Chicago data centre campus to offer Chicago-based banks and proprietary trading firms access to Australian stocks.

In a similar move, FX trading platforms such as EBS are setting up points of presence (POP) nodes in different locations to provide high-speed connectivity points to wider variety of market participants. “A PoP can be attractive to participants desiring simplicity and not wanting different contractual relationships with managed service providers. Smaller firms in particular may access the local POP with

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a single counterparty, the exchange, or through a broker, whereas bigger, more sophisticated players may already connect to an extranet that can access the remote market centre faster or more cheaply,” says Bob Giffords, an independent banking and technology analyst based in the UK.

Manicom points out that Equinix is well-placed to facilitate FX trading venues seeking to widen their numbers of high-speed customers with such services.

“Because we have multiple exchanges in multiple markets across multiple asset classes, it means that one particular customer in an Equinix data center might be trading three different asset classes,” he says.

Leveraging computational power

Patrick Lastennet, director for financial services at Interxion, a global data centre provider, points out that FX trading platforms



Varghese Thomas

“In addition to the venues we host in our data centers, we offer connectivity to an ecosystem of service providers covering the full trading lifecycle from price discovery to execution to confirmation.”

can leverage the high levels of computational power of carrier-neutral data centres. “These firms are using more and more blades which are virtualized. All of this claims high-density power, electrical power per square meter. That is one of the core competencies of a carrier neutral data centre,” explains Lastennet. “Being able to provide the right cooling to enable that high density power. Next to that in terms of connectivity, we offer a wide range of extranet providers and fibre providers. That enables you to diversify your connectivity to certain venues.”

Interxion is bolstering the server space it has available to FX clients with the launch of a new data centre in the City of London, LON 2, in the middle of 2012, which will offer FX market participants 1,700 square meters of equipped space. The £33 million data centre is designed to support up to 2.5 kilovolt amps per square metre of continuous customer load.

Lastennet says the structure of carrier-neutral data centres – which enable FX trading platforms to run



applications in a virtualized, highly scalable environment – can facilitate growth strategies and improve the time-to-market of new products and strategies.

“If they take a space in a shared area all the cabinets will be installed. Often those firms seeking to trade HFT strategies, it is not a massive footprint. It is just a case of putting their trading applications into a shared area, then they are up and running. They can also be flexible as far as their growth is concerned,” says Lastennet. “A lot of it is about minimising your capital expenditure and turning cap ex into op ex. So whenever you want to scale, the level of investment is quite limited because we already have all the right equipment in terms of cabinets. The power is available all the right carriers are there.”

Flexibility and cost

The flexibility offered by carrier-neutral data centers in providing rapid, high-speed connectivity is of particular benefit to start-ups and small and medium-



Patrick Lastennet

“A lot of it is about minimising your capital expenditure and turning cap ex into op ex. So whenever you want to scale, the level of investment is quite limited because we already have all the right equipment in terms of cabinets.”

sized firms in the FX markets, which do not have the resources to invest in expensive trading connectivity architecture. “Cost, flexibility, and scalability are extremely important [for small and medium-sized HFT firms],” writes Sreekrishna Sankar an analyst at Celent and author of its recent report on high-speed trading infrastructure. “Investing in costlier technologies is a huge risk for firms starting from a small footprint and restricts them from adapting to the market. HFT in FX is a rapidly changing market where strategies need to be adapted to changing market conditions, and hosted solutions provide a suitable alternative.”

Thomas of Savvis points out that the growth in co-location and proximity hosting services offered by managed service providers and carrier-neutral data centres lowers costs of entry to the market for high-speed trading in FX. “As part of the regulatory changes, you might see a lot more HFT operations being spun off from their existing firms or people going it alone and starting their own trading firms. Traders leaving large institutions no longer have access to the expensive trading architecture that they’ve become accustomed to. So with our economies of scale we can provide cost-effective alternatives for high-speed trading in the market,” says Thomas.

Misra highlights the potential cost-savings which carrier-neutral data centres can provide. “Power space in a single cabinet in Equinix’s London data center can be taken out for about €2,000 a month. In contrast, non-neutral data centers such as NYSE Euronext charge between five and ten times more than this, depending on the different services that you are taking into that cabinet,” he says.

Savvis, which has already developed a network of co-location services serving the equities and derivatives markets, is working closely with leading FX platforms to enable them to offer similar services. Customers of the global IT infrastructure company can cross-connect to different trading platforms within 24 hours.

Savvis hosts Thomson Reuters’ Athena Trading EMS and last year set up an access point to Icap’s EBS FX platform in their Docklands LO4 data centre. This enhances the existing connectivity services it offers to HFT firms in its data centres in Weehawken, New Jersey and Slough, where it already offers



Sreekrishna Sankar

“HFT in FX is a rapidly changing market where strategies need to be adapted to changing market conditions, and hosted solutions provide a suitable alternative.”

access points to EBS. It has also set up connectivity between the facility and its NJ2 and NJ3 data centres in Weehawken and Piscataway, New Jersey, which host the matching engines of FXall and Currenex. In addition, its data centers provide access points to platforms based in other facilities. For example, providing proximity hosting services to EBS and Hotspot FX.

“We are hosting Thomson Reuters Elektron, as part of our collaboration with Thomson Reuters in ten data centres covering all the major financial hubs including London, Frankfurt, New York and Tokyo. Elektron Hosting for Matching is exclusively available in our London Docklands data centre, offering co-lo to Thomson Reuters Matching in addition to Savvis services,” says Thomas.

Reducing time to market

Giffords says it can be advantageous for FX traders to partner with an extranet provider with established connections to a wide range of market centres or dealers, with access to appropriate co-location or

proximity trading hubs in each jurisdiction. This reduces time to market.

Virtualized, cloud-based environments – where trading firms buy capacity rather than install their own servers – can further shorten colocated deployment, adds Giffords. Many hosting providers have the benefit of a pay-as-you-go, shared infrastructure model.

“An appropriate extranet with a large global footprint will probably already be in the relevant co-los you want to use, so you can just buy cloud capacity, download your software and go, all in a couple of days. Some extranets will guarantee such on-net connect times in their SLA. Meanwhile you negotiate the cloud space and broker access, adjust your algos for the exchange profile and start trading. That’s real agility. Then as volumes become more established, traders may switch to their own servers to reduce latency and complexity still further, but some cloud vendors appear to be achieving very respectable latency in any case,” says Giffords.



Robin Manicom

“The multi-tenanted, network-neutral data centre flourishes because the customer ecosystems within them are far larger and far more diverse than those in exchange and network-owned facilities.”



"An appropriate extranet with a large global footprint will probably already be in the relevant co-los you want to use, so you can just buy cloud capacity, download your software and go, all in a couple of days."

Reuter of BT Global Banking & Financial Markets says FX trading participants are using Infrastructure-as-a-service (IaaS) to test market acceptance of new services, which once successfully tested are migrated on to a hybrid or dedicated infrastructure model.

New trading venues

Misra expects demand for such co-location services in the FX market to increase over the next 18 to 24 months, spurred by competition among liquidity providers to offer new trading venues. He points out that high-speed trading in FX is still being inhibited by structural barriers in the FX market.

"In FX there is a reliance on bank pools. Execution can be a lot slower than equities. Banks don't like guys [hedge funds and HFT firms] picking them off and then arbing them on platforms such as EBS," says Misra. "You might see an additional concentration of liquidity on to an exchange-like environment, with FX trading a bit more like equities. There are venues out there that want to facilitate that and effectively take some of that concentration away from the bank pools.

One possibility is a bank-type consortium. There are also other potential venues which are likely to review their dependency on the banks and say we should work more closely with the hedge funds and the HFT guys."

The formation of new FX trading venues and subsequent increase in demand for co-location and proximity hosting services will, Misra predicts, benefit the providers of carrier-neutral data centres, which can leverage their economies of scale, specialist technology and expertise. "Although certain brokerages also offer co-location services, firms prefer an independent and neutral co-location service that is not in a contract with any select execution venue or telecommunication network," writes Sankar of Celent. "This neutrality is key to achieving best execution. Hosting the applications in the data centres enables low latency access to market data, a crucial component of HFT strategy."

Conclusion

Membership of a global data centre provides trading firms with the agility to adapt to rapidly changing conditions across global FX markets. Asia in particular appears poised to become a growing hub for FX trading. As the health of the global financial system looks set to remain in a perilous state, the flexibility and capacity to obtain high-speed connections to a diverse range of trading venues will become all the more crucial in markets where only the strong survive.

"FX trading firms are looking for a partner that is as agile and flexible as they are themselves, allowing them to adopt to new market conditions rapidly," says Reuter of BT Global Banking & Financial Markets. "By utilizing IaaS and more likely a hybrid – dedicated and shared infrastructure – approach, customers in addition keep their cost under control and can obtain low-latency access between venues of interest on a global scale."

Lastennet of Interxion expects FX trading venues in the future to engage in more partnerships with various data centres and vendors specializing in cloud technologies. "If you look at how technology is evolving and the emphasis. Trading venues are extending services using carrier neutral data centers to host their engines and focus on their core business, the provision of liquidity and running organised markets," he says.

Managed Fibre Networks - offering competitive advantages for high performance FX

As the firestorms engulfing financial markets continue to captivate participants and observers alike, the activities of managed network service providers remain, appropriately, largely in the dark. The work of companies specialising in network infrastructure beneath the ground and sea is not likely to make the headlines in the financial or popular press at the moment. But, as Joe Morgan reports in this article, these businesses are at the nexus of the forces driving the development of an increasingly interconnected global financial system, driven in part by the growth of high-speed trading. The fibre optic cabling which links trading hubs together is of vital importance in FX, a global market where traders follow the rising sun to trade on different venues throughout the day.

Hirander Misra, an independent managing consultant specialising in electronic trading in London, says: "The FX market is a 24-hour by five-and-a-half day market. There are pockets of liquidity everywhere across different time zones with platforms running in parallel and firms connecting to nodes at different platforms and they need network connectivity out to different regions. They might be co-located in each centre but they still need to know what the black box is doing or what local trading activity is doing in other centres. These all need to be interconnected over high-speed fibre."

Spearheaded by this inexorable demand for high-speed trading among financial market participants, FX trading firms are obtaining access to underground and undersea dark fibre connectivity offering increasingly faster roundtrip speeds. Hibernia Atlantic for example,

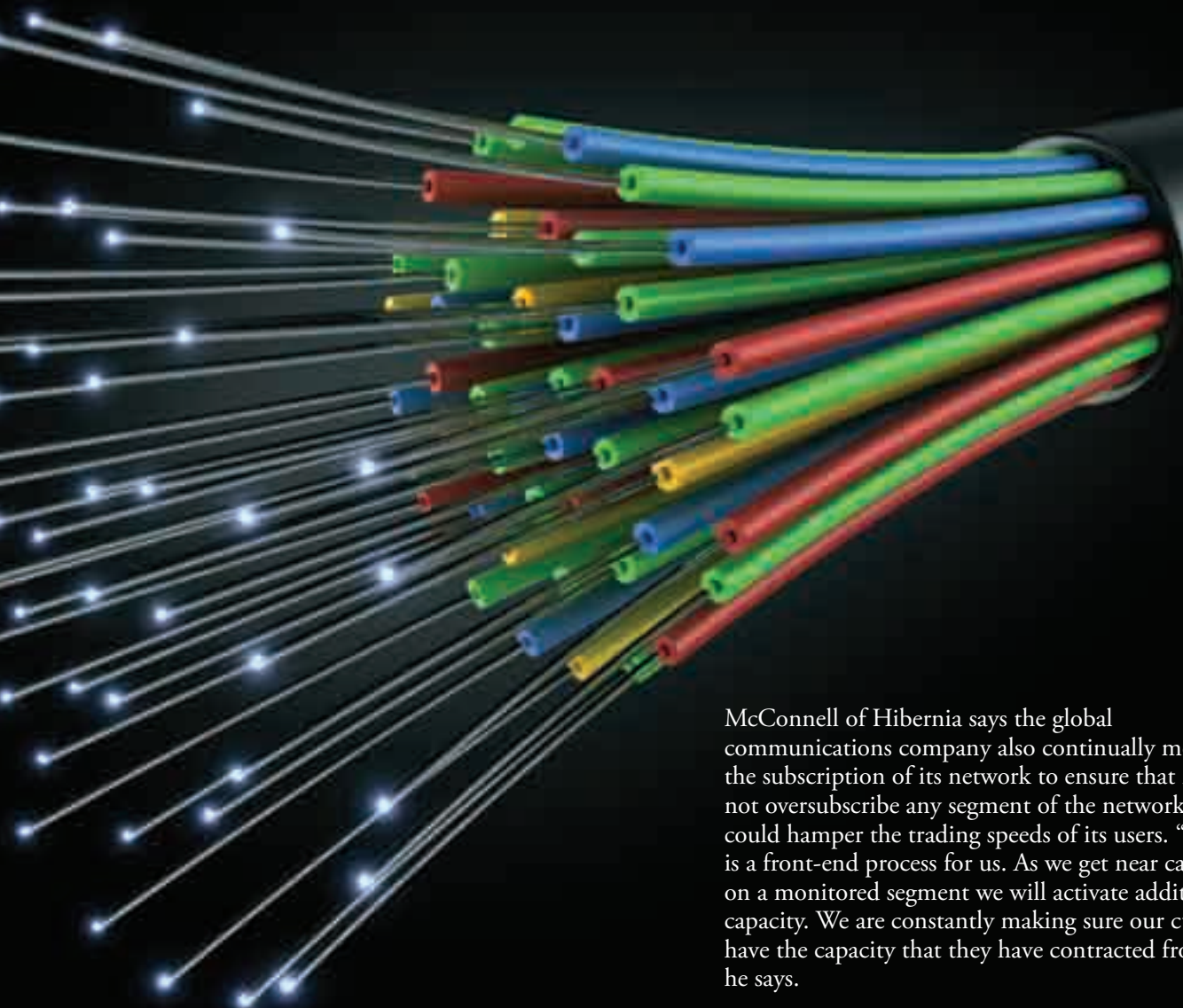
a transatlantic submarine communications cable company, has built a 3,741-mile transatlantic fibre-optic cable between Halifax, Nova Scotia in Canada to Southport in England, which has completed successful tests of 100G data transmissions. The undersea managed fibre network will soon include the deployment of Project Express, a fibre optic cable which will achieve a sub 60 millisecond roundtrip speed. The communications company has also recently expanded its services across the Asia region in Hong Kong, Singapore and Tokyo, along with plans to open new operations in India.

Meanwhile, Spread Networks, a telecommunications specialist based in Ridgeland, Mississippi, has built a 825 mile fibre optic cable in the straightest possible path between Chicago and New York City. The dark fibre infrastructure provides a 13.3 milliseconds round trip for customers using the Spread Networks Chicago-New York dark fibre to run their own private optical networks to link the two major US financial hubs.

Serving high-speed FX

"Managed networks offer three main advantages to high-speed trading firms: low latency routes; diversity; and higher capacity for growth," says Stephen McConnell, director of sales at Hibernia Atlantic in New York.

McConnell highlights the global reach of networks such as Hibernia. Hibernia's fibre network covers over 120 points-of-presence (POPs) throughout North America, Europe and the Pacific Rim, spanning 24,000 kilometers. He points out that this capacity to link key FX trading venues and data centres together enables FX trading firms to leverage the benefits of low-latency trading across global markets while enlisting the services of just one vendor, which will bill customers for all their network usage.



Mark Casey, chief executive officer and president of CFN Services, a leading provider of managed high-frequency trading enablement services to the financial markets, highlights how managed service specialists provide the trading infrastructure for HFT firms. Furthermore, Casey illustrates how a managed service provider is key to ensuring optimal performance, ideal procurement efforts and hassle-free infrastructure operations to high-speed trading firms.

“We provide flexible, turnkey network solutions enabling FX firms involved in HFT to accelerate market data delivery and trade execution. We provide an evergreen, low-latency network where the latencies between venues are continually improving to keep traders ahead of their competition,” says Casey. “To support dynamic requirements across trading firms, CFN offers custom, network solutions including dark fiber, lit fiber and passive wave optical networks with the comprehensive management, maintenance and reporting in which FX firms seek.”

McConnell of Hibernia says the global communications company also continually monitors the subscription of its network to ensure that it does not oversubscribe any segment of the network, which could hamper the trading speeds of its users. “This is a front-end process for us. As we get near capacity on a monitored segment we will activate additional capacity. We are constantly making sure our customers have the capacity that they have contracted from us,” he says.

To keep pace with its customers’ demands for improved latency, Hibernia has embarked on a process of increasing network capacity. Hibernia currently offers users 10GigE as a standard service and plans to move up to 40 GigE. Hibernia is currently testing 100 GigE, with an eye to meeting a strong increase in future demand for high-speed trading services.

Do it yourself guys

John Panzica, senior vice president sales and marketing at FiberMedia Group, a data centre and co-location specialist based in New York and New Jersey, says a couple of unnamed major high-speed FX trading firms have invested in their own dark fibre routes to bolster their capacity for low-latency trading. Panzica, who describes these high-speed trading outfits as the “do-it-yourself guys”, says the firms have been able to deploy their high level of IT expertise and investment in IT technology to build their own low-latency networks which can deliver the high-speed trading performance which they desire. Panzica says the unnamed high frequency trading (HFT), FX firms have installed

dark fibre networks which are put on to switches provided by Infinera, a provider of digital optical communications systems.

