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Welcome to

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SPRING 2012

Recent reports have suggested that volumes in the global FX trading market have dropped to below average figures. Private investors and day traders are naturally being cautious with their trading strategies especially as many have unexpectedly failed to make profits from trading the euro against the dollar. Central bank currency interventions have also made it harder to predict trends and even corporates have been fairly subdued in their hedging policies with many preferring to take a passive approach to managing risk. Does all this mean we have entered a new era of lower FX trading activity which will continue for some time to come. Personally I don't think so. My money is on activity (volatility) picking up in the FX market sooner rather than later and I also think that once we have more clarity regarding the impact of regulatory changes on the marketplace this will help matters further.

At least electronic FX trading seems to be gathering pace as we can see from the Greenwich Associates report which is summarised in this edition. This indicates e-FX volumes increased 23% from Q3 2010 to the same period in 2011. Interestingly their study results reveal that electronic trading systems did not attract new users last year. Instead, e-FX growth was driven entirely by a pickup in the share of total foreign exchange trading volume routed to electronic systems by existing users. What impact the current slowdown in FX trading volumes will have on overall e-FX activity for this current year is hard to predict yet but will no doubt be reflected in subsequent reports.

What is clear however, is that there is still enormous potential for future growth in e-FX in many parts of the world. For example, our Regional e-FX Perspective in this edition focuses on Africa, a commodity rich continent, previously hampered by poor infrastructure, illiquid markets, and regulatory restrictions. But things are changing and the principal barriers to electronic FX trading are slowly being overcome. A fast developing technology infrastructure in many parts of the region, much of it paid for by increased income flowing through to mineral rich exporting territories, is facilitating improved access to electronic platforms and with it increased demand for FX e-commerce products and services. If you are wondering where we might see dramatic growth in e-FX over the next few years then you should watch this space.

As usual hope you enjoy this edition of the magazine.

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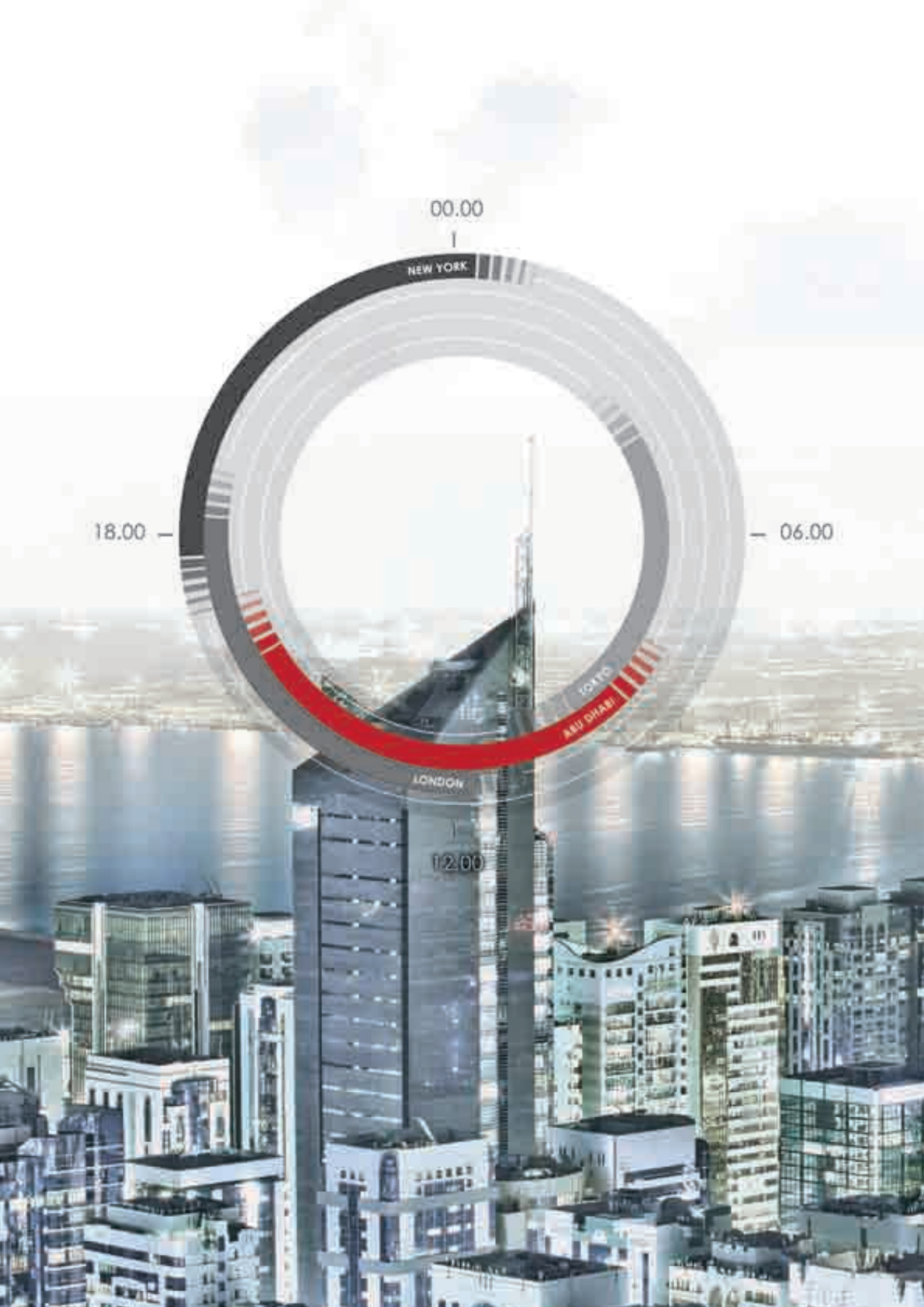
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FX Regulation & Taxation



Nicholas Pratt
Leader
FX e-services



Peter D'Amario
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A disruptive technology



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Managed Network Services
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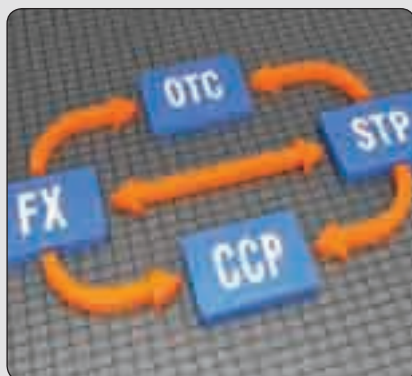
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Unified Post Trade architectures
Streamlining FX trading operations



Social Investing
Reshaping the face of Retail FX

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Commerzbank boosts its etrading offering

Commerzbank Corporates and Markets (C&M) has unveiled its enhanced eFX platform, Commander. Built on the solid foundations of the current platform, Click&Trade FX, the re-branded platform has undergone a significant development process, boosting Commerzbank's offering to clients.

Stefan Hamberger, Head of eFIC Sales at C&M, commented on the new platform: "Over the last year we've seen a doubling of users wanting to trade with us online. This demonstrated the focus which clients are now placing on electronic trading, and through an open dialogue we've been able to understand what is important to them in a platform. By continuing to provide a robust and reliable service along with the ability to adapt, we aim to be our clients' etrading partner of choice for the future." Existing Click&Trade FX clients will begin to move over to Commander in March.



Stefan Hamberger

E*TRADE launches Retail FX trading

E*TRADE Financial Corporation and FXCM Inc have announced that E*TRADE FFX, LLC will now offer customers access to global currency markets, research and education through FXCM, on the newly launched E*TRADE FX platform.



"Forex trading offers investors and traders the opportunity to broaden and diversify their portfolios through access to a highly liquid global market," said Christopher Larkin, head of Retail Trading and Client Services. "By offering industry-leading forex technology and educational resources we are providing investors at all levels with the ability to act on their opinions on global currencies and to incorporate 'cash' as an asset class into their portfolios in a new way."

Traiana extends Harmony CreditLink to FX Options

Traiana has announced the launch of an enhanced Harmony CreditLink, including pre-trade and post-trade credit and risk management services for FX derivatives trading. The service is integrated into Digital Vega's multi-dealer FX options trading platform, Medusa, extending the capability to their connected FX Prime Brokers, buy-side firms and liquidity providers. Delivered via Traiana Harmony as a central service, Harmony CreditLink provides trading platforms, clearers/prime brokers, executing banks and buy-side firms the ability to monitor and manage credit in real-time across multiple trading venues in a consolidated view.

Mark Suter, CEO Digital Vega said, "Integrating the Medusa trading platform to Traiana's

CreditLink solution brings a range of significant advantages to all our clients and partners in terms of managing counterparty risk and exposure. The provision of real-time, pre-trade limit checking allows us to deliver an integrated, industry standard solution covering spot, forward and FX option trading."





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Exposure to Emerging Markets with Saxo Bank

Saxo Bank now offers its clients a new way to capitalise on the opportunities offered in the emerging markets. Clients can now gain an exposure in Asian markets trading new FX crosses, the US Dollar against Thai Baht and Chinese Renminbi.

Commenting on the USDCHN cross offering Claus Nielsen, Head of Trading in Saxo Bank, said: "Over the past few years, the Chinese government has allowed the Renminbi to appreciate against the US Dollar, and has gradually deregulated the currency's trading. Saxo Bank offers an important option to manage renminbi risk and exposure to

real investments and positive yield." Additionally, Saxo Bank has reduced the standard margin requirements for Eastern European currencies – Hungarian Forint (HUF) and Polish Zloty (PLN) traded against all other currencies.

All together these initiatives provide new alternative ways to invest into emerging markets.



Phillip Futures meets demand for NDFs

Phillip Futures has announced that it now offers the following Asian currencies for the trading of non-deliverable forwards (NDFs) - CNY, IDR, INR, KRW, MYR, PHP and TWD. The demand for NDFs, which are net cash settled forwards on regulated currencies, arises out of regulatory, liquidity and risks in the underlying Asian currencies. As a

leading brokerage in Asia, Phillip Futures sees an increased interest amongst investors who trade Asian NDFs to gain access to interest yields, namely the institutions that trade NDFs for speculative flows, corporate treasuries that use NDFs for hedging purposes and other traders who seek arbitrage opportunities.

Squared Financial release Market Analysis



Squared Financial Services Limited has announced the release of their FX market analysis. Their in-house research team uses a unique volume based technical analysis to identify market trends and then verify these through market response to economic news, events and other significant macro factors.

The technical analysis is based upon supply and demand levels, taking into account proven trading strategies & historical levels. It covers a range of OTC markets including the G10 major currency pairs, equity indices, gold and silver. This provides professional traders with up-to-date information of market trends and what has the potential to move markets on a daily basis. The market analysis is a perfect supplement for busy traders who want to catch up on the latest news and trends. A more in-depth subscription service is planned for the near future.

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TMS Brokers tops forecast rankings

TM S Brokers' currency forecasts and TMS Alerts trade recommendations produced excellent results in 2011, continuing several years of strong performance. For the second year in a row, the Polish Forex broker topped the annual currency forecasts ranking sponsored by the Polish economic news daily Puls Biznesu. The company earned its leading position thanks to the exchange rate forecasts of Mariusz Potaczała, CEO and President of the Management Board, in cooperation with the TMS team of market analysts. TMS ranked first in two of the three forecast categories (EURPLN, CHFPLN) and second in the third forecast category (USDPLN).

The strength of TMS currency forecasts has also been recognized in the global markets. The company has maintained a leading position in the FX Week forecast competition, where the Polish Forex broker has enjoyed consistently high forecast rankings since 2009, when it won first place

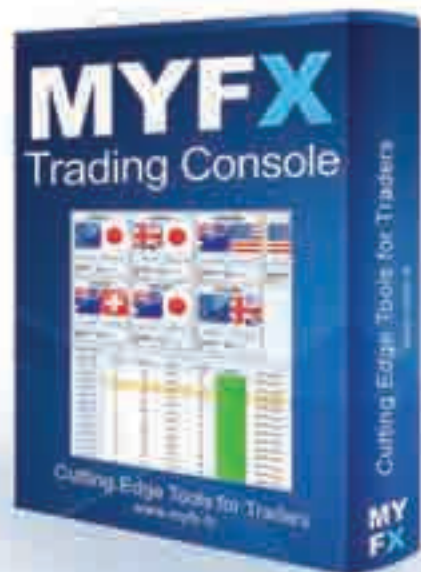


Mariusz Potaczała

43 times. TMS is the only Polish and one of a few CEE companies to participate in the FX Week forecast poll, where competition is among leading global banks and Forex dealers. TMS also achieved excellent results for TMS Alerts, its trade recommendation program for subscribing clients. TMS Alerts are produced by TMS analysts daily and include intra-day investment strategies for currencies, commodities and indices. Investors who used TMS Alerts in 2011, were able to achieve gains of 20% in EURUSD, 20% in GBPUSD and 10% in gold, with leverage as low as 1:2.

MNI launches Arabic-language FX news feed

Market News International (MNI) has launched an Arabic-language foreign exchange news feed, broadening its reach to include Arabic-speaking investors, traders and other financial services professionals worldwide. The service will be produced in cooperation with AFNews.com, marking MNI's official expansion into the Middle East.



Hantec Markets introduces MYFX

Hantec Markets has recently introduced MYFX, a platform that attaches to MT4 and provides the same full trade controls that professional traders use. MYFX offers a number of essential quick access features that speeds up trading by allowing for one-click execution. With its many professional trade management tools, it is possible to easily plan and run trade management strategies. Clients can create custom profiles that allow for scaling out of positions from a single take profit level to a combination of four different take profit levels.

The software also provides sophisticated tools for risk management. Users can easily see the risk involved with each trade as well as the overall risk of all open positions. An annual MYFX license usually costs 249 USD, but Hantec clients can acquire it free of charge with a live Hantec trading account.

Dukascopy Bank adds currency pairs

Dukascopy Bank SA is expanding its product with 12 additional currency pairs for live trading accounts - AUD/SGD, CAD/HKD, CHF/SGD, EUR/DKK, EUR/HKD, EUR/SGD, HKD/JPY, USD/DKK, USD/HKD, USD/MXN, USD/SGD, and USD/ZAR. More currency pairs will be added to its live trading platform in the coming months.

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eSignal 11.4 offers integration with multiple brokers

eSignal 11.4, launched in March 2012, has enhanced the trading integration functionality that allows the Forex trader to create a hybrid solution connecting simultaneously to any number of 14 brokers with online Forex trade execution platforms. eSignal users can choose which broker to trade with at any moment using a single click. Some brokers have more competitive rates than

others, and eSignal's broker-agnostic approach enables traders to take advantage of the best rate at the time a deal is decided. The company says that integrating this flexible order platform with eSignal 11.4's Chart Trading, new Study and Line Alerts, and its newly enhanced interface, makes for a more complete Forex trading solution.

Standard Bank launches African currencies over FIX



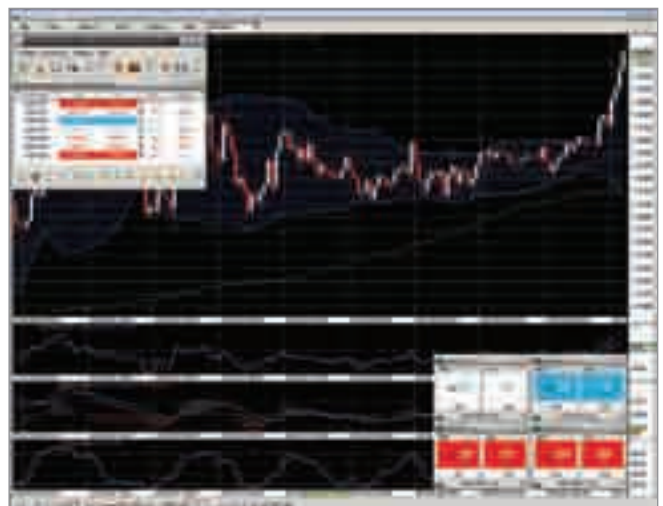
Richard de Roos

Standard Bank is one of the leading participants in the Rand and African currency markets with on the ground presence in 17 countries in Africa. Providing 24 hour coverage, the bank is uniquely positioned to provide African FX to the globe and this strength can now be delivered directly to institutions via FIX connection. Richard de Roos, head of FX said "FIX connectivity allows us to deliver our specialist FX capabilities enabling partners to access African countries and benefit from our deeply rooted relationships and insights on the African continent."

DF Markets launches new trading platform

DF Markets, a UK-based Forex and CFD broker, has announced the launch of their own DFTrader platform. It can be downloaded for free from the company's website and offers a professional set of trading tools, giving access to a wide range of markets. Users can trade 77 major and exotic currency pairs, Gold and Silver, as well as CFD's on Indices, Crude Oil, Commodities, Financial Futures, and more. Traders can also benefit from a variety of professional features like ten order types, fixed and variable spreads in one platform,

advanced charting, as well as real-time economic news feeds. The DFTrader platform is a sophisticated professional trading tool, yet its user-friendly interface and intuitive functionality make it extremely easy to use.



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QuantHouse extends access to Hotspot FX

QuantHouse has announced the availability of its Hotspot FX feed handler, allowing algorithmic trading firms sub-millisecond access to one of the leading FX ECN marketplaces. The Hotspot FX feed handler allows clients to use ultra-low latency technologies to access Hotspot FX's program trading applications, providing a new level of functionality, with increased market transparency and greater control of the trading process, thus enabling better trade execution and reduced costs.

Pierre Feligioni, General Manager and Founder of QuantHouse, said, "One of the most significant changes facing the FX market is the substantial increase in trading activities from non-bank financial institutions.

Addressing this trend, QuantHouse continues to develop key technology components to help buy-side firms build an effective presence in the marketplace."



Pierre Feligioni

DealHub acquires B2 RCP

DealHub (Option Computers Ltd) has acquired B2 RCP, a prominent provider of FX post trade solutions, previously a subsidiary of Luxembourg based software and service provider B2 Group. The move further cements DealHub's position in FX trade and post trade services, extending the company's

customer base with the addition of a number of leading FX Banks. B2 RCP's strong presence in emerging markets is well aligned with DealHub's new markets growth strategy and builds on the recent announcement of expansion in Asia and the launch of hosted services.

Commenting on the acquisition, DealHub COO Chris Leaver said "This is a great opportunity to extend our reach in the market place, with the acquisition of a well-respected brand and highly experienced team. We are committed to continuing the outstanding service B2 RCP clients have come to expect, while also giving them access to the full breadth of DealHub's leading pre and post trade solutions."



Chris Leaver

Tradeweb launches FX Options platform

Tradeweb Markets LLC has announced the introduction of an electronic, multi-dealer-to-customer trading platform for FX options. The new platform enables options trading on major currencies and allows buy-side investors to request quotes from several dealers simultaneously. Participants also benefit from integrated trade processing and post-trade reporting.

Seven leading dealers are currently providing liquidity

to the marketplace, while several other firms are in the process of joining the platform as liquidity providers. Users of the Tradeweb FX options platform can trade outright plain vanilla currency options or multi-leg strategies on a live or delta-exchange basis. The G10 currencies are initially supported. The platform utilizes the multi-dealer request-for-quote (RFQ) trading protocol pioneered by Tradeweb for the fixed income markets, allowing clients to hold a real-time auction with multiple dealers.

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Gold-i secures major contract in Japan

CyberAgent FX, one of Japan's largest forex brokers has become the first Japanese broker to use the Gold-i Gate Bridge for MetaTrader 4. This latest contract for Gold-i marks a significant step forward in its global expansion plans. The deal was secured by Gold-i's Japanese partner, XBridge, a Tokyo-based MetaTrader distributor. Yoichi Miura, CEO of XBridge

commented, "CyberAgent FX was impressed with the localisation as well as the speed, reliability, features and control provided by the Gold-i Gate Bridge. The combination of MetaTrader, the world's most popular FX trading system, and a leading super low latency bridge, provides them with a solution which is ideal for their current and future needs."



Eddie McDaid

my-Channels releases Nirvana 7

my-Channels, developer of secure multi-platform unified messaging solutions has announced the release of the "early access" version of Nirvana 7, the new edition of its unified messaging platform, Nirvana.

Eddie McDaid, Chief Operating Officer at my-Channels says, "The upgraded Nirvana 7 platform incorporates significant new functionality and increased performance, including support for both multicast and shared memory delivery modes, low-bandwidth Machine-to-Machine (M2M) messaging, and expanded support for leading industry messaging and Internet standards."

Nirvana 7 also sees the addition of support for the MQTT (MQ Telemetry Transport) messaging standard. Low-bandwidth, low-power M2M communications are crucial where conserving both bandwidth and battery power are a priority, such as for "always on" connected devices and mobile applications.

Tradition-ICAP launch Vol-Fix

Tradition-ICAP has announced the launch of its new daily Volatility Fixing service Vol-Fix. This service provides an independent and reliable market data reference point to help create a fully tradable asset class for trading volatility.

By establishing a dependable and tradable fix, the market will have an increased ability to create new products and services, such as cash settled forward volatility agreements, volatility trading funds, volatility indexes and hybrid instruments.

Starting with the most liquid tenors in EURUSD, the service will then be extended to cover other highly liquid currency pairs, including USDJPY, EURJPY, GBPUSD, EURCHF, USDCAD, AUDUSD, as well as the most liquid emerging market pairs. Terry Benson, Global Head of Business Development, Tradition-ICAP, said, "Vol-Fix has been designed with input from the market in order to meet its requirements on an ongoing basis. It will help establish a much greater level of certainty and assurance when it comes to volatility trading, which we believe will play a key role in the creation of new products."



Terry Benson



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From FX Regulation to FX Taxation

The financial markets have never before seen so many reviews looking at fresh ways to regulate. Although Regulation and Taxation may no longer be real news to us, the frequency and attention given to the topic in public discussion is increasing.

No exemption of FX Derivatives in Europe

EMIR (European Market Infrastructure Regulation) – is the European response, seeking ways to make the derivatives markets safe and transparent, (also regarded in some parts as a counterpart to the US Dodd-Frank Act). A newsworthy statement recently given by Steven Maijoor, Chair of ESMA (European Securities and Markets Authority), whilst attending a Liquidity conference in London in February, said that, ESMA is not calling for an exemption of FX derivatives as envisaged in the US! Therefore margin requirements

for non-central clearing will apply in the European Union! Wow, like Basel II and/or Basel III, MiFID or the possible implementation of a European Financial Transaction Tax; another solo attempt by Europe to pay the bill.

Single Settlement risk is today's risk from the clearing obligation for FX derivatives. Concentrated Placement risk of securities held by CCPs margin requirements will be the future risk, once the world's largest OTC market becomes obliged to implement these changes, a matter which needs careful discussion.

Manfred Wiebogen
President ACI, The
Financial Markets
Association.

High frequency trading

Although the news stems from the securities market the tendency could become trend-setting within other markets too. Regulators are debating a definition for high frequency trading. Whilst it is well understood that 'algos' are a necessary and useful tool in creating liquidity or allowing large trades, rising concern is given to malfunctioning computer models and other abuses distorting prices and disrupting trading. Responding to past abnormalities the CFTC (Commodity Futures Trading Commission) announced a broad review of such trading incidents

in the past. For more than a year regulators and exchanges have been looking for ways to regulate automated trading. A trend that no doubt will be followed by our industry and could have massive influence within the FX markets too.

Financial Transaction Tax FTT

FTT though an old story has seen recent substantial development. FTT is (hopefully) no real political issue in the UK and the US, at least for the time being. However, Europe may not be so lucky. On the 28th September 2011, the European Commission unveiled a proposal for the implementation of a FTT as of 1 January 2014. As broadly understood, such a tax would be levied on all securities and derivatives transactions executed in the European Union. Whilst FX Spot is recognized as being exempted, the sister products FX forwards and FX swaps, as well as FX derivatives (Options, NDF's) will be exposed to taxation. And this is where the tragedy will start once FTT is aimed towards the liquidity tools in the FX markets.

Recently, Oliver Wyman published a study focusing on the impact of a FTT on the Foreign Exchange

Markets. The Wyman report clearly differentiates between short and long-term instruments. In general the findings were a direct increase of transaction costs for all FX transactions by three to seven times and by 18 times for the most liquid product, the FX swap < 1 week maturity! One of those exposed is the most liquid product, a EUR/USD 1 week swap with a notional amount of EUR 25 Mio. The current transaction cost to the end user is estimated of EUR 279; the additional taxation of such a transaction at 0,01% will impact EUR 2,500 to the dealer but also to another EUR 2,500 to the Financial Institutions counterparty (interbank trading within the EU).

These costs are estimated to increase dramatically between 9 – 18 times (either single or double taxation). But again, this liquidity tool of up to one week, maturity counts for more than 50% of business transactions.

The FTT discussion started back in 1936 by Keynes and saw revived discussion by Tobin from 1972 onwards. With some exceptions, mainly based on the stamp duty model in the securities markets, this kind of taxation has however always been paid little attention to by politicians, though the recent financial crisis has dramatically changed this view causing it to become a political hot topic.

Such exigent discussion raises three main questions:

- Is there excessive trading (and in which products) causing markets in short and long to fluctuate excessively?
- Would a small tax hamper destabilizing speculation without reducing liquidity needed by markets?
- Will revenues of a general tax even at low level be substantial relative to the costs of implementation?

Our call to the accountable authorities is for international consistency in regulation and supervision. This will be needed for the derivatives market but also when it comes to taxation in financial markets. We are living in a global world.



Strengthening client relations with FX e-services

As many leading FX providers are now adopting more client-centric strategies when rolling out new electronic products and trading platforms, Nicholas Pratt explores in what ways electronic FX services can help improve and engender more productive client relationships.

The clearest trend in the last ten years within the FX market has been the embracing of electronic services. For the FX dealing banks, adapting to the pervasive presence of e-commerce has not always been an easy task. Many of the early attempts by banks to create their own web-based trading portals proved unsuccessful, especially when competing against the multi-bank portals that emerged at the turn of the millennium, such as FXAll, Currenex and others.

There was also the feeling that electronic execution left banks vulnerable to being scalped by the opportunist high frequency traders that trawled the markets looking for pricing anomalies. More recently, however, the single bank platforms have undergone a resurgence. This could be a result of a general return to the traditional, transparent values of the relationship-based FX market of yesteryear and less preference for the less personalised environment of the multi-bank portals. Another explanation is more straight-forward – banks and other leading FX providers have got better at developing e-services and realised that good, quality electronic FX e-services can help to engender more productive client relationships.

Competitive marketplace

“Money managers, hedge funds and corporations enjoy a very competitive e-FX marketplace, in terms of both electronic solutions and liquidity,” says Tod Van Name, global head of FX at Bloomberg LP. “The top providers offer markets in all instruments including spot, outright, swaps, non-deliverable forwards (NDFs) and FX options. The real opportunity, however, is to integrate seamless execution into pre-trade analytics and efficient workflow. We are constantly working with our clients throughout the world to incorporate local market conventions, tailored to user needs, into our products. Those interactions, and the understanding it gives us of their business, establishes a firm foundation for a strong customer relationship but nothing makes it stronger than a great product that meets their needs.”

The levels of e-service provision and e-trading platform functionality demanded by clients vary according to each customer sector (hedge funds, corporates, currency managers and so on) but the common factor is that all participants’ needs are continuing to grow, says Van Name. “Buy-side clients demand flexible trading access to deep liquidity and robust trading tools, including pre and post trade allocation, staging, netting, algorithmic trading, portfolio management, full audit trails and of course, straight through processing.”

The enrichment of risk and research analytics as well order management capabilities are essential areas of development for FX providers. “As spreads compress, clients seek additional value from FX providers,

including enhanced risk management in the form of hedge accounting, reporting and stress testing,” says Van Name. “Our clients also look increasingly for transparency, best execution and advanced analytics to measure everything from back testing trade strategies to technical analysis and relative value. They also seek solutions that enhance their execution workflow, like order staging and deal capture.”

Personalisation

Given that different customer sectors require different functionality and tools, platform providers are spending an increasing amount of time personalising their products, says Van Name. “Personalisation is key because while there are similarities in the FX products traded by all market segments, there are also unique differences in their individual needs. Corporate treasurers and money managers seek pre and post trade allocations, cross asset analytics and STP. Risk managers need compliance tools, reporting and stress testing, while traders demand product range, liquidity and low latency. Each segment requires a robust and flexible platform that integrates execution into native workflow.”

Aside from the effort to be ever more client-focused, the other big issue for e-FX providers to take note of



Tod Van Name

“Buy-side clients demand flexible trading access to deep liquidity and robust trading tools, including pre and post trade allocation, staging, netting, algorithmic trading, portfolio management, full audit trails and of course, straight through processing.”

is the development of the regulatory environment and how the changing requirements should be reflected in their product offerings. “While the market awaits final interpretation of Dodd –Frank regulation, the inevitability of clearing cannot be denied,” says Van Name. “E-FX providers are investing heavily in Swap Exchange Facilities (SEFs), clearing and reporting infrastructure, initially for Non-Deliverable Forwards (NDFs), and eventually for FX options. This effort and expense is not trivial, yet will cover a relatively small segment of the vast FX market. Bloomberg has been fully engaged with the Commodities Futures Trading Commission (CFTC), Securities Exchange Commission (SEC) and US Treasury throughout the rule making process, and is focused intently on providing a minimally disruptive transition for clients to execute non-exempt trades over its multi-asset SEF, which will also provide liquidity for Interest Rate Swap (IRS) and Credit Default Swaps (CDS) transactions.”

Client input

UK-based Lloyds Bank launched its own electronic platform for FX and money markets in July 2011. The development of Arena was a year-long process and one that relied heavily on client input, says Lucian Lauerman, head of eCommerce Product Management for Wholesale Banking & Markets. “Arena is a service-led proposition. The development was user-led both in terms of creating the GUI and in the services that we offered and we continue to run client advisory groups. It is important that the clients were able to tell us what they wanted in terms of navigating their way around the platform and in the way they interacted with us.”

Originally, says Lauerman, many banks saw e-commerce platforms as a way of gaining scale and reducing headcount by automating what had up to then been a heavily manual way of trading. “Now banks have realised that the e-commerce platforms are a way to create a deeper and more engaged relationship with clients. This is the whole point of Arena.”

The kind of services that are able to strengthen client relationships include integrating research and market commentary with execution capabilities as well as combining risk analytics with execution. “These are not the kind of services that you can just drop in, they have to be interoperable.” Another service that is in the process of being added to the platform is the ability to integrate transactional banking services, including balance reporting. “Arena is not simply an FX and money markets platform. We are starting to offer services from across our Wholesale Banking and Markets division. This builds on existing cross-asset

services in Arena, such as the transaction blotter and market risk analytics.”

“Much of what we are trying to achieve with Arena is the ability to reach across traditional silos of asset classes and products. This means providing true interoperability, not just a single sign-on that grants clients access to multiple asset classes through a series of disparate platforms,” says Lauerma. “The interoperability has to be built into the platform’s architecture and embedded throughout all the post-trade services.” Consequently Lloyds has invested in middleware, mixing commoditised components from third parties and more bespoke software developed in-house, that can link all the transaction and execution services together across asset classes. “We have a broad spectrum of clients and the secret is making the platform relevant to all of these different sectors.”

Customisation versus standardisation

As well as offering interactivity and interoperability, platform providers are also looking to provide personalisation wherever possible. This does create a challenge, though, in balancing the level of customisation with the standardisation needed to make the platform easy to use, says Lauerma. “It is important to offer both standardisation and client-level customisation. If you offer a single, standardised navigation, it creates a certain ease of use but you may lose the ability for clients to make the platform their own. Or you can provide total customisation by offering clients a collection of tools that they have to put together themselves – but this sacrifices ease of navigation for some client segments. As a provider it is important not to be at either end of that spectrum. It is about offering a standard, intuitive navigation combined with an ability to create your own look and feel.”

So what factors are likely to influence the future development of e-commerce platforms for FX?

The three basic factors, says Lauerma, are client demand, technology and regulation. “Client demand is the constant in all of this. But so much of what we have been able to offer has been down to the evolution of technology. Clients have always wanted more integrated services but five years ago the technology did not exist to build a platform like Arena. It has only been since technology like rich internet applications (RIA) was developed that we have been able to build a platform that meets their demands.”

If technology is the big enabler, regulation is typically viewed as the contrary force – a kind of macro-



Lucian Lauerma

“It is important to offer both standardisation and client-level customisation. If you offer a single, standardised navigation, it creates a certain ease of use but you may lose the ability for clients to make the platform their own.”

political constraint. However, for e-commerce FX platforms regulatory initiatives such as Dodd Frank, and the mandating of central clearing and swaps execution facilities can be viewed as broadly positive, says Lauerma. The over-riding objective of all of this regulation is to bring more standardisation and transparency to the trading process, especially those asset classes such as FX where there is not typically a central counterparty involved. So regulation may influence how execution is carried out in FX and this will create a greater need for efficient pre and post-trade services. “We see changes in the regulatory environment as an opportunity to differentiate our electronic channel services from competitors.”

Transferring investment to client experience

RBS is another leading UK-based bank that has made a concerted effort in the last 12 months to gain ground in the FX e-commerce market. In September 2011 it launched its RBS Agile trading system, originally designed as a gamma hedging tool and a spot FX trading algorithm. In December 2011 RBS announced a series of enhancements to its multi-asset electronic trading platform RBSMarketplace. “We are aggregating the amount of investment we’ve made in systems and transferring it to the client experience,” says Ed Mount, head of FX technology-based trading



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at RBS. “In today’s marketplace, banks can no longer get away with just being on the clients’ desktops. You have to be embedded into their trading systems.”

“We are a highly rated FX options business through our RBS heritage and in the last few years we invested in technology for high frequency market-making and scored very well on the anonymous trading platforms and that is what drives the development of our electronic platform,” says Mount. “Part of what we’re trying to do is emphasise our expertise in the market and make the electronic platform becomes a conduit and delivery mechanism for the client. As the client demand grows it is then our obligation to put these pieces together in a single experience. We do not want to separate the traditional FX sales team from the e-commerce team but have a single FX trading service.”

As with other platform providers, RBS is also having to balance the idea of a standardised and integrated multi-asset platform with the ability to provide personalised and customised features where demanded. Mount says that the RBS Agile product is an example of such an

approach in that it designs custom made algorithms for clients. “We are trying to understand our clients’ execution process and mimicking that on their behalf to take some of the emotion out of their execution. We operate in these FX markets on a daily basis and we are creating the tools that will enable them to access the liquidity that we generate on a daily basis.”



Catering for different client sectors

Having both corporate and institutional clients presents a challenge in that the two sectors generally have different trading motivations and strategies and, says Mount, RBS works closely

with its sales teams to understand each client and then closely with its IT team to ensure that new products can be developed as quickly as possible. “The technology and the relationship feed into each other. A product like RBS Agile is not just a portal to our in-house tools. It is a flexible development environment with a very quick release schedule so that we are able to respond to any changing needs.”

But how does RBS ensure that it is not spending all of its time developing a new product for each client? “We’ve focused on separating the custom algorithm side from the core structure of the platform. All of these algorithms are a variation on a theme and we offer clients our research and analytics so that they can essentially design their own algorithms. We also offer them backtesting and transaction costs analysis and smart order routing as well as offering them additional services like options replication and variance swaps. And we can do all of this through the same interface.”

Pay back

For the banks, the effort put into understanding the client experience and personalising their platforms is presumably paid back by having clients come to them directly rather than going via a multi-bank portal. “It is important for banks like us that have a big presence on the multi-bank portals to recognise that one size does not fit all,” says Mount. “All of our clients want good execution but we want to give them the same experience that we have as risk managers and traders ourselves. Prices in FX have become commoditised but the expertise we have in the markets is what we think makes the difference and allows us to have a client relationship rather than just a product,” he concludes.



Ed Mount

“In today’s marketplace, banks can no longer get away with just being on the clients’ desktops. You have to be embedded into their trading systems.”



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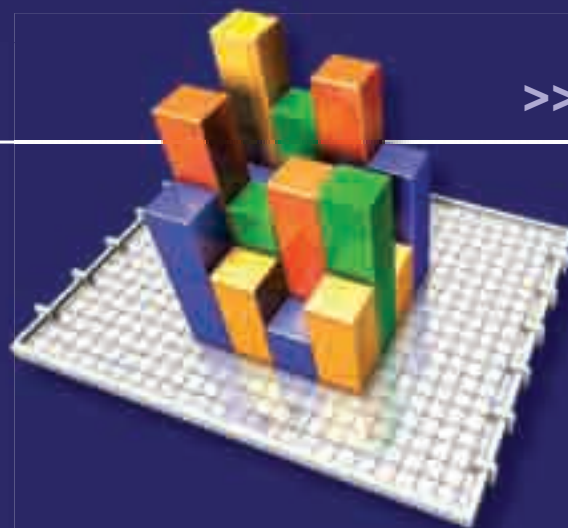
Peter D'Amario is
Managing Director at
Greenwich Associates

Strong growth in electronic trading activity last year pushed electronic foreign exchange volumes above 60% of the overall global FX market for the first time.

Greenwich Associates tracks foreign exchange (FX) trading volume among a universe of 1,632 end-user corporate and institutional customers. Volume figures in this report exclude inter-bank trades, as well as end-user short-dated swaps and rollovers. On this basis, the Greenwich Associates 2012 Global Foreign Exchange Services Study reveals that electronic FX (eFX) trading volumes increased 23% from Q3 2010 to the same period in 2011. That growth surpassed the 15% increase in overall foreign exchange trading volumes, thus expanding the share of the market traded on electronic systems to 61% from the 57% of total volume recorded in Q3 2009 to Q3 2010.

The study results reveal a clear and interesting trend: Electronic trading systems did not attract new users last year. Instead, eFX growth was driven entirely by a pickup in the share of total foreign exchange trading volume routed to electronic systems by existing users. Globally, 62% of FX market participants trade foreign exchange electronically — a share unchanged from 2010. Approximately half of FX market participants in the Asia Pacific region use electronic systems, as do 75% in Europe, 76% in the United States and 80% in the United Kingdom.

While electronic trading systems failed to win new customers last year, they did manage to capture a growing share of business from their existing users. At a global level, existing users of eFX increased the share of their total foreign exchange trading volume executed on electronic systems to 71% in 2011 from 68% in 2010. The biggest jump occurred in the Americas, where electronic trading systems captured three-quarters of overall foreign exchange trading volumes from their users — up from 67% in 2010. The one outlier in these terms was the United



Kingdom. However, the dip in share of total volume executed electronically by U.K. eFX customers might be attributable to the fact that, unlike in other markets, electronic trading platforms in the United Kingdom did manage to win new customers last year, and these customers likely drove down overall averages as they got up and running.

Strong growth in North America, Asia and Europe

In a year in which overall global foreign exchange trading volume notched a strong recovery from the contraction experienced in 2010, eFX volumes surged in most major market regions last year. From 2010 to 2011 electronic trading volumes increased 47% in the Americas, 20% in Europe and 22% in Asia Pacific. As a result of those increases, the share of total foreign exchange trading volume executed electronically in the Americas increased to 60% in 2011 from 51% in 2010 and the share of overall volume executed electronically expanded to 62% from 58% in Europe. The European expansion was driven by a 22% increase in e-trading volume on the continent; eFX volumes in the United Kingdom were essentially flat.

In Japan, the share of overall foreign exchange volume executed via electronic trades held steady at roughly 68% amid strong year-to-year growth in both total FX volume (up 23%) and eFX volume (up 35%). In Asia

ex-Japan/Australia/New Zealand, the share of overall foreign exchange trading volumes routed through electronic systems declined to 54% in 2011 from 59% in 2010 as growth in e-trading volumes (+4%) lagged growth in total FX (+6%).