Panzica says major HFT, FX trading firms are also “traversing spools of fibre” – spare fibre capacity set aside in case there is a fibre cut which puts a route down – to achieve lower latency trading performance. “HFT traders want a straight route. So they will ask the dark fibre guys to run a new fibre route with zero spooled capacity and they will pay extra for it. But this means the service level agreement (SLA) to repair will no longer be there because the provider will have to do a manual splicing of the fibre. But the HFT firms do not care because they will just buy two different routes that will be diverse from one another,” says Panzica.

Having access to self-healing network architecture – which provides users with the protection that in the event of a fibre cut on their primary route there is an automatic failover – is also vitally important for many high-speed, FX trading firms. “Many of our HFT customers are buying point-to-point and unprotected services from a variety of providers. We provide a self-healing architecture for firms that do not have the same investment in the network as some of the bigger players. Self healing gives them the protection that they will be still connected to their matching engine or trading partner,” says McConnell of Hibernia.

Casey of CFN Services says the company’s Alpha Platform, a cloud-based platform designed for automated traders pursuing strategies across a variety of major FX venues, has the scalability to enable trading firms to react to rapid changes in market conditions. “Our dedicated bandwidth solutions built on high-performance switching guarantee specified bandwidth at all times and this is particularly important when micro-bursts or sustained increases in volume occur,” he says.

CFN Services leverages FiberSource, its proprietary fiber design platform, to optimize and deploy high performance primary and redundant network solutions. FiberSource provides FX firms with a roadmap to optimize their trading networks and helps with the planning and configuration of optimal co-location sites, while delivering low-latency networks.

Network monitoring

Hibernia monitors the low-latency, high performance connectivity of its services by doing “safeline testing”



Stephen McConnell

“Managed networks offer three main advantages to high-speed trading firms: low latency routes; diversity; and higher capacity for growth.”

of newly activated fibre to any new segment of its network. Third party tools offer latency analytics, troubleshooting and compliance monitoring, such as those provided by: Endace, the high-performance network and analysis company based in New Zealand; Corvil, a unified latency management provider for the financial markets based in Dublin; TS Associates, a supplier of instruments for measuring trading latency based in London; and Correlix, a provider of latency management solutions for the buy side, sell side exchanges and electronic communication networks (ECNs) based in New York.

“Their devices can sit on a network and they will measure the granularity of latency into nanoseconds. Those are significant parts of the infrastructure in any sort of HFT strategies that we are seeing. Typically they will either sit in cabinets in our data centre or they will sit at their proximity trading server level,” says Panzica of FiberMedia.

Correlix, for example, offers RaceTeam, a latency measurement service that enables trading firms to share and manage real-time latency information

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with their clients as well as receive latency data from liquidity venues. Meanwhile, TS Associates offers TipOff network monitoring appliance and Application Tap software instrumentation card as instruments for measuring latency and monitoring middleware operational analysis.

The CorvilNet platform offers latency analytics with visual latency navigators, focusing upon network analysis, market data and transactions. Corvil's latency measurement tool aggregates transaction performance, including fill rates, per client, per venue and per gateway. Corvil's offering measures latency at a granularity that goes below one millisecond according to sources at BT Radianz, the financial services networking and scalability provider of BT, which uses the Corvil tools set to monitor latency on its fibre network.

"We are doing some further investment in this space, looking at the capabilities of some additional tools sets. This includes putting time stamps into a packet level and putting time stamps on an outbound and

inbound level," says Mark Akass, chief technology officer (CTO) for the global banking and financial markets division at BT in Irving, Texas. "The layer of detail you can get down to is almost transaction monitoring level. The monitoring tool sets are doing individual packet level. You can look at how long it took you to send a request to an exchange before it got confirmed. We are looking at vendors in the same way as we buy network equipment from different providers."

Akass says BT Radianz has a strong focus on ensuring its network has sufficient bandwidth, particularly in

spread management, skewing FED dates
plausibility checks, future equivalence
hierarchy of feeds, rate comparisons
correct holidays, export throttling
24-hour operation, fwd fwd rates
historic rollover, suspend button
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times of extreme market volatility when FX trading firms have to contend with sharp spikes in trading volumes in very short time periods. "On every application stream we reserve a bit of bandwidth. We then monitor that. If a client is suddenly getting packet drop and generating more traffic than they have the capacity to process we will be tracking this and give them advanced warning that their threshold could be hit," says Akass.

Akass says the BT Radianz network has "a lot of headroom" in its capacity model to allow for peaks and surges in trading activity. The financial services network provider also does a lot of trend analysis, which involves projecting future trading volumes between six and nine months ahead.

The right SLA

McConnell of Hibernia argues that latency and diversity guarantees are both of critical importance in any SLA. Hibernia offers route-specific latency SLAs, which enable customers of the communications group to purchase a circuit on a specific route and obtain an SLA that includes provisions for expected latency. McConnell says its customers have the right to take recourse against the company, if the Hibernia network fails to meet its provisions for latency provided to customers.

"Diversity is also critically important. In the pre-flow process with our customers, we will have our engineering team present a design which includes a down-to-the-street-level map of the circuit route. This level of detail gives them the ability to do due-diligence on their own," says McConnell. "That circuit detail will be in the contract with our customers so they will have the ability to route specific circuits in a diverse way through their network requirements. We will guarantee that their circuit is built that way for the contract."

Panzica of FiberMedia says along with roundtrip latency, high-speed FX trading firms must pay particular scrutiny to round-trip jitter – the velocity

or variance of latency during a period of time – in any SLA agreement. "Let's say your strategy depends on a 100 microseconds latency metrics and the carrier is able to deliver you that on an average but at peak times at close of business and the opening of the markets the latency goes up to 300 microseconds. For that period of time you are out of the money and you get trades cancelled. With a lower jitter variance you are going to have the predictability that your algorithms are going to be in the money," says Panzica.

Bob Giffords, an independent banking and technology analyst based in the UK, says it is important for trading firms to closely scrutinize SLAs or else monitor automated reconfiguration activity that can seriously affect latencies and fills. When a network provider

reconfigures the network service, Giffords argues that an SLA should ensure such changes are signalled in real time over the application programming interface (API). Otherwise firms will need to monitor latency to detect the change.

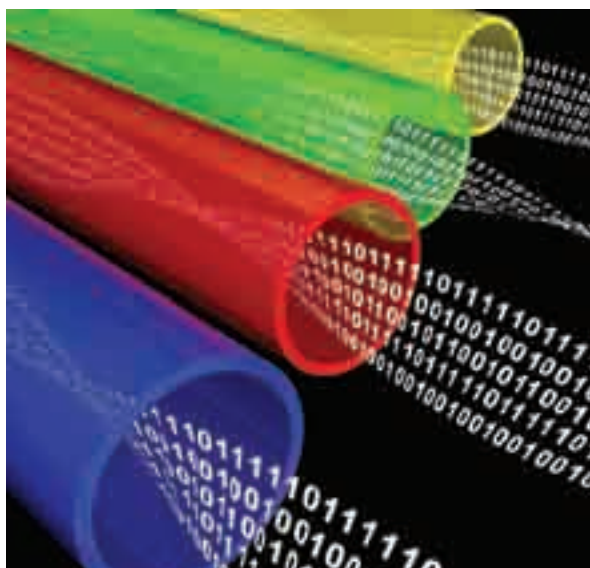
"You need to know when events occur so that you can amend routing decisions or allow for changes in fill rates, response time or changes in 'aggressivity' -- how often you have to cross the spread in order to get the trade. All

of those things should be monitored. But of course you need to understand very precisely what your normal latency is and ensure you have options in terms of load balancing and routing. It is quite a sophisticated thing that you have to do," says Giffords.

On-network activation time frames

FX trading firms' ability to get on to a new network of a managed services provider has been enhanced by the increasingly common practice of providers installing pre-lit fibre routes to specialist financial data centre providers such as Equinix. CFN Services, for example, can provision new services to its customers in a period of between one and two weeks.

Panzica of FiberMedia says managed services providers which already have a lit network in major metropolitan areas such as New York City and



London and have a co-location connection installed at a financial data centre can provide customers with connectivity in well under a week.

McConnell of Hibernia says it traditionally takes about 45 to 60 business days to activate new circuits in the marketplace, but Hibernia offers a five-day activation period for on-net fibre circuits, where infrastructure has already been installed at a financial data centre or trading venue. "Time to market is a huge advantage with us. We are a pioneer in this space. If we fail to deliver the lit circuit in five business days, the customer gets the first month free of charge," says McConnell.

Differentiating with ancillary services

Misra says the "race-to-zero" battle among different managed network fibre providers has resulted in companies differentiating themselves by selling ancillary services such as market data to capture and maintain customers, rather than just offering dark fibre. For example, CFN Services delivers market data, trading applications and trade execution services to HFT firms over its Alpha Platform.



Mark Casey

"Our dedicated bandwidth solutions built on high-performance switching guarantees specified bandwidth at all times and this is particularly important when micro-bursts or sustained increases in volume occur."

As evidence of the trend for fibre providers to focus on the delivery of ancillary services, Colt, a pan-European network operator and dark fibre provider, earlier this year purchased MarketPrizm, a trading infrastructure specialist offering services such as market data and market hosting. Meanwhile, TMX Group, the exchange operator based in Toronto, this summer acquired Atrium Network, forming TMX Atrium, a low-latency venue-neutral infrastructure for financial market participants in Europe and North America.

Prior to the acquisition, Atrium Network had built an 'exchange ring' of dark fibre connectivity between the main trading hubs in Europe. Meanwhile, TMX Group in August 2006 launched TMX - FX Foreign Exchange Data, which aggregates market data from BGCantor, Gain Capital, Hotspot FXi and UBS, providing banks with a reference point for the relative trading value of FX pairs. "TMX can pump market data over those networks [which Atrium Network has built] and potentially connect to other markets. So it creates a lot of cross-selling opportunity," says Misra.

Triangulating between venues

Akass of BT, says the communications company is continually developing its services in response to the "emerging challenge" of meeting customer demand for low-latency solutions. "If we go back four or five years, the original latency challenge was liquidity fragmentation of different venues," explains Akass.

To meet demands from trading firms executing strategies across different venues, BT Radianz launched its Ultra Access service, which provides market data and trade execution services to BT customers pursuing low-latency strategies utilizing direct market access trading. The service offers connectivity between financial firms and local exchanges in major financial centers around the world with round-trip delays of less than one millisecond.

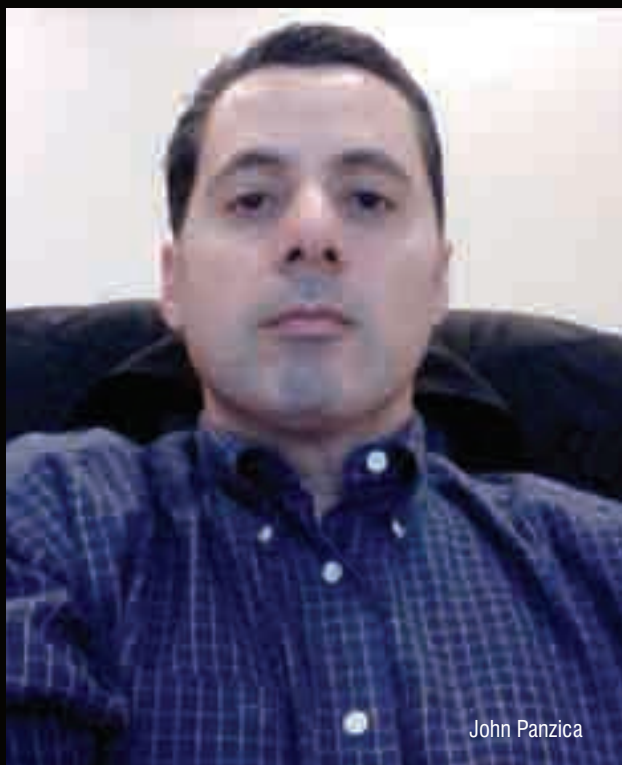
Akass says BT Radianz is now building a "next generation" of services, which build on technology such as Ultra Access. A venue interconnect service, for example, now serves customers seeking to "triangulate" trading strategies which are executed through a BT facility and various major trading venues.

"This service includes a connection between those venues so we can route more directly. This is where we are extending our routing fabric out into the venues.

We are updating connectivity, allowing connections at a more point-to-point basis between the key venues. You are talking about taking out 10s and hundreds of microseconds here,” says Akass.

In December, BT went live with a new basic fibre infrastructure which connected nine key financial centres across the globe, in a move which was specifically targeted at serving the needs of high-speed trading firms.

“Latency on a long distance can make a material difference to FX trading, in a fast moving market where prices are moving rapidly. The ability to see the pricing and execute quickly will be quite material to your success,” says Akass. “Getting to see that granularity when you are trading in a remote market, clearly that is going to help you. Otherwise you could be out of the money. If you can take 10 milliseconds off trading time, that’s quite a difference.”



John Panzica

“HFT traders want a straight route. So they will ask the dark fibre guys to run a new fibre route with zero spooled capacity and they will pay extra for it.”

Misra emphasises that the 24-hour nature of the FX market makes the development of managed fibre networks with such a global reach particularly important. For example, Equinix has data centres in New Jersey, London and Tokyo, hosting FX platforms which run in parallel, trading varying transaction volume peaks during the day. Having good network connectivity between these venues has become part of the fabric of trading strategies.

“FX trading firms are creating a ring between London, New York and Tokyo. New orders will then always hit the fastest route. When the fastest side of the ring breaks, you will be going in reverse around the other side,” explains Misra.

Asia a new frontier

While fierce competition between the major managed fibre network providers has established high-speed connectivity between the major financial hubs, the nascent Asia region remains somewhat of a patchwork of varying standards of connectivity speeds. “I don’t think that the networks in Asia are that well optimized. That is a function of geographical differences between individual global financial centers, even in Asia itself,” explains Misra. “There are massive flight times between different locations and that is a massive investment. It costs hundreds of millions of dollars to put this stuff in.”

Akass of BT, says the fibre optic cables linking different markets in Asia are of varying levels of quality, given that many of the early cables were laid down at a low cost for general purposes.

“As the markets have matured, people are putting new fibre cables in. There are also political issues which

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sometimes constrain providers from taking the most direct path,” explains Akass. “For example, the straits of Taiwan suffered a major earthquake a few years back which took out a lot of cables. This had an impact on the market because at the time you could not get access to infrastructure in mainland China [to rectify the situation].”

However, Akass says that the quality of managed network infrastructures in Asia are now improving from a “very poor base”. The installation of high-performance dark fibre networks in Asia is being partly spurred by steps taken by major exchanges in the region to upgrade their technology infrastructure. The National Stock Exchange (NSE) in India, the Shenzhen Stock Exchange in China, the Stock Exchange of Thailand and the Tokyo Stock Exchange have all recently upgraded systems. “There is now a lot of investment [going into Asia]. There are new fibres coming on stream and we will take up new fibres wherever the performance improves,” says Akass

Partnerships

Giffords argues that in addition to obtaining access to networks which can facilitate low-latency trading, the partnerships and relationships that a managed network provider has will become critically important in the future. “The key issue in managed services is not just the technical capabilities of the firms. You have to look at who they are partnering with and in particular whether or not they are well positioned to take advantage of the expansion of the emerging markets,” says Giffords. “Those who do will probably have revenues to reinvest while those who are only strong in traditional markets may struggle to find the capital resources to do the investment to keep pace with change.”

When high-speed FX trading firms consider which managed service provider is best placed to meet their needs, having an eye on what the landscape of the financial markets will look like in the near future could be the most important consideration of all.



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FX Mythbusters: Cutting through the Cloud

Howard Tolman, Director of Cloud Trading Technologies tackles some questions on the application of Cloud Computing services within the FX trading environment.

It's too early for us to be using Cloud services. Wouldn't it be better for us to wait and see if this thing is really going to catch on amongst other FX sell-side providers and for the technology to mature?

Well the cloud has already taken off in a lot of different areas. One has to ask why the FX arena should be any different. Generally speaking the applications are unchanged and have the same functionality on the cloud as off it. However from an operating point of view cloud offers high availability and fault tolerance as standard as well as massive scalability. Cloud has also been around for a number of years already and is becoming far more sophisticated and powerful by the week.

We hear that cost savings are a key business benefit of using Cloud computing in other industries but these advantages won't necessarily translate to FX will they?

Cost is of course one of the major advantages of using the Cloud but I don't think it is generally understood how much difference it can make. A recent survey by Gartner pointed out that IT costs in banks were some 250% higher than outcomes in non banking companies. This type of gap is the difference between being massively profitable and turning in very good results. In fact trading activities, particularly those

which are developed in house, are fiendishly expensive to develop and run largely for a number of different reasons. Pay as you use services could almost have been designed for financial market trading activities because of the need to deal effectively with spikes in transactional volumes. Cloud also opens up the possibility of electronic trade distribution for banks that otherwise could not justify the budget. It is truly a game changer and could in some cases prove to be an existential threat to those institutions that intend to compete using traditional methodologies.

Wouldn't Cloud computing mean loss of operational control which could be bad for our day to day brokerage activities?

The short answer here is no. Why should there be any loss of operational control. The applications are just as transparent to operational staff as anything which is hosted internally while at the same time the high availability, fault tolerance and scalability mean less IT problems for administrative staff and greater reliability for front office activity.