Biggest market participants lead e-trading push

In what can only be seen as a positive sign for the global e-trading industry, eFX trading volume surged last year among the largest and most actively trading financials and corporates that generate the bulk of global trading business. In 2011 about 86% of market participants generating in excess of \$50 billion in annual foreign exchange trading volume traded electronically, and those users increased the percentage of business executed through electronic systems to 71% in 2011 from 69% in 2010.

Among market participants generating annual FX trading volumes between \$10 billion and \$50 billion, the share trading electronically increased to 75% in 2011 from 73% in 2010 and the typical eFX user in this group increased the share of overall foreign exchange volume executed electronically to 66% from 62%. Due to such consistent uptake, electronic trading systems are now capturing nearly two-thirds of trading volume generated by the biggest players in global FX markets.

Platforms win trading business

The trend of pushing increasing amounts of foreign exchange trading volume onto electronic platforms was evident last year among both financial participants that make up the bulk of the global FX market and among companies. In 2010 the typical financial institution active in eFX executed 70% of total foreign exchange volume on electronic systems. In 2011 that share increased to 73%. Customer banks using electronic trading systems executed 77% of total



Electronic Trading Penetration and Market Share



Year-Over-Year Percent Change in Trading Volumes

volume electronically, up from 74% in 2010, and fund managers/pension funds that trade electronically increased the share of overall FX volume routed through electronic systems to 61% from 57%. Because many corporations participate in FX markets on only a sporadic basis, just 52% of them use electronic FX systems. But companies that do use eFX increased the share of their total foreign exchange volume executed electronically to 61% in 2011 from 58% in 2010.

Hedge Funds slump

Electronic trading volumes decreased 7% among hedge funds last year. However, because that decline occurred against the backdrop of a 10% decline in overall hedge fund foreign exchange trading volume, the proportion of FX volume traded electronically actually increased among hedge funds to 45% of total market volume in 2011 from 36% in 2010. The decline in eFX among hedge funds should not be taken as a sign of future direction in terms of demand. In fact, both the share of hedge funds trading on electronic systems and the share of total business executed electronically by hedge fund users held up relatively well from 2010 to 2011. The pronounced slump in general hedge fund performance and foreign exchange market activity simply dragged down the absolute eFX volume totals last year.

Retail Aggregators: The Return

The amount of FX trading volume executed electronically by retail aggregators increased 43% from 2010 to 2011, essentially mirroring the increase in overall foreign exchange volumes generated by these firms. The spike in both overall FX and eFX trading

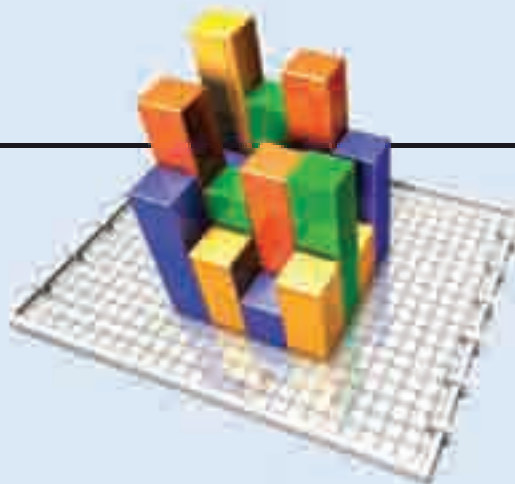
volumes almost made up for the significant declines in activity among retail aggregators from 2009 to 2010 and served as one of the important drivers of the general recovery in global FX trading volumes last year.

A Multi-Dealer world

The results of Greenwich Associates research point to a continued move away from bank proprietary trading systems by major FX market participants, even among the financial institutions that make up the majority of foreign exchange trading volume. Among financials, the share of eFX users trading on single-bank systems declined slightly to 53% in 2011 from 54% in 2010 and the share trading on multi-bank platforms increased to 78% from 75%.

The move away from single-dealer platforms included customer banks, fund managers, pension funds, and even hedge funds, which traditionally have been heavy users of bank proprietary trading systems. While the share of hedge fund e-traders employing multi-bank systems held steady at 62% from 2010 to 2011, the share using single-bank systems dipped to 64% from 66%.

The trend moved in the opposite direction for only two types of FX market participant: the market's largest players and retail aggregators. In both cases, market participants are making heavier use of both types of trading platforms. Among market participants generating more than \$50 billion in annual FX trading volumes, the use of proprietary bank systems increased to 54% in 2011 from 52% in 2010 while use of multi-bank systems increased to 85% from 81%. Among



retail aggregators, usage of single-bank platforms increased to nearly three quarters in 2011 from about half in 2010 and the jump in usage of multi-bank platforms was even more dramatic. Overall FX volume surged among retail aggregators last year, and the massive increases in total volume prompted these firms, which rely on electronic trading for nearly all of their business, to utilize all the tools at their disposal.

A Faster, more sophisticated future

The FX market has the reputation of being perhaps the world's most liquid and one of the world's most efficient marketplaces. It has also become one of the most competitive. As increasing amounts of business flow to multi-dealer platforms, banks find themselves in a race to get prices quoted on these systems and to find ways of differentiating themselves from competitors.

Many banks are looking to one tool they think will help them better compete: algorithmic trading. Only 8% of global FX market participants use algorithmic trading strategies for foreign exchange. While that share is up from the 6% using algo trades in 2010, the 2011 results leave little doubt that these strategies have

yet to gain much traction market-wide. However, the research results do show signs that algorithmic trading is beginning to catch on in certain segments of the market:

- Use of algorithmic trading strategies increased to 16% in 2011 from 12% in 2010 among the market's biggest and most active traders — those generating more than \$50 billion in annual FX trading volume.
- Use of these strategies increased to 12% from 8% among market participants in the United Kingdom and to 12% from 10% among U.S. participants.
- Twenty percent of hedge funds are using algorithmic trading strategies in FX, up from just 14% last year.

Source: 2012 Global Foreign Exchange Services Study



Type of Electronic Trading System Used

Meanwhile, many of the banks with which Greenwich Associates regularly works are investing heavily in the development of algorithmic strategies for foreign exchange, and they expect this product to attract significant levels of demand in the months and years ahead.

As FX evolves into a mainly electronic marketplace, competition is taking place in milliseconds as opposed to minutes or hours. In such an environment, algorithmic trading strategies will play a much bigger role for both investors and banks.

Methodology

Between September and November 2011, Greenwich Associates conducted interviews with 1,632 top-tier users of foreign exchange services at large corporations and financial institutions in North America, Latin America, Europe, and Asia Pacific. Participants were asked about market trends and their relationships with their dealers.

2011 Social Forex Awards



Roger Aitken reviews the '2011 Social Forex Awards' held this February in central London – which were the first of their kind.

The great and the good from the FX market gathered on 22 February 2012 at the Charlotte Street Hotel in London, brought together by LetstalkFX and Social-Markets.net - in conjunction with e-Forex and sponsored by the CME Group - for the inaugural social forex awards recognising banks leading the way in utilising social media tools within the FX market.

A range of presentations were made preceding the awards on aspects of social media and not just on its impact and development - but also things to watch for in the future. Speakers included representatives from the CME Group, Martech, Mischo de Reya, Open Windows Analytics and Social-Markets.net. Debate was lively and of course very social.

Here to stay

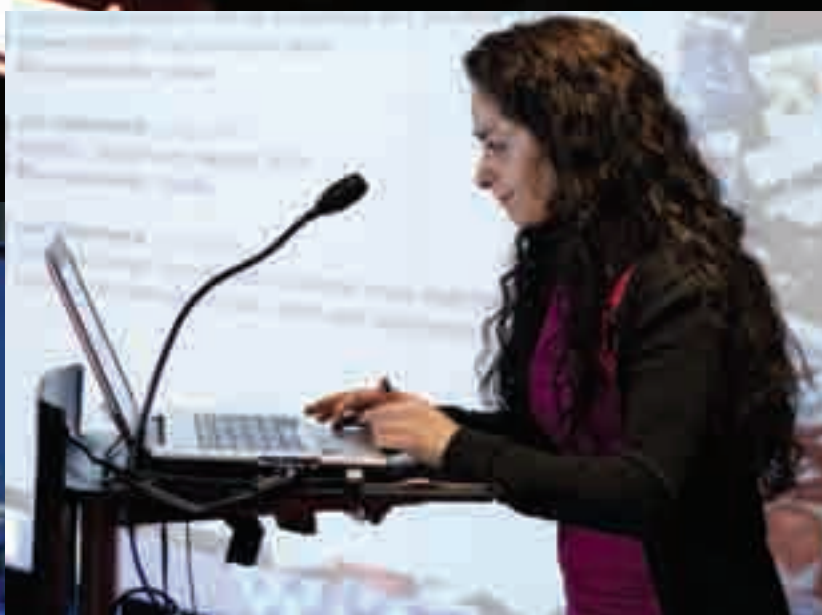
Stefan Basiuk, co-Founder, LetstalkFX.com, commenting on the event said: "There has been a growing realisation within the financial markets that social [media] is not only here to stay, but a serious tool by which to do business right across business functions."

He added: "Within the FX market, social has been a feature for a number of years on the retail side, but increasingly the institutional side has woken up to realise that they must also grab the potential it offers." There is a sense of déjà-vu in that back in the late 1990's as electronic trading came onto the scene, many were unconvinced that it could be a significant part of operations. Many would spout that it was all about relationships. As always in any industry there are leaders and followers.

"What we're seeing is exactly the same with the talk in the market of a number of leading banks developing their platforms to incorporate social media tools and integrating to other social media type channels," Basiuk opined. "Invariably there will always be the late-to-show institutions. And, the cost to come on-board could potentially be significantly higher."

Still evolving

"Social media in financial services is still evolving," noted Allan Schoenberg, Director of Corporate of Communications, CME Group, in a case study





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examining how the trading floor has moved to the virtual floor and the new FX generation. “We’re really in the first stages of what this industry can do with these tools. There is nevertheless a long way to go.”

Schoenberg added: “My advice is that there is no right way to do it. However, there is the right way for you to do it and adapt to it. Networking and brand awareness- it’s like drinking from a fire hose. And,

with the vast array of tools, applications and resources available, if you try to wrap your hands around all of it you won’t be able to do it.” Today, the CME has c.700,000 followers on Twitter and its private CME Group for Forex products numbers some 350 members.

Elena Theodorou, founder of Social-Markets.net, a social media consultancy to the financial markets

Award Winners

	Votes Cast (%)
Most Social Bank	
1. Saxo Bank	37.0
2. Dukascopy Bank	32.0
3. Citigroup	12.0

Best Social Campaign	
1. Saxo Bank	31.5
2. BNP Paribas	10.5
3. Dukascopy Bank	9.5

Best Social Initiative/Innovation	
1. Saxo Bank	36.0
2. Royal Bank of Scotland	9.0
3. Bank of America ML	7.0

Best Social Research	
1. Saxo Bank	26.5
2. Dukascopy Bank	20.0
3. BNP Paribas	8.0

	Votes Cast (%)
Best iPhone/iPad App	
1. BNP Paribas	29.5
2. Saxo Bank	22.0
3. Royal Bank of Scotland	7.0

Most Social Website	
1. Dukascopy Bank	37.0
2. Saxo Bank	33.0
3. BNP Paribas	7.0

Best Online Content	
1. Dukascopy Bank	35.5
2. Saxo Bank	31.0
3. Deutsche Bank	12.0

Best Company LinkedIn Profile	
1. Royal Bank of Scotland	24.5
2. Citigroup	12.0
3. Deutsche Bank	6.5



and formerly Global Head of e-commerce FX sales at JP Morgan, highlighted in a video (bit.ly/socialforex) the enormous growth of social media - now the No.1 activity on the net. LinkedIn, for example, has around 150m users today (1 per second) while Twitter registers c.90m tweets daily.

“With so many different tools out there it fundamentally centres around what your strategy is and what tools you require to leverage in order to make the impact you desire,” she said. “For the FX market it’s critically about picking the right tools for the strategy and channel selection.” As a business development tool focus should be on “mindshare rather than market share.” As one observer noted: “The ROI on Social Media could be that you’re still in business in five years.”

Award winners

The awards were open to all within the FX market and hosted on the letstalkfx.com platform, with 4,136 votes cast globally over a one-month period.

Perhaps not surprisingly the major winners were banks that have come from the retail space and were now looking to bring their experience from that side to the institutional space.

First mover advantage was key to Saxo Bank’s No.1 rankings in four categories (Most Social Bank, Best Social Campaign, Best Social Research and Best Social Initiative/Innovation) plus three runners up spots. Saxo’s percentage of votes ranged across seven categories between 22% and 37% - surpassing 900 votes each time.

Dukascopy Bank scooped two awards for Most Social Website and Best Online Content and placed top 3 for Best Social Research, Most Social Bank and Best Social Campaign. BNP Paribas and RBS won the remaining categories for Best iPhone/iPad App and Best Company LinkedIn Profile, respectively. Betsy Waters, FX4Cash, Product Sales Specialist, Deutsche Bank, won a separate award (Best Personal Linked Profile).

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Making sense with CORTEXFX

The CORTEX brand is synonymous with 2 concepts – 'Intelligence' and Advantage'. Just as the CORTEX of the brain controls the senses, CORTEXFX, (which is the first product to be launched under BNP Paribas' new electronic trading brand) allows BNP Paribas' clients to take full control of their FX trading environment using a feature rich, stable, platform. **Thomas Soede**, global head of e-commerce at BNP Paribas talks to Frances Maguire about the launch of BNP Paribas' advanced multi-product FX trading platform. Employing cutting edge trading technology, CORTEXFX offers efficient execution and a one-stop point of access to a range of intelligent electronic products, tools and services from BNP Paribas.

What will CORTEXFX cover?

TS: Launched on March 7, CORTEXFX is the first application to be deployed under the BNPP's CORTEX brand. It will provide clients with deep liquidity around the clock in over 150 currency pairs that is configured to perform in different market conditions. The platform provides an intelligent execution interface for all of our FX flow products: spot, outright, swaps, FX options, emerging markets and NDFs.

CORTEXFX clients can 'Click and Trade' a wide selection of NDFs from across Europe, Asia and LatAm allowing our clients to take advantage of the bank's global reach and extensive local markets footprint.

CORTEXFX also has a comprehensive FX options offering where clients can trade up to 20 different first generation exotics, build strategies and execute these online, using the latest technology, accessed and priced directly via a user-friendly interface.

The platform enables two-way auto-quoted vanilla, barrier and digital options, multi-leg options for structured deals, and delta solving features.

The platform also supports a wide range of order types, including Take Profit, Stop Loss, If Done, One Cancels Other and Repeat.

How will CORTEXFX fit with BNP Paribas's existing platforms?

TS: Other existing platforms built by BNP Paribas over the last few years will be fully integrated into the CORTEX environment. This means that FX, Rates, and Credit products will sit alongside each other under our CORTEX brand giving our clients all the services and products they require via a single platform.

How has CORTEXFX been architected?

TS: CORTEXFX has been built in Microsoft Silverlight – a flexible and light language used primarily for building trading software – this translates to an easy to install, non-memory intensive experience for the user and access is available via any internet connected web-browser.

We have also built an external architecture network by creating an independent 'bubble' that sits outside the BNP Paribas main network. This means that CORTEX is therefore independent of our existing networks, which ensures that the resiliency and 'up-time' of the platform is never below 99.95%. By creating 'co-location' connections to all the major global exchanges we have ensured that our clients can request a price, execute and receive confirmations with minimal latency often in terms of milliseconds rather than seconds.

What are the key features of CORTEXFX?

TS: The platform has been built with flexibility and customisability at its very core and we believe this



provides our clients with the edge they demand.

It is a comprehensive and a fully integrated service hub with pre-trade, trade and post trade services. CORTEXFX allows you to configure your own trading environment with your preferred products and tools by creating multiple workspace views based on your trading needs, customising and exporting order and deal blotters and configuring streaming rate panels.

It provides a sophisticated pricing and order management engine, offering two-way executable streaming prices, request for quote and resting orders in over 150 currency pairs with fast execution and no slippage between execution and confirmation.

What other value-added services have been included?

TS: BNP Paribas' research engine has been integrated into CORTEXFX so clients can build their own, customisable pages around our research.

A research tablet can be created within the CORTEXFX framework that shows all BNP Paribas short-term, long-term and strategic recommendations on a product by product basis. CORTEXFX offers clients a full pre-trade and post-trade service in terms of research, trade ideas, execution and STP at the back end via the main industry standard STP providers.

CORTEXFX also offers fully integrated access to BNP Paribas' GlobalMarkets research and analytics portal. We share our FX market intelligence with our clients allowing them to develop original trading strategies and take them through to execution.

What do you think is the biggest benefit brought by the launch of CORTEXFX?

TS: Whether you want to develop innovative trading strategies, execute trades or monitor and evaluate your trading activity, CORTEXFX has been designed to offer you a fully integrated trading environment that is simple to use and allows you the freedom

"CORTEXFX has been designed to offer you a fully integrated trading environment that is simple to use and allows you the freedom to concentrate on taking advantage of every trading opportunity."



Thomas
Soede



What technology supports CORTEXFX?

TS: Built in Microsoft Silverlight and accessed using an internet-browser, the CORTEXFX platform is not only very accessible but it is also not IT memory intensive.

What STP and integration facilities will be provided?

TS: BNP Paribas has worked with the major vendors, such as Logiscope and RTNS, to ensure we support a full suite of STP solutions. We are able to offer clients full front to back solutions and full integration into their middle and back office systems.

To what extent can the platform be customised for different users?

TS: The CORTEXFX platform is built in modules so that certain modules can be made available to different client segments, catering for full FX trading capability to, for example, an SME in Indonesia who only requires CORTEX to make international payments. The platform is very configurable to give clients a different feel, look and experience around the same asset class.

What are your future plans for the development of CORTEXFX?

TS: CORTEXFX will evolve over time. Having built all of the IT in-house this gives us the ability to operate in a very agile way. The core product will have three week IT release sprints, so that we can supply on request and demand and enrich the product as it evolves.

to concentrate on taking advantage of every trading opportunity.

BNP Paribas has a very large client base globally, and part of the initiative of building a single dealer platform is to give clients in these markets the ability to select BNP Paribas to handle onshore, local, booking, which is big advantage that some houses do not have and something we could not offer over a multi-dealer platform. With offices in over 50 countries, our ambition to become an electronic markets provider of choice in developing economies is now being realised. This also enhances our pricing capability as we are represented in many developing economies and pricing intelligence is a key area of our focus.

CORTEX will be the umbrella brand for all of our Fixed Income products. We have made our entire pre-trade content available over mobile (Ipad, Iphone) through MobileMarkets and we are now slowly rolling out our social media strategy using the new communication channels such as Twitter and Facebook which we see as a key component in any next generation trading environment.

For further information please contact:
cortex@bnpparibas.com

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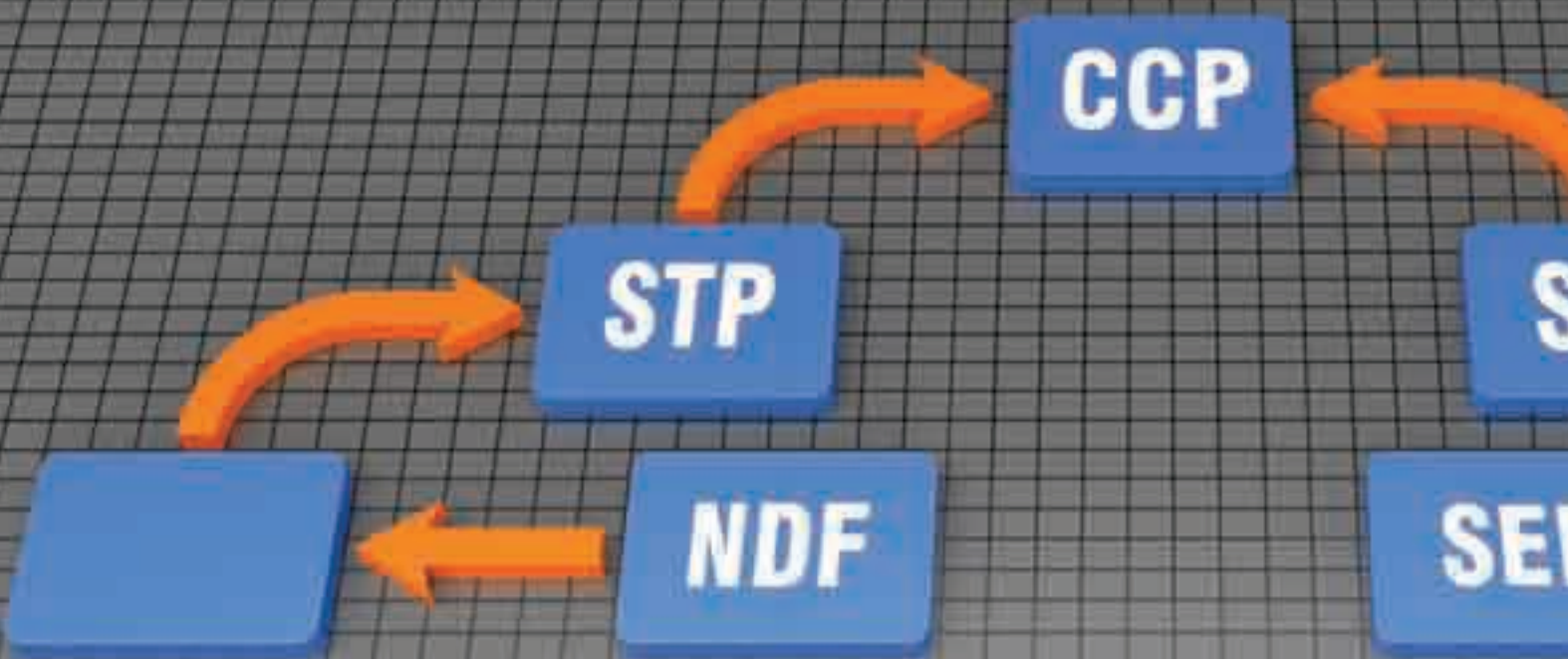
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Streamlining and simplification of FX trading operations with more unified post trade architectures

Mandatory clearing of NDFs via CCPs is expected to be implemented this year and with clearing of FX Options to follow, Frances Maguire looks at whether the changes to the back office will bring more joined-up processing for FX.

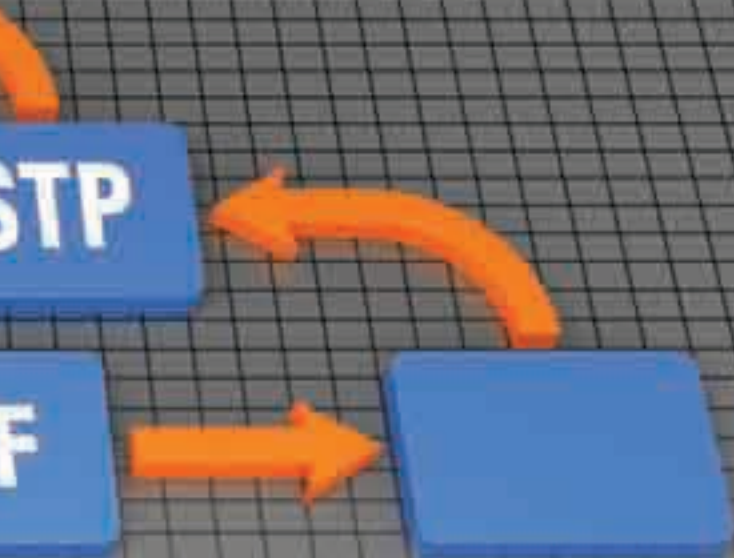
While the addition of clearing for FX OTC products brings greater complexity to the FX back office, the re-engineering exercise that is underway across the industry is also looking to improve processes and streamline post-trade architectures at the same time. Furthermore, the increased complexity that clearing brings is also likely to spur a new wave of outsourcing, or use of ASP models, for processing as well as the newly emerging reporting requirements, which could, in effect, simplify the FX back office.

Nick Dyne, managing director of MarkitSERV's FX business, considers the next round of developments

as Step 2 in the evolution of STP, where Step 1 provided the basic "plumbing" post-trade delivery of transactions from venues to clients and counterparties. He says: "The basic delivery of messages from execution venues to post trade destinations is, today, heavily commoditised; and the process is now largely outsourced by the major venues to third parties. For most clients now, STP connectivity is a prerequisite of the core service offered by trading venues. As such, what was originally a first-mover advantage has become a last mover disadvantage, so the question now is how do competing execution venues differentiate the post execution experience to establish first mover advantage again?"

Complexity

The industry's focus on clearing creates more complex post trade workflows, with banks and clients having to establish connections to more end destinations like clearing brokers and CCPs. According to Dyne, it is not only clearing workflows that create complexity, complex allocations and aggregation



workflows present their own challenges. “The key is reconfiguring established workflows without changing, fundamentally, underlying applications; in other words, using existing connectivity to access the new flows and end destinations,” he adds.

Client environments, in particular, are not geared to handle the change required to manage new and multiple interactions with brokers, clearing brokers and CCPs. As Dyne says, the client’s already stretched technical resources need to be taken out of the equation, which again lends itself to outsourcing to a company like MarkitSERV. “It’s opaque to clients – they want to know that new workflows are being managed without having to continually invest time and resources building and supporting these ever-changing capabilities in-house.”

MarkitSERV’s Dyne also believes that the post-trade rules, for both CCPs and trade repositories, are likely to be implemented sooner than the new execution rules for SEFs. He believes the reason for this is that there simply is not enough price transparency or liquidity in NDFs to force it into the standardised exchange-model represented by SEFs, or to sustain the pre-changes



Nick Dyne

“While clearing may be a catalyst for change over the next few years, because it changes the processing economics for FX, the industry has realised that it is not necessary to own these post trade processes and these will, increasingly, be outsourced to third parties.”

the regulators were originally looking to invoke. This is another reason why Dyne believes this work will be outsourced. Apart from the clearing and trade reporting requirements, he adds, the onerous task of managing unique identifiers for FX will not be a task financial institutions other than the very largest will want to take on. He says: “With Unique Swap Identifiers (USI), every time there is a change in the economics or ownership, there is a change in the USI. It is a quite laborious process to manage and one that few will want to tackle. STP 2 is a workflow management issue rather than just delivery.”

The September 2011 acquisition of Logicscope brought its extensive TradeSTP messaging and workflow management platform with its established connectivity linking more than 70 execution venues and prime brokers handling 1000s of client flows and prime brokers together with MarkitSERV’s FX matching and CCP gateway solutions.

Dyne says: “Within the cloud we are providing connectivity, matching, allocation and aggregation workflow solutions and through MarkitSERV’s existing agreements, legal confirmations and a single gateway to all FX CCPs.”

Dyne stresses that while clearing is the headline story, what is really going on is a huge automation of FX workflow, in respect of cleared and uncleared trades. “While clearing may be a catalyst for change over the next few years, because it changes the processing economics for FX, the industry has realised that it is not necessary to own these post trade processes and these will, increasingly, be outsourced to third parties like MarkitSERV. In short, why do the work if you don’t have to.”

Trade Repositories

The requirement to report OTC trades to a central trade repository is a wholly new regulatory requirement for the FX back office and Thilo Derenbach, co-Managing Director of REGIS-TR, a European central repository for global OTC trades, also believes that, for FX trades, it would make sense for firms to outsource reporting to either system vendors, or the platform providers providing their matching engine, as a direct feed can be taken from there.

He says firms will need to decide where they execute, confirm and/or match FX OTC trades and from which system environment they will extract the trade data to comply with new regulatory reporting requirements by sending the necessary trade data to a trade repository.

They then need to decide how to interact with a trade repository, directly or indirectly and if indirectly, whether to build the interface with the trade repository themselves or purchase an interface provided by system vendors such as Murex, Calypso, Misys and many others or other specialised firms such as DealHub, MarkitSERV and Traiana that can offer such connectivity. As the trade confirmations take place in Swift and other confirmation platforms, Derenbach believes that many firms will choose to go to a third-party providing an interface to the registry rather than build the technical interfaces in-house. The rationale behind is that the customers have very large project agendas on their desks for 2012 and prefer to use the available internal resources for more business-related topics than the compliance with regulatory requirements.

He adds: “Some firms may find it easier to have a legal relationship with the trade repository, but many will find it an advantage to use providers that have already built and tested a standard interface.”

Derenbach says that it is quite likely that the majority of FX participants will also be active in other OTC



“Some firms may find it easier to have a legal relationship with the trade repository, but many will find it an advantage to use providers that have already built and tested a standard interface.”

derivative product classes and that therefore the customers will have to find an appropriate solution to extract and forward trade data for all these different product classes to a trade repository. Therefore the selection process in respect to the vendor of choice must be carefully evaluated.

Using available resources

For Derenbach, it is about using already available resources. The new regulatory environment comes at an additional cost to the participants therefore they seek cost efficient solutions to ensure their compliance with upcoming regulation. Particularly smaller financial institutions and a greater proportion of the corporate community are not likely to directly connect with a repository but will rather outsource the reporting process to their counterparties. While REGIS-TR uses XML files sent via the Swift network for communicating with FX participants for the purpose of reporting to the regulators, it is currently developing the capabilities to also process Swift MT confirmation messages to ease reporting and give FX participants a choice in respect to communication path and format – allowing them to select the most efficient and cost-effective way for each individual participant.

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Derenbach says: "Before ESMA becomes effective we can be a one-stop shop for participants to send their trades without having to look around for different repository service providers. Today, we receive the information from customers entering the trades into the web application of REGIS-TR or electronically via XML files. The extension we are working towards is to also accept Swift messages so that the customers do not even have to convert the Swift message into an XML file but send us a copy of the Swift file and we convert it internally. This will make it extremely easy for participants using Swift to interact with us."

Change is an opportunity

Derenbach believes the regulatory change is in itself an opportunity. Many service providers, across the different layers of the value-chain - trading, matching, clearing, reporting, exposure management and settlement - are stepping up to the challenge of offering regulatory compliance while seeking to increasing the efficiency of the process but also to offer additional, value-added services. "Admittedly, the flipside of the increased breadth of possible services that a customer can choose from is that the decision about which service provider and which service to use becomes more complex," he adds, "but the end result will be more choice, more efficient processes, mitigation of counterparty and operational risk, and because this is a regulatory issue, budgets to allow such benefits to be more easily available within the community."

Trade repositories will play an important role going forward, way beyond the pure reporting of trade data on different derivative product classes. Derenbach says they will possibly help provide the neutral third party valuation of trades, legal matching and confirmation of trades, without the need to go through a matching platform which might not be available for the complex trade executed or product class traded. In the area of exposure management, the collateralisation of non-cleared OTC derivatives trades, where the capital requirements in the framework of Basle III will increase significantly, they will be able to support access to alternative collateral pools, e.g. securities collateral.

Technology issues

The next generation of technology will replace many legacy back offices in banks where the majority of IT funding has gone into the front end platforms. As result the back office has lagged significantly and Jim Dennelly, senior vice president, Treasury, at SunGard

says that now there is an opportunity to streamline the process to make it more cost effective.

Dennelly says that the big two drivers that are pushing the next generation of FX back office technology are central clearing requirements and the ability to provide more real-time streamlined processing of these transactions. He says: "In the past they have been typically batched, there was a lot of manual intervention, even in the some of the larger institutions, on a day to day basis. This will change because they need to become more cost effective so they can be more competitive in the market, especially with all the internet platforms where customers can look at pricing, and regulatory requirements are going to force these changes."

Although the introduction of clearing NDFs and FX options puts the focus primarily on post-trade processing, Dennelly believes it is going impact the full lifecycle of these trades, as they follow the flow of a future. "From a processing perspective this is significantly different from the current FX workflow. The primary drivers being the ability to CCP matching up and agreeing to the trade as opposed to FX OTC world trades which are typically matched with Swift messages. With the status of matched and unmatched, what can be done in those intervals is significantly different because you are dealing with a central clearing party."

As this adds more lifecycle events to a trade, that were not there before, all the systems from the traders managing their traditional risk to modifying a trade during the lifecycle, are going to have to change. Apart from the fact that executed trades will now have to be sent to the clearing house to be matched, collateral will now have to be posted and collateral positions now maintained and managed. Furthermore, for NDFs, the exchange rate cannot be fixed by users and has to come through a new interface, adding another level of complexity.

Architectures

The regulatory changes could be seen as an opportunity to streamline and unify back office architectures. Says Dennelly: "I think there has been hesitancy until now to modify the back office. The business has been more about gaining market share and increasing profits, but what is coming next is the ability to reduce costs and when you look at the amount of manual intervention that is required, on a day to day basis, in back office systems I think as



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"I think as a result of the regulatory changes a lot of firms are taking this opportunity to re-architecture the back office instead of simply bolting an central clearing solution on to the existing back office."

a result of the regulatory changes a lot of firms are taking this opportunity to re-architecture the back office instead of simply bolting an central clearing solution on to the existing back office."

Dennelly adds that the addition of clearing houses and trade repositories has meant that the need for a new layer of real-time links has been added to the need to improve the end of day processing in the back office. He says: "The sequence workflow in the back office will change to deliver the trade to the CCP and back to the server and onwards to the trade repositories."

The move towards real-time processing in the FX back office is an important hurdle, not least because FX transactions tend to come in bulk, demanding scalable systems that can process tickets at speed. "Right now the back office is preventing the front office from entering into certain agreements with clients, especially the algorithmic traders, as the back office cannot keep up. This is going to have to change, and the timescale is that it will happen sooner than later," Dennelly adds, citing one client that brought forward a future strategic initiative to having it delivered in three months' time.

Although the bulk of FX will not change there are aspects of the FX market that will change greatly. This is

coupled with the fact that the industry is looking closely to reduce risk and cost across all products in post-trade processes and open up new opportunities. Nick Solinger, chief marketing officer at Traiana, says: "The BIS figures for 2004-2010 show phenomenal growth in FX and the majority of this growth came from FX prime brokerage, the client trading activity in FX, as opposed to the interbank market. This is clear evidence that lowering the economic cost of a trade in FX has enabled the market to effectively double in size."

Managing risk

Keeping up with this growth requires new approaches for managing risk. Solinger says that for every year a bank builds capacity the market is realizing more growth in more trading. However, due to the growth of FX prime brokerage, Solinger believes the FX market is better prepared for incoming regulation than other asset classes. "The tri-party model of FX prime brokerage is very similar to the clearing model that has to be put in place for CCPs. From the beginning, Harmony has been built to handle multi-party relationships and manage credit across electronic trading venues – all of which are features of the incoming regulations and the increasing move towards electronic trading. The FX market has already addressed these challenges so will have smoother migration into this new regulatory environment."

That said, he adds that there will be many new market participants entering the prime brokerage and client clearing arena as a direct result of the new regulations. Regional banks and asset managers that did not use a clearer or prime broker are likely to enter this world, which will further accelerate growth in volumes and the demand for clearing as a service.

Going forward, FX clients will have both cleared and non-cleared positions and the post-trade challenge is of connecting to multiple CCPs -- at least four CCPs have announced an intent to clear NDFs. Additionally, connectivity will be needed to numerous SEFs that will enable electronic trading of NDFs and, in the future, options. He says: "It will drive changes to the post-trade process requiring new connections and workflows to be put into place. The approach we have taken with Harmony lends itself well to this as we developed one solution to the benefit of our entire community."

Traiana has invested heavily into a CCP connectivity solution, CCP Connect, which handles everything for a clearing firm and their clients in terms of the workflow, allocations, processing, connectivity to

clearing houses, CCPs and SEFs. This approach does not force clients or clearing firms to change how they trade, but has enabled them to add a clearing facility.

Another feature Traiana has focused on is real time risk management, which has recently been expanded to FX options. Solinger says: “We are still focusing on changes that occur pre-trade and making sure that trades are good before they hit the back office. We aim to protect the back office capacity so it can do what it is meant to do, which is to handle the trade booking and settlement.”

Costs

The cost per ticket is still very much a focus for the FX industry according to Solinger. Having a good post-trade process before the back office as well as an aggregation solution, such as Traiana’s joint venture with CLS, ensures that only good trades are going into the back office. The cost of aggregation is also by lowering the cost of capacity. He says: “These two features reduce back office costs. Even though settlement costs remain the same, the bigger components of back office cost per ticket are the cost

of capacity and the cost of the manual processes to get the trade right.”

For a bank that trades globally in FX, the number of clearing houses and trade repositories that will come under their remit is quite significant. Thus trading FX globally will require a substantial investment in connectivity. Once Harmony sees a trade, it can be routed to any of the participants, with unique data enrichment added, so all these workflows are supported with very little change to market participants’ internal systems or processes.

Due to the development of the FX prime brokerage model, Solinger believes the FX marketplace has already moved from an end of day batch reconciliation process to near real-time. Now other asset classes are looking at the model that has been built in FX. In the near future Solinger believes FX derivatives will begin to adapt these processes for high-frequency trading because the type of trading activity that occurs in FX derivatives is going to need the same real-time post-trading processes, matching and risk management that was invented for spot, cash FX trading.

For this reason Traiana is investing heavily in automated options processing, automated options exercise processing and NDFs and NDF fixing. “The trend of expanding into FX derivatives has begun already and the industry is preparing for significant volume increases in FX derivatives over the next three to five years. There is going to be whole new set of capacity concerns as notionals get smaller and volumes get higher, and the cost pressures are going to be felt,” he adds. Traiana is preparing for streamlining services for FX derivatives because of the belief that regulatory changes will drive greater volumes on smaller notional sizes.

Taking a fresh look

Peter Kriskinans, managing director of DealHub, says that the incoming regulatory requirements provide an ideal opportunity to take a fresh look at the post trade infrastructure as with the new reporting obligations and the resulting routing and data maintenance challenges, it has never been more important to cut down the number of systems, connections and data formats being supported. However, he adds, as there is still a great deal of uncertainty around the final details, DealHub is putting flexibility at the heart of its solutions; modular software that can easily scale, both functionally and operationally, and smart, scriptable routing and workflow that can be quickly adapted in response to a changing environment.



Nick Solinger

“We are still focusing on changes that occur pre-trade and making sure that trades are good before they hit the back office. We aim to protect the back office capacity so it can do what it is meant to do, which is to handle the trade booking and settlement.”

As post-trade infrastructures have typically grown up over many years of in-house builds, point solutions and multiple vendor components, a spaghetti of infrastructure and connectivity exists that represents not just a significant cost, but also a potentially serious operational risk, with many potential points of failure.

Kriskinans says: “Even before you consider the benefits of increased transparency and visibility of trade flow, the opportunities for cost efficiencies are huge. Just cutting the number of integration points and the physical infrastructure required to support multiple systems has saved our customers millions of dollars. It is also worth taking a long hard look at the commercial model agreed with your current vendors. With per trade charges now becoming prevalent in the market, trade processing costs can feel like an ever increasing tax on business growth. This is a complaint we’re hearing from a lot of customers right now – and we’re able to help with a more flexible commercial approach that caps the cost of compliance.”

DealHub occupies a unique position in its customer’s workflow – it is the first system to see trades emerging from the full range of venues and trading systems. From a form based branch trade to an algo-originated fill from an ECN, all trades flow through DealHub, where they are converted into a common data format in real-time.

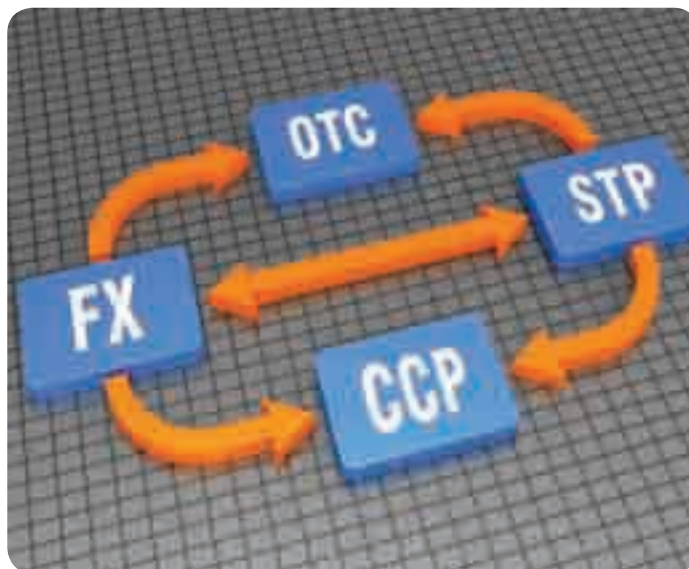
From this point, DealHub manages the onward routing, processing and transformation of this data, applying complex workflow rules and business logic as required to create a low latency post trade backbone to meet the myriad needs of front, mid and back office, counterparties and regulators.

“We’re seeing more and more demand from customers who don’t just want to process this data quickly, but want to view and act on it in as close to real-time as possible, allowing them to better manage both market and operational risk. Building on this theme, we’re

also beginning to exploit opportunities to connect customers and counterparties much earlier in the post trade workflow, completing matching and prime brokerage workflow in near real-time, further reducing cost and risk. With ‘out of the box’ connectivity to the full range of venues and counterparties alongside hosted or on-site deployment options, DealHub can offer customers a cost effective solution with a very quick time to market,” Kriskinans adds.

Real time challenges

Managing trade flow and risk across multiple venues and counterparties in real time is one of the biggest challenges facing the FX business. Kriskinans says that it is no longer good enough to reconcile net positions in back office



Peter Kriskinans

“With per trade charges now becoming prevalent in the market, trade processing costs can feel like an ever increasing tax on business growth. This is a complaint we’re hearing from a lot of customers right now...”

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risk and settlement systems that can take many minutes, or even hours, to reflect the reality of the market. "To get a real insight into your trading activity, you need to combine data across venues in real time to get a live view of flow and exposure across your trading operation."

Firms will need a flexible framework that allows them to route trades to CCPs and trade repositories using configurable rule sets. Although NDF clearing will be mandated, Kriskinans believes that some clients may also choose to clear other non-mandated products such as FX forwards and swaps through a CCP for efficiency or cost reasons. For this reason, DealHub allows firms to define rules that will cater for any combination of clearing and routing requirements.

CCPs will typically offer gross limits to their clearing members while clearing members who offer clearing services to their clients will need to manage their clients on a net margin limit basis. DealHub can help with this also, providing a comprehensive margin management solution that is fully integrated with the core system.

Kriskinans says: "As a middleware provider, we are spending a great deal of time ensuring that our client's software now supports not only the interfaces to new CCPs and trade repositories, but also the myriad new static data codes and deal references that are required to route trades to various destinations and manage the subsequent workflow. These include new Legal Entity Identifiers (LEI), Product Identifiers and Universal Swap Identifiers (USI). New codes are required to enable effective aggregation of data for regulators and also to route trades to CCPs as each CCP will have its own unique set of identifiers for counterparties, exchanges, products etc."

Final thoughts

Whether by partnering with an IT vendor, outsourcing or using an ASP to take complexity out of the FX back office, it is clear that the new approach to streamlining the FX back office will have a positive impact across the entire industry, where once there were bottlenecks and problems with keeping up with spiralling ticket volumes.

And as the finer points of the new regulations are still being hammered out, partnering with a vendor or outsourcer, will remove much of the burden from the firms themselves.



Lars Holst

ProTrader2 - bringing a fresh perspective to the fast evolving FX market

Lars Holst, CEO of CFH Markets, talks about how the FX market is evolving and in what ways the new ProTrader 2 platform has been designed to improve the overall trading experience for the company's clients.

As FX continues to grow new electronic trading platforms are being deployed all the time to meet the needs of different market participants. How is CFH Markets helping your clients to stand out in this crowded marketplace?

The most important thing is that we listen to our clients. ProTrader2 is the GUI component of a much wider offering. Even though the GUI is a very important component - very often it is the door opener and "teaser" - we always take a holistic approach when we talk to our clients; we look at complete solutions rather than individual components. We work with

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a broad range of financial institutions in more than 40 countries providing them with cutting edge technology solutions along with gateways to interbank liquidity, allowing them to provide top- class online trading facilities to their clients.

Development spans from cloud-based, front-end trading applications, mid-office trading engines, integrated backoffice systems and risk management software. With a range of cloud-based products, CFH also specialises in IT infrastructure, including hosting and security issues.

But the most important help we can give our clients is our people, who give them access to unparalleled inside industry knowledge. We have assembled a world-class team which includes experts in all areas of the business and we only take on the best people from the industry to maintain our edge. And as long as we have an edge, our clients will have an edge.

Your existing trading platforms such as WebTrader have been extremely well received. What feedback from customers and insights into how the FX market is likely to evolve persuaded you to launch the new ProTrader2 platform?

ProTrader2 is an excellent example of CFH Markets evolving its products to meet the ever-changing needs of its client base. Strategic changes in our product suite, including regular user enhancements, are all client-driven, implemented in order to empower them to manage their business, reduce risk and increase profits in precisely the way they require.

The platform offers a degree of flexibility that hasn't been seen before. You can customize the overall structure of how you trade; create, build and label multiple unique workspaces by selecting different modules and windows, all done without compromising either the speed or reliability, which is of paramount importance when dealing with the high end of the market, as we do at CFH Markets.



What new features and functionality does ProTrader2 offer?

Our platform offers some of the most advanced trading functionalities in the market. There are practically no limitations as to what we can integrate or embed into the platform; different WL clients have different requirements and wishes. We always try to create tailor-made solutions for each of our WL clients, so we cannot talk about ProTrader2 as one platform really, as there are many tailor-made variations already available to our clients.

In what ways have your team designed ProTrader2 to improve the overall customer trading experience?

Very simple: we have listened to our clients!

FX faces a number of challenges over the next few years including dealing with a more rigorous regulatory environment. In what ways do you think this makes it more important than ever that FX providers are particularly careful about the technology providers they choose to work with?

I think FX providers and clients broadly speaking will be more strict in their due diligence on technology providers. They prefer technology providers that are rooted in the strictest regulatory environments like CFH, and where the people behind the technology provider have proven again and again that they deal with the highest level of integrity, and that they understand the importance of strict regulatory compliance at all times and in every aspect of a trading solution.



Why controlling your entire margin trading chain should be a top priority

Know the risk you trade, trade the risk you want

In the margin trading FX and CFD world, there used to be a time when brokers would not hedge any of their customers' positions. As customers' trading is not known to be often successful, to put it mildly, the best approach instead used to be not to hedge their positions at all and pray for the best for the broker and the worst for the customer. This hedging strategy, called "B-booking", explains a large part of the returns of the industry. As a matter of fact the B-book approach, infrequently led to the worst for the broker. Even so, the market still remembers the broker who discovered in the morning a \$400 mios position being run on a \$20 mios company core capital. Any 5% move in EUR/USD would have wiped them out. Most brokers also know that in any given year, B-booking typically loses money about 2 months out of 12.

A new approach

Nowadays, brokers are looking for more sophisticated and intelligent hedging strategies. In order to meet the customer's needs in a competitive environment, modern Position Keeping Systems with real-time risk monitoring and real-time management of these positions are mandatory. FinBird, a 100% subsidiary of 360T, has just rolled out its latest version of OWL Risk Management.

OWL Risk Management, enables a broker to run A-booking, B-booking as well as more sophisticated strategies which not only follow positions in real time, but allow automated, algorithmic management of the in-house position.

Risk strategies defined by the broker are reliably and securely adhered to compliance rules therefore giving the management of such a business risk control assurance at all times.

FinBird's full range of risk management tools include:

- Aggregation of feeds from multiple sources, banks or ECNs, giving independency from liquidity sources
- Monitoring and automated hedging of the house positions, according to various algorithmic hedging strategies. Moreover, hedging according to VAR limits is available.
- Monitoring of regulatory capital as a function of the risk profile, ensuring regulatory compliance.
- Monitoring of customers' positions, automated close-out and roll over.
- Monitoring of connected clients, their equity, positions, orders, and available margins.
- Manual hedging of in-house and customers' positions, giving maximum flexibility of manual optimisation
- Configurable email and SMS alerts, adding reliability to the system.



Visualisation —

achieving real-time perspectives of
the FX liquidity landscape





Nicholas Pratt

A new generation of liquidity aggregation technologies and liquidity management toolsets can now assist high performance FX sell-side and buy-side firms to visualise liquidity and therefore accelerate deployment of alpha generating algorithms and optimise the implementation of their trading strategies. Nicholas Pratt explores what factors and FX business drivers are creating demand for improved real-time views of FX liquidity.

Visualisation has become a big feature of modern day trading systems and as with all trading tools, it is increasingly being demanded in real time. But, in an asset class such as

FX, what does real-time visualisation mean and how useful is it?

“FX is a real-time asset class but generally speaking real-time views of liquidity are less useful to an FX business than you may at first imagine,” says Peter Atkinson, head of FX Product Management at smartTrade Technologies, a provider of liquidity management software.

Real-time, high-frequency decision-making is generally performed algorithmically by a machine. The time-scales involved may typically be in the milliseconds — far too quick for a human to respond to a fast-moving market.

Data anomalies

Despite this, real-time visualisations do get used in FX all the time, says Atkinson. “They can be particularly effective when used to indicate the overall health of an automated FX trading system. A human operator can quickly distinguish atypical behaviour and intervene as necessary. This can significantly reduce the systemic risk associated with complex algorithmic trading systems.”

The human eye can also spot anomalies when data is displayed in a visual rather than a text-based or tabular form, says Atkinson. “This is especially useful when a trader has to process large data sets, for example a heat-map displaying bond prices. This needle-in-a-haystack problem is less common in FX where, generally speaking, the data sets are much smaller. Having said this, real-time market graphs are used extensively in FX and many day-traders will use interactive graphs for entering orders. FX Hedge funds



Peter Atkinson

"Integrating an aggregation and smart order routing engine with an internal matchbook will allow an FX business to maximise profitably and avoid the pitfalls of executing externally."

may use graphical techniques for setting 'trading levels' or 'path ways' along which a human trader will follow in pursuit of an alpha strategy."

"And visualisations are used extensively in off-line FX analysis. Many statistical approaches in data analysis lend themselves well to graphical techniques. For example smartTrade has adopted graphing techniques that display fill probabilities by executing venue, but again these are used off-line or for 'after the event' analysis," says Atkinson.

Quality of liquidity

In addition to spotting data anomalies, visualisation is also being employed to display the quality of liquidity, but this is largely dependant on the ability of liquidity management toolsets to provide granular and intelligent analysis of the movements in FX liquidity. "The FX market is very fragmented and can behave like a mirage at times so liquidity, although visible, may not necessarily be easy to take," says Atkinson. "For example, the market might move away quickly when a trader is attempting to execute a large order. Some markets might have prices that require a 'last look' where the liquidity source may

examine the order and reject it, pulling the liquidity out and leaving the trader with an unfilled order just as the market is moving. Real-time aggregation across multiple execution venues is one approach to addressing this fragmentation.

However not all sources of liquidity are equal. An FX business is keen to gain access to as much cheap liquidity as possible, but fill probability and quality of liquidity are also very important. For example, trading larger sizes on one venue may move the market across all venues. Some venues might be dominated with large numbers of liquidity providers who 'last look' trades, leaving traders offside or rejected. Many smaller firms do not have expensive Quant teams and time-series databases to analyse quality of execution. So they would need technology that can bundle best execution reporting statistics within their FX aggregator to fulfil this need."

SmartTrade has made a considerable effort to bundle best execution reporting statistics within its FX Aggregator to fulfil this need. According to Atkinson, "A trader can drill down on a single order to see the state of the market at the point of execution. He can also take a higher level statistic view across a set of his orders, enabling him to look for patterns in fill probabilities by venue, by quote age, by order size, etc. With intelligent insight it is possible for an FX Business to rank the quality of available liquidity and adjust their execution strategies maximising fill ratios and reducing slippage."

Best execution

The ultimate goal for these liquidity management toolsets is to help firms achieve best execution by helping them to capture more efficient pricing opportunities from the FX flows that they see and are able to analyse intelligently. "Capturing liquidity is a complex business," says Atkinson. "The FX market moves very rapidly, so network latency can seriously hamper a best execution strategy. The geographic location of the execution strategy also has an impact because long physical distances introduce unavoidable latency, which in a fast moving market may result in slippage. At the end of the day it's all relative. Co-locating or proximity hosting close to the executing venues and utilising fibre cross-connects will reduce network latencies, especially under high market data volumes. Many firms find that they need to co-locate near execution venues in each major market if they're trading globally."

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"I'd call eradication of unnecessary latency from a smart-order-routing engine 'basic hygiene', "says Atkinson, "It's an unavoidable necessity. But of even greater importance is the engine's ability to accommodate sophisticated rules that take in to account the heterogeneous capabilities of each liquidity provider. Knowing the fill probability and latency of a venue at the point of execution means the engine can make some intelligent decisions about where to route orders to ensure that the trader's priorities are met. For example, some trades may need to be completely filled no matter what, while others should only be filled at a specific price point, even if that means the order is at risk of an incomplete fill or rejection. Having an engine that can weight liquidity layers and then make rapid decisions taking into account venue latency, fill probability, and order priorities is essential. If the engine is able to model complex order states in real-time, then it's possible to build some pretty sophisticated rules for capturing liquidity and avoiding slippage."

Internalisation

In addition to capturing external liquidity, an FX business should look to internalise as much of its own flow as possible, says Atkinson. "Integrating an aggregation and smart order routing engine with an internal matchbook will allow an FX business to maximise profitably and avoid the pitfalls of executing externally. This of course assumes the organisation has substantial enough flow to create the necessary inventory. In the event that internal liquidity is insufficient, the order router should be flexible enough to partially fill an order internally while routing the unfilled portion to external venues. To do this, the smart router must be able to maintain a transactional view of the state of the order at all times, allowing maximum internalization while avoiding over-execution."

When it comes to predicting the characteristics and features that the next generation of liquidity aggregation products will exhibit to further facilitate automated trading and auto hedging, Atkinson says it is almost impossible to predict. "There are almost as many ideas as there are trading organizations. Therefore, trading groups need to implement open, flexible solutions that can accommodate their own 'secret sauce' in a robust, low-latent transactional architecture. We find that every smartTrade client wants to implement specialized functionality and capabilities that will differentiate them in the market."



"The FX market is evolving rapidly. So it is extremely important that a trading organization choose an FX eCommerce framework that allows them to change their strategies, respond to customer demand and market changes, and increase in sophistication over time. Being unnecessarily constrained by the underlying architecture of an FX platform will ultimately mean lost revenue and lost opportunity. If choosing an off-the-shelf platform offered by a vendor, it is important to take a deep look under the bonnet and not to just choose the product based on the front-end. If building internally, it's important to develop an architecture and data layer that enables

frequent change. Whether the system is based on an off-the shelf platform, built using an external vendor, built with an in-house development team, it is important to prototype the system early in the design phase and test the business functionality to ensure that the system will meet the business requirements," says Atkinson.

Transparency

While Atkinson refers to visualisation as a means for trading teams to discover emerging patterns in large sets of data, Yaacov Heidingsfeld, chief executive and co-founder of FX trading platform providers, TraderTools, believes the demand for improved visualisation tools is predicated by the trend for transparency. "In the last five years, the largest banks



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in the FX market have made large investments in their APIs and their GUIs because they are now focused on relationship-based pricing. FX has always been a relationship-based business. Before the internet and before the ECNs, you always knew who was on the other end of a trade.”

The emergence and growth of trading platforms like Currenex, Hotspot, and FXall clearly shows that there is an appetite for anonymous trading but Heidingsfeld believes such venues represent only around 10% of the market. He believes that the vast majority of FX traders is showing a growing preference for more relationship- and transparency-based trading.

“I think one of the reasons for this trend is that ECNs do not provide enough visibility on liquidity. Market-making banks are often wary about the information they supply to the ECNs because they do not know who is on the other side of the trade. What we find is that these banks are looking for predictable and repeatable flow. They are looking for loyal customers and are willing to reward them with better pricing in pairs that are most appropriate for both parties.”

Liquidity-taking banks are looking for tools that will enable them to build their own internal marketplace based on the liquidity they are taking from 15 to 20 market-making banks. They would like to create their own aggregated view, complete with depth-of-book and the ability to rank that liquidity according to both qualitative and quantitative factors, says Heidingsfeld. Because they are getting these prices directly from the banks on an individual basis, rather than via an ECN, the data is far more transparent and makes it much easier to build that internal marketplace.

“It’s all about providing tools that enable the APIs to be stacked in such a way that you can put the best prices at the top of the book and create total depth of book. This single-screen, automated approach enables banks to execute against the full amount of liquidity available. The larger the size of order, the better the spread. A lot of these anonymous platforms are essentially sweeping the book and wrapping up all the liquidity, leaving the banks to quote at a worse price. For the relationship to work, you need to have transparency on both sides. The liquidity-taking banks need to be totally transparent with the liquidity-providing banks about the true extent of their demand and, in return, they will get a better spread.”



Yaacov Heidingsfeld

“I see the trend in visualisation as the move towards more intelligent pricing by the largest banks and putting those prices into enhanced APIs. Then it’s up to technology providers like us to take that information and display it clearly and intelligently to enhance the relationship between liquidity providers and liquidity takers.”

Room for innovation

If, as Heidingsfeld states, the FX market is returning to a more traditional way of trading, does this still leave room for innovation? “The advance in APIs shows that there is still room for providing more information, presenting it in an intelligent way and developing execution algorithms. For example, we have algorithms that monitor the quality and quantity of quotes so you can use the prices you are most likely to have success from as a way of generating more efficient pricing.”

“There are still banks out there that can generate multiple streams of pricing, but not individual prices based on currency pairs or size,” says Heidingsfeld. “I see the trend in visualisation as the move towards more intelligent pricing by the largest banks and putting those prices into enhanced APIs. Then it’s up to technology providers like us to take that information and display it clearly and intelligently to enhance the relationship between liquidity providers and liquidity takers.”

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ActForex: Treading the path to business success in FX

The independent trading platform provider, ActForex, started business in 1998, which was before e-Forex was launched. As the company now has traders in over 100 countries using its products, we asked CEO Ilya Sorokin to tell us more about the secret of their success.

ActForex is considered a pioneer in the online trading business. Why has your technology proved to be so popular over the years?

IS: Functional diversity and real time performance is our strong suite. The demand for our platform is based on extreme flexibility and the versatility of our turnkey solution for our licensees, as well as exceptional usability and functionality for end-users, available in 15 languages.

What types of clients are now utilising your business solutions?

IS: Our clients range from major FCM's to Forex start-ups. We also offer Options, Binary Options, Forwards, CFD's for Equities and Commodities, ETF's, which attracts new clients from other industries.

ActForex is a managed service provider. How does this give you competitive advantages to provide more comprehensive trading solutions?

IS: As an MSP we can get a client 'live' in two days. Our clients never have to worry about advances in hardware, software, databases, or any related personnel costs. ActForex is constantly upgrading its infrastructure to remain state-of-the-art. Generally the cost of ActForex services is *significantly lower* than a comparable client-owned infrastructure.

How is ActForex meeting end-user demands for a more sophisticated trading environment?

IS: We're proud to have the most advanced and user-friendly iPhone,

iPad, and Android solutions, which are extremely popular among ActForex traders. We have just introduced FXapps allowing for seamless integration of third party apps into the ActTrader environment. We have added a Visual Algorithmic Trading ActVAT module allowing every user to create proprietary trading strategies from charts without programming. ActBinary added binary options to our portfolio of products. What's unique is that all of these products are integrated into one platform. Our goal is to make trading easy for everyone.

Many brokers and FX providers demand customised solutions in their front and back-office operations. How does ActForex tailor a platform to meet a variety of business models?

IS: Being in business for over twelve years we've seen nearly every business model out there. To accommodate any requirement, ActForex developed the most advanced business rules engine available. With over 200 business rules that can be customized, each client has complete control over *their* platform based on their business needs. A client might choose to activate ActDealer, a fully functional dealing desk and risk management module, or utilize ActSTP, as a fully automated straight through processing module to offload risk internally, or use both depending on automated risk profiling. Of course there is a huge number of customization options available to ActForex clients.

FX has become a hugely competitive market in the retail sector. What advice can you offer trading firms looking to grow their existing retail FX business or break into this space?

IS: A trading platform is much more than technology alone. It is the backbone of your operation and as a result, you should be looking for a technology provider who is experienced, reliable, has a track record, will be there today *and* tomorrow, and has a vested interest in your success. Now more than ever, you have to look for a partner, not just a technology provider. ActForex is all of that and more. We are an independent Wall Street firm offering the highest degree of sustainable trading solutions recognized around the world. We're not about selling a client a trading platform and moving on - we're there to help our clients become successful, whatever it takes.

Ilya Sorokin

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Regional e-FX perspective on Africa



Richard Willsher

Richard Willsher discovers how trade and telecommunications infrastructure shape the current foreign exchange market in Africa as a whole and although South Africa is the continent's leading electronic trading market, he outlines why we can expect to see growth in e-FX taking place in many other countries within the continent over the next few years.

A glance at the most recent Bank for International Settlements' Triennial Central Bank Survey published at the end of December 2010 reveals the foreign exchange market activity on the African continent pales beside other regions. Africa and the Middle East together accounted for daily turnover of US\$41 billion in all products in April 2010. This was out of a global total of US\$3,981 billion of which the two largest regions were Western Europe's totalled US\$2,780 and Asia Pacific US\$1,159. South Africa was the only African country listed individually by country breakdown in the BIS



Declan Clements

“Poor infrastructure, illiquid markets, regulatory restrictions, inconsistency of electronic price availability, relatively small ticket sizes and manual downstream processes represent an array of challenges to sell-side institutions in delivering a relevant offering,”

Survey and its daily turnover amounted to US\$14 billion out of the US\$41 billion mentioned above.

Growth opportunity

One might be forgiven for imagining the world's second largest land mass is something of a backwater in foreign exchange terms but this would be to miss the point because it represents an outstanding growth opportunity.

“Apart from South Africa, which can be considered relatively advanced in its exposure to e-channels, the remainder of Africa is relatively untouched,” explains Declan Clements Director, eCommerce Business Management Financial Markets at Standard Chartered Bank. “Poor infrastructure, illiquid markets, regulatory restrictions, inconsistency of electronic price availability, relatively small ticket sizes and manual downstream

processes represent an array of challenges to sell-side institutions in delivering a relevant offering,” he adds but his outlook is a positive one. “As infrastructure improves, one of the larger barriers will be removed. At Standard Chartered we see the upside opportunities as substantial, and are investing heavily in creating a technical capability that incorporates compliance, straight through processing (STP) and post-trade services alongside price discovery and execution.”

Clements says that the main beneficiaries of improved access to electronic platforms will be corporate and Institutional clients in the more liquid markets, such as Kenya, Tanzania, Uganda and Ghana, “notwithstanding a fluid governance environment that requires providers to be extremely responsive to the implementation of new regulations.”

Opening up new markets

Jacob Dajani, Head of Middle East and Africa for Marketplaces at Thomson Reuters says that trading and technology infrastructure go hand in hand and telecommunications infrastructure has been a challenge in some African countries. “As a consequence we had to look at alternative methods to deliver Thomson Reuters Dealing and this has helped to open up new countries to the wider market. With more than 400 financial institutions using Dealing this has become the common

	Africa								
	Kenya (KES)	Tanzania (TZS)	Uganda (UGX)	Zambia (ZMW)	Botswana (BWP)	South Africa (ZAR)	Ghana (GHS)	Algeria (DZD)	
Daily Electronic FX Volume (USDm)	10-20	40-60	10-20	20-30	0-10	10-20	10-20	10-20	100-200
Typical Spread (USDm)	0.5-1.0	0.5-1.0	0.5-1.0	0.5-1.0	0.5-1.0	0.5-1.0	0.5-1.0	0.5-1.0	0.5-1.0
Daily Electronic FX Volume (USDm)	10-20	40-60	10-20	20-30	0-10	10-20	10-20	10-20	100-200
Typical Spread (USDm)	0.5-1.0	0.5-1.0	0.5-1.0	0.5-1.0	0.5-1.0	0.5-1.0	0.5-1.0	0.5-1.0	0.5-1.0
Typical Spread (USDm)	0.5-1.0	0.5-1.0	0.5-1.0	0.5-1.0	0.5-1.0	0.5-1.0	0.5-1.0	0.5-1.0	0.5-1.0
Typical Spread (USDm)	0.5-1.0	0.5-1.0	0.5-1.0	0.5-1.0	0.5-1.0	0.5-1.0	0.5-1.0	0.5-1.0	0.5-1.0

Sub-Saharan Africa Market Capabilities
Kenya and Tanzania subject to regulatory approval

Source: Barclays Corporate

way of trading FX electronically in Africa from Cairo to Lagos to Johannesburg, and our community continues to grow. As markets, liquidity and infrastructure evolves this creates new opportunities to introduce new services such as Matching and providing single-bank platforms such as Reuters Electronic Trading to enable banks to reach and service their customers via an e-commerce channel.”

So the message is clear, there will be great scope for growth in electronic trading once the infrastructure

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is adequate to facilitate it. What is happening in South Africa today is likely to flow through to the broader African region in years to come. Moreover with commodity prices reflecting continued global concerns over the finite size of available resources, increased income to mineral rich exporting territories to fund imports and infrastructure development is certainly on the cards.

“We see particular growth in demand and liquidity from Nigeria and Kenya,” explains Richard de Roos Head of Foreign Exchange at Standard Bank. “But deals sizes are small. “In Rand we can deal in clips of up to US\$250m and also stream prices in tens of millions. For the other African currencies we also stream prices into our own system as well as to aggregators such as 360T but up to sizes of about US\$3m. Moreover, sometimes liquidity in these the markets can be a little one sided and so you can only show prices on one side. On the buy side, given the sizes of the equity and bond markets we tend not to see demand for clips of more than about US\$5m. When we do see demand we will either work the deal or quote prices depending on the liquidity at the time.”

He goes on to say that the smaller markets are Mauritius, Botswana, Zambia, Uganda but these are extremely small and Standard Bank concentrates on order filling rather than streaming prices. It concentrates on Anglophone areas of sub-Saharan Africa and the Lusophone markets of Angola and Mozambique.

SA leads the continent

South Africa remains the continent's leading foreign exchange trading nation centred on Johannesburg. With a share of turnover in the domestic Rand between 30% and 35% de Roos believes Standard Bank is the market leader. However even in this most advanced of African countries, e-FX is still in relative infancy when compared with Europe and North America.

“Even in South Africa with the market influenced by the legacy of exchange control, the market is dominated by the corporate rather than by the

investor community. The investor community here are not really big players in the foreign exchange markets. There are no institutions in the SA market or in the African continent that I know of who are actively trading in currency as an asset class,” says de Roos.

However this has not prevented banks making e-trading channels available to all of their customers. Standard offers its E-Market Trader, which is widely used by the corporate market. They also use this to distribute to banks mainly on the African continent as well as to their own internal sales offices around the globe. “We have the ability to stream prices in US\$-Rand and its crosses in G10 currencies on E-Market Trader. We also use this to distribute to the pockets of liquidity that there are in the other African currencies. This works well where it can be associated with a strong brand and is largely therefore on the African continent.”

The bank also has a product called Standard FX Trader, which is a white label agreement with Gain Capital and is used to distribute to individuals such as day traders.

Rivals Absa Capital are able to leverage the 55.5% shareholding held in them by Barclays Bank PLC in a number of ways, both in the domestic South African market and in the continent as whole.

“We run the sub-Saharan Africa currency book for Absa and for Barclays,” explains James Scott Absa Capital's Head of FX Sales and eCommerce. “We are the price distribution source for all of the sub-Saharan Africa currencies and also cover risk management. Johannesburg is our hub and we leverage the Absa and Barclays branches throughout Africa to further distribute product. We offer pricing in the more liquid of these currencies to our South African client base as well as price those to Barclays electronic client base. This could be to a UK asset manager looking to do some Kenyan or to a South African corporate looking to hedge Ugandan. We publish a price as long as there is liquidity in it.” He adds however, “In each of the domestic markets you currently wouldn't find that there is much demand from local banks to develop electronic trading at the moment.”





Richard de Roos

“Even in South Africa with the market influenced by the legacy of exchange control, the market is dominated by the corporate rather than by the investor community.”

He points out that in many of Africa's smaller forex markets some of the international banks have launched localised versions of their own electronic platform. However even in South Africa itself getting electronic trading to take root has not been easy, but the market is developing quickly.

“Like a lot of developing markets, the infrastructure in South Africa was really poor. It was very difficult to get electronic capability into the buy-side client. The asset managers and hedge funds were the first to move and where permissible they would tend to be trading – G10 against major players offshore. Then we and other regional banks offered our proprietary channel to clients. We would offer FX, money market and commodities in some cases. With certain clients we would offer an API [application programme interface] with pre- and post-trade services, depending on the sophistication of the client and their requirements. We have access to Barclays Capital technology, while others had to develop their own capabilities or partner with a global technology firm. Even though we had access to the Barclays technology it is still important to look at what made sense for the local South African or African market and then customise our offering before rolling it out. In our case we launched PACE FX powered by BARX and delivered to local buy side

clients. We believe that our “Global-Local” approach is unrivalled in Africa.”

Trade flows

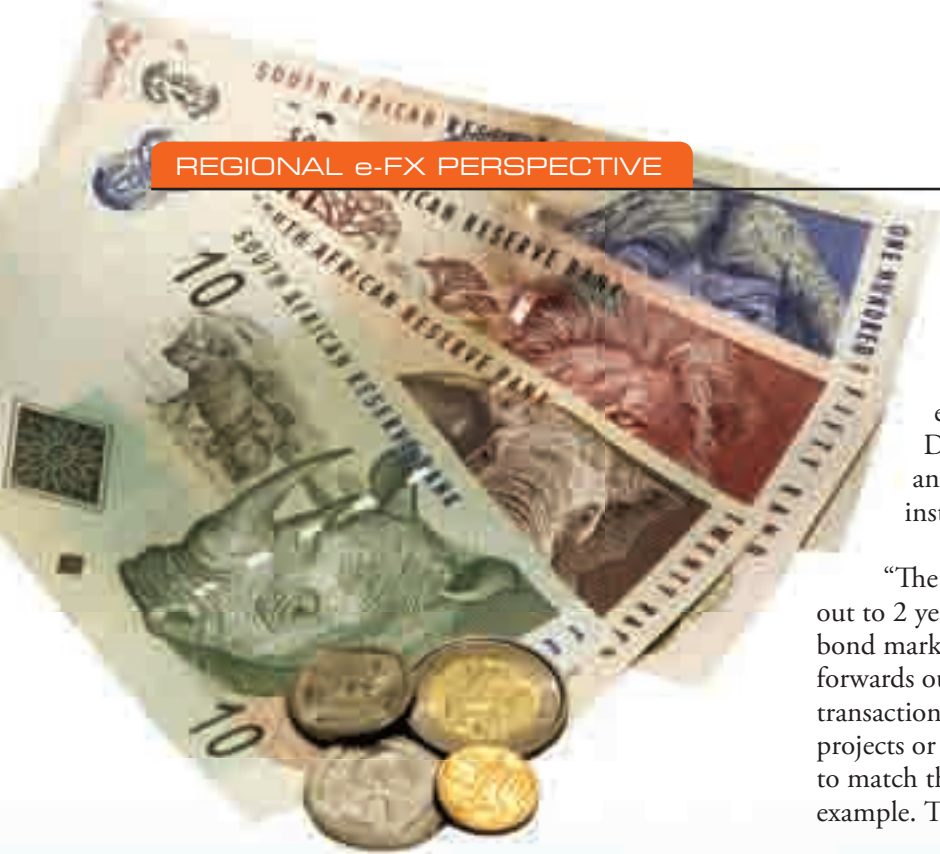
A key feature underlying forex transactions in South Africa, as well in other African markets where exchange controls apply, is that there typically needs to be a concrete, not speculative, need for a currency exchange. A lot of the demand is driven by trade activity whether it is in commodities or other types of imports or exports.

“Broadly speaking that is what is driving the foreign exchange market in all of these African markets,” says Scott. “It’s less about the speculative flow and more about actual underlying trade flows. If you take that into the electronic space then there is going to be scope for developing electronic capabilities that service the types of clients which trade. Further it is always likely that developing the full trade cycle from pre-trade to execution and interface with treasury management and internal reporting systems will become a requirement. Absa Capital has continually invested in these services for both its South African as well as African client base.”



James Scott

“It’s less about the speculative flow and more about actual underlying trade flows. If you take that into the electronic space then there is going to be scope for developing electronic capabilities that service the types of clients which trade.”



to be around three months driven by large corporates and investors hedging their exposure to asset classes denominated in Dollars or Euros. There is however a healthy and developing market in more sophisticated instruments.

“The liquid forward curve in the Rand goes out to 2 years,” says de Roos. “However because the bond market goes out to 30 years we are able to create forwards out that far. Demand for the longer-term transactions tends to be driven by large infrastructure projects or large capex spend which would be required to match the life of a project or purchasing cycle for example. This we would price off of the swap curve.”

In addition the Johannesburg Stock Exchange quotes currency futures that are also used by institutions to hedge the currency risk associated with foreign asset holdings. However for the moment other products targeted at institutional clients such as prime brokerage are still in early growth phase.

Prime brokerage

“At present the prime brokerage market is in its infancy with most of it concentrated in South Africa,” says Thomson Reuters’ Jacob Dajani.

360T’s Alex Johnson who manages the firm’s sales in the region notes that the market is currently somewhat becalmed. “Hedge funds in places like Mauritius, may

This is a view shared by Standard’s Richard de Roos. His bank is actively developing its end-to-end offering across the value chain from research and pre-trade to execution. Moreover reporting needs to be an integrated feature of electronic offerings to corporates, both for their internal needs and in order to meet Reserve Bank compliance.

Product menu still limited

In terms of available forex products South Africa is far in advance of any other African country. Spot and forward trades against the G10 currencies account for most of the market. Forwards can stretch as far out as two years but de Roos says that average demand tends

certainly demand such services, but like the rest of the world, demand is down. 360T has features and functionality to cater all such requirements but banks and corporates are not normally requesting PB services as they cost money and these requestors get better liquidity and pricing by asking on a disclosed basis.”

Absa Capital's James Scott is more upbeat however. “We've got a multi-asset class PB platform that includes currency futures at this point. With access to Barclays Capitals FXPB platform and as the market develops we will naturally assess demand and develop accordingly. We will start to see demand from the more developed markets outside of South Africa such as Nigeria and Kenya.”

New developments

New developments may however come quicker in other areas of the forex markets. Jacob Dajani says that he foresees significant e-FX growth and the proliferation of eCommerce platforms will continue across the continent. This seems to be echoed by the moves that Standard Bank is making for example. “I think over the next 10 years African currencies are going to get a lot more attention,” says Richard de Roos. “The liquidity and sophistication will then become self fulfilling. For Standard Bank it is about having the readiness. We are proceeding on an “e-wise” basis. We are ready but recognise that development is likely to be in a bespoke form. So we are going to be prepared whether the demand comes from retail investors or corporates alike.”



Jacob Dajani

“We have worked closely with countries to help them move from a domestic to international market. There is great opportunity in the region. We are actively working to open up access to international markets by providing the local news, content and market insight via our Thomson Reuters Eikon desktop plus the connections and infrastructures that enable both local and international banks to trade.”



A view shared by Absa Capital's Scott, is that it is the bank's plan to continually invest into its already well established electronic product suite. "Africa will provide a number of opportunities in the electronic space which we believe we are well equipped to take advantage of."

At 360T Alex Johnson believes that commodities will play a big role. "Given the traditional mining and minerals focus of many African economies, certain customers are wanting to transact in precious and base metals and others in more niche mineral and energy products. Due to the nature of the electronic trading of commodities, certain products will fit and others not. The major players in electronic trading, for example, will offer precious metals trading."

Regulations

"Regulations here are increasingly being loosened and that is opening the door for retail investors to trade electronically," adds James Scott at Absa Capital. "There are very few electronic offerings either here [in South Africa] or in the rest of Africa. More retail electronic platforms will most likely be launched into these markets probably with partnerships being forged between local players and international technology



Alex Johnson

"Given the traditional mining and minerals focus of many African economies, certain customers are wanting to transact in precious and base metals and others in more niche mineral and energy products."



companies. We have seen ECN's like 360T coming into some of the African markets. They are looking to get buy-side clients onto their channels. Multiple banks are contributing to the pricing, but for the moment there is relatively low demand. I think the banks will continue to develop their proprietary channels and the biggest growth will be in this space."

Meanwhile Thomson Reuters is widely represented in markets across Africa where, according to Jacob Dajani they are working with the key market participants from central banks, to regional banks and their customers. "We have worked closely with countries to help them move from a domestic to international market. There is great opportunity in the region. We are actively working to open up access to international markets by providing the local news, content and market insight via our Thomson Reuters Eikon desktop plus the connections and infrastructures that enable both local and international banks to trade."

Conclusion

A clear message emerges then when speaking to market participants. It is that lack of technology infrastructure and exchange controls on essentially weak and illiquid currencies remain the principal barriers to forex trading in general and e-trading in particular in Africa. Yet the balance of economic power is shifting from the formerly wealthy west to commodity rich regions, wherever on the planet they are. Africa remains in catch up mode as compared with, for example, Latin America, Asia or some of the former eastern block states and "catch-up" spells "growth prospects" for those who seek opportunities in emerging markets. Trading in African currencies offers exceptional scope for growth once they have passed their growth tipping points. Then they may leapfrog conventional foreign exchange dealing to e-FX trading on a continental scale.



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Committed to maintaining a balanced ecology for all traders

e-Forex talks with **Jeff Ward**, Global Head of FX Sales at ICAP Electronic Broking.

Jeff, in 2004 you joined EBS, which was acquired by ICAP in 2006. What gives you the most satisfaction about your day to day job?

As a global intermediary, ICAP sits right at the heart of the financial markets and is an incredibly dynamic environment to work in. I have a great global team, who never cease to impress me with their commitment, insights and creative solutions to the challenges we face on a daily basis, which constantly force us to evaluate what we're doing – and how we do it. Over the years, I've also developed some very strong relationships with our customers, and it's always gratifying to hear from them that we're delivering what the market needs.

As the world's largest interdealer broker, ICAP has a diverse group of customers ranging from manual to algorithmic traders. How much of a challenge has it been to deliver a balanced set of products that meet the conflicting needs of all your clients, many of whom may have different priorities?

I think it would be fair to say that this is our toughest challenge. ICAP has thousands of customers in over 50 countries at bank and non-bank trading organisations, so it's no easy task to make sure we're providing them all with the tools they need to conduct their business effectively. We do get a lot of credit for delivering a product that satisfies our broad customer base but it's probably the most difficult part of our job.

Even within individual customer organisations there are often very different expectations of what they want from EBS, so we need to make sure we're constantly doing our best to meet these expectations.

We're committed to promoting orderly markets and improving execution efficiency, and go to great lengths to maintain a balanced ecology for all traders – both manual and algorithmic. We achieve this through built-in platform features, and our dealing rules and policies.

With the growing prevalence of API trading, we've continued to focus significant resource on supporting

the competitiveness of manual traders by providing them with the functionality and order types they need in order to compete effectively with API traders.