The technical reliability aspects of Cloud computing worry us as we need guaranteed uptime of our mission critical FX systems and services. Can any Cloud provider really meet our high service level requirements?

High availability is one of the key advantages of using cloud delivery mechanisms. Arguably they are more reliable than internal systems and are far less taxing than internally hosted environments. Of course not all cloud offerings are the same and potential users would be well advised to do their homework before making a selection but in general I would suggest that there is no degradation by comparisons with lesser architected provision. Additionally application developers for cloud native systems are not exercised by the limitations exposed by the type of hardware constraints, load balancing etc., exposed by cluster methodologies.

Security is our top concern. Isn't everyone still talking about the risks associated with storing client and FX trade data in a Cloud environment?

Well there is a lot of talk about it. How much sense it all makes is another thing altogether. I would argue that cloud security is extremely strong and has been designed to meet the most stringent standards. After all, if the security is good enough for the United States Air Force it should be sufficient for most banks.

On a slightly more sinister note cloud computing is seen as an existential threat by many IT staff and the spectre of vested interests sometimes raises itself through the security issue. I was recently told by a broker in New York that "you know you are on the right track with the cloud when the bank security questionnaires reach 30 pages".

We have FX trading operations in many key business centres around the world. So the complexity of legal issues surrounding data governance in different jurisdictions is bound to prevent us from currently adopting a Cloud services model isn't it?

Cloud Computing providers handle these issues on a daily basis and configure their services to ensure data compliance. Equally regulatory authorities are far more sympathetic to technical innovation than most people realise particularly when they understand that the methods in question provide real benefits to the institutions under their control. People forget that it was less than 15 years ago that FX distribution services first appeared as a web based service. Similar compliance concerns surfaced at that time.

The assumption that regulatory authorities intuitively understand technological innovation is a fallacy. It is up to institutions wishing to use more efficient and cost effective delivery mechanisms and vendors to fully brief regulatory authorities. This is happening already.

Surely implementation of a Cloud solution would be too difficult for our firm as we don't have any significant in-house IT expertise?

In fact the opposite is true. For a start using applications hosted on the cloud means that the user is not required to run sophisticated data centres using their own staff. Communications are also made more simple. Roll out of remote client connection is also made significantly quicker and easier and really ceases to be a technical task becoming more administrative in nature. Even institutions using internal developers for their applications are freed from the constraints imposed by limitation of hardware capability as discussed earlier.

We are too small to benefit from Cloud computing as the technology is only of use to the really big FX players isn't it?



Howard Tolman

Once again I would argue that the opposite is true. To me the cloud is a truly revolutionary innovation which focuses minds on what institutions of all sizes should be doing. For big companies like major banks the answer should be a no brainer. Typically up to a third of bank staff are involved in IT. This is truly financial insanity on a grand scale. But the same is true of much smaller companies who need to concentrate on what their core business actually is. Businesses should harness technology to meet their needs. In the vast majority of cases, including FX e-commerce, these applications are available in spades and can be bought in the open market. Cloud techniques benefit companies of all shapes and sizes as it puts IT processing back where it should always have been, in the hands of IT professionals with all the economies of scale that that entails. It also eliminates waste of resource at the client end and greatly reduces cost and complexity. The same dynamics apply across the board.

We are experiencing a huge increase in trading volumes so wouldn't it be better for us to focus our limited IT resources on increasing the capacity of our existing trading and computer hardware infrastructures to make them more scalable and future proof rather than investing in something new like Cloud computing?

Obviously banks particularly will have to make their own decisions on these issues. Nevertheless the advent of cloud is likely to have the same type of impact as the internet did 15 years ago. Arguably inertia and an insistence on developing bespoke in house technology cost the banks dearly as they lost market share to the new electronic brokerages, portals ECN's etc. who developed superior technology more quickly. The cost impact this time around is likely to be so great that those institutions that don't use cloud techniques for delivery will very quickly find themselves truly uncompetitive. It is a King Canute moment.

We anticipate that regulatory changes in the FX market will force us to adopt and apply more real-time risk management methodologies. Won't risk calculations at times of extreme market stress and volatility be too much for Cloud architectures to deal with effectively?

I agree with the first sentence. It is clear that current risk management procedures are not fit for purpose in most asset classes. In fact to make a political point it is absolutely clear that banks have not learned anything from the sub prime debacle. Replacing it immediately with a sovereign debt crisis. We had a great chance 4 years ago to reform the banks and flunked it. Technology will now separate winners from losers. The second sentence seems to infer that existing internal IT systems could handle real-time risk management across multiple asset classes. Again I would argue that the opposite is true. My own view is that there will be a fundamental change in the way that

banks assess portfolio, credit, operational and market risk which will require far greater intellectual rigour than has been previously deployed. This will require organisations to look closely at how they manage complex multi asset class client and market portfolios and to be able to stress test those risks on demand and to come up with risk adjusted positions in more or less real-time. Also the most likely time that banks will be required to produce such reports will be after some massive market shock. The one thing that is clear to me on this is that current processing capacity will not be able to handle this type of demand. Given this premise it is hard to see how anything other than the processing power available from the cloud would be able to handle it.

We are based in the US and keen to white label our FX platform and trading services to clients in Asia. Wouldn't this technology only help us achieve this if we decided to work with a specialist regional provider of Cloud services?

The cloud is global and that is part of the beauty of it. A New York producer can provide services to a Malaysian user and vice versa. Microsoft have six data centres worldwide and they are unbelievably impressive and provide processing capacity on a truly gargantuan scale. The cloud will allow smaller banks, who were previously excluded from providing electronic FX services because of budget considerations, into the market. There are plenty of liquidity providers around. The distribution on a white label basis is now available at very affordable price points.



All the big technology firms now seem to be offering Cloud computing services so presumably we don't need to pick a provider who really understands the FX market?

Good question. I mentioned earlier that some cloud offerings are more comprehensive than others and it will require users to do their homework. The real decisions should be made taking into account what applications are available on the cloud and what they can do for your business. Cloud provides processing power and cloud native applications provide functionality in a cost effective and efficient manner.

Won't it be too hard for us to accurately gauge our ROI if we decide to adopt a cloud delivery service for our FX trading applications?

Why should that be the case. Cloud applications are generally priced on a software as a service basis in which the charging is totally transparent. The same cannot be said of internal IT which is riven with hidden costs.

We run our FX business as well as can be expected in the current economic environment. Why should we treat Cloud computing as an opportunity rather than a threat to our existing profitable trading model?

At the risk of repeating myself I would contend that cloud computing is going to fundamentally change IT delivery not just to banks and brokers but to all kinds of institutions. Banks in particular are going to be massively affected given their huge internal IT focus. The benefits of cloud computing can be distilled into three areas. These are cost, convenience and scalability. This will affect core business such as payment processing right through to peripheral areas. Those that don't get their IT strategy right to drastically reduce transactional unit delivery costs will over the medium term face not just loss of business in a particular sector but an existential threat across the enterprise. I don't know whether this adequately answers the question but the cloud is potentially a real game changer. Those that ignore its impact will almost certainly be marginalised.

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FX Algos – the smartest new kids on the block?

The world of FX algorithmic trading continues to develop on all fronts. On a technical level the algos are increasingly sophisticated as developers bid to match the market's appetite for lower latency, better performance and more complex trading strategies. And on a commercial level, providers continue to offer new algo trading services. Nicholas Pratt canvasses a leading technology vendor and two leading FX banks to see what we can expect to see in the algorithmic FX trading space during 2012.

In 2012 regulation is set to be more influential in the FX market than has previously been the case. The continuing reform of the over the counter (OTC) derivatives market and the emergence of swaps execution facilities (SEFs) is likely to lead to a sizeable increase in algorithmic trading. And the FX market is likely to feature in firm's algorithmically-driven multi-asset trading strategies. This last development invites comparisons between the algos developed for equities trading and those developed for the FX market. There are clear similarities, as can be seen by the commercial success of algo trading services that started off in the equities world and have been subsequently repackaged for the FX market. And given the relative complexities of the FX market structure, we may even reach a point

where FX algos actually overtake those in the equities world in the way that they add precision to the equities marketplace.

Progress Software does not directly develop FX algorithms but provides the tools and technology for banks and other trading firms to do so. Generally, says Dan Hubscher, capital markets industry marketing manager, the algos are not developed in isolation but as part of an overall trading service that combines execution algorithms with liquidity aggregation and smart order routing. One trend that Hubscher has seen in the FX algo space is the increasing number of banks that are not just developing algos to sell to their clients as part of an execution service offering but also looking to use algorithms for their own internal use, something that is especially evident among the larger tier one banks. "The internalisation enables banks to lower their execution costs through internal crossing and matching of client orders. For example, when a number of orders come in, instead of sending a second order to be executed externally, you could amend an existing order by crossing it internally. Taking a real-time view of all your positions is key to achieving this.

Hubscher is also witnessing an increased use of FX algos for cross-asset trading, especially where FX is one leg of a multi-asset trade. Internalisation is also a factor in this regard. "Many banks will try to execute



the FX leg of a multi-asset trade internally by sending it to their FX spot desk. Depending on the order, it may be executed externally anyway but they key to making that decision is the transparency and visibility that a bank has on its own positions and internal order book. This is where customisation starts to play a role.”

Customisation

For the less liquid currencies and products, customisation also becomes an issue, says Hubscher. “In terms of liquidity aggregation and smart order routing, it is not just about knowing where to look for liquidity but to ask the right questions once you get there. For highly liquid currency pairs, it can simply be a matter of streaming quotes. If you have a good relationship with a liquidity provider, this can affect the quality of the liquidity, especially in less liquid currency pairs. So what the algo developers are looking to do is automate that relationship aspect. It is a natural extension of the development work that has already been done and is a case of upgrading the clients’ set-up and fine-tuning and customising

their algorithms so that they are specific to each of their counterparties, says Hubscher. “For example, we recently had a client where we installed a speed-bump. They were sending orders to ECNs and single banks but by the time they were getting the single bank orders back, in order to hedge the positions, the market was already moving against the bank. So we put in a speed bump to give the bank more time to be able to hedge its positions.”

Regulation

Regulation is another area of increasing interest for the FX market. It is an area that the FX industry has watched from a distance for some time but it is now beginning to address the issue, says Hubscher. “The general point of view was that the FX market had been fine, there had been no major crashes and therefore did not need any major reforms. But now there is nowhere left to hide. And with FX swaps, the mandates are increasing for trading on new centralised platforms.

“I think the introduction of swap execution facilities (SEFs) will lead to an increase in algo trading but I don’t know how dramatic that increase will be. All of the things that SEFs necessitate, such as standardised instruments and competition between execution venues, are suited to high frequency or algorithmic trading. But there needs to be the market interest in the instruments, as has been the case with credit derivatives and interest rate swaps, as well as the various measures needed to protect market integrity, such as high speed controls and pricing transparency.” There are precedents in the FX market, says Hubscher. “With spot FX we realised how quickly you could add automation to an OTC market. In most cases, you can automate the easy parts and then flag up the high-volume orders to be traded manually so that a kind of hybrid market develops.”



Dan Hubscher

“All of the things that SEFs necessitate, such as standardised instruments and competition between execution venues, are suited to high frequency or algorithmic trading.”

Another development in the algorithmic trading market is the ever decreasing shelf-life of the algos, says Hubscher. “It was said that the average lifespan of an equities algo was three months and we are now seeing the same thing happen with FX as traders discover new opportunities. But the important issue is not how long the algos last but whether you have the tools to determine when your algos are no longer effective. For example, are you still getting the fill rates? Do other market participants recognise your trading strategies? Are they able to predict your executions? It is then important to put customisation

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tools in the hands of the business users and the traders so that they can clearly express their views and either the technical teams can upgrade the algos or, where appropriate, the traders can make the upgrades themselves. It is really about being collaborative when it comes to upgrading the algos.”

New developments in 2012

So what developments can we expect in 2012? “Most of the feedback we get from customers is about the ability to develop execution algorithms,” says Hubscher. “A lot of the large trading platforms and execution management systems do not seem to be suited to developing execution algorithms so maybe there is room for a lightweight development platform. We are also seeing more complex trading strategies in the FX world. For example, there is a greater interest in FX futures. It is one thing to run a cross-asset trading strategy but if you are able to convert an FX future to look like an FX spot trade, it becomes much easier to develop an algorithm for trading FX futures. It is not straight-forward and it does require a great deal of customisation but I expect this to be an area of continuing focus for 2012.”

Credit Suisse has developed FX algos for two primary uses – the first is for its own internal use to optimise its own pricing and risk engine in order to offer the tightest spreads; the second is to offer an execution service for clients. In terms of the latter use, Credit Suisse has adapted the suite of algos developed for the equities market to reflect the behaviour of the FX market. “The biggest difference between equities and FX is the market data available,” says Ian Green, the head of Fixed Income E-commerce at Credit Suisse. “In equities you are dealing on an exchange and you have full depth of market data whereas that is not the case in FX.”

Clients are increasingly trading in multiple asset classes, hence Credit Suisse’s decision to make their algos available in a range of markets. “Clients that have used our algos in one asset class will find our APIs work just as conveniently in another asset class,” says Green. There is also a growing demand for less liquid currencies however there is not yet a comparably developed agency market for laying off risk in FX options. “If you look at the ECNs that are catering for these instruments, you see that it is not possible to trade FX options in the same way as spot FX. However, we continue to expand our range of capabilities for electronic options trading and across



Ian Green

“A lot of the execution problems you have to solve in the FX market are more difficult than in other asset classes,”

the market there is pressure for more provision. To an extent, this has been in anticipation of possible regulation but now, like much in e-commerce, it has its own momentum that is leading to continuing change irrespective of whether or when new regulations are introduced. “In terms of the algos that we use for our own market-making, we are sensitive to market changes such as when earlier this year EBS moved to pricing on deci-pips,” says Green. “Many banks that came to electronic market making from a trader tools background had a robust and consistent approach to automated trading in normal markets. However, in the event of a market crisis you need a more powerful and empowered machine to offer consistent pricing. With our algos that stress is already built into the system. For some dealers it may be unsuitable to maintain a comprehensive pricing capability that can keep up with the current levels of volatility and strains on liquidity but we spent a lot of time developing this capability three years ago.”

Increasing complexity

Could FX algos develop to the point where they are more complex than equities algos? “A lot of the

execution problems you have to solve in the FX market are more difficult than in other asset classes,” says Green. “It is a hybrid market with limited information. But the algos in all asset classes do very similar things and high-level algo design can carry over well. From a market-making perspective, the FX algos are as sophisticated as any others and from a client-facing perspective, we want to offer a consistent level of sophistication for all asset classes.”

In terms of new developments for 2012, Green highlights the fact that the FX market is increasingly competitive with more and more firms offering liquidity, characteristics that are likely to spur the developers of algo services into greater commercial activity. “Much of our focus for 2012 will be on providing consistent liquidity to clients in a more hybridised market place. The key themes are deepening our liquidity partnerships and continuing to stay on the forefront of quantitative technology for market-making. We are also looking to focus on FX options and the emergence of SEF-like venues.”

“As a firm, we like e-trading and we put out a lot of prices across a lot of asset classes so we want to be on the leading edge in terms of responding to the emergence of SEFs. These kinds of market development suit Credit Suisse. We did well when the equities market moved to agency trading, we did well when FX options became electronically traded and we have done well in spot FX as more of the market has been shaped by non-traditional liquidity providers.”

Credit Suisse is not alone in targeting FX as a marketplace for its algo offerings. “As a provider of execution services in general, we have to accommodate the business processes that our customers are faced with,” says Ed Mount, head of FX Technology Based Trading in the Global Banking & Markets division

of RBS. “We provide liquidity to the high frequency trading space and we accommodate our own customer flow so we need to understand what the pure macro arbitrage machines are doing because we are on the other side of those trades as liquidity providers. We also have to understand what we call redeveloped tools for structured order management which although is in the algo space it is not necessarily for high frequency trading.”

Algorithmic trading is not just high frequency trading, says Mount. “It’s also a rules-based system that depends on the execution and simultaneous interaction with the market. There are systems in the market being offered by banks that are designed as basic algo trading toolsets (such as Credit Suisse’s AES). What we are developing is more customised than that.”

Calibrating trading objectives

The idea, says Mount, is to work closely with the client in terms of calibrating their trading objectives, defining their market behaviour and replicating their business processes – the end result being that execution can be automated to each client’s specific needs. “The clients aren’t uniform so

that’s the challenge we have at the bank,” says Tim Carrington, global head of foreign exchange at RBS. “The ways that they go about executing can be compartmentalised into fairly standard sets of order management and then there is the more specific part which can sit alongside and interact with those standards. The market standard TWAP and VWAP methodologies can be combined with the specific rules-based systems that clients have. This sits on the clients’ desktop and allows them to develop the tools themselves.”

In September 2011, RBS launched its FX automated trading system, RBS Agile, which is principally





"There is more awareness of transaction cost across our entire client base and therefore transparency is vital."

designed for the spot FX market and can be used in various ways including gamma hedging for FX options. "We have used RBS Agile internally for almost two years where it was originally designed for the hybrids desk to execute its static gamma," says Tim Carrington. "I arrived at RBS 13 months ago and we started to develop a second version for clients. We beta tested during the first half of this year and officially launched in the third quarter. I genuinely believe it is the only product of its kind in the market at the moment."

What Carrington believes is unique about RBS Agile is the fact that it can be laid directly onto the client's desktop, enabling them to control the execution experience rather than being reliant on vendor support staff. "Up to now the focus on algorithms has always been on the speed of execution and how much you can execute, whereas the decision to execute has been entirely manual. Our algorithms understand the concept of gamma (the rate of change in respect to the underlying asset's price – for example, the change to an FX option delta if the underlying FX spot has moved). Gamma trading is an increasingly prominent market in FX – 95% of the FX spot traded in the FX

options market is by people trading gamma. What we have is an algo that understands that gamma market. If you tell it what your gamma profile is, it will decide when to trade for you – it is automating the trading logic."

"Developing these customised algos is something that we get very involved with. We provide the resources of the bank (our quantitative research people and structuring sales people) to come to the conclusion that we can model the clients' decision-making," says Mount. "The clients are able to work with our technology, put in their own parameters and automatically know that their wishes will be followed by the logic of the algorithms that they have helped design. It is then a constant tweaking of the algos as the client becomes more familiar with both the execution results and their own trading goals. It becomes almost a revelation for the client because we take the emotion out of the experience by programming it into the logic and the results of the transactions tell the story of how the client is making their decisions."

Self catering

Some clients are more suited to self-catering than others, says Carrington, even if it is a small section of the overall market. "There are some very sophisticated clients, among corporates and not just high frequency traders, who will want the capacity to tweak things themselves to optimise their own returns. For example, some corporate treasurers have a very good understanding of how algos work and have their own quant teams, not necessarily to build their own algos but to oversee that tweaking process and to understand when to turn one algo on and another one off."

Will derivatives reform and the emergence of swaps execution facilities help to increase algorithmic trading in the FX market? "One of the capabilities of RBS Agile, an algorithm that understands derivatives, is that it gives you a degree of option replication for cash," says Carrington. "If the OTC market becomes very regulated then I think you will see an increase in demand for algorithms that can replicate optionality and options portfolios."

FX options is a blue ribbon business at RBS says Carrington so there is a clear intention to develop tools for this market. "We are also looking to

deliver the analytics we have internally in terms of understanding options curves and surfaces, tick data and different gamma profiles within the same suite of products as the algos that will trade the gamma on these options. So it is an holistic set of products that enables the clients to first understand what it is they are trying to achieve, then run the analytics, then automate the options trades. If they are able to trade options, they will trade gamma and if not, they will use an options replicator.”

In essence it is a stage beyond the old black box approach to execution algorithms where clients were handed a machine that simply did things without offering a particular explanation of how they were achieved. “Our aim is to be 100% transparent and get our clients extremely comfortable with the idea that their executions are being affected per their own desires,” says Mount. “There is more awareness of transaction cost across our entire client base and therefore transparency is vital. We are transacting in the tightest markets possible because we are active market makers and this affects those transactions according to the rules that they set so its puts more

control in their hands and removes the emotion from the process.”

So what areas will be the focus for 2012? “We aim to integrate all aspects of the clients FX trading experience so that includes the analytics, the execution and the decision-making that comes with any of the trading decisions that are made,” says Mount. “And we want to develop the capacity for customisation and to deliver bespoke solutions in a shorter space of time. We also want to develop different GUIs. The difference between RBS Agile™ and conventional execution algorithms is that there will be a lot of moving positions that you need to see depending on what type of user you are and your trading activity – for example, if you are trading gammas, you need to see the balance of your deltas. If you are a central bank dynamically balancing your reserves, you need to see the reserve portfolio plus the factors by which you want to tune it.”

Multi-asset class algos

Although RBS Agile is being described as a spot FX trading algo and is expected to be used for gamma hedging, Carrington emphasises that it is designed to be a multi-asset class product that interacts with the futures and fixed income markets and uses the same interface used for the FX market. Pushing the products multi-asset class capability will be a big focus for the bank in 2012 says Carrington given the increased appetite for multi-asset class trading. According to Carrington, the age of the multi-asset algo is already upon us. “RBS Agile is a multi-asset algorithm and we already use it in our own hybrids business to execute equity futures and interest rate futures as well as spot FX and that will be something we will be rolling out to clients in 2012. Pretty much anything that has a future in it, we can execute through RBS Agile.”

Equity algos have always been viewed as more advanced than any other asset class algos – not least because equity algos were the forerunners and developed in sophistication at a rapid rate. While the fixed income market may still be in the relative dark ages when it comes to electronic and algorithmic trading, FX algos are now as advanced as their equity counterparts, says Carrington. “The equities market may be more advanced in its use of algorithms but in terms of the complexity of the actual algorithms and the mathematics behind it, I think the FX market is at least on level terms.”



Tim Carrington

“The equities market may be more advanced in its use of algorithms but in terms of the complexity of the actual algorithms and the mathematics behind it, I think the FX market is at least on level terms.”

Avoiding the pitfalls of launching a forex brokerage



Heather McLean

Heather McLean discovers that starting up a new electronic foreign exchange brokerage is a task littered with pitfalls, bear traps and electronic fences. However, approaching this entrepreneurial mission well researched means you will be well armed to overcome the problems and take the strategic decisions that lie ahead.



When asked to identify some of the main hurdles associated with starting an FX brokerage Lior Shmueli, vice president for business development at Leverage, notes: “Many aspiring brokers would like to start their own independent online forex brokerages, but it can be difficult to anticipate the full extent of what is involved in the process of starting this type of venture.

The first most challenging aspect of starting a forex brokerage is the legal requirement. Obtaining the appropriate legal structure for a forex firm, such as meeting regulatory requirements, opening the corporate bank account, and company incorporation, all present an obstacle for new brokers. This, coupled with proper configuration of the platform, accessing liquidity providers and partnering with fast, accurate feed sources, can cause delays for firms as they start their own operations.”



Shmueli adds that apart from the technological and legal hurdles, many new brokers spend countless hours and resources looking for the best providers for various different products and services, such as website design, marketing services and live chat, to name a few. He continues: “The importance of having a competitive edge over other brokers is the key to success when entering this industry, and there are many companies that can be found offering ‘turn key’ solutions, however most do not encompass every aspect of starting a brokerage firm. Partnering with an IT solutions company that offers not only a true turn key solution but also a one stop shop for all the necessities required to start a brokerage, is the ideal way to minimise the obstacles in starting a brokerage firm.”

Technology provision

Andrew Ralich, CEO at oneZero, comments on what needs to be got right from the start. He says, “From a

technology perspective, it’s very important for a broker to choose the right providers from the beginning. More and more brokerages are opting to outsource their technology in order to focus more on their core business and marketing. It’s critical for a new broker to consider how their technology provider will grow with them, and whether or not they are using a true technology provider or a hybrid brokerage/technology firm. Many ‘low cost’ or ‘turn key’ solutions end up creating a ceiling of control and flexibility that may be very difficult to break through as a broker grows,” he warns.

Yet setting up a brokerage firm in a market environment that is seen as ‘almost saturated’ requires more than ever specific focus on distinctive value propositions for competitive differentiation, observes Ralf Behnstedt, managing partner at FXA International. “Business and process items that are pretty much standard in every brokerage firm will not bring new clients on board. But there are quite a few items that a lot of firms are outlining as business values, but that are difficult to deliver. Among those is, for example, a proper Introducing Broker strategy, proper business process and IT white label strategy and solution, or pre and post trade services.”

Regulation

Meanwhile, Stephen G. Leahy, president at Capital Markets Access Partners, comments that regulation is the primary troublesome hurdle for start ups: “Regulation and capital are the primary barriers to starting a Margin Trading Products (MTP) brokerage (we define MTP as spot FX, CFDs and futures contracts). There has been a period of regulatory arbitrage whereby firms were opening up in lightly regulated jurisdictions, but we see those opportunities shrinking as the industry matures. We believe that regulators across the globe are inching closer to a level of cooperation never seen before and that the vast majority of the industry will fall under registration and regulation restrictions closer to those of the more developed regulatory regimes.”

“That leaves capital as a barrier,” continues Leahy. “The increasing need for capital in the primary jurisdictions and increasing volatility of the markets mean no matter if a broker uses an STP model, a traditional dealing desk model, or a combination of both, there is a greater need for capital. An STP business model creates a higher return on equity to the brokerage ownership, but even STP brokers have increasing need for regulatory



Lior Shmueli

“Partnering with an IT solutions company that offers not only a true turn key solution but also a one stop shop for all the necessities required to start a brokerage, is the ideal way to minimise the obstacles in starting a brokerage firm.”

capital. Similar to the increased regulatory need for capital, the operational need for capital means that there are fewer and fewer firms gaining a larger portion of the market for MTP trading clients.”

Dr. Stelios Platis, managing director at MAP S.Platis, agrees that regulation is an issue: “One of the main hurdles for start ups is dealing effectively with the required regulation. On the other hand, being regulated in a respectable jurisdiction is a proof of one’s ability to safeguard clients’ money, providing best execution to one’s clients, handling clients’ requests and even guaranteeing an amount in case of bankruptcy. And this has unquestionable marketing value.”

“However, being regulated also implies an important cost not easy to bear by some start ups,” continues Platis. “Furthermore, regulation restricts (especially to non-experts) some aspects of marketing and even profit making. This leads to a common mistake, which is to first try out the business without regulation until one grows, something that may end up costing a brand and even its directors and shareholders their aspirations of ever becoming regulated in the future.”

Staying legal

Platis says being regulated is important for a start up as it adds weight to it from a client’s perspective. “There is an undoubtedly increased marketing value in a regulated firm versus an unregulated one. Especially in these times, where the protection of investors’ money is as important as returns. A regulated firm can demonstrate such protection by reference to the regulator and the jurisdiction it is under. This is why EU-regulated FX entities can be seen to be growing so fast recently.”

The legal jurisdiction of an FX brokerage firm will be one of the key factors on which to base the decision for the location of a start up, says Behnstedt. “The recent regulatory discussions about the Dodd-Frank rules and their implementation plays an important role here,” states Behnstedt. “Obviously, from a brokerage firm perspective, the legal jurisdiction with the lowest regulatory requirement seems to be the best choice for location, but on the other hand clients want to deal with brokers where a proper trading environment has been ensured by respective legal requirements. So, brokerage firms need to balance the residence choice with their envisaged business proposition. Once the legal jurisdiction has been chosen we strongly advise consultation with local legal and tax advisors to work out a plan for successful registration of the company.”

Getting registered

On the steps required to make sure firms are properly registered, and all relevant legal and compliance requirements are met in the region they will be operating in, Platis advises that the key is doing your homework. He explains: “The most important step in this direction is first to do your research, and do it well. Selecting a suitable jurisdiction to set up your brokerage is the most important step. One has to weigh between reputation and cost to maintain a license in that jurisdiction. Getting a license is relatively easy and relatively cost efficient, if one chooses the right consultant, of course.”

“However, the most important calculation is the operating cost in that jurisdiction,” Platis adds. “For example, think about the cost to maintain any necessary physical presence, compliance officers, internal auditors, and the frequency and depth of regulatory reporting, amongst other considerations.”

Leahy also notes: “Budget for and hire attorneys, consultants and technology providers who have existing global clients and who are knowledgeable in

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global regulations. Few MTP firms operate in just one jurisdiction now, so a global perspective by all parties influencing strategic decisions is necessary.”

Tom Higgins, CEO at Gold-i, agrees: “Regulatory compliance is incredibly complicated so it is always worth going to an expert in the region that you are targeting. Gold-i has partnered with a number of compliance consultants who specialise in different regulatory regimes to address this need.”

Business models

On how firms can tailor their trading technology architectures to the specific retail FX business models they will be using, Shmuely states that this is now straightforward. “They simply need to find a provider that offers trading technology that allows for the architecture to be designed and built specifically according to the brokers’ business models, and which is able to support any variation of business model in the one central solution. This gives brokers the flexibility needed in order to operate their brokerage firms how they choose, according to their specific business models,”

Shmuely continues. “With a team of experts, Leverage assists brokers with configuring hedging strategies in

the Leverage Risk Management System, and the team works individually with each broker to configure the settings of the brokerage by arranging groups for market making and STP, accordingly.”

Leahy says his company focuses on the MetaQuotes Platforms for clients: “Within MT4 and MT5 there are ways to segregate client accounts that allow brokers to offer different pricing models to clients on the front end, and handle client orders differently on the back end. Some jurisdictions now require proof from the brokers that they are STP’ing each client order. At CMAP we use oneZero Financial Liquidity Bridges that give our clients full reporting capabilities, such as detailing client orders into the MetaQuotes platforms, sending orders to the execution platforms, and matching them with executions and responding messages back into the Metaquotes platforms.”

While Ralich says offering a platform like MT4 is an easy way to attract clients, it can also be more difficult to differentiate a MetaTrader offering from other brokers because of its wide usage. However, he adds: “Offering multiple platforms and trading facilities (such as web based, mobile, and more,) to clients is ideal from a sales standpoint, but it can be difficult to risk manage risk and administrate clients across multiple platforms. At oneZero, we work with our brokerage partners to develop and deploy technology solutions that centralise risk management across multiple platforms, and standardise client onboarding, CRM and administrative functions into a centralised back office.”

Platforms and infrastructure

On the key considerations for choosing trading platforms, hosted servers and data centres, Ralich comments that brokers should look at a few factors: what type of clients they are looking to attract; where these clients are located geographically; and what regulatory restrictions exist for trading in these specific areas.

He adds: “In an STP model, regardless of where the trading platform is hosted, the trades will need to make it to an ECN or bank eventually. The broker must work to reduce latency back to their liquidity provider (which in most cases means routing back to New York). Services like hosted bridging, VPS and co-location can help augment an STP offering. This type of combined set up allows the client terminals, trading server and liquidity to all sit in the same location. At oneZero, we have recently deployed an end to end solution in Equinix NY4 to help our broker partners



Andrew Ralich

“It’s critical for a new broker to consider how their technology provider will grow with them, and whether or not they are using a true technology provider or a hybrid brokeragetechnology firm.”



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minimise latency between the critical components of their system and their clients.”

While Leahy recommends: “Take a hard look at your client base and prospective client base. Not all brokers need the highest level of speed, stability and reliability. If you are in a jurisdiction that regulates MTP lightly, and have true retail clients with smaller account sizes, then a top tier data centre is not a necessary expense. But if you operate within a regulated environment where the penalties for platform issues can be expensive, or if you have high value clients who are knowledgeable, then the costs of using technology services such as our Equinix NY4-hosted platforms can not just keep you out of trouble, but can be a competitive advantage.

“Location is also an issue,” agrees Leahy. “Brokers in Japan who wish to STP client orders face the distance of a round trip to the New York City area to access the pricing engines of the liquidity providers. But if they handle risk in a traditional dealing desk model, they can approve client orders without the digital round trip to New York. Most platforms allow for both methodologies, but these issues need to be discussed with your technology providers.”

Higgins also notes: “Once the trading platform has been chosen it needs to be hosted in a professional data centre. There are many cheap web-centric data centres, but their service is normally very poor as they are designed for marketing websites and not for real time, high value trading. Choose a main data centre that



Dr Stelios Platis

“..being regulated in a respectable jurisdiction is a proof of one’s ability to safeguard clients’ money, providing best execution to one’s clients, handling clients’ requests and even guaranteeing an amount in case of bankruptcy. And this has unquestionable marketing value.”

has built-in redundancy, multiple internet connections and 24x7 customer support,” he recommends. “Always have a backup data centre, in another location, provided





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Stephen Leahy

"Budget for and hire attorneys, consultants and technology providers who have existing global clients and who are knowledgeable in global regulations. Few MTP firms operate in just one jurisdiction now, so a global perspective by all parties influencing strategic decisions is necessary."

by a different supplier and implement real time replication between the two. And choose the fastest servers that you can afford as this is much cheaper than upgrading later as the business grows."

Revenue growth

Ralich adds that one of the easiest ways to predictably grow revenue based on volume is to employ a pure-STP model, where the majority of revenue is generated through spreads and commissions. He explains: "This limits the swings in revenue based on client trading during the early stages, as the brokerage becomes more sophisticated in understanding its appetite for risk and clients' trading habits. As a start up FX brokerage matures, it is most likely they will look to employ a combination model of Market Making and STP. It's important to choose a technology that will be flexible to scale to either model as the business needs of the broker evolve."

Behnstedt notes that for growth, differentiation is vital. "Fast trade execution is key, but again, the real competitive differentiation will be achieved by

offering pre and post trade services in a way that supports client business processes like they have never seen before," he says. "One key topic here is how to leverage interaction between different technology solutions. For example, using the mobile phone, a limit order will be captured and based on a predefined threshold, and the user will be informed via his mobile solution that the limit order is now just a couple of pips away from being executed, then information about the execution. These kind of ubiquitous technology uses are facilitating the advent of business processes always at the client's side. New appliances like tablets have also to be taken into account."

While Higgins says: "One of the first and most important decisions a new forex firm has to make is regarding risk management. How much risk is the company prepared or capable of carrying, and therefore how much business will they be looking to cover in the market? This will guide their technology partner selection. If they favour Market Making, then advanced position monitoring, such as provided by the Gold-i Position Keeper, will be required, and if they prefer to STP into the market then a fast and reliable bridge is needed, such as the Gold-i Gate Bridge."

Higgins stresses that good connectivity to liquidity providers for rates or for STP is essential and observes: "High latency or unreliability will have a major impact on profitability and client retention. Institutional firms opt for dedicated private wires between counterparties whereas nearly all retail brokers rely on the internet because of cost. Brokers should choose technology partners who will allow them the freedom to choose the liquidity providers that best meet their needs, and who are willing to customise and enhance their products if required."