Continuous Match (CM), for example, is a block trading solution that allows bank manual traders to enter large buy or sell interest (minimum \$10 million) into a separate liquidity pool, with minimal market impact and slippage. CM orders and deals are not included in any EBS market data and only the two counterparties are aware of the size of the CM trade.

Fix Orders on EBS is another innovative order type that was developed with the bank manual trader in mind.

Fix Orders on EBS allow bank manual traders to execute their customers'

fix orders electronically – a first for the market. This greatly increases accuracy, as all matched orders are always executed at the specified fixing rate and there is no confusion regarding the amount dealt. They also provide a significant boost to internal transparency and audit capabilities.

ICAP acquired the EBS Spot FX platform in June 2006. In what ways have you invested resources to improve the EBS system?

With the acquisition of EBS, ICAP inherited a tried and tested platform that has demonstrated tremendous resilience in all market conditions over the past six years. But for EBS and our other electronic platforms to remain best in class requires substantial and sustained investment. We've significantly increased our investment in the platform technology in order to deliver a more flexible and dynamic platform for our customers in a rapidly changing FX market.

We're now nearing completion of a major initiative that will leverage new technology to offer EBS customers a wide range of new products, starting with market data services. You can expect to hear more as our launch date approaches later in the year.

Last year many FX platforms saw record volumes as a result of extraordinary volatility associated with the Eurozone crisis and various currency interventions. How much engineering and capacity planning has ICAP done to ensure you have an adequate cushion to meet practically any multiple of average daily volume?

EBS has proven to be robust, even in moments of extreme market volatility. The system has the capacity to handle three times our current daily volume record of USD 454.2 billion, back in August 2007. On the day of the 'flash crash' on May 6 2010, over a quarter of a million deals were transacted on EBS, and more than three and half thousand deals were done in one minute on 3 March 2011. But this doesn't mean we're complacent. We're constantly reviewing and testing the system to ensure it will be able to cope with even more extreme market volatility.

Investors naturally seek safe havens from the turbulence and uncertainty surrounding the major currencies at times of crisis in the market. Does this present opportunities for leading FX providers like ICAP who have a wide global footprint, more robust operational infrastructures and perhaps deeper product and risk management capabilities than many other players?

ICAP sits at the centre of the markets and financial institutions, including banks and central banks, and governments all around the world depend

on EBS to be fair, transparent and available at all times. We've worked hard to become and remain a reliable trading venue at the centre of FX price discovery. Because of this, during times of extreme volatility and stress, market participants rush back to EBS.

EBS is very active in a number of major currency pairs but this is only part of the story. We've developed and launched a number of new products particularly suited to the needs of emerging markets and traders whose focus is outside the G-10 currencies.

For example, in September 2010, the first electronic CNH (Hong Kong cleared and settled Chinese yuan) trade was executed on EBS.



"ICAP sits at the centre of the markets and financial institutions, including banks and central banks, and governments all around the world depend on EBS to be fair, transparent and available at all times."

In February of this year, we launched the Brazilian Roll (BRL ROL) on EBS, which allows customers to trade the front future outright, roll their position from the front future date to the next, and roll day to day balances to the front future in BRL. This is another electronically-traded product that is unique to EBS and has been received very positively by the market right from launch.

As US and European regulators continue to mull over FX, a great deal of uncertainty still remains regarding the final rule-sets that are likely to emerge. How would you describe ICAP's tactical and strategic response to regulatory and market changes and is it fair to say you have hoped for the best but planned for the worst?

Our platforms have been designed and built to deliver efficiencies in execution as well as risk management. EBS is transparent with full audit trail capabilities and currently exceeds the standards outlined in Dodd-Frank. So given current definitions, we fully expect EBS to qualify as a SEF in the US and to meet European qualification criteria as an OTF.

Since NDFs will be included under the new legislation and EBS is set to become a SEF, this presents a tremendous opportunity for us. EBS was the first platform to introduce electronically-traded NDFs, which we now offer in a range of Asian and LatAm currencies, including fixed data Brazilian real NDF, as well as Russian ruble. We've recently seen rapid growth in our NDF business – both in average daily volumes and trading counterparties. This will continue to be an important focus for us this year.

Although it appears that forwards may be exempt from the legislation, subject to a final ruling by the US Treasury, we're in the process of exploring FX swaps and forwards solutions on EBS to ensure we're prepared for a range of outcomes.

The changes to the OTC regulatory landscape over the next few years will have a very significant impact on our industry. But while it's true that there's still considerable uncertainty, regulatory reform will also create opportunities. We're well-resourced and prepared to enhance our capabilities to ensure our markets retain their leadership positions in the impending new regulatory environment.

It's likely that reform will provide a significant boost to electronic execution, as there will be a need for greater transparency in pricing and reporting that meets regulatory requirements.

We've also recently configured our electronic FX business to reflect and anticipate changing market dynamics and the new regulatory landscape. We're excited to have Gil Mandelzis on board as the new CEO of EBS, as his vast experience and depth of market knowledge will enable us to continue responding to the rapidly evolving needs of our customers and to deliver exceptional service.

A block-trading service called Continuous Match and decimalised pricing on major currency pairs are just some of the other innovative products that ICAP has released over the last 18 months. Are you planning a period of consolidation now to give customers time to adjust to the changes that have been introduced?

Any changes we make to our platforms should enhance our customers' trading experience. Just like our customers, we don't believe in change for the sake of change, which is why we innovate in response to real customer need.

But a bigger risk both to us and our customers would be to rest on our laurels. The market's evolving rapidly and we need to make sure we stay at the forefront of this

evolution – and help our customers to do the same. When we launch any new product, order type or platform functionality, we ensure that our customers have all the information they need to be able to use new features effectively.

This has certainly been the case with Continuous Match, which is now well established and, as I mentioned earlier, is continuing to see strong growth, both in average daily volumes and new trading counterparties.

We're excited about introducing more intelligent order features in the future that will bring greater convenience to our customers and tie together some of the order types we've already developed. We have an exciting product roadmap in place for 2012-13, which has been carefully planned to provide our customers with tailored solutions they've expressed a need for.



"Growth in FX is likely to come from BRIC and emerging markets"

As the market continues to get faster some commentators believe that FX is locked in a technology “arms race”. Do you believe success in FX may ultimately be directly related to the level of IT and technology spend?

In order to compete effectively in the rapidly evolving FX trading environment, fast, robust, scalable technology is critical – and this requires significant, ongoing investment.

In order to further strengthen and grow our global electronic market business, ICAP invests heavily in technology, which includes our trading platforms. In the financial year to March 2011, ICAP invested 12% of its revenues in technology – and around GBP 1 billion since 2005.

But I don't think this boils down to an arms race. A successful FX trading venue depends on much more than technology. We work closely with market participants to understand their requirements and aim to create a balanced trading ecology. This is part of our rationale for introducing systemic controls to EBS, such as a minimum quote lifespan (MQL) and fill ratio requirements, and why we constantly monitor platform activity. Technology is not an end in itself – it's only as useful as the liquidity and counterparties it enables traders to connect to, which is what differentiates EBS.

“As part of our continued emerging markets focus we've worked hard to build Russian ruble liquidity on EBS, following the introduction of the ruble to the platform in late 2008, and we now offer a number of innovative ruble products.”

In what ways are you seeing banks and FX providers in some of the leading emerging market economies keen to leverage innovations ICAP has developed on the EBS platform in other markets?

A key factor in our success in emerging markets has been our EBS Prime offering. For many regional banks and non-bank trading organisations, access to credit can pose a significant barrier to participating in the interbank FX market.

EBS Prime allows these customers to access EBS liquidity and trade on prices that might otherwise be unavailable to them, by enabling them to view the market through the pre-screened credit of an EBS Prime bank.

As part of our continued emerging markets focus we've worked hard to build Russian ruble liquidity on EBS, following the introduction of the ruble to the platform in late 2008, and we now offer a number of innovative ruble products. For example, we're the only electronic OTC trading venue to offer the basket ruble hedge trade and this year we introduced the EMTA RUB Fix.

I'm pleased to say that we're now seeing the fruits of our labour. With the support of our customers, we saw strong growth throughout 2010 and 2011 and year-on-year – from January 2011 to January 2012 – ruble trading volumes on EBS have doubled and

trading counterparties are also continuing to increase. EBS is now the leading electronic OTC trading venue for ruble globally. Offshore price making on the platform increased 50% over the last year, and most of Russia's top 20 banks are now live on the platform.

As I mentioned earlier, NDFs are a key part of our emerging markets strategy and we hope to see the strong growth trend of recent months continue.

Where will you be focusing your efforts to further develop the emerging market capabilities of the EBS platform during 2012?

We recognise that growth in FX is likely to come increasingly from BRIC and emerging markets, as currency controls relax. A major challenge is how to develop solutions that satisfy often less-liberal local financial market structures and at the same time enhance trading opportunities for the wider (global) FX community.

Operating in local markets is made easier by a genuine understanding of the key issues – infrastructural, regulatory, cultural and historical – facing each specific market, and being able to offer a tailored, relevant solution or proposal. What makes EBS successful in establishing itself in new markets is the strength of our leadership and track record, significant forward planning and resource investment, as well as our ability to maintain focus and patience as less-developed, less-liberal FX markets grapple with and then over time begin to embrace the benefits of electronic OTC trading.

We also have the advantage of being able to leverage partnerships with local ICAP voice businesses, as well as domestic institutions. In Brazil, for example, we're working closely with the banks and regulators to develop the markets there.

We're also currently exploring the possibility of offering execution in local emerging market currencies, such as the Brazilian real and Indian rupee.

Can you give us some examples of where ICAP is making longer term investments in new "Greenfield" marketplaces around the world to improve settlement infrastructures and help promote electronic trading?

Again, Russia springs to mind. The Russian payment system poses a considerable challenge to efficient ruble settlement and for a long time there was little information available to market participants about its unique requirements.

ICAP has taken proactive steps to address this situation and in 2007 founded the International Ruble Settlement Forum (IRSF). Through the forum we aim to facilitate a commitment between

all correspondent ruble banks in Russia to use BESF, a real-time gross settlement system created by the Central Bank of Russia, which goes a long way to solving the great majority of payment issues associated with the current BRPS payment system.

The IRSF is now a regular event, held twice a year, alternating between London and Moscow, and has the support of all major ruble market participants. ICAP will be hosting the eleventh IRSF in London on 24 April.

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

Since 2003 we've conducted annual customer satisfaction surveys, which provide us with benchmark data to track our performance and help us understand what we should focus on delivering.

The most recent surveys report that liquidity is the number one priority across all our customer groups, while manual traders in particular have indicated that they want us to continue developing new order types that will help them compete in an increasingly automated trading environment.

So continuing to examine market behaviour in order to ensure that EBS remains the core source of deep liquidity in this new, more automated world is absolutely paramount.

Looking ahead what steps will ICAP be taking to maintain your competitive edge in FX and differentiate your services in the electronic trading space?

We take our position at the heart of the OTC financial markets very seriously and work hard to ensure we never stand still.

We're committed to a consultative approach and ongoing engagement with our large, diverse customer base to ensure their requirements are anticipated, understood and satisfied. We're

continuing to meet regularly with our customers and are striving to deliver intelligent solutions that create an even better trading experience on EBS.

I think all market participants can expect to face a number of challenges over the course of the next 12 months but we believe our plans for the coming year will go a long way to helping us and our customers maintain an edge in an increasingly competitive marketplace.

"In Brazil, for example, we're working closely with the banks and regulators to develop the markets there."





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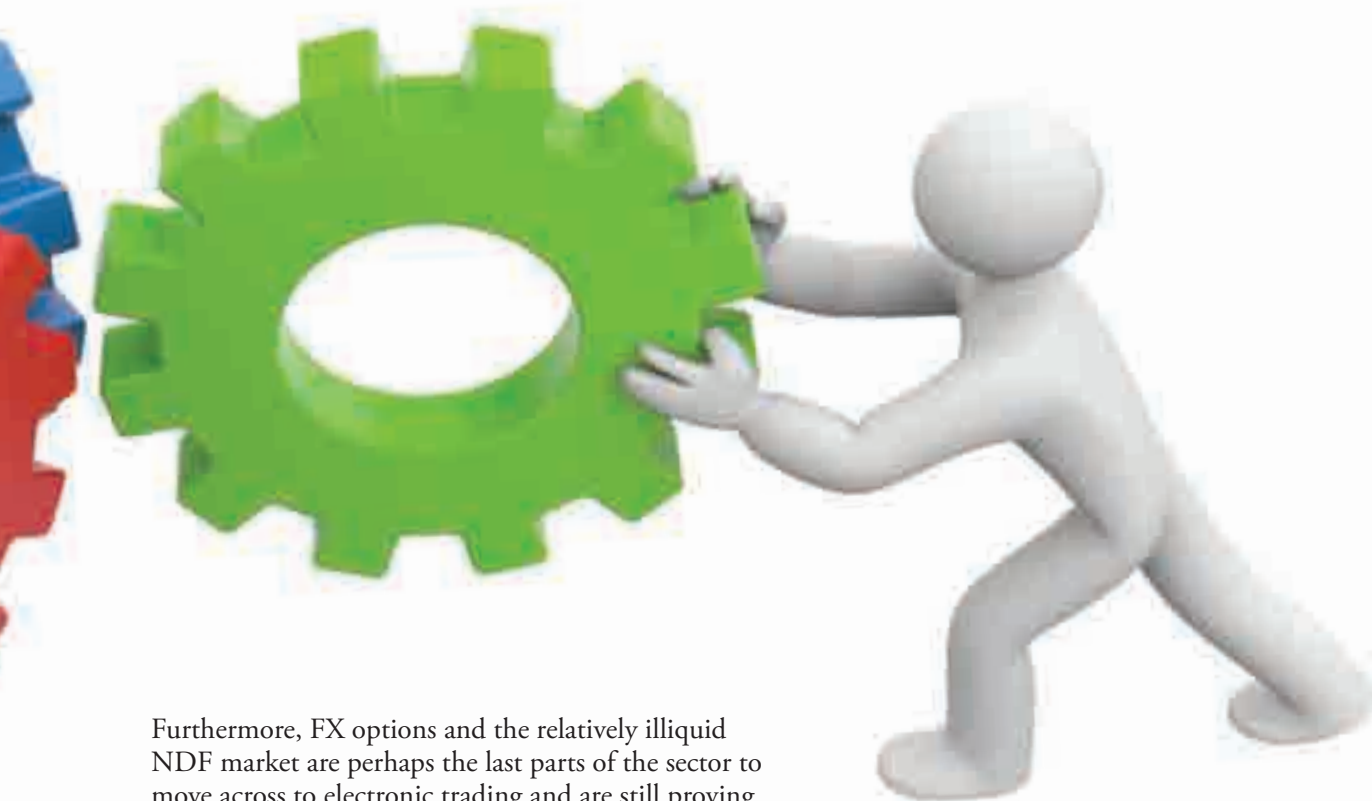


Frances Maguire

While FX prime brokerage is already a growth area, the added complexity of mandatory clearing for NDFs and FX options is likely to give the segment another boost as those drawn into clearing consider the benefits of a prime broker. Frances Maguire looks at what is in store.

An illustration of two white, stylized human figures interacting with large gears. One figure is standing and holding a large red gear, while the other is standing behind it, holding a large blue gear. The gears are interlocked, symbolizing collaboration and mechanical processes.

While many would agree that the addition of mandatory clearing for OTC products will add both greater cost and complexity to the FX prime brokerage model, few would dispute the fact that it could be seen as a mixed blessing. The need to manage both cleared and uncleared trades strengthens the case for using an FX prime broker and the need to have a clearing relationship in place in order to trade NDFs and FX options will most likely cause money managers that had not previously used an FX prime broker to reconsider the benefits. The challenge now is whether FX prime brokers can come up to the mark and show that operational and cost efficiencies can be gained through their services.



Furthermore, FX options and the relatively illiquid NDF market are perhaps the last parts of the sector to move across to electronic trading and are still proving harder to fully automate and process straight through.

Increased demand

Joe Buthorn, global head of FX Prime Brokerage at BNP Paribas, says the demand for FX prime brokerage is coming from a number of new entrants that have an interest in trading in the interbank FX market, including hedge funds that are still becoming interested in FX as an asset class, a trend that began some years ago. Additionally, he says, there are a lot of new brokerage providers around the world enabling their clients to have access to the FX market, some of those brokerage firms are institutional in nature, and some retail as there has been increasing interest from this segment.

However, he believes this growth will be further boosted in the future. He says: “There is a whole host of potential new customers over the next few years that will engage with FX prime brokers, or FX clearers, as a result of the requirements to centrally clear under the new regulations. The result will be a net positive for the PB/clearing business and we expect growth to continue.”

He believes much of this new growth will come from real money managers that until now have not widely adopted FXPB. If they want to trade NDFs, which are going to be regulated, they will be required to clear and if they are going through the process of setting up electronic links for clearing it is not that much of an incremental step to use an FX prime broker for their broader, non-regulated, business.

For this reason, Buthorn says BNP Paribas is building a platform for both FX prime brokerage and clearing clients, so that they have a common experience within BNP Paribas, by offering the same technical interfaces,



“There is a whole host of potential new customers over the next few years that will engage with FX prime brokers, or FX clearers, as a result of the requirements to centrally clear under the new regulations.”

risk management and account management tools and services.

He says: "The distinguishing factor of BNP Paribas is that we try to create a very cost efficient process for the client to transact, using well co-ordinated technology and operational staff, a common set of standards across our products, and a platform that is robust enough to handle the full range of spot, forwards, NDFs, FX options and exotics."

Going forward, Buthorn firmly believes that the demand for FXPB will continue to increase as a result of the incoming regulations, and much of the prime broker's focus is on preparing for the regulations on both sides of the Atlantic and Asia. Since entering the business in 2010 BNP Paribas has seen significant interest coming from clients looking for a new service provider to the market. Furthermore, having a well-oiled platform from which to run the business has been a key advantage for the bank. "We have a very clear understanding around what we are trying to achieve and in providing the necessary technology. And we have ample capacity to grow the business," he adds.

Dramatic change on the way

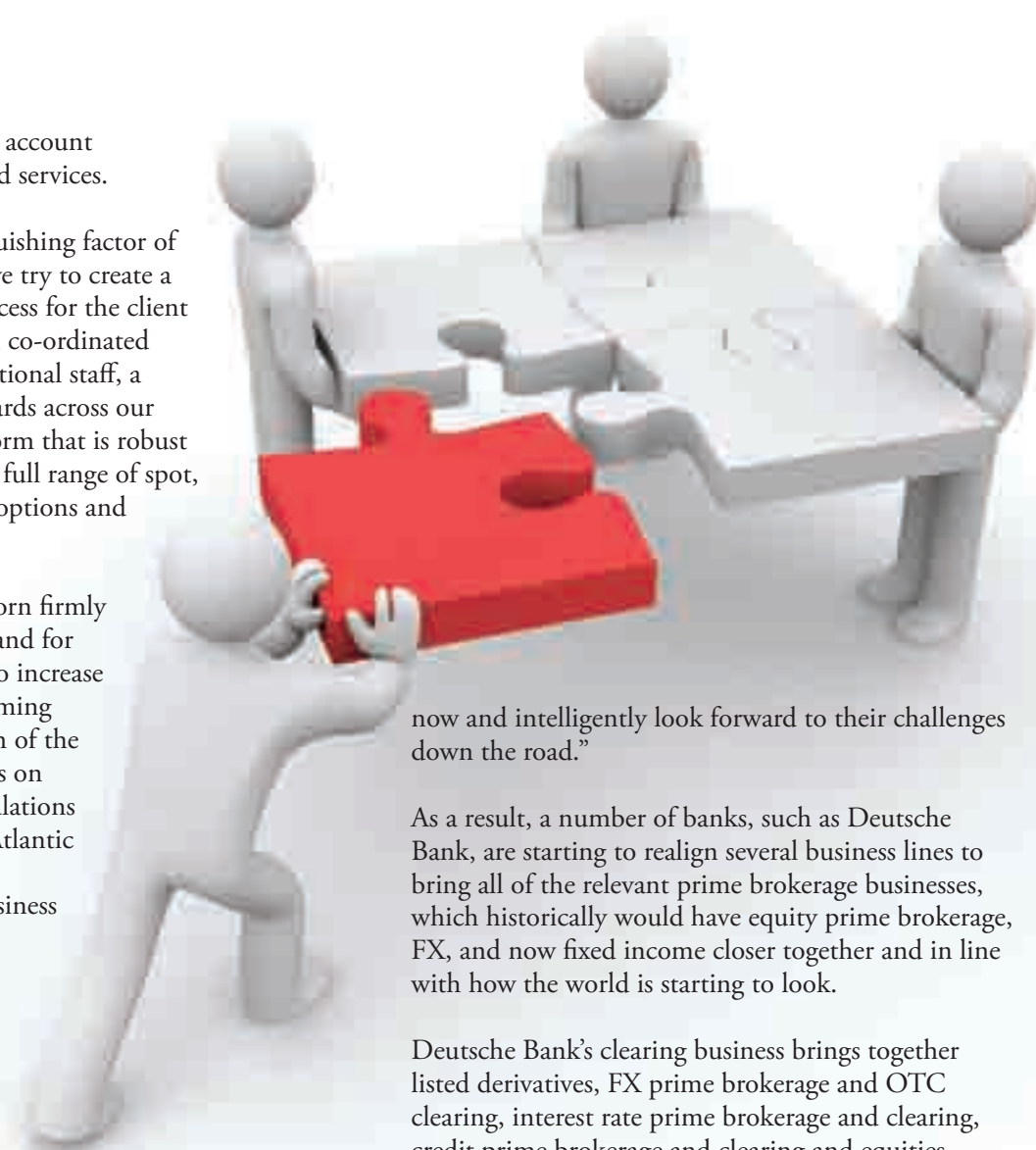
According to Jason Vitale, Global Head of FX Prime Brokerage and OTC Clearing, at Deutsche Bank the events of the past three years have meant that the prime brokerage industry will dramatically change. He says: "It's a fun time to be in this market. In some ways, we are being asked to change our jet engine, mid-flight. Partly this is due to regulatory change, and partly because client business models have changed as a result of the credit crisis, which has forced them to focus on more liquid assets, such as FX and listed products. I think banks are realising that we need to be more efficient in how we service our clients and ultimately provide products which solve client needs

now and intelligently look forward to their challenges down the road."

As a result, a number of banks, such as Deutsche Bank, are starting to realign several business lines to bring all of the relevant prime brokerage businesses, which historically would have equity prime brokerage, FX, and now fixed income closer together and in line with how the world is starting to look.

Deutsche Bank's clearing business brings together listed derivatives, FX prime brokerage and OTC clearing, interest rate prime brokerage and clearing, credit prime brokerage and clearing and equities prime brokerage and clearing. "We then complement our product tiers with cross asset services such as client services, centralized funding and product development. The most important add-on to our clearing business construct is that we do not lose that important connection to the FX franchise," says Vitale, who notes that the business model of FXPB is changing. In years past, FXPB was designed as a distribution tool to incentivise clients to trade with the franchise sales & trading desks of the FXPB bank. The value added services of margin/capital consolidation, liquidity pool access and outsourced middle office functions were important to clients yet the clients primary priorities focused on franchise execution relationships.

Vitale now states that the model is evolving due to regulatory changes where the margin, capital and funding costs of continuing current business will put added strains on a clients portfolio. FXPB products and services will evolve to be the primary



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Jason Vitale

"Clients are also asking about having a consolidated offering for both cleared and uncleared portfolios. Their ask is post trade but increasingly they are asking for pre trade capabilities such as portfolio scenario analysis or algorithmic execution."

driver of client needs as global regulatory reform is implemented.

He says: "Increasingly clients are realising there is a storm on the horizon, either due to regulatory change or overall changes to market structure. This leads to a higher cost of capital, margin and funding to support these businesses as they are now. With the higher costs to do business, I truly believe we will go from being a tool to incentivise execution to a necessary platform by which the clients can continue to do business."

Building for future needs

Vitale says the FX market is working hard to interpret new regulations and to build the tools and infrastructure needed to implement. This is in spite of the fact that the final scope of the new regulatory environment, in terms of the rules and time-lines have not yet been fully hammered out.

Clients are looking ahead, he adds, and know that process changes and higher costs are coming so they want to know that their service providers are

efficiently aligned both from a balance sheet and cross asset capability perspective. Internal alignments are expected to be passed onto the client as the new market structure normalizes over the coming years.

He says: "Clients are also asking about having a consolidated offering for both cleared and uncleared portfolios. Their ask is post trade but increasingly they are asking for pre trade capabilities such as portfolio scenario analysis or algorithmic execution."

For Vitale, 2012 will be year spent finalising the new rules of market structure, establishing what role FX prime brokers will play in interacting with the CCPs and SEFs, and most importantly implementing the mechanics for clients.

"Now that we have built the internal infrastructure, the next stage will be about focusing on clients to make sure we are building the right internal building block solutions for them, in readiness for beta testing and going live. Historically prime brokerage was built for hedge funds and alternative managers, but next year there could be a heavy ramp up of the industry as all financial institutions and a selection of large corporates will be impacted by the new regulatory regime. The wider financial institutional market will be able to benefit from the services FXPB has evolved over the past 15 years," he adds.

Vitale says that the potentially larger client base for FX prime brokerage services means that the challenge will be to find ways to continue offering an efficient, wholesale platform to clients with the feel of a boutique-type client service model.

New client segments

Ed Pla, global head of FX Prime Brokerage and Clearing at UBS, believes that demand for FXPB continues to be driven by clients who derive substantial value from the ability to access fragmented liquidity and from the operational efficiencies relating to legal, collateral, margin, reporting, etc. However, with OTC clearing for FX products on the horizon, UBS is also seeing interest from clients who have not previously used an FX prime broker. He says: "They view FXPB as an 'implementation step' or a way for them to prepare for a world in which FXPB and FX central clearing are used as complementary post trade services, just as intermediation is being used by some hedge funds to complement the central clearing of IRS and CDS."

Pla believes that technology expertise is an indispensable part of the FXPB package, in a business



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that couples 'high-tech' automated transaction processing with 'high-touch' account management and client service. Says Pla: "Offering one without the other renders the service incomplete. Large, sophisticated clients expect FX prime brokers to adapt elements of the service to the client's existing business processes. In these cases, the PB service extends beyond just automated transaction processing to include business process consulting and re-engineering. With an increasing number of large, established buy side entities, the consulting and solution component of the service is taking on increasing importance."



First and foremost, Pla believes that clients are eager to partner with their top liquidity providers. In addition, because FX prime brokerage quickly becomes an essential element of a client's daily operational activities, clients are drawn to FX prime brokers with a demonstrated commitment to the business. "They want to be certain the service provider they select will be there for years, not months," says Pla. "Indications of this commitment include investments in IT, client service, sales, legal, on-boarding and capital introduction. They also want to see geographic and client segment diversity as an indication a prime

broker is experienced and adaptable. More recently it has become clear that clients want to partner with firms who can offer a true cross-product approach to Prime Services, especially in the realm of OTC Clearing. They want a service provider who can 'future proof' them, as new and shifting regulatory requirements become a reality."

While many regard FXPB and clearing as a purely operational service, and on most days, it is, Pla says that during periods of extreme market volatility, the variance associated with not knowing one's risk is at its highest. "On these occasions, when maintaining access to liquidity and knowing one's position at all times can literally make or break a business, FX prime brokerage behaves more like an insurance service. Insurance is a premium product one should buy based on quality and careful due diligence," he adds.

Fundamental challenge

For Pla, a prime broker's fundamental challenge is to provide safety and convenience at a reasonable cost. It is an infrastructure business that requires constant attention and ongoing smart investment. UBS meets weekly to discuss its operational key performance indicators and evaluate new client needs and business process requests. Pla says: "We are constantly looking for ways to become faster, more efficient and more adaptable, based on a combination of our own performance indicators and feedback from clients. So we believe our core product development challenge,



Ed Pla

"...it has become clear that clients want to partner with firms who can offer a true cross-product approach to Prime Services, especially in the realm of OTC Clearing. They want a service provider who can 'future proof' them, as new and shifting regulatory requirements become a reality."

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and a key way we continue to differentiate ourselves, is to innovate in ways that creates value for our clients by investing wisely, over and over again.”

Straight-through-processing and connectivity services will be more important than ever, as new trade flows and business processes are adopted. Addressing new clearing-related concerns regarding margin calculations, risk offsets, position portability, CCP default waterfalls and procedures, etc. will require prime brokers to invest in additional client-facing resources to help increase understanding.

A great deal of integration, testing, risk simulation and on-boarding work lies ahead to prepare clearers and their clients for central clearing. In short, the cost, both fixed and variable, of being in the FX PB business is set to increase.

However, Pla believes that OTC Clearing will offer interesting new opportunities to simplify an increasing complex post-trade world. Clients grappling with new costs and new processes associated with central clearing are looking for convenience, safety and value. He says there is scope for addressing these needs through innovation in areas such as margin/cash management, collateral management, reporting and client service, the latter being especially important for multi-asset class prime services' clients eager to consolidate their queries through a single point of contact for FX, CDS, IRS, etc.

Conclusion

FX as an asset class continues to grow and it continues to grow across different client segments, but even as the world becomes more electronic, there is still much work to be done on FX options to provide the same STP flow for options without manual interaction, whether they are traded on a SEF or an expanded ECN. With product innovation firmly at the heart of the FXPB offering, greater automation of FX options is mostly likely to come from the prime brokers, and to what extent clearing will be integrated into the platforms remains to be seen, but it will most likely be central part of the new model for FX prime brokerage that is emerging.

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Hotspot FX Private Label

John Miesner

e-Forex talks with John Miesner, Managing Director and Head of Sales at Hotspot FX, about the launch of Hotspot FX Private Label.

John, why did Knight Capital decide to launch the Hotspot FX Private Label business line solution?

The genesis of a private label offering really came from client demand. We had received numerous inquiries, from existing clients and prospects, asking us to create a competing product. Active clients were extremely happy with their experience on Hotspot and prospective clients were interested in accessing our robust technology. Initially we resisted, however the demand was strong enough that we had no choice but to look at the opportunity. Not only did we feel we could provide a better technology solution, we also felt that we could compete and win on commercial terms. We now have an end-to-end, out-of-the box solution for those clients and prospects that are looking to take advantage of the Hotspot FX software and liquidity.

In what ways is Private Label a natural extension of the existing Hotspot FX technology?

Since Hotspot FX is an ECN, we understand and already have the technology required for building an independent marketplace. Our private label users have the opportunity to deploy that very technology, in private label form, to all of their clients. Each private label partner can source its own liquidity and/or access the everyday liquidity that flows through our marketplace. The choice is theirs and we will support either solution.

Based on your feedback from customers what key features and functionality are they really looking for in a FX White Label solution?

At the very top of the list, liquidity and tight spreads. Without these, the private label partner does not have a business. As a web-based solution, integration and set up is extremely easy. Additionally, our middle-office software enables the private label partner to board clients, allocate credit and/or margin on a client-by-client basis and manage company and client risk.

In what ways can FX brokers customise your Private Label solution to meet their specific requirements?

In just about any way you can imagine. As I just mentioned, our product allows our clients to carve out credit and price their offering according to the individual risk, trading and profile of each user. Clients can adjust the liquidity on their platforms, picking and choosing amongst liquidity providers to develop just the right mix for their users. And of course, our revamped front end can accommodate different looks, feel and content so that our private label partners are satisfied that their own clients have the right brand experience.

What are the typical deployment times-frames for Private Label?

Once the private label client has opened a Hotspot account, the product can be launched within 24 hours. As a web-based solution, it's as simple as opening up a browser and downloading the software. In fact, we at Hotspot FX and Knight Capital Group, our parent owner, pride ourselves on our ability to swiftly establish connectivity and set up our trading platforms on desktops around the globe.



What risk management toolsets are you making available with Private Label?

As I mentioned, our clients can customize credit and/or margin requirements for each individual user. Partners are notified if a credit limit of a particular client is approaching maximum utilization. From that point forward, the partner is given a number of options so as to not put their firm at risk. It's this control over credit or margin that is the key to our partners' ability to manage their own risk.

Have you identified any specific regions around the world that you expect will particularly welcome the arrival of this offering?

We see particular opportunity for Hotspot Private Label partnerships in Asia and Eastern Europe. Asia is a hotbed for retail forex activity, and Eastern Europe is quickly coming up the curve. Although we do not directly onboard retail clients, we have established excellent relationships with brokers who work directly with the retail sector. Their knowledge of this community coupled with our private label software has, thus far, served us well. We feel strongly that our solution is a great fit for those brokers that have access to these regions and their respective clients, yet do not

have the resources to build a white label solution from scratch.

Looking ahead, what factors do you think will increase demand by FX brokers for customised marketplaces which will fuel growth of FX White Label offerings like yours?

There seems to be a groundswell of retail demand for FX. Perhaps that's a by-product of the global geopolitical environment and its associated volatility. Given the extreme movement in foreign exchange markets over the past three years, there is clearly a lot of opportunity for all types of traders, institutional and retail alike, to profit in the currency markets as compared to other relatively flat asset classes like equities and fixed income.

Despite volatility starting off relatively slowly this year, I feel that the long-term prospects for retail foreign exchange trading are very robust. FX was once dominated by institutions and considered a tool for hedging. Now it has become an asset class in its own right, providing access to a broad base of clients, particularly retail investors looking to diversify their holdings beyond the old standards of stocks and bonds.



Roger Aitken

Complex Event Processing (CEP) technology is continuing to expand further out across and beyond capital markets and banking sectors - including at FX retail and institutional levels. Top use cases from just a few years ago - headed by algo trading - have been leapfrogged lately by auto hedging and risk, market surveillance and FX e-commerce. Roger Aitken examines the landscape.

CEP -

A disruptive technology changing the face of FX

The adoption of Complex Event Processing (CEP) technology by capital markets and banking firms across the FX space and other asset classes is maturing beyond what it was first envisaged for. In its infancy, first generation CEP focused largely on areas like algorithmic trading. Today, a second generation implementation phase is increasingly seeing CEP meeting a range of needs - ranging right across front, middle and into back-office activities.

At its core CEP is an emerging technology that creates actionable, situational knowledge from distributed message-based systems, applications and databases in real time or near to real time. The technology is being extended out into fields such as data mining, order routing, market surveillance and compliance.

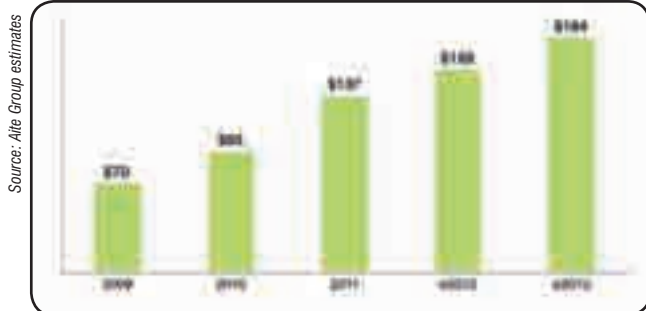
Continued growth

According to a recently published report from Aite Group on CEP (*'Complex Event Processing: Beyond Capital Markets'*, Nov. 2011), the Boston-based research firm, garnered responses from six leading CEP vendors including OneMarketData, Progress Software, StreamBase and Sybase.

Aite forecasts that expenditures on CEP will grow at CAGR at in excess of 15% per annum. The firm also estimates that global spending for commercial CEP technology will hit \$184m in 2013. CEP growth within capital markets was put at 64% in 2011.

Adam D. Honoré, author of this latest Aite study, stated: "We expect to see continued expansion of CEP well beyond capital markets. CEP is now quietly maturing into a must-have platform for real-time data needs."

Aite found that in almost every discussion with CEP customers they were planning to expand internal usage of the technology. One financial services firm using CEP for FX price aggregation was considering possibly utilising it to provide smarter real-time risk capabilities, while another performing pre-trade risk with CEP was contemplating "multiple expansions".



Global Spending for Commercial CEP Technology.
2009 to e2013 (in US\$ millions)

Nick Deacon, Sales Director (EMEA), Sybase, commenting on additional CEP use cases for its clients, says: "We'll have newer clients where they maybe bringing in CEP for the first time, perhaps just to address a specific requirement within a particular project. However, for our larger clients and in particular the Tier-1 investment firms who have previous experience with our CEP products we now see it's rollout across the organisations. This will span from the front to back office addressing areas such as market data management, analytics, risk management and compliance."

CEP is a technology platform designed particularly to ingest so-called 'Big Data' with the ability to deliver



Adam Honoré

"We expect to see continued expansion of CEP well beyond capital markets. CEP is now quietly maturing into a must-have platform for real-time data needs."

higher performing and scalable analytics for market making. These analytics can monitor a multiplicity of sources - ECN's and single banks - and re-post prices in short order. And, that's pertinent in a global FX market where average daily turnover is c.US\$4trn.

Changing the FX business

Louis Lovas, Director of Solutions at OneMarketData, LLC, a leader in tick data management and analytics, commenting on the ways that CEP technology is fundamentally changing the way the traditional FX business model operates, says: "Trading firms operate in a fiercely competitive industry where success is measured by profit. They're constantly hunting for talent and technology to achieve that goal. CEP is a modern technology platform that firms are recognising is a key to ensure that success."

This vendor offers a suite of solutions, including OneTick and OneQuantData. OneTick is a comprehensive business solution designed to fully address the market's need for intra-day data collection, archiving, retrieval and analytics. Société Générale Corporate & Investment Banking (SocGenCIB) selected the OneTick Database and CEP in September 2011 as its fully integrated tick data management, analytics and CEP system for electronic foreign exchange (FX) trading. SocGenCIB's FX division is

using OneTick for pre- and post-trade analysis and data storage plus real-time production monitoring and back-testing of strategies and algorithms.

Sybase's Deacon says: "Rather than firms taking CEP as a point piece of technology to address a specific type of application in a project, they're now taking it as a breed of technology that provides them with a platform for event-based processing right across their business."

And, that may span right across the whole trade lifecycle - all the way from market data analytics - providing sophisticated analysis and signal generation, automated strategy execution and continuous performance monitoring. For risk management it can be applied to help keep a "real finger on the pulse", he says.

CEP can be used not just for FX but other asset classes where there is an inter-relatedness between them, for example where a sophisticated prop trading organisation requires complex cross asset trading signals and analytics.

Deacon explains: "Firms may have complex strategies that require monitoring not only the price correlation between different currency pairs, but also including

other asset class data such as commodity prices or indexes. CEP is an ideal environment for that as those different data sources can be brought together, analysed and correlated and signals streamed when specific patterns occur - all in one platform." Additional data sources and strategies can be mapped in rapidly and back tested to assess their likely alpha generation capabilities.

Deeper integration

Lovas says of increasing numbers of institutional and retail FX trading firms looking to achieve deeper integration of CEP engines into their trade execution systems: "CEP engines can transparently handle many of the mundane but vitally important tasks for low latency, fault tolerance, broad connectivity and tick capture. This allows quants and traders to focus on the important stuff - strategy modelling, back testing and profitability."

Sybase's Deacon notes: "What you get with CEP is the ability to step outside of the standard functionality provided by the EMS's. If you want to evolve your own specific execution algorithms or generate your own signals that are then going to control how you're going to execute your trading activity, then CEP gives you greater flexibility. It enables differentiation and firms to gain an edge over competitors."

There are nevertheless issues relating to deeper CEP integration. Deacon says: "It's the age old problem. It's very easy to build a system, but plumbing it into an existing infrastructure and with other products can sometimes pose a challenge."

"Where CEP is particularly strong is that it comes with a whole multitude of connectors, adaptors and APIs," he says. "If there are very proprietary interfaces involved, Sybase's APIs are extremely open to allowing one to develop specific adaptors for such proprietary requirements."

Reliability and scalability

Turning to how FX market participants can measure usability, reliability and scalability of CEP platforms, Lovas says: "Ultimately the final measure of any firm is their profitability. For FX firms employing algorithmic strategies, technology is a means to accomplish that goal. CEP improves time to market by providing the quant modeling tools to construct, validate (back test), deploy and evolve those strategies quickly."

With CEP technology having cut its teeth in the latency charged world of equities, buy-side firms looking to FX for alpha as a means to hedge or trade cross-border can



Louis Lovas

"Trading firms operate in a fiercely competitive industry where success is measured by profit. They're constantly hunting for talent and technology to achieve that goal. CEP is a modern technology platform that firms are recognising is a key to ensure that success."

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leverage that same technology base with the assurance of precedence. “CEP has reached a maturity that usability, reliability, scalability, maintainability are the ante to the game,” Lovas contends.

Deacon points out: “When firms are selecting CEP, it’s important to look for an established vendor with a good track record and robust references. It is still easy to procure a product that does not necessarily fit all your requirements. One also needs to ensure the vendor supports all the business and operational requirements, for example high availability clusters (i.e. no down time if something fails).”

Sybase, for example, provides full high availability through its Event Streaming Processor (ESP), an award winning CEP platform. It allows for rapid development and deployment of business critical applications that analyse and act on high velocity and high volume streaming data - in real-time. This encompasses ability to deliver real-time applications such as continuous risk-assessment and low-latency algo trading. The ESP platform is fully integrated with the other data management products provided by the vendor.

Developers perspective

As to how FX firms can better leverage CEP as a developer’s productivity tool to focus on business logic and go from prototyping directly into production without extended development cycles, Deacon notes: “That’s really one of the fundamental reasons why CEP exists. It’s a rapid prototype, build, test, iterate and deploy platform with modules for back testing, debugging, results analysis and production management, our clients typically quote it delivers over 5x greater productivity compared to traditional development languages.”

Users get a fully integrated environment in which they can develop a particular algo or pricing component within Sybase’s ESP, explains Deacon. “With traditional technologies that can be a time consuming and fiddly process as one needs to build a test harness that will capture and replay fully synchronize market data and order flow to evaluate the performance of the code,”

“With CEP one is able to simply attach to the traditional sources of market data such as Thomson

Reuters or Bloomberg and with pre-built adaptors simply switch on the stream of data. Sybase provides the ability to capture and store that data - subsequently replaying it on demand for back testing at varying speeds.”

“It’s that sort of capability that gives the developer a real headstart since they can make a change to their business logic,” continues Deacon. “They can instantly test it and run a day’s worth of data through in just minutes. This assists in building strategies far more quickly, with large scale testing available before algos are deployed live.”

Strong modularity within the CEP product should be considered too. Deacon says: “We provide modularity as part of the Sybase ESP, this enables fine control over those components which traders and quants

can modify and protects the rest of the CEP code from unauthorised change.”

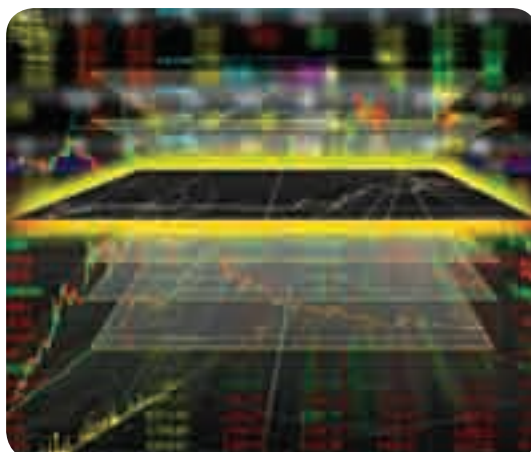
Analytical functions

Lovas says: “The key really lies in what built-in analytical functionality is available in the CEP platform itself. CEP is first and foremost a development platform and one that is highly geared towards building strategies.”

Quants typically apply an empirically tested and rules-based approach to exploit perceived market inefficiencies. But to achieve that in their strategy models requires a broad set of analytical functions. Lovas notes: “CEP platforms out-of-the-box should manage order-book market depth without costly coding efforts.”

He explains: “Many vendors provide a graphical modelling tool for the construction of strategies whether for alpha-seeking or execution. These tools have the same objective in mind - to shorten the time from idea to deployment by employing concepts that make them approachable to the non-programmers - Quants and traders.”

Essentially the basic building blocks are there in the form of analytical functions, data filters, aggregators and other means to enrich or analyse markets and manage orders.





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“Underlying CEP technology provides a means to automatically handle error conditions and thus prototyped models can be safely moved from a QA/test environment to production,” explains Lovas. “And, CEP infrastructure provides a means to quickly backtest models against historical and live markets to provide proof points as strategy ideas are prototyped.”

New Use Cases

CEP grew up in the algo trading space where it cuts its teeth and where its name is strongly associated. However, CEP benefits in FX have now moved beyond FX aggregation, pricing, smart order routing and algo trading.

“We’ve now got clients using it in a host of different areas,” notes Deacon. “This encompasses position keeping, risk management; real-time P&L. For example we have clients using CEP to manage concentration risk ensuing exposures are spread adequately across counterparties, currencies, geographies and alerts are generated when limits are exceeded.”

He adds: “If you’re computing a real-time P&L for more sophisticated products - particularly derivative products, it’s a complicated process as there are a whole series of underlying prices impacting the prices of your derivative instruments. Computing those in real time is sophisticated and exactly the type of activity CEP is competent to handle.”

In the Treasury management space at some of Sybase’s Tier-1 bank clients, CEP is being used to help monitor real-time funding and treasury management operations. Deacon says: “They’re doing it by currency down at the most granular transactional level and reconciling anticipated transactions with actual transactions.” CEP sits in a “non-intrusive way” alongside existing systems monitoring the flows and providing real-time cash management.”

CEP is the “quintessential real-time platform” according to Lovas. Often firms have their own ideas on how they want to calculate specific information for working orders; Positions: Open, Closed, Net and Profit: Realised, Unrealised. In the past, vendors simply coded these by hand in traditional languages and any changes had to wait for the next release.

One new area where CEP is being applied is in the transaction cost analysis (TCA) space. TCA shares many of the same technical challenges with algo trading. Analysis of orders and executions against multiple markets need to be accomplished in real-time. Resulting strategies can be fine-tuned to improve alpha.



Nick Deacon

“What you get with CEP is the ability to step outside of the standard functionality provided by your EMS. If you want to build and continuously refine your own execution algorithms or generate your own signals which drive your trading activity, then CEP gives you that flexibility.”

Regulatory Change

Commenting on how CEP can assist market participants address new regulatory compliance requirements in the FX trading space, Deacon says: “What CEP brings for those firms struggling with some of these new regulations is the ability to have a platform whereby they can rapidly iterate upon to develop, enhance and modify their reporting requirements.”

“It’s that ability to say ‘I’ve got a new requirement and I need to add that into my existing regulatory infrastructure’, by just bringing that in as a separate module - without impacting the rest.”

Conclusion

Lovas summarises by saying: “A trading firm’s final goal is to win, to be successful in outpacing the market and the competition. CEP technology is an effective means to achieve that end allowing institutions to be more nimble and cost effective by responding to the constantly changing market and regulatory landscape. Leveraged by IT staff or the business itself, CEP tooling is approachable by non-programmer types as the basic metaphor is to assemble semantic logic for strategies, TCA, or risk in a graphical modelling environment.”

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Utilizing cloud computing architectures for improved control over risk and FX back-office operations



Joe Morgan

With cloud computing services continuing to have a dramatic impact on the delivery of FX trading applications, Joe Morgan looks at where we can expect to see further significant use of the technology being applied to post trade and FX risk management operations.

Proponents of the cloud like to ask what you would do differently if you had unlimited computational power at your fingertips. For FX market participants facing up to an increasingly complex and interlinked market – which has witnessed mushrooming trading volumes – this is a pertinent question. None more so than in risk management and back office operations, where measuring data from multiple sources, increasingly in real-time, is becoming more important for reasons of compliance – and survival.

Howard Tolman, managing director of Cloud Trading Technologies in London, which specialises in complex pricing of financial instruments, online trading software and risk management solutions, says: “Banks employ a lot of IT people and a lot of those are involved in manning hardware and various different projects. Banks end up with bottlenecks. They can’t get stuff done. They go into lock-downs all the time. Using the cloud which has so much processing capability at your finger-tips is far more efficient and cost effective.”

Tolman highlights the cloud’s capacity to migrate capital expenditure – in which IT systems and

architecture are purchased in a costly upfront purchase – to operational expenditure, where computational power is used in a way akin to a pay-as-you-go model. He points out that implementing a cloud-based model enables FX firms to focus resources on their core business objectives, while benefiting from the economies of scale latent within a cloud provider's data center and IT architecture. "The cloud makes this huge computational processing capability available to you. It is an incremental cost, removing redundancy of hardware," he adds.

Costs and efficiencies

Tolman says the advent of cloud-based solutions – either in the form of a private or external cloud provider – provides FX market participants with the ability to significantly reduce levels of redundancy of unused computational power. Tolman argues that it is not essential for banks to have levels of redundancy on hardware of 95 per cent, which amounts to latent power that is only fully utilized in exceptional circumstances, such as a 20-fold increase in volume transactions.

In a highly publicised report, Gartner, the research analysts, predicted that worldwide cloud services revenue would increase from \$46.4 billion in 2008 to \$150.1 billion in 2013. The growth in cloud computing has been bolstered by its capacity to reduce IT costs, as a result of the economies of scale cloud providers obtain. For example, Amazon's public cloud – Amazon Elastic Compute Cloud (EC2) – can reduce the cost of using a server – which typically costs \$10,000 a year to assign inside a bank – to as little as \$72 a month, according to financial software specialists.

"Cost, flexibility, and scalability are extremely important [for small and medium-sized HFT, FX 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."

Single point of access

The advent of cloud computing has provided FX market participants with a single point of access to liquidity spread across a far wider net of sources than was possible before the advent of the technology. Cloud-based trading solutions and services providers which offer point-to-point connectivity between the



Howard Tolman

"The cloud makes this huge computational processing capability available to you. It is an incremental cost, removing redundancy of memory."

providers and users of FX liquidity via global inter-institutional connectivity networks are successfully taking market share away from incumbent banks and custodians.

Joe Conlan, global head of FX sales at FCStone, LLC, a specialist in FX trade execution and Prime Brokerage services based in New York, says growing volumes in FX markets over recent years have made it more important for currency market participants to put in place sophisticated technologies to manage risk on a real-time basis. Daily average FX market turnover reached \$4 trillion in April 2010, according to statistics from the Bank of International Settlements (BIS), an organisation which serves central banks in their pursuit of monetary and financial stability based in Basel.

"In the past, you could look at different points of time [when measuring risk]. As volume and volatility has grown, it has become imperative that real-time technologies be available and the cloud allows for an affordable deployment," says Conlan. "We are utilizing our risk management tools to make sure that our clients do not expose us and themselves to outsized risk."

FC Stone uses the multi-sided trading platform FX Grid from Integral to power StoneX, a next-generation FX platform that provides brokers with a modular suite of products designed to enable any brokerage firm to quickly launch and easily maintain an FX brokerage service. “If you have a guy trading on four or five ECNs [Electronic Communication Networks] at one time, FCStone employs technology to gather each one of those trades from various ECNs to a single point in the back office and in a second net-out the risk exposure,” says Conlan.

Cloud extends technology

Harrell Smith, head of product strategy at Portware, a developer of broker-neutral, automated trading software in New York, says the increasingly fragmented nature of global currency markets makes it a complex task for firms to have a comprehensive audit trail of the execution of trades. “Reporting is a key area for internal compliance, as well as risk management reasons. As the variety and complexity of FX strategies increases, it is all about giving traders tools to let them analyze executions at a very granular level,” says Smith.

He points out that by deploying feature risk trading applications at Portware’s hosting facility, rather than



Harrell Smith

“Traditionally, a system like Portware FX would be available only to the top-tier hedge funds and asset managers and brokers. The cloud extends this technology to a whole new base of clients, without the budget or internal resources to support this deployment,”

at their own data centre, buy side clients remove the expense of hardware connectivity to various liquidity providers.

Portware FX offers buy side firms a real-time, aggregated view of the FX market, through a customizable, broker-neutral front end. “Really, we are taking the cloud to the next level. While most people think of cloud systems deployment as being somewhat lightweight, we are taking a different view that the cloud supports feature rich trading systems,” says Smith. Once Portware FX has been deployed, it can be integrated into a buy side firm’s systems, meeting compliance and trade analytics requirements.

“Traditionally, a system like Portware FX would be available only to the top-tier hedge funds and asset managers and brokers. The cloud extends this technology to a whole new base of clients, without the budget or internal resources to support this deployment,” says Smith.

Real-time risk

Dr. Yuval Levy, chief technology officer at SuperDerivatives in London, which operates an



Joe Conlan

“The cloud makes this huge computational processing capability available to you. It is an incremental cost, removing redundancy of memory,”

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electronic FX options platform based on cloud computing, says there has never been a greater need for the accurate measurement of risk in FX markets. “In the past, risk management involved running the portfolio in the night at the end of a day’s trading calculating all the different types of risk in one batch, which would take hours. Trading would be done the next day, with all risk management based on the close rate of yesterday,” he says. “The problem is, if the market moves significantly, all the numbers that you are looking at are not accurate. In order to avoid this, using complex structures, you have to switch to real-time risk management. This, together with the increase in demand for applications to be delivered in SaaS (Software as a Service) model, requires to use cloud computing. The cloud provides dynamic computing allocation based on demands, various time zones, and customer profiles. It is also a platform that enables dynamics failover and scalability in all layers of application.”

Levy points out that the massive computational power of cloud-based offerings enables FX trading firms to calculate the value of 1,000 FX options in about one minute. He says any buy or sell side firm seeking to conduct such a calculation in-house would have to invest in dozens of server racks to complete such heavy-duty, real-time calculations. “We enable the calculation of performance ten years back, or daily performance. Or a structure within ten seconds. You must have the cloud to perform such calculations otherwise it will take you a long time,” he says.

Levy expects fund administrators to switch to cloud-based solutions, given its capacity to rapidly speed up the delivery “of the numbers” to hedge funds, which can then assimilate the data into their risk management systems. He expects wide uptake in the future of cloud services for real-time risk analysis and back-office calculations. “Vendors. Those managing large portfolios for clients. They will all have to switch to the cloud,” says Levy.

Tolman of Cloud Trading Technologies says once risk applications are migrated to the cloud, it better facilitates a more holistic view of risk across different asset classes. “In the past, banks have not been able to put the different types of risk they face into a homogenized context. Being able to analyze information from multi-sources in real time should mean that decision making becomes better and understanding the underlying risk situations also becomes better,” he says.


A more holistic view

Tolman expects the capacity of the cloud to provide a snap-shot of risk positions across different instruments to be of increasing value to FX market participants as volumes in cross-asset class trading continue to grow. This trend is being driven in part by global data center networks – which have become vibrant hubs for co-location services facilitating ultra-low latency trading strategies by banks and hedge funds – providing linkages between banks, FX trading platforms and exchanges. For example, interdealer broker Icap’s Electronic Broking Services (EBS) and Credit Suisse CrossFinder are both located in Equinix’s LD4 data centre in Slough.

Furthermore, Tolman points out that an equity or credit transaction can also create an FX risk, which needs to be factored into a bank’s risk management system. “If you have underwritten a credit default swap with a major Japanese corporate. Lets say you have to pay out a certain amount of money if there is a credit event. If a credit event is imminent you have a credit risk and also a foreign exchange risk. There are various risks involved and if you want to have a risk system that works you have to take account of this,” says Tolman.

Big data

Neil Cresswell, Managing Director, Europe, Middle East and Africa (EMEA) at Savvis in Reading, says that as the level of FX market data needing to be analyzed



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Neil Cresswell

"It is compute power that you don't need every minute of every day. You might need it for a few hours or a few days or a few weeks. Now if you have to buy that and install it yourself and run it manage it – a lot is going to be wasted."

to measure risk continues to mushroom, the extensive network of a global managed services provider can help FX market participants complete the myriad amount of risk calculations needed in an age of "big data". "As the world's population of data explodes – popular myth will have you believe that it is doubling every year – manipulating that amount of data, either for trading or compliance purposes becomes a big job," says Cresswell. "We can help firms manipulate and analyze those huge amounts of data that they need to handle now."

Cresswell says the biggest area where cloud-based services have been deployed among FX market participants has been in risk. "We run a lot of big cloud and grid compute platforms for banks and trading companies who want to run scenarios and who want to do risk modeling exercises on quite large amounts of data. Some of those require a lot of compute power," says Cresswell. "It is compute power that you don't need every minute of every day. You might need it for a few hours or a few days or a few weeks. Now if you have to buy that and install it yourself and run it manage it – a lot is going to be wasted."

For example, Wall Street Systems, a provider of treasury, trading and settlement solutions, migrated its Wallstreet FX into a software as a service (SaaS) solution, hosted

on the Savvis cloud. Wallstreet FX offers alerts for management and compliance officers to help facilitate regulatory compliance. A variety of limits can be set to allow clients of Wall Street Systems to manage trading activity, limit positions, and reduce risk. "This [type of solution] is the highest growth area. A lot of banks are moving to this type of deployment model. It enables us to deploy to customers in places like Frankfurt very easily because our customers do not need to host it in-house," says Cresswell.

Data controls

Cresswell says Savvis's position as 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 infrastructure of key FX platforms and venues, makes it acutely aware of the security and compliance procedures written into firms' core infrastructures. Cresswell says this leaves Savvis well-placed to provide cloud-based solutions that can offer FX market participants better operational control of their risk and back-office activities.

"Part of the equation is complying with risk and compliance policies and most people have policies that require them to have very strict controls over their data and privacy and access to their systems and data and



not all cloud models are suitable in that environment,” says Cresswell. “In terms of helping banks control risk, we tend to leave that to the software companies. But we can help them control compliance, audit and operational controls at an infrastructure level.”

The critical importance of proprietary information to buy and sell side firms makes it unfeasible for them to risk outages or data breaches on an external cloud. Public clouds do not typically have strong enough Service Level Agreements (SLAs) for them to hold outsourced business critical FX data. Furthermore, stringent regulatory rules and protocols governing the movement of financial data to different jurisdictions also represent significant barriers to the outsourcing of risk data by FX market participants taking an increasingly global approach in their trading strategies.

Javier Paz, a senior analyst at Aite Group in Boston, points out that oversight rules governing the movement of data in the US are “pretty intense” relating to issues of privacy. “Brokers and banks need to be fully able to say that by moving the processes – in terms of databases and something that contains client information – will not be compromised by the cloud hosting firm on anybody with potentially, with potential hacking to a public cloud or a hybrid cloud where the data is residing,” says Paz.

Paz sees a steady uptake of cloud services among FX market participants, but concerns over data security and the cost of verifying security are ‘slowing somewhat’ the pace of this transition. He believes that within the next five years cost savings pressures and greater familiarity with cloud technology will prevail over these concerns. He highlights back office messaging services as one of the functionalities that has first moved to the cloud. Paz looks at the cloud as part of a larger process towards specialization and “brand building”. “You have more of a specialist approach being supported by a more generalist, all-inclusive mega-cloud service provider who can bring under one roof more of the multiple communities that a firm would require,” he says.

“I frankly see risk management is going to be one of the last elements to move because of those reasons [of data security]. If there is one area where you want to have control and not have surprises it is risk management,” says Paz.

Compelling solution

Nevertheless, the use of the cloud among FX market participants appears set to inexorably rise. The cost-savings, efficiencies and brute computational force of power that the cloud brings makes it almost



Javier Paz

“The cloud offers a compelling solution where you can buy-as-you-go and have it at a reasonable rate. A tiny fraction of what it would be if it was a cap-ex approach,”

inconceivable that the technology will not play a more important role. In the near-term, concerns over data security could make many buy and sell side firm choose a private or hybrid cloud model, housing non-proprietary or business critical data. But an increasing number of operations – including risk management and back office systems – should migrate to the cloud during the decade.

“Brokers and banks are in a position where IT budgets are under strain and moving IT processes to the cloud for risk management and compliance is a good idea because it lowers costs and it takes away the uncertainty of having to pay upfront for hardware. The cloud offers a compelling solution where you can buy-as-you-go and have it at a reasonable rate. A tiny fraction of what it would be if it was a cap-ex approach,” says Paz of Aite Group.

Levy of SuperDerivatives boldly predicts that a leading major global bank will have migrated risk systems to the cloud within the next five years. “More banks and hedge funds will switch to risk management, which resides on external clouds,” says Levy. “This model will become a definite trend over the next few years. It reduces costs dramatically. It has flexibility as the market keeps adding structures. It is a very efficient way to move in the market and it allows people to have multi-asset risk management.”



Improving FX Market Data delivery with Managed Network connectivity services

Joe Morgan discovers more about how managed network connectivity solutions can significantly improve the delivery of FX market data between FX trading venues, counterparties and data centers and what tools and applications are now available via managed network providers to help High Frequency FX trading firms analyse their pricing, trading and post-trade data processing activities.

“The year 2012 will be a very exciting one for the FX market,” predicts Alexandra Foster, global head of sales at BT Radianz & Payments in London. “It is all about speed and getting off the blocks first.”

Foster parallels structural changes taking place in FX markets with trends that have already had a dramatic impact on equities, towards the end of the last decade. Requirements for best execution enshrined within the

European Union's Markets in Financial Instruments Directive (Mifid) provided the regulatory landscape for multi-lateral trading facilities (MTFs) such as London-based Chi-X to flourish, resulting in a significant shift in share-dealing volumes away from the incumbent exchanges. Rapidly emerging from marginal niche players in equities trading, BATS Europe and Chi-X Europe accounted for 25.4 per cent combined market share of European equities trading in December 2011.

Foster points out that Mifid II is expected to broaden best execution rules to a wider variety of asset classes including FX which she expects to result in the formation of more FX quote aggregation services. These services will fulfill a similar role to that of smart order routers in equities markets. FX aggregators will assist FX trading firms seeking enough liquidity in currencies across an increasingly global market to make timely transactions at the best price.

"You will see fewer single dealer platforms and more aggregators. This means that you need a provider who can get you to a multiple venues making quotes and providing data, so that you can transact quickly," says Foster. "You need someone to be able to provide both the pull and push in a very low-latency environment."

Financial communities

Foster expects this trend to benefit BT Global Services, as a specialist in the provision of managed networked IT services, which already has well-established "community clusters" on its network. "In terms of how network connectivity can enhance the delivery of FX data, it is about having breadth and reach. It is about having enough FX platforms and data providers and all the aggregators accessible on your network," says Foster.

IPC Systems, a leading provider of trading communications systems and network services for the capital markets based in Jersey City, has a global community of FX trading venues. IPC recently launched its flagship managed network services offering – Connexus™ – an extranet service for the financial markets. Connexus enables the global community of foreign exchange counterparties to access trade lifecycle services. Through a single connection, FX providers, brokers and institutional investors in the IPC community can link to one another and seamlessly receive and distribute applications and real-time and historical FX market data in a secure and reliable trading ecosystem.

"We have numerous FX liquidity providers, brokers and institutional investors connecting to each other by



Alexandra Foster

"In terms of how network connectivity can enhance the delivery of FX data, it is about having breadth and reach. It is about having enough FX platforms and data providers and all the aggregators accessible on your network,"

leveraging Connexus, our financial extranet service. By being part of IPC's community of global capital market participants, members can execute spot, forward, non-deliverable forward (NDF) and cross currency swap trades with any other counterparty on Connexus. Members also have round-the clock access to mission-critical FX applications and market data through Connexus," says Jonathan Morton, vice president product marketing at the global headquarters of IPC Systems in Jersey City, New Jersey.

Data feeding off soaring FX volumes

Alan Schwartz, president of the financial services division at Transaction Network Services (TNS), a global provider of data communications and interoperability solutions based in Reston, Virginia, points out that the provision of efficient FX market data services has become all the more important, as the volumes of currency transactions grow and global markets become more interconnected. "There is an incredible need in this space for solid delivery of market data services for this market place," says Schwartz. "It is very dynamic and more so than any market we have served historically. It is so global where as other securities types are more regional."

FX trading volumes are being bolstered still further by innovations in the equities markets. For example, the Brics bloc of countries, consisting of Brazil, Russia, India, China and South Africa have launched an exchange alliance to cross-list benchmark equity index futures and options. "These are stock market indices. But you will have an automatic FX component as well [for hedging currency risks]. These new initiatives in equity derivatives are driving even more community clusters in FX," says Foster of BT Radianz and Payments.

The trend of FX institutions enlisting managed network connectivity specialists for market data services has been accelerated further by increasing FX trading volumes. Daily average FX market turnover reached \$4 trillion in April 2010, according to statistics from the Bank of International Settlements (BIS). Growing numbers of hedge funds and specialist trading firms are trading FX markets, with many deploying high frequency trading (HFT) strategies on electronic communication networks such as Icap's Electronic Broking Services (EBS) and Thomson Reuters Matching, along with

multi-bank and ECN trading venues such as Currenex, FXall and Hotspot FX.

High-speed trading fuels data surge

Celent, the financial consultancy firm, published a report, *Technology Choices in High Frequency FX: Infrastructure, Hardware and Software Decisions*, which found increasing 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. Given that HFT strategies use algorithms that analyze market data to capture profitable opportunities that may exist for just a fraction of a second, obtaining low-latency market data is of critical importance.

"Due to the growth of HFT in FX, speed has become the key for most trades and a few milliseconds separates profit from loss. On average, an FX firm maintains liquidity via five to 10 liquidity providers," explains Sreekrishna Sankar, an analyst at Celent in Bangalore. "In a managed network offering, this gets consolidated and access to more top e-FX venues are also made available. Market data rates on average increase by 50 per cent, year-on-year. Thus a consolidated market data feed channel available through a managed network [is vital]."

Given the dependency of high-speed trading strategies on a plethora of low-latency market data feeds, network connectivity services facilitating such data are playing an increasingly important role in the fabric of the financial markets.

Savvis, a global IT infrastructure company which hosts the matching engines and trading infrastructure of key FX platforms and venues, has reported "a very high growth" in HFT FX firms enlisting its services in recent years.

Neil Cresswell, managing director, Europe, Middle East and Africa (EMEA) at Savvis in Reading, says the challenge of connecting to myriad trading platforms and venues throws up strategic challenges, which can guide the types of FX trading strategies deployed. "Different FX markets might be suited to different types of currency pairs. If you want to trade on a number of them, do you want the lowest rich latency in four or five key venues or do you want the lowest level of



Jonathan Morton

"We have numerous FX liquidity providers, brokers and institutional investors connecting to each other by leveraging Connexus, our financial extranet service. By being part of IPC's community of global capital market participants, members can execute spot, forward, non-deliverable forward (NDF) and cross currency swap trades with any other counterparty on Connexus."



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latency in all five?” asks Cresswell. “You might be geared towards one venue. Then you would want ultra low-latency connectivity to that particular venue.”

The issue of latency

IPC Systems offers its clients with different levels of latency, depending on their exacting needs. “The specific objective of the FX trader determines the relative importance of low latency. For example, in arbitrage driven trading, low latency is crucial since the goal is to capture alpha, which can erode in milliseconds. These latency-sensitive FX traders leverage *Direct Connect*, IPC’s fully managed high-speed point-to-point Ethernet service,” says Dibyendu Shekhar, a product manager, Financial Markets Network at IPC Systems in Jersey City.

Schwartz at TNS points out that direct connectivity to a data source is of central importance to HFT strategies, ensuring “there is nothing in the middle”. “HFT traders want the assurance of quality data and the least amount of hops in the middle - which results in more speed. There needs to be no servers, no devices in the middle of the cloud, to potentially slow down data from a source,” he says. “After that, the only way you can get better performance is by reducing the distance between you and the source. Our customers can plug right in, as well as take some space in the location. They can jump on to our network, plug in and get a virtual direct connection.”

BT Global Services in April this year launched BT Radianz *Venue Interconnect* (RVI), a service that extends low-latency connectivity to execution venues internationally, including Chicago, Tokyo and New York. “We constantly evergreen this service to ensure that we always find the shortest path. There is a shared



Dibyendu Shekhar

“A trader’s strategy today may just involve currency pairs in the developed markets, but at some point, currency pairs in emerging and frontier markets may also be targeted. As business requirements evolve, we can tailor access and services to meet changing needs through Connexus.”

version and a customized version [providing tailored ultra-low latency],” says Foster of BT Radianz & Payments.

TNS enables FX traders to “pick the level [of latency]” that is required, depending on the geographical location of a desired trading venue. TNS assists in this process with a network that includes 1245 points-of-presence in 60 countries across the globe. “Sometimes this will involve the provision of remote managed services.

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Sreekrishna Sankar

"We provide access with additional headroom so we can actually change or modify a client's service within a matter of days, allowing them to respond more quickly to new business requirements, and making them more competitive,"

But you can not do this for everything, because it is financially impossible," says Schwartz.

Schwartz adds that the capacity of managed services providers to instantly provide connectivity to FX trading services is "critical", given the vital importance of low-latency trading. "Opportunities do not last forever. The FX market is rapidly growing and that brings challenges to traders and those looking for the data of where some of these locations are. It can be very difficult to get access to this information, particularly directly," says Schwartz.

Expanse and breadth

Schwartz also points out that the logistics of obtaining access to high-speed and reliable data sources in less developed and remote markets is particularly challenging for small and medium-sized FX trading firms that do not have the technological resources and infrastructure of their larger rivals.

TNS scrutinises the new trends emerging in the FX markets in order to anticipate – and meet – the needs of customers looking to widen the scope of their

trading activities. "Customers are trying to figure out how you get this access. It is difficult to negotiate the connectivity and try to find out the right context and people. We often do that on behalf of customers and actually if they request the information they say – we really need this can you figure out how to do it," explains Schwartz.

TNS' *Extreme*, a managed direct-connect service, enables its customers to connect directly to a desired data source. TNS customers can also obtain access to a desired data source via an extranet connection. "Then we have customers who are in the same building as a desired feed or data source but do not know how – or have the manpower – to obtain a connection. In those cases we have services where we hand customers a network connection and they plug into our network, obtaining virtually a direct connect to the source," says Schwartz.

Sankar of Celent points out that managed network service providers can enhance the provision of market data services to their clients by collaborating with trading platforms which offer co-located data centers to improve market participants' ability to execute and alter trading strategies in real-time.



Neil Cresswell

"I think that is going to be the direction that we will be taking in the future. Packaging applications and infrastructures tools as a service to the broader financial services community."

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“Thus co-located data centers getting ultra-low latency connection to venues is the key value for HFT. Set up time and connectivity to multiple venues takes time. This is reduced through managed network services,” says Sankar.

FX trading firms which enlist providers of such services obtain the benefits of reduced infrastructure and investment costs, as a result of the shared infrastructure model. “This enables small and medium sized firms to reach the market quickly and offer some of the same features only the larger firms could provide at one point of time,” says Sankar.

Pay as you go – and grow

In addition to the rapid, low-cost deployment capabilities network managed services offer, users of FX market data on such platforms can narrowly refine their use. Savvis, for example, enables users to rent servers for time periods which can be an ongoing basis, for just for six months – or even by the hour.



“Clients can come to us and build a virtual solution for themselves. Grow into it and make it more permanent or just rent it and have it for a few days or week,” says Nick Brooks, product marketing director Europe Middle East and Africa (EMEA) at Savvis in Reading. Savvis is continually expanding the breadth of its network and will open a new data center in Frankfurt later this year.

“The established network we have means people can start up very quickly and not have to worry about potential cultural obstacles, such as language barriers if they are trading FX in another region. We have a presence in these markets and venues where people can trade,” says Brooks.

IPC Systems has a “pay-as-you-grow” model, in which the number of markets and currency pairs that a customer has access to increases in line with evolving needs of FX traders. “A trader’s strategy today may just involve currency pairs in the developed markets,

but at some point, currency pairs in emerging and frontier markets may also be targeted. As business requirements evolve, we can tailor access and services to meet changing needs through Connexus,” says Dibyendu Shekhar.

Tools and infrastructure applications

Added to the benefit of reduced hardware costs is the variety of tools and applications that managed network providers can offer to assist analysis of FX trading firms’ pricing, trading and post-trade data processing activities. For example, pre-trade tools include market data aggregation, research and analytics and cross derivatives pricing.

Trade tools include Financial Information exchange (FIX) and Application Programming Interface (API) connectivity to multi-dealer and single dealer platforms and other brokers while post-trade tools include STP, workflow, aggregation and confirmation matching solutions.

“We take clients from pre-trade, where they analyze that data and make decisions and then use algorithms and smart order routers to reformat that data, and take them to the venues in order to execute those decisions. We take clients from pre-trade to post-trade, underpinning best execution and adding to that on the post-trade services. And we sort out the payments using Radianz Messaging,” explains Foster of BT Radianz & Payments.

Corvil, a provider of unified application and network latency management systems, offers FX trading firms access to CorvilNet, a platform which offers latency analytics with visual latency navigators, focusing upon network analysis, market data and transactions. CorvilNet provides high-speed FX traders with tools to measure the latency of market data distribution, identify and prepare for potential bottlenecks in data and capture historical records of market data performance.



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Alan Schwartz

"We have a blended proactive approach. Customers need access to more bandwidth on a sporadic basis. But the ability to increase bandwidth on a trending basis is also important,"

Savvis, which provides its customers with service level agreements (SLAs) that guarantee latency performance, offers CorvilNet as a packaged service. Instead of taking out a separate contract with Corvil for the latency analytics service, customers can obtain CorvilNet as part of a bundled service from Savvis.

Cresswell highlights the benefits of such a "one-stop-shop" service, where customers obtain tools for measuring market data without having to purchase any additional software or hardware.

"More and more, as we build a financial community, people ask us if we can deploy applications and tools and CorvilNet was one of the first examples of this," says Cresswell of Savvis. "I think that is going to be the direction that we will be taking in the future. Packaging applications and infrastructures tools as a service to the broader financial services community."

Savvis has also formed a partnership with Thomson Reuters facilitating via its global data centre network the global deployment of Thomson Reuters Elektron Hosting, which spans a variety of markets including Frankfurt and Tokyo. The offering provides users with low-latency FX market data feeds and analytics,

along with a low-latency consolidated feed within a datacenter where a Savvis customer has a connection. Savvis expects to be involved in more ventures such as the tie-ups with Thomson Reuters and Corvil in the future, as demand to analyze the mushrooming levels of market data in FX markets increases.

Data in bursts

Rising market data volumes are also creating a burgeoning demand for greater levels of bandwidth in managed services solutions. Brooks of Savvis says the managed services provider provides its clients with "proactive bandwidth management", whereby its customers are warned if data bandwidth thresholds are in danger of being reached and upgrades required.

Services which provide hedge funds and bank proprietary trading firms with the capacity to manage surprisingly sharp spikes in volatility is of particular value in current market conditions as currency markets become unusually difficult to predict in ongoing debt crisis. Currency analysts point out that the intervention of governments around the world to weaken their currencies has at times spooked markets, making it more difficult for investors to find safe havens. Market rumours and emotive headlines on financial news services have led to sizeable swings in market volumes.

BT Global Services offers FX market participants its Saas+ service, which is designed to enable the performance of data services to withstand bursts in trading volumes. The managed network connectivity provider continually monitors levels of bandwidth use through the use of utilization reports and has mechanisms in place that trigger alarms when limits in use are approaching. "If you have any form of uncertainty in any market, there are lots of times when you have spikes in volatility and volume. When these occur, you need to be with a provider that can cope with exceptional conditions," says Foster.

"Bandwidth has gone through the roof and clients want to know that they can get it. More and more applications are bandwidth hungry," says Brooks of Savvis. "Many years ago we had 9.6KB speed. Now we have 64K and ethernet is a standard offering. We are running 10GB links everywhere. So the bandwidth has just grown exponentially in recent years – 10 MB has become the standard now."

TNS' Bandwidth Based Services (BBS) has "customized bursting capabilities", designed to




Global connectivity for the world's global asset class

The foreign exchange market is the largest, most liquid and most global financial market – trading around the clock and around the world. The BT Radianz Cloud is the world's largest financial services connectivity platform, with 24/7 customer service and access to the widest range of multi-bank and single-bank FX liquidity sources and market data services. It is the ideal connectivity platform for global foreign exchange trading.

More than 60 firms use the BT Radianz Cloud to provide clients with access to their FX services including market data, pre-trade analytics, single-bank trading, multi-bank portals, prime brokerage, risk analysis and customer management tools.

BT's specialised low-latency services include BT Radianz Priority which combines high-performance connectivity with fully-managed hosting facilities to offer the fastest access to trading venues around the world. BT Radianz Ultra provides low latency connectivity to market data, trade execution and trading partners in the financial world's major centres. BT Radianz Vendor Interconnect is a global low-latency fabric providing connectivity between financial centres.

The BT Radianz Cloud brings together a global financial services community of more than 15,000 locations. Through a single connection, customers can access hundreds of applications and services covering the entire trade cycle across all asset classes, from the trading floor to the back office. From market data and pre-trade messaging to clearing and settlement, BT delivers complete, cloud-based communications and connectivity solutions for financial services.



bt.com/radianz

enable its clients to handle rapid shifts in market data volumes, beyond typical volume rates. The BBS service is delivered through its Secure Trading Extranet (STE), which has been designed to ensure high levels of throughput to support direct market access, algorithmic trading, along with the provision of FX market data. BBS also has provisions to protect customers' connectivity to liquidity sources. "We have a blended proactive approach. Customers need access to more bandwidth on a sporadic basis. But the ability to increase bandwidth on a trending basis is also important," says Schwartz.

IPC empowers its clients to reduce operational risk, achieve best execution and drive efficiency by providing them with the capability to view bandwidth utilization, better manage, balance and increase performance throughout the network infrastructure and proactively plan capacity. Shekhar of IPC Systems says that bandwidth rates in Asia have increased significantly compared to Europe and North America partly due to the rapid growth in trading and central clearing of non-deliverable Asian FX forwards.

"Connexus provides FX traders with the scalability and flexibility required to generate alpha in today's rapidly changing FX markets," says Shekhar.



Nick Brooks

"Bandwidth has gone through the roof and clients want to know that they can get it. More and more applications are bandwidth hungry,"

Speed – and price – kills

The growing global reach of FX markets and increasing number of venues will make data costs rise substantially for buy side firms that choose to have their own primary and back up data centres located in each different jurisdiction. Buy side firms that switch from obtaining their FX market data feeds at a private data centre to enlisting the services of a managed network connectivity provider – which can pump a variety of data feeds across a global web of co-location sites – can significantly reduce data costs. The managed network connectivity providers with the largest global reach and established financial community hubs are best placed to use such economies of scale to reduce the FX data costs of their customer base, providing speedy data services.

FX's unique place as an asset class whose active venues follow the rising and falling sun makes the proposition offered by managed network connectivity providers with a global reach all the more compelling. Having the capacity to interconnect data feeds across different trading hubs is a vital service for FX trading firms deploying increasingly sophisticated strategies, which are more frequently being linked with different asset classes.

Foster of BT Radianz & Payments emphasises that the architecture the managed services provider has in place is highly attuned to FX firms need for high-speed data services, which can migrate to the highest concentrations of liquidity. Such services enable FX firms to use the data to instantly assess the risk and return exposure latent within myriad FX transactions. "We pick some of the key market centres and we put points-of-presence there to really start linking up those specialist centres so you have optimal movement within and across the data centres around the world. This optimises speed and decision-making and processing time," she says.