Outsourcing

But you don't have to do it all yourself. On outsourcing, Behnstedt comments there are companies, especially those using the opportunities provided by white labelling systems and processes, that have outsourced almost everything. "These companies just have their brand and logo still held internally; the rest is in the hands of other companies. However, others have not outsourced anything at all as they believe they can provide everything on their own. In general, we can say that outsourcing itself will not bring any added value to the value chain overall, but that it enables every piece of the value chain to be questioned in terms of 'are we offering the right level of service here at a cost level that still allows us to

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operate efficiently?'. There is no recommended level of outsourcing but there is definitely a minimum level of service quality required!"

Ralich states: "At oneZero we've been seeing a trend towards virtual trading desks, or outsourced risk management options, where the brokerage allows a third party to manage their risk in exchange for a share of profits. We are working with a number of such providers to help provide custom solutions for virtual trade desks that allow for flexible risk management, transparent reporting and administrative control of risk and hedging limits and consolidation of exposure monitoring across multiple platforms simultaneously."

However, Higgins says firms need to be very cautious when outsourcing the trading desk: "Outsource everything that you can and use serviced offices, but be very careful if you consider outsourcing your trading desk as that is where you will either make your money or lose your business. Whatever you do decide to outsource, keep a very close relationship with your suppliers and try to actively manage them."



Tom Higgins

"High quality and superb customer service are always the most important part of a brokerage, especially when the space is already crowded. If you give a good deal to your clients and treat them fairly, then they will be loyal to you and will recommend you."

The dealing and risk management should be managed by the entity that holds the equity in the broker, states Leahy. "Outsourcing risk management leads to confusion and arguments. If you want to run a risk model brokerage, make sure you have the team in place to do it. We think that the end-user facing brokerage firms should focus on sales and marketing, and get paid a high percentage of the available revenues for that service, because they interact directly with the traders. At the other end of the client order is the market maker on the other side of the trader's order."

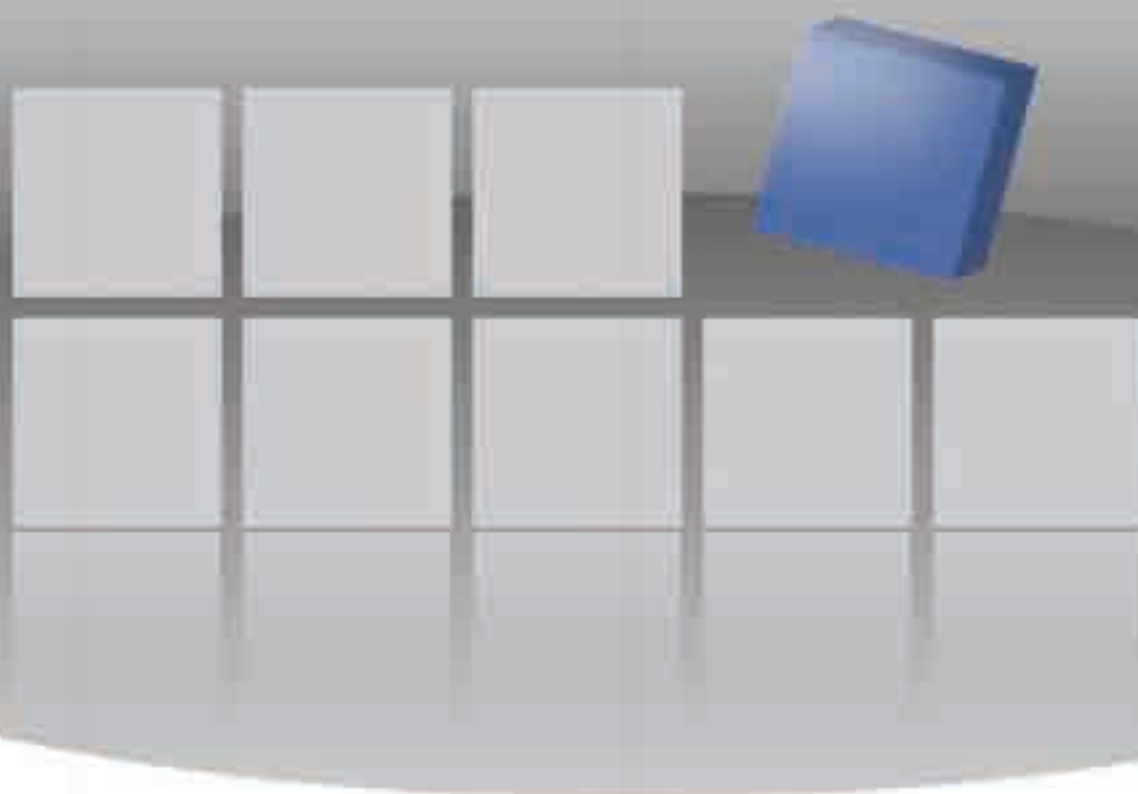
"The risk management field has grown increasingly complex in the last 10 years," adds Leahy. "We think leaving the risk management to the pros is the way to go. When you make your brokerage an agency model (pass through) there is less capital needed and a steadier stream of revenues. In short, the equity holders of a brokerage increase their return on equity with an agency business model."

All aboard!

On what are the most effective methodologies for client on-boarding and retention schemes, Ralich says it is important to keep up with client demands by having efficient processes for on-boarding and, more critically, funding of accounts. "Once a client passes due diligence, facilities such as credit card or bank transfer processing, which are hooked directly into the clients account, help expedite the delay from sign up to trading. Many of our clients are putting into place direct web-based funding mechanisms, tied into their back office or even directly into platforms such as MT4," he remarks.

Leahy says his firm believes that brokers are still the best equipped entities to handle client on-boarding. "Some brokers use an outsourced model and ask their platform providers to act as an operations team, but firms that outsource client on-boarding see delays in the account opening process, which can be a competitive disadvantage. Additionally, asking a technology provider to interface directly with end user traders could trigger regulatory issues."

As for the most effective methodologies for client on-boarding and retention schemes, differentiation is key according to Higgins. "Find a way to differentiate yourself from your many competitors, and then develop a coherent and unified image for the company. High quality and superb customer service are always the most important part of a brokerage, especially when the space is already crowded. If you give a good deal to your clients and treat them fairly, then they will be loyal to you and will recommend you."



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Back office operations

As to how brokers can best utilise CRM and other systems to optimise their back office operations and payment processing systems, Behnstedt says that within the last couple of years, huge changes have happened in the client relationship management market, and these changes will continue. "Just 10 years ago this area was about maintaining client addresses, but now topics like client segmentation, ranking, behavioural targeting and others are playing an important role in the overall client relationship management approach. We believe that using a properly evolved CRM approach that will be continuously optimised is maybe the most effective way to ensure your brokerage firm will continue to grow based on a captive client base."

Ralich adds: "Centralising the CRM system is an essential part of offering multiple platforms. It can be difficult for a broker to train administrative staff on multiple on-boarding and client upkeep methodologies. We have worked with a number of companies to implement Salesforce and other custom CRM integrations directly into the MT4 Platform."

Leahy also states that, "CRM software that is linked to and integrated with client trading platforms is a huge step in the evolution of client retention, so we consider it critical to the success of retail-facing brokers who are targeting a large audience of prospective and live clients. We have worked with a few external software providers to link MT4 platforms to existing CRM platforms. At a minimum we think that brokers need to have some level of software that integrates with the trading platforms so that brokers can handle the process of compensating Introducing Agents in real time. Introducing Agents still represent a large client base for the brokers and they want to run their businesses efficiently."

Bridging

When it comes to selecting a liquidity bridge provider, a start up brokerage has a number of different options, notes Ralich. He says some companies offer liquidity and bridging in one bundled package. Alternatively there are also bridges available that are liquidity-agnostic, and work with any feed or API. He states: "Choosing to go with a bundled package means that down the road, if you are unhappy with your bridge or liquidity, you will have to swap both components. This can be very difficult to accomplish seamlessly. Brokers must make sure they are choosing partners that will scale both in technology and liquidity offerings, in a way that meets their goals as a firm."



Ralf Behnstedt

"We believe that using a properly evolved CRM approach that will be continuously optimised is maybe the most effective way to ensure your brokerage firm will continue to grow based on a captive client base."

Higgins also says that if the broker wishes to carry risk, the primary driver is how much capital they have and the requirements of the particular regulator. "A broker may choose to 100% cover certain asset classes, such as Futures and Equities, but run 50% of the risk on FX. The bridging technology that is chosen needs to support these complex risk management decisions and many liquidity bridges are simply not capable of this," he comments.

Conclusion

Finally, Higgins concludes that partners and plans, when united, mean a new company can be off to a flying start: "A modern brokerage is comprised of a mix of risk management, PR, marketing and technology. When the risk management and technology have been selected and implemented, an integrated PR and marketing plan needs to be developed. Marketing and PR agencies can assist but the ideas must come from you. "Partnerships that bring value to both parties are always a good idea, so make sure that you can clearly identify the benefit for both sides right from the start," he says.

Gold-i Turns MetaTrader into Multi Asset Trading Platform

Gold-i, a global market leader in trading systems integration, is aiming to revolutionise the industry this year by transforming MetaTrader, the world's most popular trading platform for FX, into a multi-asset trading platform. In our three step guide below, we outline details of one of the biggest industry developments for 2012.

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Tom Higgins

Tom Higgins, CEO of Gold-i, comments: "Gold-i has always been at the forefront of the trading technology industry. We are very proud to be the first to offer multi-asset trading to the MetaTrader market. It is an industry first and a significant step forward in opening up new opportunities to MetaTrader users across the globe."

has developed its latest offering in partnership with PAT Systems, GL Trade (a Sungard product) Fastfill and LMAX.

Why?

Transforming MetaTrader into a multi-asset trading platform opens up a wealth of opportunities for brokers to grow their business amongst existing traders and also to attract new clients.

To date, MetaTrader users have only had access to FX and OTC products. Thanks to the revolutionary technology from Gold-i, brokers can now offer MetaTrader4 and MetaTrader5 users the opportunity to trade on-exchange futures, equities and indices as well as FX and other OTC products. Brokers can also benefit by broadening their MetaTrader platform, opening up new opportunities for MetaTrader4's huge network of Expert Advisors (EAs) to create trading strategies for futures.

The high performance, feature-rich Gold-i Gate Bridge has won numerous awards for enabling retail brokers to access the same tools as institutional brokers and automatically covering all retail broker risks with banks in real time. It has filled a gap in the market by creating a level playing field for retail FX traders. Gold-i's latest innovation builds on the success of the Bridge, extending its capabilities and helping brokers to manage their risk effectively in all asset classes. It is a major development in the industry.

When?

The Gold-i Gate Bridge for multi-asset class trading has been rigorously tested. It is now available from Gold-i and can be used on a global basis.

For further information, visit www.gold-i.com or telephone +44 (0) 1483 685410.

cTrader – delivering genuine ECN solutions for retail FX

When deciding on the most suitable broker or service, forex traders are faced with a number of considerations. Until recently in the retail e-FX market, these considerations have focused on a number of basic factors such as spreads, platform usability and transaction options. But as homogeny took over, making it harder to distinguish between brokers, traders have developed more sophisticated criteria on which to base their decisions.

When considering the merits of an FX platform and retail brokerage services, the issue of latency can too often be overlooked amidst attention on low and fixed spreads, zero commissions and interface features. Understanding latency however can be critical to the success or failure of a trading strategy, and is becoming a main issue of concern for traders when determining their best broker. Even with ever increasing internet connection speeds, round trip data latency can reach several seconds. For certain trading strategies, these few seconds can make the difference between a profitable and a losing trade – and this is especially true for algorithmic and high frequency traders and scalping strategies.

cTrader

cTrader is co-located with all major ECNs, liquidity providers and prime brokers, delivering ultra-low, sub-millisecond latency

to brokers by offering a fully-hosted PaaS (Platform as a Service) solution, without the need for expensive hosting, development, licensing, network infrastructure or additional staff costs. Our easily-integrated solution can be adopted into any current broker setup, slashing latency to sub-millisecond times and improving other aspects of trading and brokerage services, such as transparency, risk management, liquidity distribution and accurate price execution.

With the implementation of this agency mode, all that is required from the broker's side is to manage and customize the service they want to offer from the backend using cBroker, our backend solution which allows for the management of every aspect of their product offering: markups, flexible commission structures and ticket sizes. And perhaps most importantly, brokers have behind them a dedicated and highly qualified team offering support and service at all times.



Bridging the ECN market gap

There exists a cavernous gap in the ECN market, with currently available solutions too often involved with taking a platform that was not designed to function as an ECN and adding numerous bolts and screws in order to provide a barely up to standard ECN alternative. The market is demanding a long overdue, genuine ECN solution, and we are filling this demand with products which create additional value for our partners. It's obvious that brokers today are facing mostly the same complications they have been facing for over ten years; those of latency, connectivity, platform speed, reliability and security.

We have replaced all the old concerns of failed entries and exits, unfilled stops, negative slippage, etc. and we've introduced a robust trading package with lightning-fast order execution previously only available through institutional networks. What we offer to brokers is the ability to constrain platform and execution speed to the capacity of the trader's internet connection. Sub-millisecond latency, flawless connectivity with FIX Protocol, delivered securely through our proprietary proxy cloud to the advantage of both the trader and the broker.

The trend in forex is highly in favour of a move towards ECN agency model brokers – and these topics are dominating the conversation when it comes to traders choosing their service. Brokers are also recognizing that the opportunity exists to introduce to their clients a truly marketable proposition of the ECN agency model in an industry struggling to convince over issues of trust and transparency. The alignment of interests between brokers and traders which occurs under true ECN conditions makes for an attractive proposal to a more discerning type of trader, as well as traders already disaffected with the current broker-client dynamics.




Conclusion

ECN immediately paves the way for brokers to build a mutually beneficial client relationship model, and focus more resources on customer retention strategies, a far more beneficial model in the long run than the current average market maker acquisition and burn rate. Another major reason for the rush to ECN is the exposure brokers face from large volumes in volatile periods and from automated and high-frequency trading, which has exploded onto the retail forex industry.

These elements can offer brokers their more profitable periods, but also place the broker under a severe risk burden. The sheer volume and frequency of these trades mean that risk managers can no longer keep up. With ECN we not only reduce the risk, but often eliminate it completely.

For traders and brokers alike, our research and our work here over the last few years has shown us that ECN is the answer to many of the problems facing the Forex industry. cTrader aims to rollout our breakthrough solutions and foster a new, unusually satisfied Forex community.

For further information please visit
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Picking up speed: Retail FX focuses on delivering low latency trade execution

The demand for low latency trading has been a feature of the HFT equities markets for many years to the point where there is little room left to go in terms of seeking the quickest possible executions. Low latency has also become a feature of the institutional FX space and has been present for a number of years. More recently though there has been a growing demand for low latency execution from the retail FX trading space. Nicholas Pratt investigates why high frequency players are now increasingly interested in trading on retail FX platforms.

Three years ago, high frequency traders had little interest in FX retail platforms. As more and more features were added to online trading platforms, more ‘hops’ were added to the transaction chain and the execution process became increasingly slow. However, this is changing and there is now a clear demand among high frequency traders to use FX retail platforms and, consequently, platform providers are increasing their efforts to speed up access to pricing engines.

Stephen Leahy, president of Capital Markets Access Partners, says there are two reasons for this – regulation and short-term strategies. “Regulators are leaning towards STP executions by brokers so it



becomes necessary that brokers can get the clients' orders out to the execution platforms and then back to the broker's platform quickly. Delayed executions and slippage can cause compliance issues. Also short term trading strategies are based on small movements in currency pairs so a fast execution that gets executed and confirmed quickly is a necessary part of that strategy. Short term strategy clients are of high value to brokerage firms so the brokers need to offer low latency ECN executions."

Challenges for brokers

"Although retail FX traders may not demand the sub-microsecond executions you see in quant and high frequency trading systems, they are demanding sub 10 milliseconds execution in many cases," adds Andrew Ralich, chief executive of oneZero. "This is a challenge for retail brokers who are deployed around the world but must execute trades back to New York at the end of the day. This becomes both a hardware, network and software challenge for brokers to overcome."

It is also going to be a challenge that will play an increasingly decisive role in the competition between brokers given the number of factors that may influence a traders' choice of FX trading platform to ensure faster pricing and one click trading, says Leahy. "Clearly the MetaTrader 4 platform has gained a massive market share of retail FX clients due to the ease of programming to their platform. We expect a similar response to the MT5 and MQL5 platform and programming language starting in the 1st quarter of 2012. We expect more and more retail FX traders will start inquiring about latency issues with their brokers as the upside of faster executions is better understood by traders."

Quest for speed

This quest for speed by some traders may be increasing the value proposition of retail FX ECN trading platforms, says Leahy. "A traditional dealing desk will have a tough time handling true scalping programs successfully. An 'agency' business model that passes the client flow through to the largest

liquidity providers and their stronger risk management programs is a way for brokers to make a transaction-based revenue stream on that scalping flow, rather than risk capital and P&L handling the scalping flow with a 'principal' desk model."

Originally a lot of the high frequency traders were using retail platforms to beat up on the liquidity providers but, says Leahy, there has been a realisation that the relationship is an important aspect in FX trading and one that requires more transparency. "That relationship could be obfuscated by layers of technology but retail traders are becoming more demanding in terms of latency and want to cut out as many 'hops' as possible. They no longer want to be going through a tier three broker, then a prime broker, then another prime broker and this has made the ECN market more attractive."