The focus of managed network connectivity providers in providing the necessary headroom to cope with spikes in trading volumes is also an increasingly valuable service in FX markets exposed to the volatile aftershocks of the latest events that take place in a seemingly perpetual global debt crisis. Events such as those stemming from Greece's efforts to restructure its debts can result in rapid changes in FX prices and generate high volumes of data traffic that require the most resilient levels of bandwidth to cope. The biggest – and strongest – look best placed to survive and prosper in a world where FX trading firms' need for data appears insatiable.

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Unified Messaging: helping to extend FX trading platforms beyond the enterprise



Joe Morgan

Joe Morgan examines how a new generation of middleware messaging architectures can now be leveraged to help platform developers overcome many of the difficulties in moving real-time FX data across multiple delivery channels.

In an age where technological advances are being driven forward at an increasingly breakneck pace, FX single dealer platforms (SDPs) have emerged as hubs of innovation, feeding data and trade execution services across a growing variety of channels. This is placing growing demands on a new generation of unified messaging middleware to provide real-time FX

data across different web applications, mobile trading devices and mission critical systems.

Tom Hayhurst, chief technology officer at Catena Technologies, a boutique trading technology consultancy based in Singapore, says the complex technological challenges facing those building the architecture for FX SDPs today in part have their genesis a decade ago with the transition from telephone-based trading to electronic and automated dealing. "Ten years ago, we started to see platforms which were phone trading for FX moving online to create much more automated and efficient dealing, working on volume," he says.

Connectivity

An FX trading landscape with liquidity fragmenting across various bank-owned platforms and electronic communication networks (ECNs) has also made SDPs face up to more complex connectivity requirements. As FX markets become more interconnected and advance towards increasingly high levels of automation, SDPs have to connect to a growing number of FX trading venues.

Furthermore, the current financial crisis and regulatory reforms have heightened the pressure on SDPs to be able to provide clients with real-time risk metrics and updates on margin rates and positioning information. Added to these trading and risk management requirements, SDPs have also had to incorporate online communication tools that have become increasingly ubiquitous among FX market participants.

Paul Brant, chief executive officer (CEO) of my-Channels, a specialist in real-time messaging data that provides streaming services for four of the top eight global FX e-platforms, says technological innovation has significantly reduced the “human latency”, inherent when disparate systems within an SDP are linked together. “There is a growing recognition within the FX industry that banks require an ultra low-latency unified messaging solution from which they can build out an SDP that encompasses enterprise, web and mobile,” says Brant.

Community of interests

There is a community of interests [around an SDP],” says Shawn McAllister, chief technology officer at Solace Systems, a provider of middleware appliances based in Ottawa. “Why is Facebook so popular? One reason is that it has been able to capture a widespread community. If you create that type of community, it will attract people to that source information and lead them to trade.”

“Single dealer platforms now offer quite a rich user experience. You can have information such as FX quotes or market news pushed your way based on the currency that you are looking at. Traders are using SDP chat rooms to exchange trading ideas and rumours,” he adds.

“While a lot of SDPs right now seem focused on FX trading, one of the important considerations in what defines an SDP is also its ability to provide a single touchpoint to clients trading a variety of products,” says Hayhurst of Catena Technologies.

Hayhurst points to Deutsche Bank Autobahn, which allows users to trade across a variety of asset classes, along with providing access to analytics, research, and transaction banking services. Deutsche Bank first launched Autobahn FX as an FX trading platform in 1999, which offered users real-time data externally via the internet also using my-Channels Nirvana, delivered across enterprise, web and mobile platforms.

Bob Giffords, an independent banking and technology analyst based in the UK, points out that banks capacity for increasing revenue streams can be enhanced by developing more connectivity channels. He contrasts the relatively large fixed-costs of setting up and running services with the unit costs of delivery, resulting in large economies of scale when the range of delivery channels are increased.

“We are seeing rapid articulation on the distribution channel side to access new customer segments,



Paul Brant

“There is a growing recognition within the FX industry that banks require an ultra low-latency unified messaging solution from which they can build out an SDP that encompasses enterprise, web and mobile,”

different access technologies, including internet, mobile, extranet, agents and markets or different geographies,” says Giffords. “There are also a growing range of supply chain partners to simplify the process often on a pay-by-use basis to share the set up costs and reduce time-to-market. The banks are buying such services to expand their distribution networks. Connectivity is increasingly important.”

Morgan Stanley for example launched its Matrix SDP in 2009, which provides its clients trade ideas, historical data, pricing information, charting functions, market commentary and trading applications that 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.

Increase in channels

Eddie McDaid, chief operating officer (COO) of my-Channels in London says that in the current fast-moving markets where new products are being continually launched, the “one guarantee” is that the variety of channels delivering data within an SDP will increase. “A technology solution such as Nirvana that abstracts delivery channels and platforms, along with their specific nuances, from the point of entry through to the end customer can be of an immense benefit,” he says.



Tom Hayhurst

"If you have three different messaging platforms then you are going to have to choose between them at some point which is never good for latency,"

McAllister of Solace Systems says SDPs have now become centrally focused upon reaching out to a wide variety of different channels. "In the past, those who were operating SDPs needed to use different technologies for these different channels. This created a lot of complexity within the architecture. Each channel had to be glued into the existing trading backbone. A bank had to figure out how to make these channels resilient, secure and perform well. Every channel created a new technology challenge," he says.

McAllister identifies four delivery channels within an SDP: Client-side desktops (traditional trading consoles), browsers (using technologies such as Microsoft Silverlight and Adobe Flash), handheld mobile devices (smartphones and tablets) and programmatic interfaces (for electronic and algorithmic trading systems).

"We provide a unified messaging appliance that can give access to all those different channels whether it is streaming quotes or managing order flow – the appropriate traffic through the appropriate delivery channels," says McAllister.

Brant at my-Channels says "We take a broad view of how a delivery channel should be defined. We break it into three broad styles of messaging – ultra low-latency, enterprise and last mile, which includes web and mobile. A unified messaging platform is one which can simultaneously service all three of these messaging styles. Ideally, as is the case with

our product Nirvana, this should be achieved using a common set of APIs which are available across all of the commonly used programming languages."

Solace Systems provides its messaging middleware solutions to a variety of leading investment banks including Barclays Capital, which in 2009 integrated its enterprise-wide, high-speed messaging system. Barclays Capital uses Solace 3260 Content Routers to integrate applications spanning the front, middle and back office. The consolidation of Barclays Capital's messaging requirements is designed to simplify its IT infrastructure while obtaining cost-savings on development, data centre and back office support functions.

Investment banks have typically operated using three different messaging systems: Quote distribution, which have traditionally been multicast based to meet requirements for low-latency and high-rate messaging distribution. Persistent Messaging for order flow, which have typically been broker-based, along with Web Streaming, which can consist of HTTP gateways.

Operational challenges

McAllister identifies a series of operational challenges, including provisioning, monitoring, troubleshooting and capacity planning, which have to be developed separately when multiple messaging systems are used to achieve the same range of functionality. He points



Bob Giffords

"We are seeing rapid articulation on the distribution channel side to access new customer segments, different access technologies, including internet, mobile, extranet, agents and markets or different geographies,"



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out that different aspects of the infrastructure – such as the difference in high availability architectures, security and monitoring – increases the complexity of the system since each system usually has its own messaging protocol.

He argues that once a system is built, the myriad integration points could also become potential points of failure, and so must allow as much throughput and resilience as the messaging or streaming systems it connects to. Varying levels of latency – with internet streaming products operating in milliseconds while financial applications run on microseconds – can also cause potential hazards.

McDaid of my-Channels argues that one of the key benefits of unified messaging is having the ability to bring the performance levels demanded in the “ultra-low latency and enterprise messaging spaces to the last mile”, which encompasses both web-based and mobile devices.

Scalability can also be a challenge in some cases. For example, if Streaming Text Oriented Message Protocol (STOMP) or a similar protocol is used to communicate to the RIAs and each STOMP connection to a GUI is mapped to a JMS or other connection into the internal messaging system, the internal messaging system will also have to scale along with the number of external internet clients.

Benefits of a single system

Hayhurst of Catena Technologies highlights the cost-savings and efficiencies that can be achieved when a bank migrates to a single messaging system. “Having one system, rather than three, removes the risk of one going down, which can have a knock-on effect of bringing everything down. Having everything in one place on a single architecture also brings a lot more flexibility and simplicity,” he says.

McAllister says that a unified messaging system that controls internal messaging and web streaming typically has the capability to offer messaging services to the application developer while improving levels of scalability by consolidating connectivity, capacity planning, high availability and redundancy into a single system.

“When you have a single platform which can service all of your platform components in a simple, efficient and cost effective manner, the task of building and running an SDP is greatly simplified,” says Brant of my-Channels.

Hayhurst points out that latency can be reduced, when an SDP migrates from three messaging systems to a single system by getting rid of the integration points between different messaging platforms. “If you have three different messaging platforms then you are going to have to choose between them at some point which is never good for latency,” he says. “There are more moving parts. You do not just have to keep your messaging systems up but you also need all your bridges working and there is the risk that the whole thing stops working [in the event of a failure of one messaging system].”



Low latency architectures

McDaid argues that as more SDPs are launched in the FX market, demands for low-latency messaging architecture – which in the past had been the preserve of those involved in high frequency trading and the use of algorithms – has become more of a concern among the mainstream of FX market participants.

However, Hayhurst of Catena Technologies argues that “ultra-low latency” is not of vital importance for SDPs, with latency requirements for bank corporate customers currently standing at milliseconds, rather than the microsecond-speeds of “bleeding edge” technology in equities. Nevertheless, the increasing demands placed on SDPs to distribute liquidity from a variety of different sources and consolidate pricing information into a single market view is making the capacity to facilitate low-latency messaging middleware more important.

As evidence of the growing importance of latency in messaging middleware technology, Solace Systems has created purpose-built hardware, based on Field-programmable gate array, (FPGA) to build its unified messaging platform. The SDP platforms can integrate directly with Solace’s hardware-based low-latency market data distribution message appliance technology to distribute decoded market data to a variety of trading applications.



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“Because we have a hardware-based solution, latency is very low and consistent. Hardware excels at managing very high connection counts and data rates,” says McAllister of Solace Systems.

However, Brant highlights the flexibility of my-Channels’s rival software appliance, arguing that some “customized” hardware solutions can sometimes quickly become obsolete, given the current rapid rate of technology deployment. “Nirvana provides a feature rich suite of functionality with the added flexibility that comes by running as software appliance rather than ‘customized’ hardware.” says Brant.

Whether delivered through a hardware or software-based solution, having the capacity to facilitate low-latency messaging enables an SDP to meet the differing requirements of its customer base. Smaller corporate clients may execute trades using an online interface provided by the bank while large corporations can require APIs to facilitate integration with their treasury systems. While most large corporations will not require services that facilitate high-speed trading, some customers may execute orders using algorithms and require services such as real-time quotes and internet data streaming.

Catering for a diverse user base

“SDPs cater to a wide range of users – some are traders aiming to turn a profit, but you also have corporate participants who need to buy FX futures or do currency swaps to hedge their currency exposures. For example,



Eddie McDaid

“We make it easier to implement systems. To recover messages. To monitor flows of data and to follow audit trails within the system.”



Shawn McAllister

“We provide a unified messaging appliance that can give access to all those different channels whether it is streaming quotes or managing order flow – the appropriate traffic through the appropriate delivery channels,”

sales may be in one currency and expenses in a different currency leading firms to use SDPs for hedging against risk,” says McAllister of Solace Systems.

McDaid of my-Channels emphasises that a unified messaging system is a facilitator, rather than a tool specifically designed for complying with regulations. But he argues that the capabilities latent within unified messaging technologies will become an increasingly important part of the fabric within SDPs for complying with more stringent regulations on risk exposure. “We make it easier to implement systems. To recover messages. To monitor flows of data and to follow audit trails within the system. Unified messaging is providing the mechanism by which you can plug in the different components that allow you to comply with regulations,” says McDaid.

As the complexity and variety of applications used within SDPs increases, the value proposition offered by unified messaging providers looks set to become all the more compelling. Mushrooming data volumes and the increasing importance of fast and efficient delivery of information and trading systems to web-based and handheld devices makes it vitally important for banks to have a messaging system which embodies simplicity and flexibility. The capacity of a unified messaging middleware platform to interconnect different communication channels and cope with the peculiarities within different systems could make it become the solution of choice for SDPs in the FX market.

Banks and brokerages to benefit from Gold-i enhancements



Tom Higgins

Latest developments from Gold-i, a global market leader in trading systems integration, ensure that its flagship product, the Gold-i Gate Bridge, remains at the forefront of the trading technology industry. Tom Higgins, Gold-i's CEO explains the key features and benefits of Gold-i's latest upgrade, Version 258.

Benefits of Version 258

The Gold-i Gate Bridge is a super low latency smart routing product which enables brokers to connect to external liquidity providers in the most effective and cost efficient manner. Version 258, the latest upgrade to our Bridge, provides brokers with better risk management controls, access to additional liquidity providers, and enhancements in terms of automated monitoring and spreading features. The features have all been developed in response to requests from brokers to help them to trade more effectively.

Stronger Controls

Up until now, brokers have had to re-start the system when clients are B-Booked or A-Booked. Our latest upgrade provides the ability to dynamically change which clients or groups are B-Booked or A-Booked without the broker having to re-start the trading system or change the client group. It provides brokers with better risk management and profitability. Another enhancement relates to accessing the system. Previously, if a client wished a broker to place a deal on their behalf, the broker would need to log in as the client, using the client's login/password. With Version 258, brokers can log in as a 'super user' and book trades directly in the market using the Manager Terminal. Client privacy is maintained as the broker does not need to know the client password.

Enhanced Automated Monitoring

There are two key improvements in terms of automated monitoring. Firstly, the server disk space and memory usage are automatically monitored in order to maintain optimum operational efficiency. Secondly, brokers will be sent an automatic alert if a Liquidity Provider stops streaming quotes.

New Spreading Features

In response to client requests we have developed a new graphical interface to control all Gold-i Gate Bridge and MetaTrader4 spreading features. We have also created an additional option to 'tilt' the spreads dynamically. This makes it far easier for brokers and their IBs to dynamically control the spreads that they offer their clients.

Additional Liquidity Providers

Gold-i recently launched the technology to transform MetaTrader into a multi-asset trading platform, extending the capabilities of MetaTrader beyond simple FX and OTC products to trading across all asset classes. Through Version 258 we can offer multi-asset liquidity from Ffastfill and LMAX. We have also added FX liquidity from First Derivatives and updated our partnership with CFH to support a 'true limit' mode, eliminating slippage on limit and stop pending order execution. Gold-i now has 27 liquidity partners including banks, ECNs and brokers. We have more liquidity providers than any other MetaTrader integrator and believe this reinforces our position as a leader in our field.

Future Gold-i Developments

We will be launching a smart routing risk management tool in the summer. This Complex Event Processor will provide a much more holistic view of a broker's risks, responding to more advanced rules and risk monitors. We will also be launching a Multi MetaTrader4 Monitoring System, aimed at larger clients who have multiple MetaTrader servers.

Version 258 is now available from Gold-i. For further information, visit www.gold-i.com or telephone +44 (0) 1483 685410.



FX Mythbusters:

Defending the value proposition of Single-Dealer Platforms

Patrick Myles, Chief Technology Officer at Caplin Systems answers some questions on the subject of Single Dealer Platforms.

We are uncertain about whether to go down the multi-dealer or SDP route. Does any recent research indicate whether global trends in FX (particularly with respect to Forwards and Swaps) are favouring one against the other as the buy-side continues to adopt e-trading channels?

It really depends who your clients are and where they trade. FX trading data from the Bank of England show that between April and October 2011 there was a marked decline in volume traded on MDPs by both the buy side and downstream banks. You also need to consider that trades on SDPs are typically more profitable than those on MDPs.

We are unclear about the overall benefits of channelling flow through a SDP rather than a MDP. Relationships and adding value for clients are certainly important but isn't pricing equally vital for most FX providers like us?

Our customers have often found that trading on their SDP saved the commission costs of an MDP, so they were able to offer a better price to their clients and increase their own margins. Add that to the relationship benefits and the case for an SDP can quickly become compelling.

As a bank operating a number of asset silo platforms we can see the benefits of achieving a unified and coherent point of contact with our customers by utilising a SDP but the legacy technology and internal political hurdles facing us will surely make this undertaking very difficult?

A well-designed SDP will normalise the data from a wide variety of sources and present it in a unified form to the front-end, returning trade data to the appropriate system, using a middle layer to keep the systems separate and the front-ends abstracted from the sources of data. One of our clients has connected their SDP to more than 80 internal systems, and a key enabler in doing this has been utilising a framework and set of common services that can interface to these systems without requiring possibly politically sensitive architectural integration of those systems.

Most firms have a head of e-Commerce for at least FICC who is above the silo-specific politics and who is empowered to implement systems that improve revenues and client relationships while reducing costs.

What options are available to us for creating a SDP and wouldn't it be cheaper to build it from scratch rather than use an existing SDP framework?

There are fundamentally three options for creating an SDP:

First is to simply white-label a private page on an MDP or a generic liquidity service. These are typically inflexible, hard for you to include your research or analysis, and single asset-class. Time to market is short though.

Second is to build your SDP from scratch. You can build anything you like using any technology you choose, but it will take time and money. You'll be creating supporting infrastructure and services that don't add any value – every SDP has to be able to provide crossing, spreading, tiering, alerting, throttling, conflation, single-sign on, load balancing, flow control, list management, searching and sorting and a whole lot more. Building all of that is expensive and doesn't generate any greater margin or win and retain customers.

Third is to use an existing SDP framework. This can provide most of that infrastructure and those services without limiting what functions you can offer or restrict the flexibility of your UX. It allows you to focus on delivering your market differentiation without having to implement the same underlying infrastructure that everyone else's SDP also has. Furthermore, a good SDP framework will have been designed to both integrate easily with existing e-trading systems and also enable you to rapidly add new trade workflows, new products and new asset classes – something that a built-from-scratch SDP often falls down on.

Does it really matter what technology infrastructure we choose for building our full service SDP because don't all underlying frameworks nowadays do the roughly the same job?

SDPs require infrastructure that integrates with multiple pricing, trading, risk, back-office, audit and other systems, usually with a mixture of old and new technologies. Most approaches to integrating these are built around an ESB (enterprise service bus) or SOA (service-oriented) architecture and some generic messaging middleware, with frameworks that do not provide any domain-specific capabilities.

A good SDP framework will not only provide useful domain models and abstractions, but also provide many common trading-specific services, particularly around data integration and processing. This decouples underlying trading systems from the

shared services and delivery/front-end technologies. Trends in these areas move at different speeds and using a framework that decouples them allows new delivery methods (such as mobile trading) to be easily added and technology migrations (such as from Adobe Flash/Flex to HTML5) to be accommodated without a total front-to-back re-implementation.

If we decide to implement one specific SDP framework for our FX trading requirements aren't we going to have a problem extending it to other instrument classes which we may wish to deploy over the next few years?

Flexibility to add further asset classes is one of the major reasons why choosing an SDP framework is a good idea. MDPs that offer private pages are generally asset class specific.

Building an SDP from scratch almost inevitably means building it for one asset class (usually FX) then trying to extend it to other classes later. Requirements of scalability, performance, trade work flow and messaging for other asset classes usually haven't been included in the first design because of time and funding constraints. In our experience banks that have done this end up building multiple separate, poorly integrated SDPs, or starting all over again.

If you have several years, and tens of millions of dollars to spend, then you can afford to do this. You wouldn't

Patrick Myles



be the first. But if you want to get to market with one asset class quickly, and then add additional asset classes that re-use the same underlying infrastructure, an SDP framework is the only sensible way to go.

Although we appreciate that User Experience (UX) really matters with SDPs we have so many different types of client groups it's surely going to be impossible designing a platform that will appeal to all of them?

The platform is separate from, although clearly closely connected to, the client-facing application. A well designed platform can support different client-facing applications that serve as many client groups as you need. The client-facing application, whether locally installed or running in a Web browser, should be designed to meet the requirements of its specific client group. This can readily be done on top of a single, performant, unified platform.

In fact using a well-architected UX framework allows many of the UI components to be reused across different UX deliveries. HTML5 allows significant re-use onto mobile platforms, something an SDP built as an installed desktop application or using Flex/Silverlight is not able to provide.

SDPs are ultimately built for clients so why would we need to worry too much about enriching the platform for our own internal sales traders?

If your SDP has been well designed with a suitable architecture then giving each of your user groups exactly what they need, whether they're external clients or internal sales traders, is readily achievable.

What convincing arguments would support the view that SDPs will become more important as new regulatory changes unfold and are best positioned to provide routing through to SEFs?

A detailed answer to this question alone could fill a whole article, but in summary, banks will want to maintain their client relationship and offer supporting services such as margin and collateral management and clearing. So rather than not offer a price, banks will offer a mixture of both risk and agency prices,

possibly even for the same instrument, and route the trade appropriately.

We are a buy-side firm concerned about Best Execution. Doesn't this make the case for using a MDP more compelling?

Best Execution is about more than price: Certainty of execution, availability of pre-trade information and efficiency of operation have all been cited as important factors in the choice of trading venue. And in FX the price across the market for the major currency pairs is so widely known that multiple price quotes may not be necessary at all.

The internet is the natural communication medium for SDPs so presumably these platforms will always be constrained by the underlying latency and predictability of this public network?

Any network has an ultimate physical limit on the speed with which a message can be transmitted. SDPs are primarily designed for human rather than machine interaction; a human takes 300-400 milliseconds to blink and 200-300ms to react. That is greater than the average round-trip latency for a message on one of our clients' internet-connected SDPs, even across the Atlantic.

Furthermore the internet is self-healing and resilient, which may not be true of private networks. The increasing performance, reliability and resilience of the public internet over the past few years have enabled the increasing deployment and adoption of SDPs.

Technology is always evolving. How can we make sure that our investment in an SDP platform would ensure that we can continue to deliver a compelling offering whilst also defending our franchise against competitors?

Choose a good, well-designed SDP framework that provides a layered architecture. Being able to rapidly add new products and services, and quickly take advantage of technology trends, is key to remaining future-proof. Using an SDP framework that supports these emerging requirements and also provides many of the services and building blocks needed ensures that the investments made are in the value-added UX, services and underlying trading capabilities rather than infrastructure.



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David Hastings



e-Forex talks with **David Hastings**, CEO of Boston Prime, an innovative liquidity connector which provides institutional-grade liquidity for FX market participants.

Boston Prime:

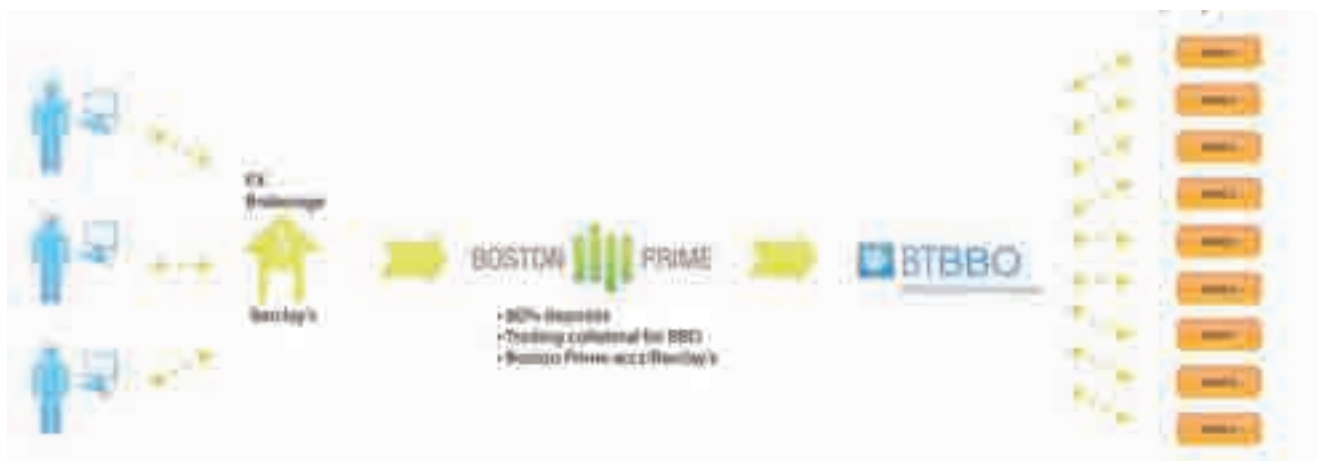
bringing innovation to liquidity connectivity

David, what are the main liquidity problems facing FX brokerages and why is Prime Brokerage proving an increasingly popular option for many of them?

Quality liquidity is a complex item. To decide on liquidity one has to take into account spreads, but also fill ratio, available volumes, execution in low-liquidity market conditions, execution speed, slippage and other criteria. For an FX broker to have access to good quality liquidity it has to partner with a quality prime broker and liquidity provider. The problem is that many brokers are limited with the liquidity they can access – this is for a few reasons. First, many brokerages are limited with their access to liquidity providers because of their small size and lack of trading history. Secondly, customers have increased their need for aggressive terms and increased ticket volumes which can translate to elevated risk for liquidity providers. And finally, there are often imposed deposit and trade minimums which can be limiting to small brokers. By partnering with a prime broker like Boston Prime nearly any institution can have access to the best liquidity in the world through our relationships with the top liquidity providers (banks, hedge funds and other market maker) with minimal margin requirements and with few limitations—its liquidity accessibility at its best for FX brokerages.

In what ways have you developed solutions to address these issues and how would you summarise the key value propositions of the company for customers looking to work with the business intelligence specialists at Boston Prime?

Boston Prime is proud to be a global pioneer in liquidity solutions. We are dedicated to providing access to the best possible liquidity. We have exceptional spreads on the majors and unheard of spreads on the minors (1.4 pips on GBPJPY for example). We have an outstanding execution ratio, 99.97% for 12/31/11, and we allow customers to trade any trade size between 1000 currency units and 10 million. And we continue to offer 100:1 leverage as a standard offering. All of this translates into larger revenues and high client retention for our customers. Our goal is to always find ways to help forex brokers earn more and worry less. Additionally, with our recent FSA authorisation we are now able to expand our offering to FX market participants who were previously unable to access institutional liquidity from a regulated firm at competitive rates. Forex brokers can now feel confident that no matter how small or new to the industry, they have access to excellent trading conditions through Boston Prime's total solution including customizable liquidity streams, liquidity bridges, FIX API access and real-time price



aggregation along with an array of reporting and automated risk management tools.

Boston Prime has a strategic partnership with Boston Technologies who provide your Best Bid Best Offer (BBO) system. How does this aggregation technology work?

Our innovative Best Bid Best Offer (BBO) technology provides access to institutional class liquidity with possibly the tightest spreads available in the market. The BBO Price Feed takes the best bid and offer from nine of the world's top-tier liquidity providers and aggregates the best prices into a single real-time stream for every transaction. Our customers have the confidence knowing they are receiving the best possible available price with the benefit of depth of market along with the flexibility of customization based on their needs.

Who are your main liquidity providers?

We have chosen to partner with non classical professional market participants and top tier ecommerce liquidity providers that offer powerful liquidity to our clients.

How customisable is your back-office system and what applications can be configured with it?

We are able to customize our back office to truly match our customer's needs. And if it doesn't currently exist – we will build it. From customized on-line reporting and accounts analysis to system monitoring services and trade statistics. Boston Prime's back office is designed to be a total MT4 management solution and is fully integrated with the MT4 platform, the liquidity bridge and pulls all real-time customer and trade information into one database which currently manages more than 10,000,000 transactions a month.

Boston Prime recently received FSA authorisation. How important has regulatory oversight like this become for customers?

Trading with a regulated prime broker is critical, amid the volatility and uncertainty of today's financial markets. Customers need to feel confident that they are working with a prime brokerage partner that is subject to regulatory financial standards such as minimum capital requirements, as well as conduct of business requirements and oversight from an experienced regulator. Additionally, the FSA Register is an online public record of all the firms, individuals and bodies that they regulate which ensures transparency of business practices and gives customers the ability to choose a firm who will treat them fairly and judiciously. Finally, customers of FSA-authorised firms benefit from a trusted and sensible framework for resolving any disputes that may arise.

The company was previously called BT Prime. Why did you recently decide to change the name?

We felt there was a need to move away from any reference to BT to minimize confusion with other UK organisations. We in turn decided to pay homage to where the organization was born and change the name to Boston Prime.

Last year you exceeded many of your expectations with respect to volume and business growth. What goals have you set yourself to achieve with the Boston Prime during 2012?

Building from our phenomenal volume in 2011, we are committed to substantial growth in 2012 delivering quality liquidity to customers who value a partnership with an FSA regulated prime broker. We are also dedicated to improving upon our already-exceptional execution and fill ratios to our customers. And we are devoted to continued development of our robust real-time reporting; liquidity providers gain the opportunity to deliver compelling pricing to our customers and our customers gain insight on how our network of liquidity providers drive profitability in to their FX business.

CoreVG - helping to amplify market making profits.



Varengold, the German investment bank, has recently launched an enhanced flow and risk management tool - CoreVG for brokers that enables them to amplify and leverage their market making profits. The company's CEO Yasin Sebastian Qureshi, tells e-Forex more about this product and the growth of the firms institutional offerings.

manage, multiply and leverage profitable client order flows and automatically execute upon them. Four years ago we expanded our brokerage business and were one of the first within Germany to offer FX trading via MetaTrader 4 to clients. With our background as a systematic CTA we put great emphasis on Risk Management and automation, with a strong focus on Research and Development. An early major project was to evaluate the different trading accounts and use them as qualified trade signals and this was the moment of birth for CoreVG. We quickly noticed the high demand within the FX broker industry for this software solution, especially as our tools' robustness, usability and transparency is of great advantage. In essence brokers are able to amplify their market making revenues by using profitable client orders and execute multiples of it at the market.

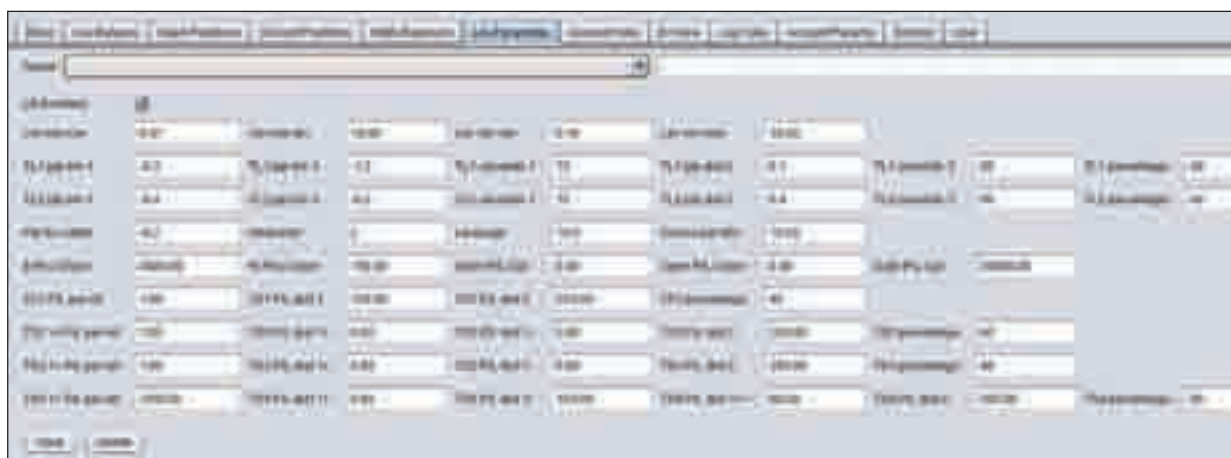
What does the tool actually do and how does it work?

Depending on different parameters the CoreVG evaluates the complete order flow of a broker. The flow is divided by different data sources with the tool looking at past and real-time transactions to calculate the profitability level of the source (client's order flow). Depending on the individual risk limits and parameter settings, the CoreVG has a direct gateway to a multi liquidity bank platform to execute the trades. The selection process, trading action, position monitoring and all the Risk Management is fully automated.

Why did Varengold decide to launch CoreVG?

The advantage of our proprietary Risk Management tool is that it allows brokers to identify, select,

PRODUCT REVIEW



The screenshot displays the CoreVG trading platform interface. It features a top menu bar with options like 'File', 'Edit', 'View', 'Tools', 'Help', 'About', 'Exit', 'Log Out', 'Connect', 'Disconnect', 'Test', and 'Quit'. Below the menu is a search bar. The main area is a large table with numerous columns, including 'Order ID', 'Order Type', 'Order Price', 'Order Size', 'Order Status', 'Order Time', 'Order Date', 'Order Timezone', 'Order Price', 'Order Size', 'Order Status', 'Order Time', 'Order Date', 'Order Timezone', 'Order Price', 'Order Size', 'Order Status', 'Order Time', 'Order Date', 'Order Timezone'. The table contains many rows of data, with some rows highlighted in red.

What are the key features of CoreVG and what makes its functionality so unique?

A broker knows what value his order flow has. In general the achievement of CoreVG is to maximize the supply chain, with the big advantage that the user can define his specific risk factors.

Key to our trading engine is a setting of individual trading parameters per client/order/market such as leverage multiples, stop and limit management on time, price, trailing stops etc.

Certainly risk levels can be set on a per client basis as well as market, exposure and portfolio level. Our systematic background is the foundation of this robust trading tool with outstanding latency times and an excellent usability. The tool can demonstrably generate a consistent return without any human intervention. CoreVG is additionally far removed from black-box trading in that it enables the user to influence the order flow methodology and to switch off specific sources or experts as well as specific execution rules.

Can all brokers benefit from this application or is it aimed at specific FX providers utilising specific trading platforms?

CoreVG is primarily available for MT4 brokers. But in general the architecture of the software is adaptive to changing market and client behaviour. This is a prerequisite for every in-house development at Varengold. We can then use this advantage and are able to implement the software in other trading environments. But as a first step our service will be offered to MT4 brokers. There, the system is successfully tested and quickly integrated.

How easy is it to integrate CoreVG into existing trading architectures?

We developed the software for MT4 brokers. Setting up and connecting the database with the CoreVG and MT4 components of the broker is the most time-consuming part. The integration of the gateway and the trading station is a standard process. Altogether I would expect a three, month period, training included.

What benefits will brokers get from utilising CoreVG?

The main benefit is that this tool gives a broker a new revenue centre in their business. Besides commission or market making this tool is a new source for profits. Every broker's flow has many hidden opportunities and the CoreVG enhanced flow and risk management tool can make them visible and profitable.

What licensing model will you use to make CoreVG available?

We had a rather long development time to get CoreVG running. It was quite a challenge to gather all the information the system needs to get the relevant database. But ultimately, drawing on our 16 plus years of CTA background, we were successful. For our all-in-one solution we will charge the client a setup fee and further a monthly license fee plus a profit related performance fee.

Is Varengold planning on developing similar trading toolsets for other applications?

Research and Development is the very important backbone of our bank. However the goal and the output of our research projects are not to develop

remuneration settlement. We can react fast to special requests and in that way our partners benefit from our tailor-made solutions. They have access to the entire infrastructure of a German investment bank. The personal support and assistance through our employees is also a fundamental advantage for our partners. We are interested in developing our partners business to create a strong and successful partnership.

What other co-operation and affiliate programs have you made available for firms who may be interested in working with Varengold?

toolsets for the public or other brokers. The CoreVG is an exception because we weren't able to refuse the requests and inquiries anymore. One of our current promising projects in R&D is a multi-asset bridge for FX, CFDs, Commodities and Futures.

Why are increasing numbers of companies around the world looking to develop business partnerships with Varengold and what do they like about doing business with you?

Varengold is a fully regulated and licensed German investment bank and this stands for security and reliability. These facts are very important in a partnership. We see our clients and introducing brokers not as cash cows, but as partners for a long-term relationship. Listening and understanding are the main characteristics in our operation and the base to building up a great partnership. For every partner we will find the right solution to strengthen their business. The aforementioned points in combination with a brilliant execution, tight spreads and a good remuneration structure is what our partners like about Varengold.

What are the advantages of becoming one of Varengold's Introducing Brokers?

Our partner Introducing Brokers, can choose between various commission models and deciding which is the best one for their business and their clients. Varengold guarantees transparency and clarity in the

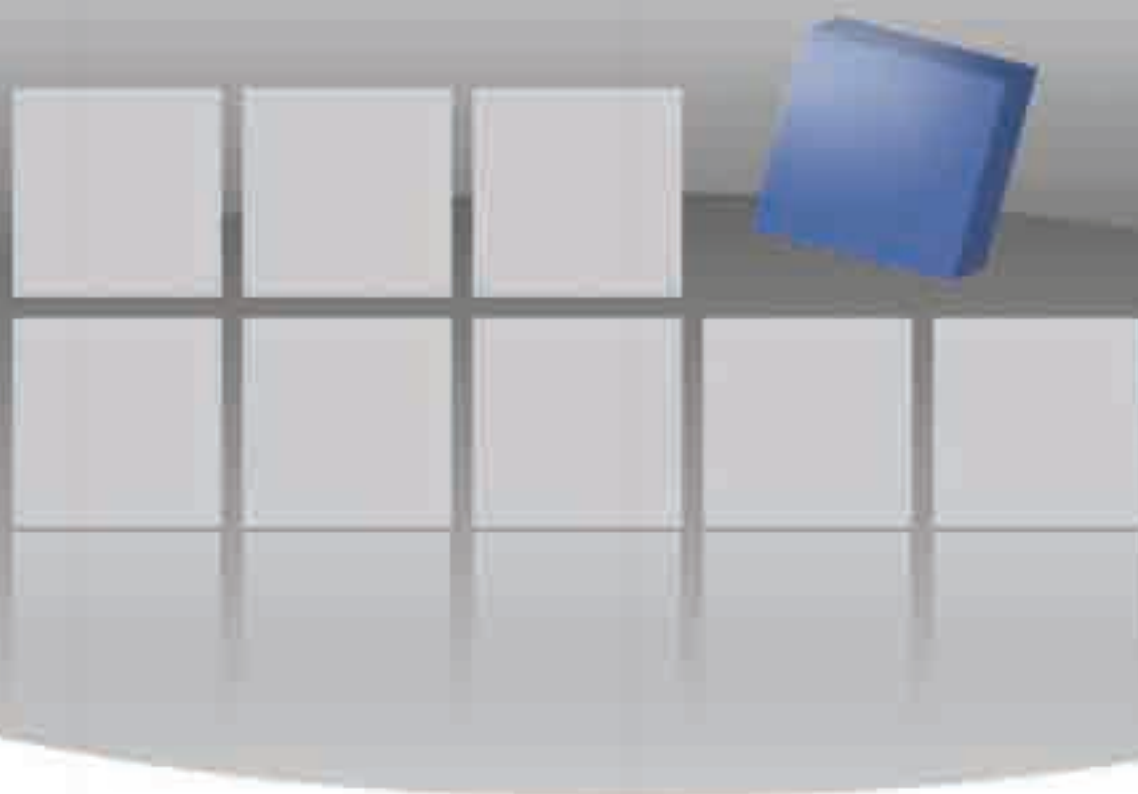
We offer an affiliate program which has several benefits for our partners like attractive commissions, boost of the partners' website thanks to the strong Varengold brand, a large selection of promotional tools e.g. banners, logos etc., extensive affiliate support and personal support.

Moreover we offer a prime brokerage service which grants our partner a 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. Our white label solution offers an off-the-shelf solution for online brokers and banks to integrate forex trading into their product portfolios.

What steps will you take over the next year to increase Varengold Bank's FX footprint and further develop your business presence and trading activities around the world?