Improvements to the automated trade processing systems and greater use of liquidity bridging solutions have helped traditional dealing desk brokers to deliver speedier pricing and trade executions too, says Leahy, who admits that it is an area of discussion that could take days to complete. "Simply put, an 'agency' business model for a broker, in which the brokerage pushes through all client order flow to an ECN offers a better return on equity for the owners of brokerage firms. The agency business model requires less capital to operate, generates a more reliable stream of revenues, and better ties costs to revenues."

Retail futures brokers are also taking steps to provide high performance direct market access (DMA) platforms and tailored services to accommodate high frequency traders with strategies dependent on ultra-low latency. "At oneZero we have seen an increasing trend in brokers looking to co-locate their clients, trading platforms, bridging and liquidity all in one location," says Ralich. "Where simply offering ECN or STP Execution was a differentiation for MT4 brokers in the past, clients are now demanding not only direct to market trading, but also competitive latency in their execution times."

According to Layth Sanjaq, acting managing director and head of back office at Cyprus-based forex broker FXCC, the need for speed among retail traders is a result of the rising HFT techniques. "They are based on identifying and seizing trading opportunities within seconds. Therefore, the execution speed could be the determining factor of the success or failure of those techniques."



Layth Sanjaq

"Traders are realising that the ECN trading environment is the only one in which they can employ scalping or HFT techniques successfully, which makes retail ECN platforms more popular."

When it comes to these traders' choice of FX trading platforms, Sanjaq believes that messaging protocols are an influential factor. "Different trading platforms are based on different messaging protocols, FIX-Protocol based platforms are the fastest and most reliable for HFT because FIX was designed to communicate financial messages specifically. Web or Mobile phones are extra tools provided to give traders easy access to the Market, but they can't be used for high frequency trading due to the connectivity and reliability issues."

ECN trading

High frequency traders are also migrating to retail FX ECN trading platforms in ever higher numbers, says Sanjaq. "Traders are realising that the ECN trading environment is the only one in which they can employ scalping or HFT techniques successfully, which makes retail ECN platforms more popular. We don't expect the shift to ECN platforms to take place overnight, but we can see that this is where the retail FX market is heading."

For the traditional dealing desk brokers, the use of liquidity bridges is often cited as a potential way to



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Trading in CFD's carries risk of loss.

deliver speedier pricing and trade execution, although Sanjaq believes that bridging does create issues in terms of the response times in FX trades.

“Liquidity bridging provides fair and friendly trading environment to traders and almost a risk-free business model to brokers, giving them opportunity to re-allocate resources into development, support, and marketing activities. However, fast execution does not necessarily mean fair execution, because bridging increases the distance between the trader and the execution venue, which delays the response time (few milliseconds) as the trade travels a round trip from the client interface to the broker’s server and from the broker’s server to the liquidity provider. While on Dealing Desk, the broker’s server is the final destination of the trade. Therefore, FIX Protocol-based platforms are the fastest and most reliable for HFT where no bridging is needed,” says Sanjaq.

FXCC has, like many retail FX brokers, taken steps to provide a DMA platform to cater for the ultra low latency seeking high frequency algo traders. “At FXCC we started with the infrastructure by utilising high-performance hardware and network. Then, we deployed a reliable FIX protocol based platform (Currenex) in addition to connecting MetaTrader to our liquidity, leaving the option for traders to choose based on their preferences.”

Automated strategies

According to Tim Brankin, vice president at Divisa Capital, a New Zealand-based FX broker, retail FX traders are using Expert Advisors within MT4 platforms as part of a general move to automated strategies but they are also realising that tight spreads and efficient execution are integral to the efficiency of these tools. “They realise that good spreads are useless if they constantly experience trade slippage and rejections. Traders are looking for brokers who can accommodate their trading strategy most effectively.”

In order to provide an environment conducive to these retail FX traders Divisa has not only formed links with top tier banks but has its own technology division, TradeSpot FX. According to James Mason, president of TradeSpot FX, technology is the traders life line, most traders don’t realize how much happens behind the scenes when they hit the “buy” or “sell” button. It all comes down to latency and execution speed, a broker is only as good as it’s tech. “Divisa currently uses TradeSpot FX’s liquidity bridge which confirms trades at millisecond speeds ensuring a client’s trade is executed and filled with minimal slippage.”

There are many factors that traders assess before choosing a broker, says Mason. “These factors include the obvious criteria such as spreads, reliability,

execution quality and customer service.

However, as mobile technology evolves and becomes more robust, traders are demanding more from brokers in terms of connection options. Traders not only want to be able to monitor the market when they are away from their main trading station, they also want to have the ability execute trades from a multitude of channels such as web and mobile-based platforms seamlessly and efficiently.”

For this reason, TradeSpot FX offers an array

of solutions including Web Trader, iPhone/iPad, BlackBerry and Android compatibility allowing the trader to make the final decision on what’s most important to them, says Mason. “Each technology has its advantages and disadvantages. While Desktop and API platforms are the fastest and most robust, mobile and web-based solutions offer accessibility and mobility when needed. The key is to give the choice to the customer and allow them to concurrently use any one of these technologies to access and trade their accounts.”

Speed, reliability and functionality

There are similar factors at work among Divisa’s client base, says Brankin. “We offer our clients access via





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Tim Brankin

"We believe that someday we will be able to deliver the same low latency trading environment enjoyed by institutional FX traders,"

desktop (Currenex or MT4), API, Web and Mobile. When evaluating a trading platform, our clients always review the same criteria - execution speed, reliability and functionality. For these reasons, the majority of our clients still connect via desktop or API. That said, we realise that our clients want flexibility when it comes to accessing their account information and market data. As many studies suggest, web-based and mobile are going to be the fastest growing segments of the market for many years to come. As wireless technology continues to evolve and become more robust, we expect the number of clients connecting wirelessly to grow dramatically. For some traders, this may only mean connecting periodically to monitor the markets and their positions while other clients may migrate exclusively to wireless platforms via tablet computers."

As well as the market interest around connecting to mobile and tablet devices, Mason says there is also a lot of interest around ECN trading platforms and the emergence of ECN brokers. This interest is basically a result of traders in the retail world seeking the same exclusive service as the institutional world, says Mason. Consequently, it is important for technology providers such as TradeSpot FX to deliver the tools that brokers need to providing streaming "top of

book" pricing by aggregating liquidity from multiple liquidity providers. "This ensures the client is able to trade on the best available price at any given time."

Overcoming conflicts

High frequency and scalping strategies usually create conflicts between the client and market making brokers, says Brankin. "To cope with this type of order flow, brokers must have a proper STP solution that is able to route and distribute trades among many competing liquidity providers." Divisa Capital provides API, Bridge, MT4 and direct access to multibank liquidity via our Currenex Hub. We saw an opportunity in the marketplace to create a firm that delivers institutional quality pricing, execution and technology to traders and partners who demand these services but were unable to obtain because of the time, cost or other factors."

Providers of liquidity bridging solutions have been big beneficiaries from the retail FX world's growing sophistication and these bridges have become an integral tool for brokers looking to provide a more stable feed, tighter spreads via liquidity aggregation and drastically decrease execution times by automating trade execution/confirmation, says Mason. "In turn, this provides a robust trading environment for the end client increasing client retention while reducing the number of employees ("traditional" dealers) needed to run the brokerage. The increasing sophistication of Expert Advisors (EAs) and automated trading systems is forcing traditional dealing desk brokers to seek automated trade processing and bridging solutions to handle this order flow. Most of the requests TradeSpot FX receives comes from brokers looking to add an ECN offering or to bridge a certain portion of their clients with ECN liquidity."

The provision of high performance DMA platforms and tailored execution services are other steps that retail FX brokers are taking to accommodate high frequency algo traders dependant on ultra low latency. "Some brokers are starting to setup VPS hosting in the same data centre to help minimise latency for their clients," says Mason. For example, Divisa Capital also allows FIX API connectivity directly to its Currenex hub. "We regularly advise FX brokers in choosing the best combination of hardware, software, hosting, bridging and liquidity management to maximize performance and scalability. This combination is very important for the brokers in order to offer a reliable and competitive trading environment for their clients."

Scorecards

As the demand for low-latency solutions increases, a challenge for retail FX traders is gauging the relative execution speeds of the trading platforms they use. This is where the use of scorecard applications and monitoring toolsets could be of great benefit. Few firms have the ability and desire to display their execution times. Additionally, brokerage firms have the choice of treating traders differently based on the broker's risk management decisions. So a broker may be sending certain traders' orders for STP execution and other traders' orders may be handled by a desk. Publishing execution fill time statistics therefore may not be possible.

"Our reporting solutions capture the execution information from the Private Label MT4 platforms to the broker's ECN, but there is no mandate that our client firms make that data available to the retail clients. We expect that retail FX execution latency will become a competitive issue in the near future. With the information that we capture and make available, our clients have a competitive advantage once retail traders start demanding latency information," says Leahy.



James Mason

"The increasing sophistication of Expert Advisors (EAs) and automated trading systems is forcing traditional dealing desk brokers to seek automated trade processing and bridging solutions to handle this order flow."

He believes that the latency question will become an area of intense competition for brokers. "Brokers offer similar platforms so latency is one area where they can look to differentiate and to market themselves. We have heard similar sentiments expressed in the equities world – to the point where many are questioning the value of a continued focus on low latency. The arms race in the high frequency equities world has become ridiculous and is starting to become a zero sum game. But the retail FX market is still a long way off that point. There are still a lot of trades that can take up to a whole second. Once we get to the point of sub 10 millisecond executions, then it will be time to look at a different area."

While applications such as scorecards and monitoring toolsets are seeing greater use among retail FX traders keen to gauge the relative execution of their brokers' trading platforms, Mason believes that there is room for further development in this area. "Most retail traders start off by pinging the broker's IP address to determine their connection speed to the server. This only quantifies how long it takes to send packets from your PC/server to the broker's server, then back again. We think the next logical step is to disclose actual trade execution times. TradeSpot FX's new back-office web portal, currently being tested by Divisa Capital, allows the broker to generate various reports that can be tailored for the Broker, IB, Money Manager or Client to display the execution of each trade.

Co-location

A further step taken to reduce latency is the use of co-location, especially in the venue-specific world of equities. There is a major feature in this edition of e-Forex on the topic of co-location in FX. However this focuses mainly on the institutional space. But is it also a worthwhile step for retail FX traders? "Co-locating within the same data centre is the optimal setup but due to high costs and lengthy contracts, this option is usually only implemented by omnibus partners and professional traders," says Mason. "Currently, the most cost effective option for retail FX traders to minimize latency is to setup a virtual private server (VPS) within the same data centre as their broker." For traders using Expert Advisor on the MT4 platform, Brankin strongly recommends the use of a VPS. "This is a very cost effective way of improving connectivity and thus reducing latency to our trade server."

So, with the increased use of co-location, VPS, DMAs and ECNs, can the retail FX market ever produce a low latency trading environment to match

what is on offer in the institutional space? “In short, yes it’s technically possible to deliver low latency trading conditions to the retail space,” says Mason, “although, speeds are unlikely to match those in the institutional world anytime soon. Seeing that most retail environments typically have additional pieces of software (i.e. MT4, bridge, trade GUI) between the liquidity (banks) and the end client, not to mention the difficulty of implementation and high cost associated. In spite of the above, some brokers such as Divisa Capital are already going the extra mile making the necessary investments and technical improvements by hosting their trade server in the same data centre as their liquidity source and offering VPS services.”

“We believe that someday we will be able to deliver the same low latency trading environment enjoyed by institutional FX traders,” adds Brankin. While it may not be possible to deliver the exact low latency solutions that institutions have today, Brankin says that Divisa Capital is striving to replicate this performance through co-location in the hope that clients will be able to obtain connection speeds that at least rival those in the institutional world. Furthermore, Divisa Capital is also looking to offer a co-located VPS offering that, says Brankin, should “level the playing field further”.

Speed not only issue

According to Jeff Grossman, Managing Director at Squared Financial, an Irish-based FX trading

platform, retail traders are taking a more professional approach to FX trading and the demand to measure trade execution speed is part of that. “But there are also other factors that they are looking for from FX trading platforms - the reliability of trades, the range of tradeable instruments and the analysis tools and market information that is available. All of these factors are inter-related.”

There is a similar inter-relatedness in the factors that influence a retail traders’ choice of FX trading platforms, Grossman believes there are a number to consider. “The platform has to be reliable, user-friendly, intuitive and cost effective. If it is not, then all the speed and low latency will be irrelevant. There also has to be a level of transparency around the trading process and the rules of engagement in the market. Without this, traders will not be able to gather the trading analytics they need to evaluate the platform.”

The maturing of the retail FX trading market has developed over the last three to four years says Grossman. A pivotal moment was in the last two to three years when semi-professional retail traders started looking for API access rather than the traditional GUI route. “I think the professionalism is just something that comes with time and experience. Once they have been survived in the market for a certain time, they learn critical lessons and one of these is the impact of platform performance on P&L. The improvement in technology over the last few years has both facilitated and re-inforced the demand among certain retail FX traders to access the market in a more professional way.”





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Jeff Grossman

“Within a DMA environment, the brokers can only really add value in terms of the number of venues they connect to, or possibly by offering DMA through their own GUI”

Positive contribution

As a result of the growing professionalism of retail FX traders, the attractiveness of retail FX ECN trading platforms has greatly increased, says Grossman. “In an order-driven model where orders are all displayed any increase in market participation will generally improve liquidity and market quality. And all higher frequency traders contribute relatively more provided that their interests are fairly represented. This is dependant on the level of transparency and its consistency within the Platform Rules. The trend is increasingly evident on the ECN platforms as well as some single bank platforms.”

Transparency can generally be seen as a gauge of the platform’s attitude towards these type of traders but, says Grossman, there is a flipside to this relationship between platforms and retail traders. “Every platform has to have a threshold in terms of the minimum displayed order size. If they were to allow too many small orders in a decimalized market can lead to aberrations of liquidity and Market data. In general orderly markets standard order sizes or minimum quantities.”

Bridging solutions are increasingly used by trading desk brokers operating in the retail FX space.

“Improving execution is no easy task for these brokers. They need systems that interface effectively with both their own clients and the market at large, as well as a good risk engine that can tie it all together and still produce profit. When a broker also offers client side trade processing analytics the challenge becomes even greater, but customer-focused brokers will win quality business in this way.

DMA

One developing market for retail brokers is the provision of DMA services, however it is still at a very early stage, says Grossman. Furthermore, there is limited incentive for brokers in this development. “DMA is a dumbing-down of the process in many ways,” says Grossman. “It increases transparency and decreases latency but it limits the opportunities for brokers to add value so is not that lucrative. Within a DMA environment, the brokers can only really add value in terms of the number of venues they connect to, or possibly by offering DMA through their own GUI.”

In general, there are currently very few toolsets for assessing the execution speed of platforms, says Grossman, meaning that most retail FX traders would have to build their own system rather than relying on the limitations of many current analytics offerings. Such technology is more prevalent in the institutional space which does beg the question of how seriously service providers are taking the retail FX space.

“I think they all take the retail FX markets very seriously,” says Grossman. “The retail participant has the potential to change the whole characteristics of the marketplace. The issue is how you structure a product that suits both the retail trader and the professional. At the highest level of retail trading, it is not a problem but as you go further down the chain, this issue becomes more pronounced.”

The growing use of expert advisors and trading robots was one of the first indications of the growing professionalism of the retail FX trading space, says Grossman, but is it possible to pinpoint exactly what defines the level of professionalism among the vast number of retail FX traders? In many ways it is simply down to order size, says Grossman. “Once you are dealing in levels of \$100,000, you are at the races but brokers also need a critical mass trading this size to ensure that their market and order book does not fragment and become chaotic.”



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Broker Study

With Scott Parker, COO at GCI Financial

Scott, how long has GCI Financial been working in the forex industry and what key financial trading services does the firm now provide?

GCI was established 10 years ago. In fact it was one of the first online brokers to provide access to worldwide capital markets. Being able to prevail in a very competitive space such as online brokerage speaks for itself. Many companies come and go simply because they aren't able to provide a competitive and customer specific offering. In the end, such players simply can't compete long-term. GCI has been able to establish itself over the years with a unique multi-product offering. Clients need convenience and one point of access for various instruments such as Forex, CFDs, Commodities and Options.

What do you see as the key advantages of opening an FX trading account with GCI and what types of account do you offer?

Our account opening procedure is as uncomplicated as possible. Depending on the type of account a new client can be actively trading as soon as the account is funded. This means instantly in cases where the funding is completed via credit-card. If the funds are wired bank-to-bank usually within 24-48hrs. Our account opening minimums are set low in order to accommodate newer traders just starting and not ready to commit substantial capital. We offer the possibility to open a mini account with minimum fifty dollars deposit. Our best spreads which are as low as one pip on the major crosses are available starting at two thousand dollars.

Increasing numbers of leading online brokers now support currency option trading. Has GCI joined this relatively exclusive club?

Many trading strategies require the integration of options and GCI has been offering this capability for quite some time now with success. Individual traders as well as Asset Managers have been using our options trading facility within our ICTS platform. We believe that eventually all brokers will need to integrate options. Even the best





platform is considered quasi obsolete nowadays, if it doesn't come with this necessary feature. Serious traders simply won't consider trading such platforms any longer.

What account management services and dealing desk resources do you provide for the fund management community?

GCI will soon launch an institutional service providing Meta Trader 4 integrated with the deepest interbank liquidity connecting the GUI to the world's largest liquidity providers. There is high demand in the traders' community for an MT4 solution linking to such extended multi-bank-liquidity. The MT4 PAMM facility linked to such superior liquidity will fill the need for Money Managers looking for highest liquidity and lowest latency execution with multi-client capability at one click. Until recently MT4 has mainly catered to the retail market; however, an increasing demand in the institutional space has manifested the preference for MT4 technology, provided the liquidity needs can be met, and GCI will soon offer this solution.

There is much discussion about automated strategies. Does GCI provide for trading automation?

Algorithmic trading strategies have started flooding the market place and are easily available. Many successful traders write their own strategies; therefore, they need a tool that allows them to do this. The easiest way is to be able to write and back test strategies directly in the platform. GCI's ICTS platform allows for both. This opens the possibility for any customer who is interested; to write, test, amend, and re-test etc., his/her own strategy until an optimal strategy has been developed. Such a tested strategy can be easily applied

to a live account at any time. Our MT4 client can easily connect their Expert Advisor.



In what ways can partnering with GCI assist qualified Introducing Brokers to build up or enhance their businesses?

Partnering with GCI is simple and straight forward and our many various partnership possibilities offer the optimal solution for Introducing Brokers, Money Managers, Funds and White Labels. Our main objective is to understand and help our partners realize their specific goals. This is facilitated in part by easy and straight forward onboarding procedure combined with ongoing support. The bulk of our partners are IBs who are looking for an uncomplicated and helpful partner. Most recently GCI added a multi-branch Bank as new White Label Partner in Russia.

Looking ahead what plans do you have for expanding the financial instruments that GCI supports, the online trading tools you provide and the geographical footprint that you currently have?

We look forward to continue to build on our decade of continued success and continued growth and innovation. In the future we will continue to expand our product offering which currently includes multiple asset categories such as Forex, CFD's, Commodities, Precious Metals, and Options. Our main Project which was already mentioned earlier is to connect the World's Largest Liquidity ECN to Meta Trader. Additionally, we are in the development phase for "do-it-yourself" Managed Account Services via multi-choice EAs. This will allow a client to select several EAs, similar to Asset Allocation via EA.



Lior Nabat

IN THE CHAIR



Lior Nabat, CEO of Tradency, talks to e-Forex about Mirror trading and the benefits that the “Trade by Knowledge” concept brings to traders, brokers and strategy developers.

Lior – please can you briefly explain how Mirror trading works?

Mirror trading was developed to share the knowledge of experienced Forex traders amongst traders. Using Mirror Trading technology, traders can view and learn from the actions of seasoned strategy developers, in addition they may also “copy” the trades to their own account automatically. By this action, we defined the term “mirroring”.

The Mirror Trading concept is quite simple: Tradency servers keep track of strategy developers’ ‘buy’ and ‘sell’ signals. By using the Mirror Trader platform traders

are able to view, analyze and evaluate these signals and execute it in their brokerage accounts. Since all the signals of every strategy provider are being recorded, we are able to display an objective and transparent report of the strategy developers’ performance, from their first trade to the most recent.

The Tradency Mirror Trader platform provides client with two trading options:

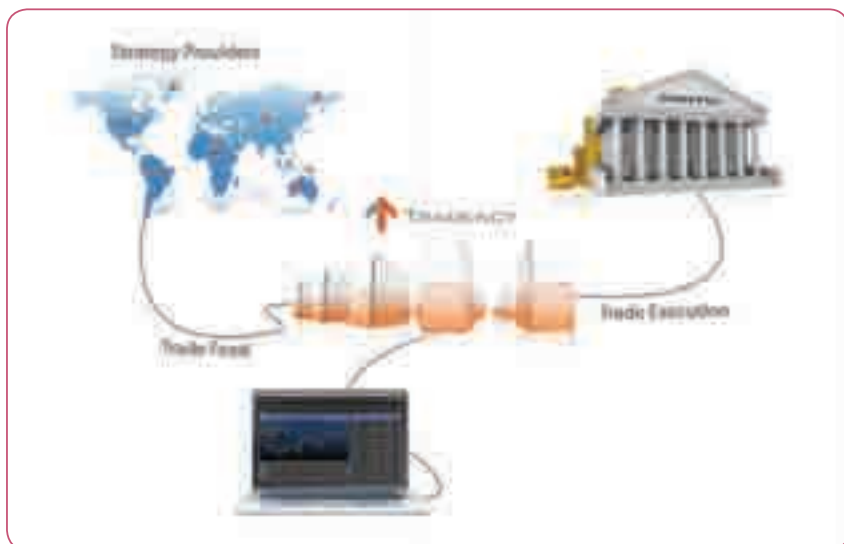
Semi Automatic Mirroring: Traders view all the strategies’ signals in real time via streaming and choose which trades they want to “mirror” for execution in their accounts.

Automatic Mirror Trading: Traders pre-select strategies that match their personal trading preferences and every signal sent by this strategy is automatically applied to the trader’s brokerage account.

Why do you think Mirror trading is becoming so popular amongst Retail FX traders and investors?

I can think of many reasons that made Mirror Trading so popular. Mirror Trading is suitable for a large spectrum of the trading population:

Traders that are taking their first steps in the world of Forex can use Mirror Trading as a quick and easy way to get started, since it enables them to follow strategies of more experienced traders.



MirrorTrading

Novice traders whom have tried to trade manually and learned that it is not as easy as they thought, are turning to Mirror Trading as an alternative method of trading. While using Mirror Trading they can keep on trading manually and compliment this with the strategies signals.

However, Mirror Trading is not just for novice and beginner levels as people may think. Many experienced and even professional traders use the strategies available in the Mirror Trader, in order to diversify their investment or overcome period of draw downs. In addition, experienced traders can use Mirror Trader to diversify into other currency pairs that they are not as comfortable trading.

With the addition of the Semi Mirroring option in the latest version of the Mirror Trader, I think that mirror trading will gain popularity, since the semi mirroring method allows people to use the knowledge of the strategies, without having to compromise on the control element. This method allows the trader to “oversee” and confirm each trade entry.

What factors have helped Tradency to achieve such significant growth recently with your pioneering Mirror Trader platform?

As the Forex market matures, traders are looking for innovative and sophisticated tools to help them with their trading. The Mirror Trader gives those traders just what they are looking for. The wealth and transparency of information available in the Mirror Trader help users make educated trading decisions. The fact that the trader has a variety of strategies to choose from, allows him to locate strategies according to his preferences. Once he decides he is no longer satisfied with the performance of the strategy, he can easily switch to another one. The elements of flexibility and information are critical in its’ success.

Whether the trader is mirroring a strategy or a specific trade, it is them who sets the risk and money management. This special combination of knowledge and automation on one hand and control on the other hand, is another factor that makes the Mirror Trader so appealing for traders. The ability to use the knowledge of experienced traders, even just to confirm



your own decisions, gives traders an edge in their trading.

One of the things that I like most about the Mirror Trader, is although the platform provides so much knowledge and information, the user experience is really easy and intuitive. When we developed the platform, one of our main guidelines was to keep it as user friendly as possible.

What steps have you been taking recently to update and enhance Mirror Trader?

In the latest version of the Mirror Trader we added live charts and technical analysis tools, creating a workspace with all the tools and features required for trading. We launched the semi mirroring method. We believe this unique combination of charts, indicators and semi-mirroring forms a comprehensive trading solution for Forex Traders.

I am also delighted to say that we are working on the next major development of our platform. Firstly, we are adding CFD instruments to the platform. We have the strategies in place that trade CFDs and in the next version of the Mirror Trader, traders will have CFD strategies in addition to Forex.

We are also developing our mobile version of the Mirror Trader, which will allow traders to monitor their accounts, when they are away from their computer.

We continue to evolve our platform with additional tools and features. For example, recently we added a feature that allows users to publish their trading results on social networks and in the next version, we will add additional strategy filtering options.

What education and technical support services do you offer to help traders from all over the world to leverage the full functionality available with Mirror Trader?

As part of our philosophy of knowledge sharing, we are committed to giving traders all the information to enable them to make the most out of the features available in the Mirror Trader. For this reason, we dedicated a section in our website for education. In this section users can find articles, videos and FAQ's as well as interviews with our strategy providers, which share their knowledge and insights about trading. You don't have to be a Mirror Trader user in order to access the knowledge available in our site and I am sure that every trader would find something useful there.

What trade inducing features and competitive advantages does Mirror Trader give to brokers who license the technology?

Mirror trading is a rapidly growing trend in the retail Forex industry. The Mirror Trader gives brokers a mature and popular solution for this trend. Unlike other companies that offer similar solutions the core of Tradency's offering is technology. Our technology ensures we are more flexible in terms of new development, reacting to new trends in the Forex market and working closely with the broker for a smooth integration.

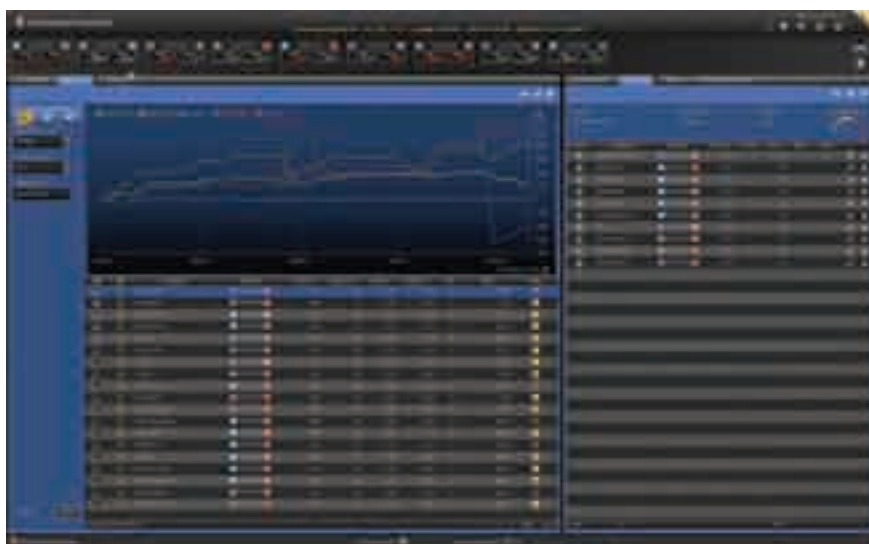
For the first time we are now going to offer brokers the possibility to add Mirror Trading capabilities to their own platform, so that brokers that already have their own platform will not have to offer a separate platform for mirror trading. I think that for both brokers and users it will be a huge advantage, as they will not have to learn a whole new platform in order to take advantage of all the benefits of Mirror Trading.



Looking ahead, where will Tradency be seeking to build and develop further partnerships to try and ensure that Mirror Trader becomes the default Mirror trading platform?

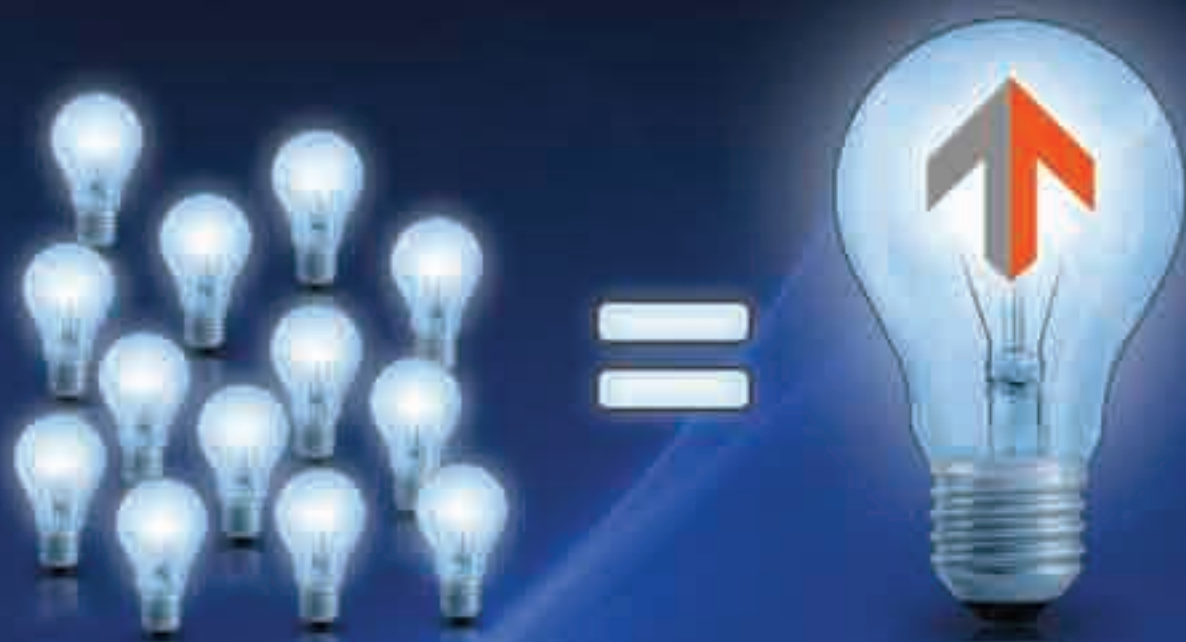
In the last year Tradency established new partnerships with other technology providers in order to make the integration of the Mirror Trader as smooth as possible for brokers.

The bridge that we have with MT4 is already implemented and used by many brokers. Lately we completed integration with Currenex that allows Currenex clients to easily add the Mirror Trader to their offering. The first broker who is going to use the Tradency/Currenex integration is Invest Securities, a major Japanese brokerage.



We are at the final stages of completing integration with Leverage, which will allow Leverage's clients to use their existing login details to access the Mirror Trader platform. After adding CFD instruments, we are also checking the possibility of entering new markets like stocks and option with the Mirror Trading solution. Like I said before, the foundation of Tradency is our cutting-edge technology, this makes it easier for us to be flexible and develop our offerings in different markets with new partners.

Trade By Knowledge



By Tradency

The Creator of Mirror Trading™

Full suite of Mirror Trading™ solutions



**The Mirror Trader™
platform**



**CFD & Forex
strategies**



**Automatic Mirroring,
Semi Mirroring &
Manual trading**



**Web based platform,
smartphone app &
backend integration**



Catering for everyone

e-Forex talks with Michael Konnaris, CEO of easy-forex, a leading online forex broker with headquarters in Cyprus and representative offices in many other parts of the world.

Michael, how long has easy-forex been operating in the FX market and what are your core business activities?

easy-forex was founded in 2003 and has revolutionised currency trading in over 160 countries ever since. We democratised foreign exchange trading by launching easy-forex for the global retail market. Forex trading was previously restricted to professional traders and institutions, but we brought it to the masses by lowering the entry level cost of entry from USD 10,000 to just USD 25 and developing an easy and user-friendly web-based trading platform.

With one easy-forex account, traders can trade currencies and commodities using their web, desktop or mobile platforms, from any location.

What types of trader and investor can benefit from the products and services that easy-forex provides?

The great thing about trading with easy-forex is that our platforms cater for everyone; from complete novices to professional traders. We target the retail market from the novice retail forex trader who wants to use a simple, easy trading platform coupled with support and guidance - to the larger more experienced retail trader who values support and wants to deal with a regulated, trustworthy, recognised brand and trade with a platform which allows him to efficiently access the forex market.

What types of Forex account do you offer and what instruments can be traded with your firm?

We have over 40 currency pairs available for trading, as well as commodities such as gold, silver and oil.

Michael Konnaris



We offer four types of account: mini, gold, platinum and VIP and traders can open an account with us with as little as USD 25. We are flexible and are able to cater to personal needs or requirements to suit every trader. Our traders simply have to express their preference and we will tailor their account to suit their needs.

What range of FX trading platforms does easy-forex provide?

We offer a variety of platforms to trade with easy-forex and our clients choose which suits their lifestyle and requirements best.

- Web trading platform – trade from any computer wherever you are
- Desktop platform – TradeDesk™ (proprietary platform) - a personal trading environment downloaded to your desktop for charting, market information and forex trading.
- Desktop platform – easy-forex® MT4 - a downloadable desktop platform ideal for traders looking for extensive technical analysis.
- Mobile platforms
 - easy-forex® app for iPhone (full trading)
 - Windows Mobile for MT4
 - easy-forex® app for BlackBerry (market info app)

The smartphone platforms give you instant access to the forex market from your favourite gadget.

How would you summarise the key trading features available with your web trading platform?

The key trading features of the easy-forex web trading platform are:

- Unique simple margin calculation method that allows traders to leverage all available balance in their account
- Guaranteed stop-loss on our easy-forex platform, which means you can never lose more than you are prepared to risk
- Tight fixed spreads so that you can be sure that the rate you set is the rate you get
- No maintenance margins
- No commissions or deposit & withdrawal fees
- Fast and secure deposit and withdrawals service
- No dealing desk intervention
- Freeze rate, which means you can lock in the currency rates for a few seconds before you commit to your trades
- Price improvement, which is another unique easy-forex feature which means you will get the best rate available to you
- The Inside Viewer™, which provides you with insight into what other traders on our platform are trading, such as the most popularly traded currencies and deal direction and structure.