The FX market changes continuously and we are facing new challenges almost daily but our expertise and knowledge allows us to find individual solutions. This is one of the core strengths of Varengold bank. Furthermore we are developing our business and offers.

Stagnancy is not a word we recognize. Our innovative power constantly brings new products to FX brokers and traders, which make Varengold indispensable within the market.



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White Labelling

taking the fast track to capturing
new business opportunities in FX

Jan Bak, Head of Institutional Business at Saxo Bank, remarks: "A White Label solution is a fast track, efficient and ready-made business solution to generate new revenue opportunities that at the same time addresses resource constraints in IT budgets, staff and marketing. In today's financial market environment, I see a lot more interest in White Label solutions. What works for banks and brokerage firms is a White Label solution that is quick to market, fully supported and represents a complete package."

On what factors should influence an institutions' or brokers' choice of White Label solution provider, particularly now, given the current tough market conditions, Bak comments: "In tough market conditions you are looking for a strong market partner. We are a bank, and as the financial industry has come under a lot of scrutiny in the last few years, we find it important to highlight that being a bank we are a regulated entity and an institution that undergoes inspections on a regular basis. That should not be underestimated when an institutional investor is thinking about choosing Saxo Bank's White Label solution."

Proven track record

Gerard Melia, Institutional sales at IG Group, says firms should seek out White Label providers who have a proven track record in delivering White Label solutions. "These providers are more likely to have the infrastructure and the know-how to deliver results and ensure a smooth on-boarding process," he comments. "Almost all forms of White Labels require some amount of bespoke development or system tweaks, so firms should access the IT capabilities of the White Label provider, as well as the number and quality of White Labels it already has in its portfolio."

Besides a healthy balance sheet, the trading platform, products and pricing, as well as the provider's reputation should also be considered when choosing a White Label provider. Melia explains: "When it comes to FX White Label platforms, brokers are currently spoilt for choice. With the combination of new entrants to the market and the mushrooming of multi-provider platforms, this trend is likely to continue for a while. This can make it difficult for brokers to shortlist, never mind decide on a suitable platform provider for their client base."

"The trends towards social networking and black box trading tools have definitively established themselves in the industry and this has been reflected in the number of 'follow me' offerings across the sector," Melia



Heather McLean

Heather McLean examines what factors should influence a financial institution or brokers choice of FX White Label (WL) solution and strategic licensing partner to work with and in what ways WL partnerships can help trading firms to grow their market share and take advantage of fast evolving regional business growth opportunities in FX.



Jan Bak

“Tough markets call for a strong partner. Being a bank we are a regulated entity undergoing and passing regular inspections - this has become increasingly important for banks and brokers when choosing a White Label solution provider.”

observes. “These are all well and good and certainly appeal to some retail investors, but the real value in a trading platform comes from having a tried and tested, robust system supporting the client base. The more established providers in the FX White Label world have had years to enhance the stability, capacity and execution speed of their platforms. It is essential that any broker short listing providers should evaluate them on these basic yet vital features as well.”

Continuing, Melia says that as a broker is ‘passing on’ the White Label provider’s products, pricing and customer experience they need to ensure that the provider is offering the range of services required by the brokers’ clients, as well as having the pricing model in place that meets the expectation of the target market. Also, the brand is important. Melia states that retail investors are becoming more savvy in regard to brokers offering White Labels, and that they understand the concept of having a White Label provider in the background. “Often, with little effort, clients easily identify the White Label provider and this goes a long way to establishing the clients’ confidence in the trading solution,” he remarks.

Buy versus build

Ralf Behnstedt, managing partner at FXA

International, observes that: “Financial institutions and brokers are better off to plan their decision making process, and to actively manage that decision once made. It is, like many other decisions, at the end of the day a pure ‘make’ or ‘buy’ decision.


“Among other fundamental questions, they need to take into account are how much they need to differentiate themselves on the market with a platform,” Behnstedt continues. “A White Label platform will never create a unique selling point (USP) in itself, as other institutions can use the same platform as well. Clearly, a ‘make’ solution would allow an institution to create USPs that other solutions would not have. On the other hand, using a White Label platform may be far more affordable, as building a solution involves the additional risk of running out of time and budget. Time to market is also key in these times, where businesses and technologies are changing fast.”

What the client wants

Another topic that needs to be taken into account is the costs for hosting and maintaining the solution, adds Behnstedt. He says: “In general we recommend that new market participants aim for a White Label solution in order to move their business towards the electronic market, and advanced market participants aim for a bespoke system that can even be based on an already existing solution, to create a unique USP.”

Fair Trading Technology CEO, Tim Haman, says there are a number of important basis points for making the right choice, including platform availability, platform stability, and security, but also what the customers are asking for. “The broker platform and back office administration is very important. Fair Trading Technology optimises the complete setup, which means the trading account is the central core, and all connected platforms are only managed once, in a 1:1 account setup over all platforms. This reduces broker administration and management, which is one of the key factors. he adds.

For Ioannis Kantartzis, head of institutional sales at FxPro, White labelling should be a straightforward affair, with minimal set up and upfront investment required from the client. “It can be done simply and promptly. As a retail broker competing in the White labelling arena, we are able to proceed with a fully integrated set up, across all disciplines and configured to meet individual requirements, while constantly focusing on swift delivery.” He adds: “Given the tough



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market conditions, some brokers will offer a type of tiered level of White Labelling which, more often than not, come with a minimum trading threshold; we are committed to keeping that as flexible as possible.”

He goes on: “At FxPro we pride ourselves in basing our growth on four pillars: technology, price, support and innovation. Aggregating liquidity from top-tier institutions providing real time prices and an execution venue that is second to none, we are in the position to offer a service to match. Within the realm of the FX market, partners are looking for companies specialising in this field. They demand tight spreads, advanced charting tools, access to Level II data as well as direct interbank market access with no re-quotes, which our ECN solution is able to deliver.”

Bak, Head of Institutional Business at Saxo Bank, notes: “The service level you provide for clients is very important. We have offered a White Label package to institutional clients for a long time, and recently celebrated 10 years of White Label cooperation with one of our clients. What we pride ourselves by is our great operational tools providing White Labels with complete client control, integrated back office and risk management tools in real-time, administration tools for reporting and monitoring, dedicated support and go-to-market strategies – everything designed to help clients develop and manage their online trading business. These tools are important for reliability, scalability and geographical reach.”



Time to market

The most efficient way for a bank or a broker to implement a White Label project and to get the FX trading business running with Saxo Bank is to take our standard solution, remarks Bak. “With the support of our team of experts the implementation process can be finalized within 30 days,” he notes.

IG Markets offers two forms of White Label. The first is a fully hosted service including a White Labelled platform and standalone website, and the second form is a White Labelled platform including dynamic web content, such as contract details, access to the

dealing platform, and account opening modules, which are hosted within the website of the broker. Melia notes: “Both White Label solutions are resource intensive, the former taking four to six weeks to build and launch and the latter, approximately six to eight weeks. IG Markets has moved away from providing ‘quickfix’ solutions for White labelling and we are therefore very selective about who we offer White Label solutions to. As a result we also offer a generically branded “CFD Trader” service enabling brokers to offer our platform and products without the presence of the IG Markets brand”

Haman states that set up time depends on the pre-investigation and analysis; the better analysis, the better and faster the setup. “It also depends on the size of the delivery,” he adds. “For example, one platform and one bridge is one thing, but for multiple platforms to multi-liquidity with mobile platforms integrated, the time frames are obviously longer. The fastest MT4 White Label without liquidity is three days. The standard White Label setup is two to three weeks, while advanced, fully integrated broker setups can take up to two months.”

Short time to market is of the essence at FxPro. Kantartzis remarks: “White labelling for us, working at the retail end of the market, is about offering our clients a full product customisation under their own brand to fit their specific needs. Our scalable, proven technology is designed to enable our partner to further grow across this competitive market. Therefore, speed to market is crucial in this fast paced environment and so we have been able to deliver prompt solutions by recognising its importance from the outset.”

Yet a White Label solution provider should have always the entire process chain in their portfolio, which means a client can outsource not just the technology, but also the entire operation, claims Behnstedt. In extreme cases, a White Label client should not be forced to hire a single staff member to run or manage the White Label platform; it should all come from the White Label platform provider, adds Behnstedt.

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“Certainly that scenario might not be applicable to each and every White Label client, but White Label providers should offer that as time to market can be reduced to just a couple of weeks if the White Label providers can perform all the steps required to get the platform up and running,” Behnstedt notes. “In later stages, the White Label client can still in-source parts of the value chain, if desired.”

Capturing business opportunities

As to how White Label programmes can help trading firms grow their marketshare and find new business opportunities, Haman comments: “To operate an advanced technical platform with all its components, security issues, internet bandwidth and low latency demands is difficult, very expensive and time consuming. Brokers will generate and find more business in a complete administrative package where they can have any number of platforms, connected to any liquidity, yet having per customer administration, regardless of how many platforms they are using. Marketing is another advantage, where the customer have all choices available, such as MT4, MT5, Jforex, Mobile MT4/5, Mobile Jforex, Trade-station, social trading platforms and others, all connected to the same trading account, and all synchronised in real time,” says Haman.

However, Behnstedt comments that while White Label solutions can help grow marketshare in the first instance, they can also force a hunt for USPs in a bid to keep those clients. He explains: “As a new market participant in the electronic market space, a White Label solution can really help to conquer new client segments and regions quickly. The question is, how sustainable will that be? As time goes by, White Label clients are forced to deliver USPs in order not to erode their client franchise. It is a question that White Label clients need to ask themselves continuously.”

“I’m not saying that White Label providers are not delivering cutting edge business and technology solutions, but if the client base of the White Label client requires special features that are currently not (and maybe will not be in the upcoming future) provided by the White Label provider, then the White Label client is running the risk that the solution doesn’t meet the requirements of the client base, which opens the doors to look for alternative solutions,” Behnstedt warns.

“This risk needs to be assessed continuously. As an example, if the White Label platform provides CFD trading but some major clients are requiring uneven



Gerard Melia

“Almost all forms of White Labels require some amount of bespoke development or system tweaks, so firms should access the IT capabilities of the White Label provider, as well as the number and quality of White Labels it already has in its portfolio.”

FX swaps and the White Label platform doesn’t provide that product, then trading CFDs doesn’t help either,” he adds.

Core features and functionality

Behnstedt says features and functionality of White Labelled solutions in FX strongly depend on the requirements of the White Label client’s client base, and the roadmap the White Label client has. As an example, he notes that if the White Label wants to serve the client base as well using mobile solutions, but integration of the White Label solution into existing web presence is not so important, then the White Label client needs to address accordingly in the requirements phase of the White Label deployment.

Core services depend on the individual broker’s current setup and where they are in their business, agrees Haman. He explains: “Each and every one is unique. In the Fair Trading Technology delivery, we can supply a one stop shop for the full brokerage operation, including back office and customer management, first and second line support, network operations control services, liquidity routing with intelligence, spread and

slippage control, marketing platforms and measuring and optimisation of internet traffic.”

On what key features and functionality clients should look for within the frames of White Label programmes for FX markets, Bak says: “A comprehensive and ever expanding multi-asset offering is crucial. As is constant innovation and investments in cutting edge technology. Saxo Bank is now introducing contract options to trade volatile markets and the next generation mobile trading platform that enhances user experience. Furthermore, customer administration devices, advance reporting mechanisms and risk management tools can help to set up the system and monitor clients in an easy fashion.”

Bak remarks: “At Saxo Bank we are not just offering an online trading platform, but all the support the client needs across the entire business value chain. Without this support, or if some tools are missing, a White Label project can turn into a challenging exercise.”

Relationship management

Melia says that relationship management is vital: “Launching a White Label requires planning, organisational and management skills, so the quality and experience of the sales managers and relationship managers play a vital role in the success of any launch. It can be easy for institutional sales managers to over-promise during the sales process, so working with a sales manager who is competent, honest and clear is as important as the project management process itself.”

“Relationship managers provide an invaluable service during the on-boarding process as they are the main point of contact with a large virtual launch team behind them,” continues Melia. “Their performance during the on-boarding process can dictate the success of the project. As each White Label provider has particular nuances to their systems, the relationship manager’s ability to communicate and train key staff at the brokers is vital during the early stages post-launch. In an environment where overall budgets are being squeezed and managers are demanding higher return on all marketing spend, marketing support is becoming less prevalent in proposal documents.”

“It is also important to point out however, that as vital as it is for the White Label provider to offer the core services required to deliver success, the broker can only establish a successful online FX business if they themselves have all the elements required to achieve success,” warns Melia. “IG Markets is particularly selective when offering White Labels and will only

do so where we can see real business value and a well established partner with the client base and potential to deliver a successful service.”

Value-added services

Offering value-added services are also an important part of the whole White Label delivery mix. FxPro’s value add is in pre and post-sales support, says Kantartzis. “Many companies offer White labelling, but where most fail is in the follow up. We’re flexible in adapting to client’s requirements and making sure they are well looked after. Our dedicated relationship managers, robust multilingual technical support and train-the-trainer policy, guarantee exactly that. Our in-house staff training and client retention and acquisition strategies are designed to support our prospective partners throughout the lifecycle.”

Fair Trading Technology’s value-adds, says Haman, are also focused on the broker supporting platforms, which he states are essential to be able to support and optimise business without thinking too much about which platform or what liquidity provider the customer wants or uses. “In order to provide this, there is a large list of supporting systems that Fair



Ioannis Kantartzis

“Given the tough market conditions, some brokers will offer a type of tiered level of White Labelling which, more often than not, come with a minimum trading threshold; we are committed to keeping that as flexible as possible.”

Trading Technology provides the broker if they require it, such as CRM, chat and email systems, internal back office and statistics with intelligent, real time analysis such as Qlikview, database analysis, traffic analysis, liquidity management and analysis of orders and trader behaviours. It is also important to provide a full VPS platform to the broker's customers, so they can move as close as possible to the broker's execution, which saves money in fees on spreads and slippage," he remarks.

White Label solution providers have evolved themselves to assist White Label clients to the maximum extent possible, remarks Behnstedt. "Currently White Label providers are offering features like training, offering to support the White Label clients with branding, plus marketing and sales through the platform. This is very often supported by technical tools such as performance and utilisation dashboards."

Saxo Bank offers value-added business support tools and marketing services. These include inspiration for marketing campaigns, non-branded videos and widgets, as well as performance dashboards for benchmarking. Bak comments: "In this way Saxo Bank helps its clients to achieve their sales targets."

"Another area where we spend a lot of time on is helping business on their go-to-market strategy," continues Bak. "We facilitate best practice sharing for our clients from around the world."

We also provide local language support and offer our trading platform in 25 languages."

While IG Markets provides demo accounts as well as a lead tracking interface to enable brokers to generate and manage their sales leads effectively, says Melia. "We offer product content that can be integrated into the broker's website, enabling them to populate their site with product information. This content is automatically updated by IG Markets, ensuring that it is accurate at all times. We offer a client manager interface that enables the broker to manage their clients and drill through trading data to better understand their clients and revenue channels. Our relationship managers organise a series of training sessions with each White Label leading up to the launch, to ensure that the broker is familiar with all aspects of the platform."

Project Management and support

White Label providers offer everything that is required to run a solution, says Behnstedt. "If the White Label client wants to run the solution on their own, rather than getting the provider to host it for them, the White Label providers always have respective training and setup procedures in place to assist those White Label clients."

With respect to technical support and back office functionality, Kantartzis says: "We offer total client management through our FxPro Direct application on a fully automated basis. This gives the user access to account management with the ability, among other



things, to set parameters such as leverage and base currency as well as fund transfers through a wide range of payment methods. We provide effective, integrated front and back office as well as risk management tools to monitor exposure in real time. As one would expect, FxPro will provide partners with fully executable prices and customised statements as well as product support.”

Fair Trading Technology includes technical support which is provided for back office operations and client on-boarding activities if the broker needs to add these components. Haman states: “We offer first-line support (to broker’s customers, answering in the broker’s name) for a small extra charge on the volume fees, either in the full utilisation, where we take each and every call, or part time when the load is high. For the second-line support, the broker support that is included in the offering, we can also add NOC services, with proactive error management on each and every aspect of the servers and services in use. For internet traffic analysis, SEO and SEM, we have tools to both run campaigns and traceability, as well as measuring tools to optimise campaigns.”

Meanwhile, IG Markets has an extensive structure in place to support White Label clients, claims Melia. He says each White Label partner is allocated a relationship manager who is essentially responsible for managing the day to day and strategic operations of the partner, from contract negotiations, back office setup and product launch, to technical issues that are then farmed out internally to the appropriate technical support departments and managed until a resolution is found.”

Melia continues: “Brokers have access to IG’s institutional support desk, which deals primarily with trading queries but which also, along with the sales support team, provides secondary cover for the relationship manager.”

Buy-side targeting

Melia says that ways in which White Label programme providers can assist firms who are looking to target specific buy-side client sectors depends quite a lot on the White Label provider, and the sectors that they target themselves. “There are few providers that effectively target all sectors in the industry with a single platform solution, so brokers should align themselves with providers who have the products, pricing and platforms to meet the needs of their target market. Once this shortlist has been completed, the next step is to then seek out the provider that offers



Ralf Behnstedt

“... using a White Label platform may be far more affordable, as building a solution involves the additional risk of running out of time and budget. Time to market is also key in these times, where businesses and technologies are changing fast.”

the broker the most stable, reliable and robust service and has the balance sheet and processes in place to protect their clients’ funds.”

“This enables firms to focus on sales and marketing activities and servicing clients in their target market, content in the fact that they are promoting a solution which will meet their needs and those of their customers,” says Meila. “IG Markets concentrates on providing a high quality solution infrastructure to both direct and White Label clients. Our institutional business looks to capitalise on all product developments and utilise these with White Label partners. Once new functionality and features are made available to our direct clients, we aim to release these to White Label partners, improving their product offering and enabling them to meet the requirements for a wider market sector.”

While Haman says: “Technical experience and analysis are the most essential parts of being successful here. To grow a brokerage from a pure market-making model into something more ECN-like with a number of different liquidity options is not something one can

just do with a FIX connection. There are so many more parameters. To grow the customers in a new or different segment (besides the broker's critical mass,) is something that needs to be planned and carefully investigated. What happens when these new clients enter the system and start to trade, in terms of the cost to existing customers, or together with the existing customers?"

"We deal both with buy and sell side institutions, as well as brokers and asset managers, also providing a MAM solution to cater for their needs," says Kantartzis. "Bigger institutions would rather focus on their core business and outsource such services for their retail FX needs, rather than commit to research and development that would require time

"To operate an advanced technical platform with all its components, security issues, internet bandwidth and low latency demands is difficult, very expensive and time consuming. Brokers will generate and find more business in a complete administrative package..."



Tim Haman

and financial resources. Instead, our proven track record delivers a one stop shop solution for their FX clientele."

Revenue models

Revenue sharing on a White Label solution consists of share of spread and we enable our partners to add a per lot per side and US\$ per million, comments Melia. He says: "White Label providers appear to be offering various forms of revenue sharing options for FX these days. IG Markets' FX offering to direct clients is a spread based product, so the client pays the spread with no additional commission. When we configure commercial agreements with White Label partners, we pay the partner a percentage of our spread. On top of this, we will facilitate additional commission charges such as 'per lot per side' for OTC products, and a US\$ per million on our DMA FX products when additional services are offered by the broker. Where brokers add additional commissions to our FX products, we enable them to retain 100% of the additional commission."

On the other hand Haman feels the most equitable fee for a White Label setup is to charge per volume of the customer's usage. For example, if the customer uses only one platform, there is a volume-charge based on that. Whenever they open or close an order on another platform as well, the charge will increase slightly. He adds: "Low spreads have been the marketing model for years, and we now see, maybe sooner than expected, that spread cannot come down much more and the ECN pricing model of a charge per million traded is more and more commonly. If the customer wants the freedom of taking the best parts of three platforms, he will pay slightly more than the customer that uses only one platform."

Behnstedt comments that most of the White Label solution providers are following an approach where they get an upfront fee and then take part in the trading by getting a specific percentage on the traded volume. "That model still looks attractive to most White Label clients, although it involves basically sharing cost and revenues. The best way is to work out a pricing solution together that fits both sides; the last thing that helps setting a White Label solution in place is frustration on either side about the pricing model. Ultimately, for one White Label client it can make sense to pay a fixed fee and a very small percentage of the traded volume, while for another White Label client this might be completely different," he concludes.

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FASTTRACK

With Andrew Ralich, Co-Founder and CEO of oneZero Financial Systems, a leading provider of low latency software systems for the financial markets.

Andrew, when oneZero was launched a few years ago you perceived a gap between the market and technology. How has your firm gone about closing that?

The retail FX industry was still in a maturing phase when we originally started oneZero. There were a few incumbent technology providers, specifically in the MT4 space, who were gaining considerable traction in terms of client base. What we realized at this time was that, if FX continued to grow at the pace it was, many of the legacy software solutions would not be able to scale to meet the demand. The concepts were there, but the existing providers just weren't built to meet the performance and stability requirements of brokers who really caught the wave. We put an extensive amount of focus into building the right foundations for our solutions, the right basis for building large scale enterprise level routing engines and risk management systems.

What makes oneZero's approach to developing routing and STP systems so successful?

The right people and the right choices early-on were paramount to our success. From day one, our focus has been on technology. My business partner and oneZero's CTO, Jesse Johnson, who is the real brains behind our software, chose to use a pure C++ core for our products. This decision is unusual in the FX space, as time to market is often one of the heaviest weighed considerations when developing new systems. C++ is easily the fastest-performing option for building

financial tools, but it takes considerable time and effort to get a C++ framework off the ground. This early investment has paid dividends, as our solutions have time-and-time again proven to scale to any market conditions or trading activity our clients have thrown our way.

Why do you think an increasing number of brokerages have decided to adopt virtual trading desks and go down the outsourcing route for their Risk, Liquidity and IT requirements?

With increasing regulatory pressure, increasing competition, and of course, increasing opportunity in the FX space, brokers have grown to realize where they can best spend their time and energy. Attracting clients, managing relationships, and building a brand are things that are familiar to the average broker. Managing a technology deployment, including software and hardware, requires a specific focus and proficiency that many brokers have chosen is best left to partner firms. With our clients, we avoid the term "outsourcing" as it implies an indirect relationship between the broker and the technology. We have put together a suite of off-the-shelf products that allow brokers to control their involvement in the day-to-day risk management and technology overhead. These systems can be custom fit into the broker's business to ensure a seamless transition from dealing desk to ECN, or a hybrid model. Solutions such as these have given brokers comfort in stepping back from the role of "combined marketing, sales, risk and IT entity" to focus on what it is they do best.

With growing interest from retail brokerages in the ECN / STP execution model, there is an urgent requirement for more effective liquidity failover solutions. What steps has oneZero taken to address this need?

One of the most sought-after enhancements we made to our technology in 2011 was to provide intelligent routing and failover into our ECN / STP Bridge. The ability to seamlessly fail over between 2+ liquidity providers was a key development for our existing and future customers. As brokers continue to rely on direct market access for both their rate feeds and execution, it's critical to make sure that feed is 100% consistent.

Our failover solutions not only provided the alerts and monitoring that our customers were used to, but also a completely transparent process to automatically swap between feeds. Having the ability to transition between liquidity outlets without any disruption to the client is key to achieving the goal of 24/5, 100% uptime and growing a retail business.

Many FX providers are adopting multiple distribution channels utilising desktop, web and mobile devices. What are the advantages of centralising risk and administrative functions in this increasingly complex environment?

At the end of the day, it is demand from traders that drives any initiative in the front-end space in FX. Clients are always in search of more options to enhance their analysis, free them from the binds of their desktop, or enable them to develop more powerful trading systems. Brokers looking to keep up with this demand often underestimate the overhead of maintaining multiple different means of on-boarding clients, servicing clients, and managing pools of client risk. Having an "a la carte" option for trading is an excellent way to bring in new business, but if each platform is managed separately from a feed, risk and administrative standpoint, resources can get spread thin.

We've worked with a number of large firms to help take platforms such as MT4 and consolidate risk management, administrative, client on-boarding and cash management into their legacy back-office. We've also developed our ARMS back-office system for brokers looking to centralize an existing deployment, either multiple MT4s or a combination of 3rd party and proprietary platforms.



Andrew Ralich

As the FX market continues to grow what have you identified as the next set of technology challenges facing brokerages as they seek to meet regulatory requirements, capture market share and ramp up their trading and IT architectures to meet the low latency requirements of more demanding traders and investors?

Though the US and Western Europe are approaching maturity in terms of regulation and monitoring of FX, many other parts of the world are just beginning to enact policies specifically targeted at retail brokers. We are currently working with firms in Asia, Australia and Eastern Europe to help identify the best means of adapting to the new reporting, execution and IT outsourcing regulations. In addition to the opportunities that manifest as the Retail FX "wave" spreads across the globe, there are still many challenges to address within the more evolved FX market places. In areas such as the US and UK, firms who traditionally traded HFT systems on equities are being pushed into FX by regulatory changes such as Dodd Frank. The influx of new latency sensitive systems in the FX space has created demand for routing engines, aggregators, and co-location services specific to true HFT FX. The "1ms" boundary that was the holy grail for retail FX shops just one year ago is now being lowered to microseconds as more demanding and sensitive clients enter the space. At oneZero, we are poised to meet this challenge with the same technology base that has worked so successfully in retail during the last 2-3 years.

AxiTrader - a perfect partner to get your clients trading

e-Forex talks with **Matt McIntyre**, Partners Manager at AxiCorp Financial Services Pty Ltd, about the company's institutional offering.

Matt, how long has AxiTrader, with the parent company being AxiCorp, been operating and how would you describe the mission statement of the firm?

We at AxiTrader have been in operating since 2008 and are regulated by ASIC here in Australia. We are based on the north shore of Sydney in the suburb North Sydney. AxiTrader work hard to provide innovative online FX trading experience to all of our clients. We are always listening to our clients and improving our service from their suggestions.

What range of financial products and trading services does AxiCorp offer?

29 currency pairs, 7 global indices as well as gold, silver and oil.

What are the key features available with AxiTrader and the main advantages of using the platform?

All staff at AxiTrader prides themselves on the service that we provide to our clients. We are available 24 hours a day and have a relationship with all our clients. Advantages of the AxiTrader experience range from the superior service offered, the tightest spreads, reliable platform, greater market knowledge and being innovative in our offering plus a lot more. Within the Partners team, the advantages are vast. We have an experienced team that enables all of our partners to experience a superior service, offering and advantage they can then offer to their clients.

What characteristics do you think financial institutions should be looking for when choosing a partner to help them expand their business and profit potential from online trading activities?

Integrity and trust. These two qualities will ensure a long lasting, fruitful and mutually beneficial relationship. Specific firm characteristics include country of registration and regulation, handling of client funds – especially post MF Global, competitive pricing to ensure high client retention, and lastly, and most importantly, partner support.

In these times of uncertainty, it has never been more important to exercise due diligence into your partner understand the business and make sure they will be around in the years to come.

What target audience is your Introducing Broker program tailored towards and what benefits do companies get from becoming an AxiTrader IB partner?

As AxiTrader is a technology and support based brokerage, we target Forex educators, brokerage houses, brokers wanting to add FX to their product sweep and automated trading partners. Essentially you get your cake and you get to eat it to. As an IB of AxiTrader, you receive 24 hour support to you and your clients as well as razor tight retail spreads. As pricing is becoming more and more easily transparent, look at www.fxintel.com, we find that our liquidity advantage is clear. Essentially, this keeps the client happy and therefore stays with us which, in turn, keeps our partners happy.

What services does AxiTrader offer for financial institutions that are looking to add FX trading to their existing business lines?

Our Partner offerings include the following. The spectrum is based on ongoing involvement with the client.

Referrer: ideal for websites and smaller Forex market participants.

Introducing Broker: ideal for financial institutions, automated trading introducers, financial product educators.



White Label: mid-tier banks, new brokerage firms, existing brokerage firms looking to diversify.

AxiTrader has recently introduced an institutional offering including prime-to-prime and straight aggregated liquidity.

In this edition of e-Forex we have been talking about the benefits of FX White Labelling (WL). Why do you think WL continues to prove so popular for many firms and what value-added services do your partners get from AxiTrader WL programmes?

The simple response is risk-mitigation. You share the risk of an FX brokerage with your Partner. You also share the return but most are happy with this considering the competitive nature of the FX market. Risk refers mainly to financial and technical barriers to entry which the Partner effectively subsidizes for the white label. Time-to-market is also a big factor. You can be live and generating revenue within a matter of a month with most serious white label providers. For established firms, outsourcing the back-end of your business is an attractive offering as most founders of Forex firms have a sales/marketing background which they can then concentrate on.

AxiTrader's competitive advantage is derived from our liquidity advantage and rebate model. As a white label you have access to some of the tightest spreads in order to attract the most amount of clients and a head over your competition. Furthermore, our rebate models are flexible to suit our partner's business needs and we have

many options to these rebate schedules. Further to this, due to geographic reasons, our international white label partners enjoy the natural division of the global market.

AxiTrader has been growing because increasing numbers of traders and investors are seeking to benefit from the firm's commitment to providing a better trading experience. Looking ahead, what plans do you have for matching this success by expanding and developing the Institutional side of your business?

The institutional side of the business is already underway and being positively iterated daily. We have managed to compile a selected group of liquidity suppliers that are aggregated to deliver a price specifically for the Institutional client's needs. We have a tight working relationship with our prime broker Morgan Stanley who understands our business model and the direction where we want to go in the institutional space. Our experienced IT team understand the importance of fast delivery and efficiency.

Price, Prime and Performance are the three key ingredients that I see as delivering a superb institutional product from AxiTrader.

With the success of our retail product, we have seen growth from many international customers enquiring about our institutional product.

For further information please contact:
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Retail FX ECNs

- helping traders achieve more effective strategy implementation

Nicholas Pratt examines what benefits traders can get from dealing with brokers who take a hybrid approach to trade execution by offering both traditional Dealing Desk and Non Dealing Desk facilities and he looks at what factors should determine whether a retail forex trader should transition to an ECN Broker and the issues that might influence their choice of platform provider.

There are two trading models in the retail space. One is the traditional market-making, dealing desk-based execution model where brokers act as the principal in the trades. For years this has been the dominant model in the retail space but is less the case now. The market-making model gives the brokers control over the pricing they offer their retail clients in exchange for assuming the risk of the transaction. However, increasing volatility in the FX market and changes in regulation, such as the US Dodd Frank Act which limits the amount of proprietary trading banks can engage in, are making market-making less attractive to FX brokers. And there is also the fact that the alternative non-dealing desk, ECN model is becoming increasingly attractive at a time when investors are demanding more transparency and greater access to better pricing.

Hybrid approach

Poland-based TMS Brokers is one of a number of FX brokers that have adopted a hybrid approach that offers both traditional dealing desk and non-dealing desk trade execution. "Both models may be advantageously applied to help achieve the best possible execution for the client," says Mariusz Potaczala, President of the Management Board. "Best execution for small orders is usually realized

through automated execution at the best available market price, regardless of trading platform. Whether the underlying risk management model is agency or market-maker is probably less relevant to achieving best execution on small transactions, where liquidity is ample. The negatives are that agency execution may suffer from re-quotes and missed trades, while market-maker execution may provide guaranteed trade execution, but at a slightly less attractive rate. What is most important is for clients to deal with brokers that have a strong market reputation for providing quality trade executions for their clients.

Large orders may benefit from dealing desk execution, where professional traders use their expertise to realise best execution for clients. This may be particularly valuable during periods of low market liquidity or increased volatility or in handling resting orders, such as stop loss orders, where multiple market prices in a thin market may produce an undesirable execution, if automatically executed. The risk is that the automated execution may be at the extreme price, when the order may have been partially or fully held in by the dealing desk."

Potaczala also says that "The most experienced dealers may offer protected orders, where the order is closely





monitored and only executed when specific market conditions are met. There is, of course, the risk that the order is executed at a slightly worse price relative to VWAP, but the benefit of not having been executed on a temporary spike or drop in price may be substantially greater. One of the advantages of dealing desk execution is that a large order does not always need to be executed at the market. A good dealer, who knows the client's investment style, is frequently able to work an order to achieve a much better execution result."

ECNs

ECNs have a much deserved reputation for tight prices, excellent liquidity and market depth, says Potaczala. "Not only do ECNs benefit from a large number of liquidity banks willing to stream prices, but they also permit all market participants, including buy-side clients and other financial institutions, to trade opposite each other, which enhances pricing and liquidity. After commissions, the all-in cost of ECN execution is frequently lower than on other platforms. The benefit of lower transaction costs is greatest for automated trading strategies that trade frequently, where a small fractional pip difference in transaction cost means the difference between a profitable and loss-making strategy."

"Another important feature of ECNs is the ability to enter limit orders within the bid-offer spread. Not

only does this provide better execution, but it increases the probability of order execution. This is extremely beneficial to many complex trading strategies that rely on the execution of multiple transactions at the same time. Because the large number of market participants results in a large and diverse order book, ECNs provide a high degree of certainty that a tight bid and offer spread will be available. This is extremely attractive from a risk management standpoint, where efficient risk reduction is often just as valuable as the ability to open a position at an attractive price," adds Potaczala.

As an FX broker offering only non-dealing desk execution rather than the hybrid approach, it is no surprise that FXCM, another of the leading FX brokers is more forthright in stating the advantages of this approach. "As FX market participants in the retail space grow more sophisticated and varied in the strategies they use, the industry is being held back by dealing desk firms favouring customers using strategies that buy into falling markets and sell into rising markets," says Brendan Callan, managing director, FXCM EU. "Clients like this are preferred because typically the time between their orders will be hours or even days, giving the dealing desk enough time to



Mariusz Potaczala

“One of the advantages of dealing desk execution is that a large order does not always need to be executed at the market. A good dealer, who knows the client’s investment style, is frequently able to work an order to achieve a much better execution result.”

process each order. Dealing desks struggle with more aggressive scalping strategies where clients are trading very tight ranges in order to make just a couple of pips on each trade.”

Callan points out that “The nature of the non-dealing desk model enables the broker to accept all types of trading, including scalping, allowing them to accommodate clients’ needs even as their trading strategies evolve. ECNs are particularly suited to event or news trading strategies. With access to a network of many institutional liquidity providers, you can still get your order successfully filled even during the most volatile situations. ECNs never restrict trading during news events, and the price you see is the price you get. This is vital for event and news trading, where success can depend on you being able to create specific entry and exit points at the price you want because of the volatility associated with this type of trading.”

Faster trade execution

Faster trade execution is also a major benefit of using an ECN, says Callan. “As you are simply using the

network provided by the ECN, rather than trading directly with them, the ECN’s sole purpose is to match up orders with the opposite side as quickly as possible. And since you are dealing with a number of large liquidity providers rather than a single counterparty, execution is greatly enhanced. Traders can take advantage of being able to see several of the best quotes being offered at a certain point in time in a currency pair by market participants, giving them a better sense of liquidity and market depth.”

Traders can also exploit increased price volatility when using an ECN, says Callan. “Prices are not constant when trading on an ECN, and as such, traders can experience several large price swings in a short time, especially during volatile trading periods. If you are a short-term trader, you can turn this price volatility to your advantage and claim quick and large profits. Traders looking to take advantage of this should buy a large number of currency pairs and hold on to them for just a short period of time in an attempt to make a small but quick profit on each trade. These types of gains are possible because of the large depth of liquidity an ECN provides. Rather than waiting and watching as a spread changes and shifts, traders are able to stay in or get out of the market when they choose. Even though this may only be a few seconds, those few seconds could be the difference between a several pip gain and a several pip loss.”

Choice of broker

The type of ECN broker that you use can significantly impact your trading performance, says Callan. “If a broker does not execute your trades in a timely fashion at the price you want, what could have been a good trading opportunity can quickly turn into an unexpected loss; therefore, it is important that you carefully weigh the pros and cons of each broker before deciding which one to trade through.” Consequently the brokers offering ECNs have gone to great lengths to add new features to make their platforms more user-friendly and competitive adding flexible web-based trading capability, lower minimum trade sizes per point, new user interfaces and enhanced algorithmic strategies. A number of ECN brokers are also offering trading support and educational services to help retail traders be more adept at managing orders. FXCM has a research arm called DailyFX with a team of analysts publishing daily articles, divulging trading tips and running on-demand video lessons.

Cyprus-based FXPro is another leading broker that offers both dealing and non-dealing desk execution.



Brendan Callan

"ECNs never restrict trading during news events, and the price you see is the price you get. This is vital for event and news trading, where success can depend on you being able to create specific entry and exit points at the price you want because of the volatility associated with this type of trading."

According to director of international operations George Xydas, it is important to recognise that the increased interest in ECN trading does not mean that all retail FX traders suddenly want to switch from the market-making model. Rather, says Xydas, this trend should be seen as a vote of confidence in the reliability

of those FX brokers offering ECN trading platforms. "It is not the case that retail traders no longer trust their market making brokers and will switch to the first ECN that they see. I still think the choice of broker comes first and the choice of trading model comes second, rather than choose the broker based on the fact that they offer one model trading over another. We offer both trading models to our clients and we have not seen them change from one trading model to another," he says.

Elements for success


Xydas says there are two essential elements that govern the success of a retail ECN platform – liquidity and technological know-how. "In order to attract the bank's prices, they need to know how much flow we will be passing them. If we can promise them a minimum of \$100bn of orders every month, then that puts us in a very strong negotiating position." You also need sophisticated technology to connect to all of the various banks and counterparties. "Connectivity is still a major issue in the retail FX market – far more so than latency. There are retail markets like Japan where access to high speed internet is a given and they are then looking at latency but this is not the case for many other retail FX still not a given for many retail FX traders around the world. Right now these retail traders want the certainty of reliable execution and constant access. Latency comes after that."

Aside from the size and technology, there are an increasing number of features and functions that an ECN must have in order to attract retail traders, says



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Xydas. “An ECN must have a charting functionality and access to market news and statistics. Retail traders also want the ability to get statements from the platform and a social networking capability is increasingly important to have in order to share trading tips and strategies with friends. Algorithmic trading is also a more frequent feature thanks to the success of Meta Trader that has led to the development of thousands of algorithmic traders attaining ‘expert advisor’ status and devising complex algorithmic strategies to market to retail traders. Some ECNs have taken this a step further by giving retail traders enough tools and functionality devise their own algorithmic strategy rather than buying algo strategies off the shelf.”

“So in many ways with access to institutional liquidity and the use of complex algo strategies, the only difference between the more sophisticated retail FX traders and the full-time, professional counterparties is the size of the tickets. There has also been the addition of high frequency traders to retail FX flow within the ECN model. The HFTs that have traditionally



George Xydas

“I still think the choice of broker comes first and the choice of trading model comes second, rather than choose the broker based on the fact that they offer one model trading over another. We offer both trading models to our clients and we have not seen them change from one trading model to another,”



presented a challenge to FX dealing banks within the market-making model because of the risk of being scalped. These banks prefer to put the HFTs into their retail flow where there are many more counterparties rather than the bilateral relationship of the market-making/agency trading model. “We are seeing a very quick bridging of the gap between institutional and retail. The banks are reaching out to try and service the retail FX market more than they ever have previously,” claims Xydas.

Regulatory factors

Are there any market factors or regulatory issues that are likely to hinder the growth of the ECN retail model? “There is regulation in the US and Japan, reduced leverage and increased capital requirements. Then there are other areas such as Africa where there is very little regulation,” says Xydas. “Generally after a crisis there is a tendency for regulators to over-regulate after the event. But overall we feel the regulation is very positive. It is reducing the number of ‘cowboy’ brokers out there and adding confidence to investors, even if there are increased capital requirements and less leverage for brokers. As the retail FX market becomes more like the institutional world it will necessarily be subject to more institutional-like regulation and higher capital requirements. For the brokers though, this is not an opportunity to pass on this cost to their retail clients but a cost they must absorb themselves and view as a cost of doing business in today’s markets.”