TRADEDESK Platform

In what ways can the TradeDesk personal trading environment which easy-forex provides assist high performance traders?

The easy-forex TradeDesk personal trading environment is great for traders who prefer a platform which they can personalise with graphs and technical analysis that support their trading. The other advantage of downloading TradeDesk is that it is a particularly responsive platform for those who may have a weak internet connection.

How much demand are you seeing for mobile trading amongst your clients and what products and services do you provide that enables them to trade and manage their accounts using Smartphone devices?

Mobile trading is an area of our business which we are currently expanding because it is clear that the future is in mobile. Some experts predict that in two years time people will be using more mobile devices than PCs for internet activities and that is something we cannot ignore. Even in the last year we have seen traffic coming to our site from mobile devices double and that is without any mobile-focused campaigns.



What educational, training and product support services do you offer to help clients harness the power of your trading platforms and improve their trading and investment skill-sets?

We encourage all of our traders to learn the skills of forex trading. There is always something to learn whether you are new to forex or a seasoned professional. For novices learning is particularly important because they need to understand how forex works and how to use the resources available to them, such as fundamental and technical analysis, to improve their trading. For our experienced traders we also offer more advanced education, often in the form of webinars.

We have a large Learn section on our website, which includes over 40 videos-on-demand which explain everything from the basics of forex trading to improving your trading strategies. Our traders can also choose from a library of forex articles and a downloadable eBook, as well as a research and analysis section which is an excellent resource.

The easy-forex website offers clients access to a Research and Analysis portal. What key resources have you made accessible from here?

Our Research and Analysis section provides traders with a range of tools that will assist them in their technical and fundamental strategies. We provide daily analysis reports, Trading Central technical signals, charts and a financial calendar. We also produce a daily morning video news update which includes a morning outlook from the easy-forex dealing room. The Research & Analysis section also gives active traders access to our Dealing Room live chat and SMS rate alerts services which are valuable assets to our traders.

What White Label opportunities and Introducing Broker programs are available from easy-forex for Institutional firms who may be interested in partnering with you?

Forex Affiliate (www.forex-affiliate.com) is the affiliate and introducing broker programme for easy-forex. It is one of the longest running and



Our Dealing Room professionals can assist traders with their trading strategies, provide market information whenever it is needed, execute orders and be a direct point of contact for our more serious traders.

We also offer a live chat service which is available to all our traders 24 hours a day

from Sunday 22.00 GMT until Friday 22.00 GMT.

most successful financial affiliate and IB programmes worldwide and it is free to join. Since 2003, we've paid out millions of dollars in commissions to our affiliates and introducing brokers simply for referring clients to easy-forex. The financial benefits of joining Forex Affiliate are CPA for each trader referred, on-going revenue share, high conversion rates and prompt payment of commission. Wherever the strengths of our partners lie we can develop a promotional toolset to suit their needs.

Our guaranteed stop loss on our easy-forex platform is also extremely popular. The forex market is fast moving and it's important for traders to know their trading positions. With the guaranteed stop loss on our easy-forex platform, our traders can stay in control of their trades and never lose more than they are prepared to risk.

easy-forex is attracting growing numbers of traders and investors from all over the world. What do you think they particularly like about your firm and the products and services it provides?

What plans do you have for expanding your business operations around the world and what steps is easy-forex taking to provide clients with even more investment and trading opportunities?

We believe our traders enjoy trading with us because we make forex simple and we are flexible in our approach. We make it easy for our traders to access the forex market and with a low \$25 entry level forex is accessible for everyone with us. Trading forex is an exciting activity, but it can be confusing at first if you are not given the right support and training. Our unique and personal one-on-one support is one of the key aspects which makes us stand out in a crowded marketplace.

We are currently looking to expand our operations in the Far East, Asia Pacific, Middle East, Europe and also Africa. We are also looking to develop our product offerings to include popular CFDs such as stock indices.



Forex trading involves substantial risk of loss. Do not invest money you cannot afford to lose. The information provided is for informative purposes only, and can under no circumstances be considered a recommendation to engage in any trade. Easy Forex Trading is regulated by the Cyprus Securities and Exchange Commission (CySEC), License Number 079/07.

Gurus secrets revealed:

Observing the habits of highly successful Social Traders

It may have taken a while for retail trading providers to latch on to the social network phenomenon so prevalent nowadays in most other online activities, but now that they have, social trading is taking the retail forex world by storm. Recent statistics from the eToro OpenBook social investment network show that traders not only prefer to carry out their trading activities through the social medium (over 70% of all trades), but that the medium itself is radically changing trading habits and efficacy. A dramatic 20% improvement in overall trader performance figures since the launch of the network, shows that the newly introduced social aspect of trading is not only a much needed injection of fun into the field, but a veritable revolution in the retail FX industry.

The more practical applications of social trading are manifested in OpenBook's CopyTrader function, a feature enabling traders to automatically copy the trading activities of any other OpenBook member. Such a function brings with it a world of possibilities such as people-based trading portfolios, second incomes for Guru traders, and a drastic trickle-down effect for performance improvement across the network. Not only is the success of one Guru trader automatically translated into the success of thousands of followers, but these followers can learn to become Gurus themselves by picking up effective strategies and even getting in touch with the experts directly through discussion boards.

So how does one become a social trading Guru? We've asked eToro OpenBook's top ranked Gurus to share with us some of the secrets of their success.

Diversity isn't everything

Although every single trading course and manual will tell you to diversify your portfolio, a quick glance at the most profitable traders on OpenBook will show you that most of them dedicate a large portion of their funds to trading just one or two instruments. For example, the top earner for 2011, NMarijus of Lithuania, earned an incredible 1440% return over 6 months by trading EUR/USD almost exclusively. A survey of the top OpenBook Gurus revealed that not only do they tend to stick to one currency or commodity, but many also prefer to trade the currency of their region. The reason for this, according to clickrate from Australia, is that



eToro makes finding best performing traders easy with a simple ranking page based on Gains, Win ratio and Copiers.



eToro's HTML5 native application is available on iPhone and android

traders are able to follow their own currency more closely, to be more aware of the various economic factors that affect the currency, and therefore to be more in tune with the market.

From the social and copy-trading angle, Gurus with narrow focus present a good copying candidate because they are easier to keep track of and less likely to clash with other traders in a well diversified copy-trading portfolio.

A little leverage can go a long way

Leverage is the great equalizer that makes retail FX trading possible, enabling people to invest in and profit from the market without huge amounts of capital. However, leverage is a fickle friend that can quickly turn into a foe if you use too much of it. When we look at all the OpenBook Guru profiles, all the top earning traders without exception use mostly low to medium leverage, that is from 1:2 to 1:100. A majority of the eToro Gurus said that they preferred to stay away from the risk of high leverage

all together, while the few exceptions admitted that they used high leverage only very rarely, in instances of a steep short term trend. And even they recommended to resist the temptation to do so. Using lower leverages enables eToro Gurus to take advantages of longer trends and yield higher profits by making their positions less vulnerable to unpredictable market swings.

Don't forget that copying traders that use high leverages means putting your own portfolio at risk as well. You can avoid the extra risk by sorting the OpenBook rankings and live trading activity feeds by risk level.

See. Follow. Copy.

If you think that Gurus are higher beings that have no interest in other mere mortals think again. All of the eToro Gurus make sure to keep in touch with the rest of the OpenBook community by observing live feeds, following other traders, and even copying each other. The social trading network enables our single minded experts to diversify their portfolios by copying other Gurus who are experts in trading other instruments.

It also enables them to keep up with the latest news, trends, and to open up discussions about the financial markets. Even for an expert, there is no upside to trading in isolation, since the social network is a good reflection of investor sentiment. By trading in a community, the eToro Gurus can keep fine tuning their trading skills.

To start your journey towards becoming a forex Guru, visit www.eto.com for more details about the eToro OpenBook social trading network.



Adil Soyfoo (left) and Nathan Halfon (right)

FX Fifty Five:

delivering low latency access to FX liquidity pools

e-Forex talks with Adil Soyfoo and Nathan Halfon, co-founders of FX Fifty Five, a specialist e-FX execution venue.

Nathan, when did FX Fifty Five commence operations and why did Kyte Group's Market Securities division decide to launch this new e-FX offering?

FX Fifty Five commenced its FX Agency operation in March 2011 co founded by Adil Soyfoo and myself. Market Securities KYTE GROUP decided to launch an e-FX offering in order to diversify the activity which is already well developed in other asset classes. The e-FX execution offering started with FX spot on G7, followed by G12 and emerging currency pairs, FX options and the launch in January 2012 of Forwards, Swaps, NDFs and precious metals.

What trading and brokerage services does your group provide?

Market Securities Kyte Group is a global independent intermediary specialising in a broad range of financial products including Cash Equity, Equity Derivatives, Foreign Exchange, Futures & Options, Fixed Income, Structured Products and Commodities markets.

Market Securities offers to its customers large natural execution flows on various asset classes as well as designated research and technical analysis. The international offices are located in London, Paris and Geneva.

Market Securities acts as an Appointed Representative of the Kyte Group, a leading UK based investment service provider.

Who are the key people involved in your trading unit and what are their main day to day responsibilities?

Our Execution unit is composed of different departments and division servicing customers globally and covering Spot, Options, Forwards, Swaps, NDFs and precious metals.

The team is international and every individual is heading a division that will grow under his or her management and our supervision. We have a multilingual sales and support team including English, French, Italian, German, Arabic, Chinese, Japanese and Russian.

The e-FX spot and Forward department is divided into 4 divisions: Banks, Hedge Funds, Retail brokers and Corporates. The banks division services regional and private banks, the retail brokers unit offers liquidity to retail broker via a bridge to MT4. The voice FX Options desk services customers across the board, providing ideas and structures on demand. The precious metals desk will start trading this January offering Gold, Silver.



The team

What sorts of clients are using your trading services and what are their main objectives?

We have a very broad client base with very specific needs. They can have speculative, hedging or client servicing objectives. Their trade size varies from tiny retail amounts to large institutional amounts. The frequency of client trades also varies from 1 trade per 10 seconds to 4 trades per day. Two objectives which they all have in common are best execution and flexible service. Some of them look for anonymity others look for low latency or for special GUI functionalities that we get to develop on a client per client basis.

We aim to become one of the best FX boutiques, focusing not on the mass market but on bespoke, “a la carte” e-FX services, catering for STP solutions, for dedicated communication lines or for cross connect solutions.

All of our clients working with us place a great deal of trust in our ability to do our core job which is managing liquidity and making sure the right customer is on the right stream with the right order type in order to protect banks. We never deviate from a customer’s main objectives and put our best efforts to achieve it with acumen, imagination and dedication.

What do you consider to be the key strengths and operational advantages associated with the FX agency brokerage model?

It is a business decision for us to remain an agency broker as we want to be on the side of the largest liquidity providers who are the top tier banks.. The agency model gives a very transparent e-FX service as it avoids any conflict of interest and provides total anonymity to the buy-side. It is also a risk mitigation for our operation, our clientele and the banks offering lines. The liquidity providers only face the bank acting as the central counterparty.

This differentiates us from brokers that act as principal to the trades and therefore internalise the best portion of the flow and pass the rest to the banks. We are passing all the flow to the banks with no intervention in order to achieve a better relationship with them. Passing all the trades straight through demands a thorough policing of the flow. The challenge is ensuring that we are distributing the right liquidity to the right customers. We manage it using direct APIs with the banks to cross connect to their servers and publishing anonymous identifiers in order to be able to communicate with the bank and place the right identifiers with the right streams. This way we

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gain the trust of the banks and they provide us with better pricing. The Know Your Customer (KYC) due diligence process is therefore crucial in order to know what kind of trading style the end-customer uses. Once a thorough KYC process is undertaken, we can then connect the customers and offer them a competitive price that also protects the liquidity providers. So I see four key strengths of the FX agency brokerage model - Low risk, No conflict of interest, Low operational cost and the clarity of the revenue stream. These 4 strengths combined assure the scalability and sustainability of the business.

What steps have you taken and what tools are you using to ensure you manage your trade flows as efficiently as possible and are distributing the right liquidity to the right customers?

We are using liquidity management tools which are designed to offer liquidity on a customer per customer basis mixed with a strong KYC process. We do not have a pool for several customers as each customer has its own pool of liquidity selected by us.

We choose different streams from different banks and blend it especially for a particular customer. The system permits us to send anonymous identifiers requesting banks for a change of stream or for it to be turned off for a specific id.



We also offer a whole amount trading order which assures the banks to get the full trading amount for larger orders. In the case of larger orders from 5M and above, it is inefficient to allow a customer to sweep a stack in the book, it is preferable to have the amount available from a few LPs so none of them become the tail end of the trade. I believe we are the first FX agency to offer this a present. As I already mentioned our KYC process is extremely rigorous and has so far prevailed. This process is of course all about asking the right questions about frequency, average size of trades, currency traded and time zones etc but also knowing the market and the names of the usual suspects!

At the coalface



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Calling All Gurus...

Your expertise can earn you money as an eToro Guru



Over 2 million traders in our network are looking for a guru. You can help them become better traders, and earn money doing it. Apply to become an eToro Guru today.



How do you manage and optimise connectivity to your liquidity sources to ensure low latency and to avoid trading on old prices?

We do not use the internet or even VPN but a real collocation with our liquidity sources. This means our servers are hosted in the same place as our liquidity providers connecting with us through a cable plugged server to server. This eliminates latency, cancelling the possibility of trading on a stale price which will result in a rejection.

We have hosted our platform in Equinix LD4 where most of the banks can cross connect with us instead of connecting with us via other media. The cross connect eliminates totally the latency between us and the banks. Most of our clients connect with us through the internet with no problems, if they are in countries where latency is an issue we look at dedicated lines between them and us and put them in place.

What e-trading platforms does FX Fifty Five currently use and what factors influenced that choice?

FX Fifty Five currently uses a White Label

"We are not the customer of the banks and consider them as our customer. They are instrumental in our business and our partnership with them is built upon finding the right solutions and creating trust."

platform from Flextrade which has been upgraded several times in order to fulfil our clients needs. We have chosen Flextrade as it had all the right building blocks to create and run a serious agency business. The platform allows to build bespoke liquidity pools with a flexible management. We preferred to work with a flexible company which is listening to our broking experience and ready to make the necessary changes in order to accommodate our business. In some ways it demands more effort than working with an off the shelf solution but it allows our operation to achieve the goals we fixed and differentiates us from many competitors.

How did you go about building your trading desk IT infrastructure and what steps have you taken to ensure that you offer minimal downtime and guaranteed continuity of services?

As an FX agency we do not have a trading desk but a support desk. We have built a 24h customer service desk covering all IT issues and liaising closely with our technology provider Flextrade. We also make sure we have the right server capacity and bandwidth in place at all times.

In what ways are FX algorithms helping you to achieve more effective implementation of your trading strategies and minimal market disclosure?

We use FX algorithms and offer special solutions to our customers which allow us to slice their orders and time them in multiple different ways.



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The FX algorithms offer a logic allowing our customers to get more efficient execution when needed. The market disclosure is next to nil anyway as we have a sustained flow composed of our various clients with various styles of trading. All orders come from our Central Counterparty which ensures client anonymity.

What factors are likely to influence what sort of order routing system you may ultimately decide to use to pre-allocate trades for clients like large asset managers, corporates and real money managers?

Our first step was to have a partnership with Thomson Reuters Trade Notification in order to STP the orders into our clients back office. We are currently assessing what will be the most efficient order routing system to use in order to pre-allocate trades for clients like large asset managers, corporates and real money managers. We hope to deliver this from the second quarter of 2012. The challenge is to choose the right solution and then to successfully implement it to our environment.

What do you see as the main challenges facing agency brokerage firms like FX Fifty Five who are always seeking to gain the trust of banks whilst at the same time avoid conflicts of interest and provide total anonymity for the buy-side?

It has been an immense challenge to build an FX agency in the 2011 environment. Some of the previous FX agencies have damaged the reputation of the concept by not respecting the banks and on-boarding predatory customers. We decided from inception that we are on the side of the banks as there is to us, no other way. We are not the customer of the banks and consider them as our customer. They are instrumental in our business and our partnership with them is built upon finding the right solutions and creating trust. The anonymity of our setup is a major responsibility as it is our name that will suffer if we don't protect our LPs.

What steps is your team planning on taking during 2012 to optimize your risk management operations, trading technology architectures and execution pathways?

Our risk is very limited due to our agency model. We have put in place a support team of professionals which we have trained to manage any situation whether it is a hung trade or an emergency recovery procedure. All the messages between the platform and the banks are handled automatically. We plan to double this team in 2012.



How do you see the institutional electronic FX marketplace evolving over the next few years and do you predict any significant changes in the way most trading firms will elect to be connected to their clients and trading venues?

The electronic FX marketplace has seen exponential sustained growth in volumes in the last decade with the added participation from the retail market, the high frequency arena. FX is also gaining in status as an asset class amongst institutional fund managers mainly during the Lehman brothers crisis.

Trading firms are now looking into aggregated pools of liquidity to provide them with better price transparency and connectivity.

The main evolution foreseen is the competition emanating from non-bank price makers providing pricing in the same way that traditional EFX banks would and the reverberations it would cause. The role of EBS/Reuters as a market place and the active impact of high frequency traders have with the traditional EBS users.

The way buy sides/sell side firms connect to clients and trading venues will not drastically change but with the advent of new technologies we are sure to have more centralised hubs of trading globally for all client segments.

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