MBTFX — offering more direct access to multiple liquidity providers

MB Trading recently launched MBTFX, a proprietary Electronic Xrossing Network (EXN) router. We asked CEO Ross Ditlove to tell us more about this product and the benefits of a more transparent FX pricing environment.

Ross, although EXN is a new term that has recently been introduced by MB Trading FX, the technology behind it has been used by the company for some while. So why did you decide to introduce this name?

We changed the name because the NFA believed it was confusing, as the term is used primarily for Equities trading. The system is not executing any differently than it did prior to the name change. This is a positive for MB Trading FX as we will now have a new opportunity to distinguish ourselves from our global competition. With such a limited choice for traders to find a fully transparent brokerage, we enjoy any opportunity to tell our story.

What is MBTFX and what pricing and best execution benefits does it bring when combined with your EXN?

The concept behind the technology is very simple. A trader places a limit order. That order is held on our internally displayed order book for all traders to see, thus fully transparent. That order may cross with another client or be routed out to a bank or liquidity provider. That's it. Fast, efficient, and transparent. The trading on the system can be achieved via two simple pricing plans—our “all-in” Free EXN plan, with a mark-up in the spread, or our Pay for Limits plan where a rebate is paid to the client who posts their order to the internal book. Both use the

same technology and both reflect orders directly into the quote for others to see.

What is the “MBTFX Test” and why should traders consider taking it?

The “MBTFX Test” is also very simple. Pick your trading plan with us. Load an FX pair in your trading software then post a limit order to buy or sell inside of that quote's spread. As it is with MBTFX, your order should be immediately reflected in the bid or ask for all to see. Other brokers claim to be an ‘ECN’ under the old phrase, but they don't let your order display to the market and thus, we believe, are taking liberties with how they represent their services. With MB Trading, you post your order, you tighten the spread, and all others on the system can see that order. Again, this is true transparency which equates to a cost savings to the client.

How can MBTFX help lower costs for traders who place Limit orders on your EXN?

We maintain two different pricing plans. On our original Pay For Limits plan, we charge a fee for market executions, but we pay for Limit orders that the client places on the order book. This brings trade costs down and in fact pays traders for participating. We are proud to say that we are quickly approaching the \$1,000,000 mark in paid rebates to our clients. These rebates are paid to the trader at the time

of the execution. We also maintain the Free EXN plan that is like a conventional brokerage in that the fee has been added to the bank's mark-up. However, by using the EXN you are still able to post your bid or ask into the quote and we don't charge you for doing so. This is really a "best of all worlds" scenario. Any trader using a conventional FX broker who does not have a transparent order book needs to really examine true trading costs between MB Trading and their broker. We think the savings at MB Trading would surprise most traders.

MB Trading is noted for encouraging pricing competitiveness between FX trading providers. At the end of the day what rewards are traders reaping from this?

Our EXN system encourages price discovery. This is no different than the transformation that the Equities, Options and Futures markets went through over the last two decades: from floor to electronic dealer to transparent market centers. Forex traders are just beginning to learn the significance of such technology and the impact on their trading costs and profits. By utilizing EXN technology traders get filled faster, get better pricing, and enjoy narrower spreads.



Ross Ditlove

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ThinkForex —

matching high speed trade execution
with dedicated client support.

e-Forex talks with Moses Virella, Marketing Director at ThinkForex, about the firms range of online trading services and plans for business development.

Moses, how long has ThinkForex been working in the forex industry and what key financial trading services does the firm provide?

ThinkForex was founded in 2010 with the primary goal of transforming the forex landscape by offering access to high-speed trade execution, providing the ideal trading environment every forex trader needs. Our founders, a group of brokers and traders, would often experience different types of products and services within the marketplace and it was clear to them that finding a brokerage that offered everything that they needed was virtually impossible. ThinkForex clients ranging from novice to professional traders, who approach the markets using both manual and automated trading methods, are offered a wealth of services including live and demo accounts, global funding options, virtual private server hosting, multiple trading platforms, and dedicated client support.

Retail FX is a very competitive space. Why are increasing numbers of traders and investors opting to open an account with ThinkForex?


Given the enormous amount of competition in the retail FX space, we see that traders and investors are opting to open accounts with ThinkForex because we have successfully created a trading environment geared toward the benefit of the trader. ThinkForex is one of the few brokerages that allow hedging, aggressive scalping and high-speed automated trading on a low latency platform, making this the perfect trading environment for every type of trader, from beginners to professionals. This is helping to re-shape the forex trading landscape by introducing client valued services, thus creating a more robust global marketplace.

What types of Forex account do you offer and what instruments can be traded with your firm?

We are committed to the development of core technologies that will enhance our clients' evolution throughout their entire trading experience. ThinkForex offers multiple platform choices for Spot Forex, Spot Gold and Spot Silver trading including MetaTrader 4, MetaTrader mobile, SpeedTrader, and WebTrader. Each of these platforms provide the user with high speed and low latency execution, low interbank spreads, a non-dealing desk environment, no restrictions on strategies or trading styles, flexible leverage up to 400:1, and multi-currency account options. In addition, our clients receive a distinct advantage due to the strategic co-location of our server technology, the development of deep liquidity partnerships, and our high-speed proprietary order execution process.

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?

As an added convenience, ThinkForex also offers



Moses Virella

dedicated, real-time online support for all of our account holders. Also, we are currently in the process of rolling out our unique online offering EducateFX.com, that is loaded with specific client-tailored data, programs, articles and other useful research materials, all designed to assist those interested in becoming highly-skilled traders. Four market analysts will provide daily, mid-week and weekly market analysis, and we invite our users to visit daily, as we hope to make this an interactive resource for our clients.



How important has technology been in enabling ThinkForex to deliver your low latency e-trading solutions to clients whilst at the same time capturing profits and reducing risk?

Given that technology is constantly evolving, it plays a vital role in what services ThinkForex is able to provide to our account holders. We were founded by traders and brokers with the goal in mind to create the ideal forex trading environment. In the high-speed world of trading from electronic platforms, traders must have fast execution and tight spreads in order for any trading strategy to work properly. To achieve the tightest spreads, our founders partnered with top tier 1 liquidity providers delivering extremely tight pricing. And because execution and low latency is key to providing fast trade execution, ThinkForex strategically placed our trading servers in the same server block as their liquidity providers. Our clients benefit from extremely fast trade execution as a result of our technology co-location.

What White Label, Money Manager and Introducing Broker programs are available from ThinkForex for Institutional firms who may be interested in partnering with you?

ThinkForex offers one of the most competitive and unique partnership programs in this industry. We provide our partners with the tools they need to work independently, yet remain available as a true partner, delivering resources to meet any needs. ThinkForex Alliance™ Introducing Broker Program is intended to capture the core essence that has lead ThinkForex

to be one of the top brokers on the market today. Our program offers multiple types of IBP accounts, designed to reward every ThinkForex account holder who makes a referral, even if it is just to their family, friends or even a large group. Through our Money Manager Program, ThinkForex seeks to connect with motivated professional forex money managers to develop strong and successful working partnerships. Qualified money managers will find that ThinkForex market technology combined with customized back office support provides the ideal foundation for building a strong and successful business. The ThinkForex White Label Program is designed for experienced Introducing Brokers and Money Managers to develop and grow their individual brands. The forex white label program provides a great opportunity for companies to market their own platforms, increase their client base, and reach a larger audience through customized branding.

What plans do you have for expanding your business operations and what steps is ThinkForex taking to provide clients with even more investment and trading opportunities in the future?

As we continue moving forward, ThinkForex is invested in identifying opportunities that will provide additional client services through the development of new technologies while building on our past accomplishments including a proprietary execution engine, a strategic global infrastructure, and custom technology development. We know that technology drives our client success in this industry, and we are committed to providing our account holders with faster pricing and trade execution, as well as the highly enhanced performance of our automated trading systems.



Social Investing – reshaping the face of Retail FX

At home in the spare room, all alone, day in, day out. That can be the lonely life of the retail trader. Or rather, that is what has been the lonely life of the retail trader until recently. As Heather McLean discovers, things are changing now with the rapid growth of social investment trading platforms, also known as copy and mirror trading networks, which are becoming ever more popular as they connect individuals from around the world in a hub of virtual social activity that relieves the feeling of isolation.

At its core, all trading and investing can be a pretty solitary activity. Most traders operate on their own, yet social networks provide a way for people to connect with others with similar interests and objectives.

John Forman, senior foreign exchange analyst at Thomson Reuters IFR Markets and author of *The Essentials of Trading*, comments: “They can share their triumphs and tribulations. They can share information and insights gained from experience in the markets. This is stuff that could not so easily be done in years gone by, when traders connecting with each other was much more of a challenge.”

Expected norm

“Above and beyond that, though, we have to also consider the general social pattern,” continues Forman. “People today readily connect via social networks, as we can see from the growth of the likes of Facebook. This is particularly true of the younger generations who are now moving into the markets. It’s natural that they would want to take the social network experience they have in their personal lives into the trading arena as well.”

Lior Nabat, CEO at Tradency, agrees that social networking is now the expected norm, for both work and play: “A reason that has made social investing so successful is related to the fact that people today are spending more and more time online in general, and specifically in social networks. People are used to sharing their experiences and ideas on their everyday lives, and it is only natural that this will have some effect on the way people trade as well.”

Tradency runs one of the top social investment networks in the world and Nabat says the rapidly growing appeal and value proposition of social investment networks continues to grow amongst retail FX traders and investors because of human nature.

He explains: “People feel more confidence when they have social proof of their actions. When we are making decisions, it always helps to know what others are doing in this situation. It is the same with trading; when we are thinking about entering a trade, it helps to know if other traders are entering a trade at the same time.”

Being careful

However, Javier Paz, senior analyst in the wealth management practice at Aite Group, states that while these services have been gaining more attention, social trading is a powerful value proposition but only provided that it is implemented with safeguards. He says there are some key elements that need to be present in an attractive copy trading solution, and not all proponents of social investment networks possess them.

Paz elaborates: “First and foremost, the screening of the trade expert to be followed has to be thorough. If a reported trade expert is compensated for trading volume, then his incentive is to generate volume and not necessarily to produce profitability for those who follow his trades. There are also brokers who allow anyone in a social investment network to copy another member who, on the surface, appears talented; I call this



John Forman

“I personally think that social platforms that are based on real money activity among the members, as opposed to demo trading, have considerably more to offer. They create a much higher degree of focus and transparency between and among participants.”

social investing 1.0. The social investing 2.0 concept is more along the lines of filtering those who can be followed and having a certain easy process for selecting a trade expert,” Paz continues. “But there are also pitfalls in the 2.0 model. The lack of proper screening of the trade leader produces inconsistent results for different trade followers, and exposes these investors to situations where the trade expert is having a bad day, or is risking too much, or simply does not have a proper risk management system that they strictly follow. The solution is simple; screen would-be trade experts so they demonstrate consistent trading success over a period of months on a live account, while keeping sound risk management principles.”

Paz goes on: “Secondly, a trade copying service should try to foolproof the experience of trade followers, essentially assuming they know little or nothing about trading or investing,” Paz adds. “The trade follower should not be asked to set lot sizes or leverage levels, as these terms require a fair amount of familiarity with trading. Copy-trading done the right way is a brand, a brand that tries to reproduce a successful trading experience for most investors in a consistent manner.”

Taking the first steps

Traders are flocking to social investment platforms in their droves, both experienced traders and those that have only heard about it through friends already using social trading platforms, as the phenomenon grows in much the same way as new members come to the likes of Facebook.

New traders in particular should consider using a social investment platform, states Nabat. Tradency's Mirror Trader allows traders to basically copy strategy providers, pushing them gently into the arena without having to make it all up for themselves. As they become more experienced they can take more control of their trades, moving from automatic and gradually adding more manual decisions into the mix. This gives new traders a comfortable platform on which to train before they go out on their own, should they choose to.

Nabat comments: "Using the Mirror Trader, traders can access all the manual trading tools they are familiar with from other platforms, with the addition of social features. This way, they can analyse the market using charts and technical analysis tools, and while they do that they see the activity of experienced strategy developers. If they see that many traders are opening a trade at the same time, they may want to consider opening a similar position. If they hesitate about which direction the market is going, they can check the sentiments and see what other traders or what the strategy developers think."

"Traders that are just making their first steps in the forex market can use the automatic mode and let the strategy trade for them," continues Nabat. "All they have to do is select the strategy they wish to follow and let it trade for them. It is important to say that traders can combine manual trading with automatic trading and enjoy all the benefits the platform provides."

Forman agrees there is a very steep learning curve to trading, which is what makes these networks so useful.

"Anyone getting involved in trading has a lot to learn and prospectively much to lose if they don't get things right," he says. "Social networks represent collections of individuals who have either gone through the process before, or are doing so now. As a result, they are pools of considerable knowledge and experience. This creates all kinds of educational and developmental opportunities for those trying to get their trading feet under them."

"For those who have already been in the markets for a while, social networks offer two potentially rewarding opportunities," Forman continues. "One is connecting with other traders with similar interests and styles. This can lead to trading partnerships and other combined efforts that create economies of scale, in a manner of speaking, whereby groups of traders support and assist each others efforts. The other is the opportunity to 'give back' by sharing one's own knowledge and experience with those just getting started. The markets may have a reputation of being focused on greed, but there are a great many folks out there happy and willing to help others."



Which platform?

On which type of social investment platform may be most suitable for retail FX traders to use according to their specific risk appetite and investment objectives, Nabat states: "I don't think that there is one platform that is more suitable for specific investment objectives or risk appetite. The platform is just the technology that is used for trading and the trader controls the risk management and decides how to manage his account. Since Tradency is a technology provider that works with many different brokers, we made the platform flexible in terms of minimum account balance. Some brokers allow micro accounts of \$500 to \$1,000 and others require minimum first deposit of \$8,000."

Nabat continues: "The Mirror Trader provides many different strategies with different risk levels. The



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Lior Nabat

"When users are able to share their activity and be connected with other traders, it will make them spend more time in their trading platform. It will not just be about opening trades and monitoring their account; users will be able to exchange ideas, learn from other users, and discuss their activity with others."

performance table shows various parameters to help traders understand which strategies are taking more risks and which are more conservative. Naturally it is recommended for traders with smaller accounts to follow more conservative strategies."

While Forman comments: "I personally think that social platforms that are based on real money activity among the members, as opposed to demo trading, have considerably more to offer. They create a much higher degree of focus and transparency between and among participants. Demo accounts are great learning tools, but they are a far cry from representing what happens when someone's money is actually at risk. Social network members will get a lot more from interacting about things they are actually doing as opposed to just pretending to do."

Easy to use

The on-boarding process for social investment platforms

is straight forward and simple. For Tradency, the Mirror Trader is intuitive and easy to use, which is why many novice traders find the platform a smooth and friendly way to enter the forex market, claims Nabat.

Demo accounts are available for new traders to hone their skills on, Nabat explains: "Mirror Trader provides many options and tools, so each trader can easily find the most suitable trading style for them. I think that the fact that 73% of the clients that open demo accounts are active demonstrates in the best way how easy it is for a new user to understand how to trade with the Mirror Trader. The platform also helps traders gain confidence in their trading, as they get 'social proof' for their decisions from more experienced traders. It is much easier for a trader to make decisions, when he is not alone and may use other traders' activity as a backup."

In addition, in the latest version of Mirror Trader Tradency has made two significant changes in order to make it even easier for traders to use it; the first change is to the business model, so that users are able to use Mirror Trader at no extra cost, with no commissions on the trades and no fee for using the platform.

The second change is a technological change that aims to make the on boarding process much easier for the platform. In the next version, users who hold accounts with brokers that offer the Mirror Trader will be able to login to it with their existing user name and password. Mirror Trader will be fully synchronised with their existing account, so the trader will be able to trade on the same account with two different platforms.

Semi-mirroring

Most Mirror Trader users still choose to use the platform for automatic trading, comments Nabat. He says they select a strategy and let it trade for them. However, he adds that since Tradency added the semi-mirroring option, more and more traders are opening manual trades in addition to following strategies automatically. "This is probably because they can see the positions the strategy provider opens and it encourage them to open similar positions," he notes.

An up and coming feature of the Tradency platform will make it even more social, Nabat adds: "In the next version of Mirror Trader we are going to expand the social features of the platform and enable traders to communicate with each other as well as with the strategy providers. In addition they will be able to view



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and mirror the trades of other traders in addition to the strategy providers that we have available in the platform. With so many brokers that have already implemented the Mirror Trader and quite a few additional brokers in the near future, this is definitely going to be a very one of the largest trading networks available for forex traders," he claims.

Some areas of the world are picking up on social investment platforms faster than others. Nabat says Mirror Trading is very popular in Japan right now. "Mirror Trader has been available for Japanese traders for a few years now, and during this period many Japanese brokers have added the Mirror Trader to their offering. The peak of the Mirror Trader's success in the Japanese market was without a doubt the launch of the platform by Invest Securities which is in one of the leading brokers in Japan," he adds.

Nabat continues: "We also have many users in North America and in Europe. It seems that the demand for social trading platforms is everywhere and I think that the fact that Tradency works with many brokers around the globe helps us bring Mirror Trading to users from all over the world."

Impact on FX market

On what impact the use of social investment networks by very significant numbers of traders might have on the future evolution of the global FX market as a whole, Forman says the key evolutionary factor of social networks in the forex market will be the participation of institutional level traders.

"It is at that level where the major volume is done and where prices are determined, not at the retail level," he explains. "To the degree that institutional

traders and retail traders start frequently interacting with each other, we could see some interesting things develop. To start with, the retail membership would gain access to better information about the markets. That would tend to make them more competitive in the trading marketplace.”

As to what the institutional traders would get out of it that sort of relationship via these platforms, Forman says in the early stages, probably not very much. “Retail is such a small fraction of the market that any information about how they are operating obtained by institutional traders probably wouldn’t be of much real value. If, however, the interaction between the two groups creates more active retail traders, that would tend to benefit the institutional side. This would tend to create something of a self-supporting mechanism that could eventually see retail forex traders reach a level of market influence about equal to that of their stock market peers.”

“In any case, the greater the transparency and the more information that is exchanged, the more efficient markets and their supporting mechanisms will tend to become,” Forman concludes.

Ultimately, the clue as to the popularity of these platforms is given in the title, Forman remarks: “The bottom line for any social network is seeing what your friends are up to and being able to communicate with them. Everything really stems from this primary function. That said, there is an interest among retail forex traders to see information and data that is perceived to be comparable to what institutional level traders are using.”

“We’re a long way yet from retail being able to see the kind of trade and positioning information that institutional traders see, but it’s slowly coming,” adds Forman. “Platforms that move us in that direction definitely have a competitive advantage.”

New clients and increasing volumes

While Nabat comments: “I think that social investment will impact the forex market in two ways: First, it will attract new clients that are not familiar with forex to this market. When existing users are able to share their trading activity with others, they will become agents of forex trading, showing their trading results and bringing new users along to follow them. It is much easier for



Javier Paz

“Copy-trading done the right way is a brand, a brand that tries to reproduce a successful trading experience for most investors in a consistent manner.”

people to try something new if they hear about it from someone they know, and it is even easier to try it if they can actually follow the actions of this person.”

“In addition I think that the social features will increase the retention of clients,” continues Nabat. “When users are able to share their activity and be connected with other traders, it will make them spend more time in their trading platform. It will not just be about opening trades and monitoring their account; users will be able to exchange ideas, learn from other users, and discuss their activity with others.”

Paz agrees that retail traders using social investment platforms are set to boom: “Copy trading has a ‘trade multiplier’ effect on retail trading volume. I envision that in five years or so copy trading volume will be a multiple of the volume from self-directed traders, and will lead to a continued increase in the proportion of retail FX relative to the overall FX market. I would not be surprised if retail trading goes from 8% of the \$4 trillion being traded daily, to 15% of the total in the coming years,” he concludes.

Harnessing the power of Harmonic Trading to improve your FX trading potential

By: Raghee Horner. Sr. Market Analyst, educateFX.com



My journey in harmonics came from a background of using Fibonacci Retracements and Extensions for the better part of two decades. It was a natural curiosity that led me to study "Fibonacci Patterns" since harmonic trading uses price patterns and Fibonacci ratios to project reversal levels (think support and resistance) in the markets.

Traders and investors who use Fibonacci Retracement and Extension levels are already familiar with the idea that price action does have some organization into recognizable patterns of contraction and expansion. The turning points identified by Fibonacci (and harmonic analysis) are the inflection points of the patterns where the natural ebb and flow of market participation begin.

The application of these turning points is much like the use of any support or resistance level; it must be considered within the context of the underlying psychology of the market or trend and can be confirmed with other types of analysis to establish more reason for the market to react at that level. Much like Fibonacci Retracements and Extension - where the rally or sell-off used will determine how the support and resistance of the projected levels will be laid across a chart - there is subjectivity in the structure of harmonic analysis. It's the relationship to the Fibonacci ratios which give these patterns structure and reflect the natural contraction and expansion of the market and give the turning points trading

entry application. Without recognizing these actionable levels, traders will not be able to react to the projected turning price levels and use these inflection points to confirm and/or enter the market.

The three A's

Actionable application of analysis (the three A's a trader must live by) is often the most difficult aspect of trading. Chartists and technicians alike could pour over charts spending sometimes hours on their analysis but if the end result is not resulting in actionable price levels or as I call them "decision levels" there is no point in the analysis. Hence, the old saying: paralysis of analysis. The idea behind a "decision level" is not only that it is support or resistance but that it is a level that will be reacted to. There are three reactions that can be expected at any decision level - regardless of how it's identified - and that is to accelerate through it, stall or exhaust at or around it, and/or reverse from it.

In the case of harmonics, it's typically a projection level of a resistance level overhead that price will exhaust at and then reverse from or a support level that will attract buying support, exhaust, and then bounce.

Having been an active stock, futures, and forex trader, I can say with confidence that I believe that harmonics apply well across all three markets but I will say because of the 24-hour activity of the forex market, technical analysis tends to be better respected because of the higher more consistent level of participation worldwide.

Look for reversal points may be what harmonics are known to do and many

traders will consider these to be potential entries but I also want to include an alternative perspective and that is of profit targets as well.

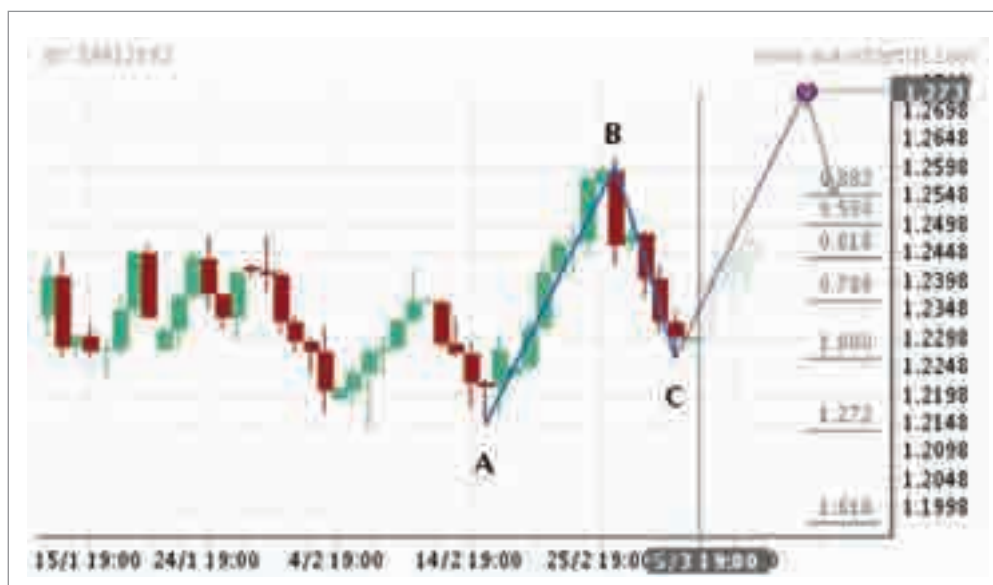
For traders looking at the 78.6% Fibonacci Retracement of the rally from point A to point B, point C represents not only ideal third point of a classic retracement and therefore completion of an AB leg but then sets up the potential for the CD leg. The ideal point C is a 61.8% Retracement (also known as the “Golden Mean”) or a 78.6% Retracement which is what the EUR/AUD pair completed here.

Consider that traders positioned long from the A to B retracement and perhaps even taking advantage of the break back above the Golden Mean or even the intraday uptrend of the pair could consider the D projection as a potential reversal level and therefore also profit target. In the most simple of terms, D is resistance.

The Fibonacci Levels that are projected as downside support are based upon the C to D rally and if a short sell is triggered at D (some traders may even be inclined to wait for a 1.2700 major psychological level breakdown to confirm bearish momentum) the Fibonacci Retracement levels can be then used as downside profit targets.

One of the unknowns for a pattern projection such as this is how long it will take for the D level to be reached and for the balance of pattern to work the time it takes to reach D must be in proportion to AB hence CD must be close or equal in amount of time it took to complete AB. The D is also a 1.272% Extension of BC. This pattern known as AB=CD or an ABCD is a bearish Fibonacci pattern because the D point is the short sell trigger.

Some traders may have a difficulty seeing where Fibonacci Retracements and Extensions end and the idea of “harmonics” begin and that answer lies in



mainly the extra consideration for geometrical balance and time that harmonics analysis enlists.

Trading range

For traders interested in identifying the highs or lows of a developing trading range, harmonic analysis can offer insight by projecting potential ceilings or floors. One of the keys to follow-through and therefore the validity of a harmonic pattern is the respect for the C point of the pattern in the case of an AB=CD. After the C point has been established at either the 61.8% or 78.6% Fibonacci Level, price action must adhere to this level as the near term floor from which a rally will ensue in the case of a bearish pattern such as the one developing on the EUR/USD.





on and benefits the U.S. Dollar Index which is nearing the 80.00 level and recent pullbacks in the Dow Jones Industrial Average indicate that without establishing support above 13,000 on-going risk appetite will be under pressure. These are near-term concerns but applicable to the rally that would make reaching the D resistance point a reality.

Volatility in the market

The bounce necessary from the C point must show that the bulls are indeed ready to move the market higher from - in this case - the 78.6% Retracement level and the C low must not be broken. The BC leg must maintain support at the C point which will have to be a 61.8% or 78.6% Retracement of AB. The D resistance point is contingent on this occurring. In the situation of the EUR/USD, the daily time frame has lost the bullishness seen through the early part of 2012 and has begun to show signs that it is in transition to a more sideways market trend. Therefore identifying the extremes of the range will be helpful to traders who are looking to trade within the range. The current pattern will assist in identifying the potential ceiling and could be where bullish exhaustion will occur which is important to trend following traders who will need to pick up on cues that the market is nearing a point at which sentiment and momentum could slow and potentially reverse.

The D point is also overlapping with an important major psychological level, 1.3600. For many traders, the conversation regarding the EUR/USD was the commonly asked question, "Will the EUR/USD see 1.3200 or 1.3600 first?" and while that question has been answered with the C point at 1.3095, the thinking will now transition to the risk environment that will be necessary to see a continued move higher from 1.3095 towards 1.3600. The risk appetite of traders will be tested as the Greek debt situation rolls

classic characteristics of the CD rally is for more gaps and wide ranging bars; in other words, expect more volatility in the market as price near D. The exhaustion that is expected to occur at D will masquerade as the beginning of a strong uptrend and therefore expecting resistance at D will often feel like standing in front of a freight train. However if the current sideways market trend remains intact as it is now, any market in a sideways market trend or phase is more likely to exhaust at or around range highs than it is to develop sufficient organization of sentiment and momentum to develop as established trend.

Therefore reaching 1.3600 and the D 1.272 Extension is akin to nudging the bears that remain asleep at this level waiting for Spring to come. In fact in the case of the EUR/USD exhaustion could come within the approximate 50 pips that lie between the 1.3600 and the 200DMA currently at 1.3550. The psychology of the 200 period Simple Moving Average on the daily time frame (the 200DMA) is extremely well-followed and respected and could also signal a last gasp from the bulls as prices may temporarily pierce the indicator and hit a wall at 1.3600 is reached.

Cumulatively this scenario in the EUR/USD is not unique but rather respects multiple price levels of consideration spanning a Fibonacci Extension, a major psychological level, the importance of the 200DMA, and yes, the price and time balance of the AB=CD harmonic pattern.





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Philippe Bonnefoy

Sticking to what works with currencies

e-Forex talks with Philippe Bonnefoy, co-founder of Eleuthera Capital AG

Philippe how long have you been in the currency business and what attracted you to the industry?

This will be my 30th year in the financial markets. During my career I have invested across all major asset classes. I began actively trading currencies in the early 1990s when I was responsible for a very large global macro proprietary trading book. The fascinating thing about investing in currencies is that no day is ever the same. One has to continually observe the price action of the markets and evaluate the responses of other participants to news, economic data and political events. George Soros alluded to this behavioural approach in his theory of reflexivity. John Maynard Keynes also described the idea of “gaming” crowd behaviour in his famous analogy of comparing investing to that of beauty contests, in 1936 he wrote, “It is not a case of choosing those which, to the best of one’s judgement, are really the prettiest. We have reached the third degree where we devote our intelligences to anticipating what average opinion expects the average opinion to be.”

My educational background is in economics and international studies and I really enjoy analysing political and macro-economic events, but over the years we have adapted our trading approach to be much more focused on what is essentially behavioural

psychology. We analyse what the market participants are doing by tracking them as they leave their footprints in the price action. Each morning it is exciting to see what happened overnight and every day is like a three-dimensional chess game. One can never know enough about markets.

When did Eleuthera Capital commence operations and what trading and investment services does the company provide?

Eleuthera Capital AG commenced operations in Q3 2011. We decided to set up a new investment advisor solely focused upon systematic currency trading. After selling my previous alternative asset management business in mid-2007 we wanted to explore new ways to trade macro strategies that could produce extremely attractive risk-adjusted returns in a predictable, repeatable and systematic way. We wanted to combine trading indicators we had previously used into a highly filtered and systematised decision making process. After several years of research, testing, implementation and incubation trading and a few million dollars of development costs, we were ready to deploy these models into a currency fund open to outside investors. We accepted a managed account and started a Cayman fund at the end of last year. We are also planning to launch an Irish UCITS fund



with Newscap Capital, a London-based investment group, where I am Chairman.

Who are the key members of your team and what are their main day to day activities?

Riadh Fessi, my partner for six years, is in charge of trading. He became responsible for much of the final build-out of the trading system. We are both active in ongoing research, testing and portfolio construction. All the technology trends favour our kind of business. The evolution of Cloud Computing, dark fibre, co-location, and the serious expansion of e-trading businesses at the banks all positively affect our performance and make us even more competitive. Furthermore, these major structural shifts in the way foreign exchange trading can be managed and operated mean we need little in the way of human resource. Essentially, all the heavy lifting has already been done over the last several years.

We are talking of course about automated trading. By design, automated trading systems require almost no human interaction as all electronic currency trades are STP'd ("Straight Through Processed") through to our prime broker.

Our excellent head of mid-office has simply to monitor our real-time operating and settlement systems rather than spending time in the reconciliation process. Many operating functions have effectively been outsourced to our partners. We have several IT, data storage, data processing and Cloud Computing solution providers. Our fund accounting is performed by Apex Fund Services, an independent fund administrator who produce our weekly NAVs. I perform the risk management function. Risk

management parameters have already been completely integrated into our investment process so my job is to ensure the portfolio is in compliance with our programmed risk parameters. In terms of disaster recovery, our business is securely and completely in "the cloud" allowing us to access our trading systems and real-time position monitoring from anywhere in the world at any time. Our primary system operates out of NY4 in the US and our back-up roll-over system is based in the London area.

How would you describe your investment philosophy and what do you consider to be the key strengths and operational advantages of Eleuthera Capital's investment services?

We are probably unconventional in the fact that we believe that markets are not efficient which happily defies the last fifty years of finance theory developed by Dr. Farma at the University of Chicago. We agree with Lord Keynes who wrote that markets are impacted by "animal spirits." One can notice this almost everyday. Some days markets hugely overreact to an unexpected data release or news item – some days there is no reaction at all. These animal spirits can drive huge price changes, particularly in currencies. Perhaps the more common contemporary description for this crowd behaviour is "risk-on/risk-off."

Please tell us a bit more about what you mean by these "animal spirits?"

A perfect example has been the recent history of the Australian dollar. In a 16-month period from 2008 to 2009 the Australian dollar/US dollar exchange rate fell 40% and then rose 56%. Was there a huge decline and then boom of the Australian GDP? No - Australian GDP actually grew mildly during this period with one only one quarter of small negative growth (4Q 2008, -0.9%). How does this wild exchange rate movement fit the description of an efficient market? Long ago we recognised that markets may align with fundamentals, but the reality is in the short and medium term prices can, and will, move all over the place. As a fund manager, had you been bullish (correctly) of the Australian dollar you would probably not have had any clients left had you held that long Australian dollar position; notwithstanding the fact that had you bought the high in 2008 you would have had an annualised return to date of about 7.5% (had you bought the low you would have had an annualised return of approximately 27.5%!).

Our investment philosophy has been centred on the creation of an investment process that seeks to create

a repetitive, uncorrelated and positive series of risk-adjusted returns. We want to harvest alpha from market noise – or in other words track the “animal spirits” and capture them! We recognise that markets “range trade” rather than trend for the majority of the time. So we created two groups of trading models. One set of models are centred around mean reversion, selling the highs and buying the lows of the recent trading range. The other group of models becomes active when markets are short-term trending and those models trade in the direction of that trend. One of the problems of currency investing is that prices tend to breakout and then trend and then stop and range trade for long periods before breaking out and trending again. Some managers do well in trending markets others do well in range trading markets, rarely do managers do well in both types of markets.

We have developed a process that seeks to ensure that we do well in both environments. Our key strength is that we are very experienced investors who have lived through almost every type of market condition. We don't try and think up great theories and then relentlessly test and optimise them until they fit the real world. We take the real world, and what we have seen work in the real world, and we systematise that.

What style of trading do you undertake to execute strategies and do you have any particular preference for specific trading time horizons, such as intra-day or medium to long term?

We use a comprehensive range of filters in order to screen out most sub-optimal trades. We prefer to be out of the market rather than to be active in trades which we believe may have a lower probability of success and we don't mind sitting in cash waiting for attractive opportunities. We use multi factor models that generally involve the following groups of market studies: pattern recognition, statistical distribution, fractal analysis, momentum oscillators, directional filters, technical analysis and proprietary studies.

Our trading horizons currently vary from about five minutes to eight hours. We can hold positions overnight, but because we thrive on volatility if markets become becalmed we usually exit. There are



few other participants in these time horizons because very short-term traders are often high-frequency trading in the sub-minute or even sub-second periods. Most trend traders are trading medium-term trends of 30+ days; traditional short-term trend traders are usually participating in trends that are five days and longer. So we don't have a lot of competition in our time horizons.

The best thing about our trading style is we create great portfolio diversification for institutional investors. We have the most opportunity when markets are volatile – conversely these are often the worst times for equities and many fixed income strategies. When volatility is low in currency markets, as it has been recently, it is often the best investment environment for equities and bonds. Witness, for example, the rally in world equity markets from late November to February. The S&P 500 was up 18% in three months, whilst currency volatility dropped to four-year lows. Most short-term currency traders reported break even returns for this period, but when equity markets were falling last year our incubation trading accounts made solid gains. So we have the ability to preserve capital in good times for traditional asset classes and make outsized returns in more difficult market conditions.

What Risk Management frameworks have you developed and how do you apply them with respect to different strategies and trading models?

Everything we do begins and ends with risk management. Trades are sized based on a risk algorithm and every trade is initiated with an initial stop – the exact amount that we are prepared to lose on any single trade. The stop may become dynamic and convert to a trailing stop in order to further preserve capital and lock-in profit. If the portfolio begins to become overpopulated with positions another risk algorithm will start reducing the size of additional trades in order to constrain further risk exposure. The entire portfolio management process is constructed around the size of drawdown that we expect to have. Trades are sized, stops are calculated, and the portfolio constraints are operated in this way.

We expect that a normal drawdown can be up to 5% in any one month and we have a risk-targeted tolerance to an approximate 10% peak-to-trough drawdown. We could easily further limit these risk factors – but we feel that they are of the appropriate size to allow us to fulfil our desired objective of an annualised net return of 15-25%. Generally we recover from drawdowns very quickly so we would not expect to languish in a drawdown for any material period.



What currencies do you trade?

We electronically trade the spot cash market in the major currency pairs and their crosses. We don't trade emerging markets due to their lack of consistent liquidity and the high trading costs rooted in the fact that they have wide bid/offer spreads. In the developed currency markets high frequency trading has helped to dramatically reduced bid/offer spreads – so we like HFT traders even if we don't fit into that category! The generic spot market is now almost completely electronic. One senior FX banker told me last week that they just do not want to have any voice execution any more as it slows down their STP settlement process, and so we find that voice trading of developed spot currency markets is increasingly anachronistic.

How much reliance do you place on the latest automated trading toolsets and execution algorithms to help you better manage risk, optimize trade execution pathways and meet your investment objectives?

We believe that we are on the cutting edge of automated FX price aggregation. We receive extremely good pricing from the major banks because our style of trading is attractive to bank counterparties as we are often adding liquidity to markets when it is needed. In our trading style, it is not unusual for us to be loss-making in the first few minutes after trade inception as we are often entering markets just

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when short-term trends are changing. This means that when banks take the other side of our trades they are still able to profitably cover their exposure to us. This makes our strategies very scalable – in the world's deepest markets. We have developed our own execution strategies and we have our external IT partners refining some new execution algorithm strategies for us.

How do you go about back-testing your proprietary currency trading systems and signals to confirm that your strategies will perform as required?

We have been testing models continuously for five years. The way things develop is that Riadh or I toss out an idea about a possible model and then we think about how that would work and whether it is complementary to our existing model sets. We then begin building it out and thinking about what time period may be appropriate. Most of our model sets spend the majority of their time looking at 1-minute to 240-minute time “slices.” We analyse the change of market conditions within that time period and compare it other time periods. Once we are comfortable that a new model could be an interesting portfolio addition we begin a series of tests.

It is not unusual that due to all the filters that we usually deploy, a single test using only one year of tick data could take a week of 24-hour computing time to complete. We are analysing all the iterations of every bid/offer spread, 24 hours a day for approximately 250 market days a year. To test several years of data and then study the results and make any necessary changes may take several months. What many people do not necessarily appreciate about our testing methodology is that for us to test a single calendar year of intraday data, on a single model, on a single currency pair, would equate to a medium-term trend follower testing over 86,000 years of a daily data series. We prefer the testing process to be, as close as is possible of course, to “real world” conditions. I have long since given up printing the test results as we filled one room in Switzerland with binders of test outputs. We increased our growing collection

of multi-terabyte external drives to store cheaply and efficiently what has become a vast array of data storage, the likes of which if printed on paper would now take a large warehouse to store.

When we are happy with test results (which is a about 5% of the time), we initiate the model into a separate live Demo server for observation. This typically runs for a month or two on live data, but without live execution, in order to make sure that the observed results are in line with expectations. If we are pleased with the results then we initiate a test with proprietary capital in a separate account for several months in order to make sure the actual results generated are as to be expected. You can begin to see why it was over three years before we first launched our incubation account! We don't know too many firms who have enough conviction in their models that they are prepared to fund three years of research without any revenue.

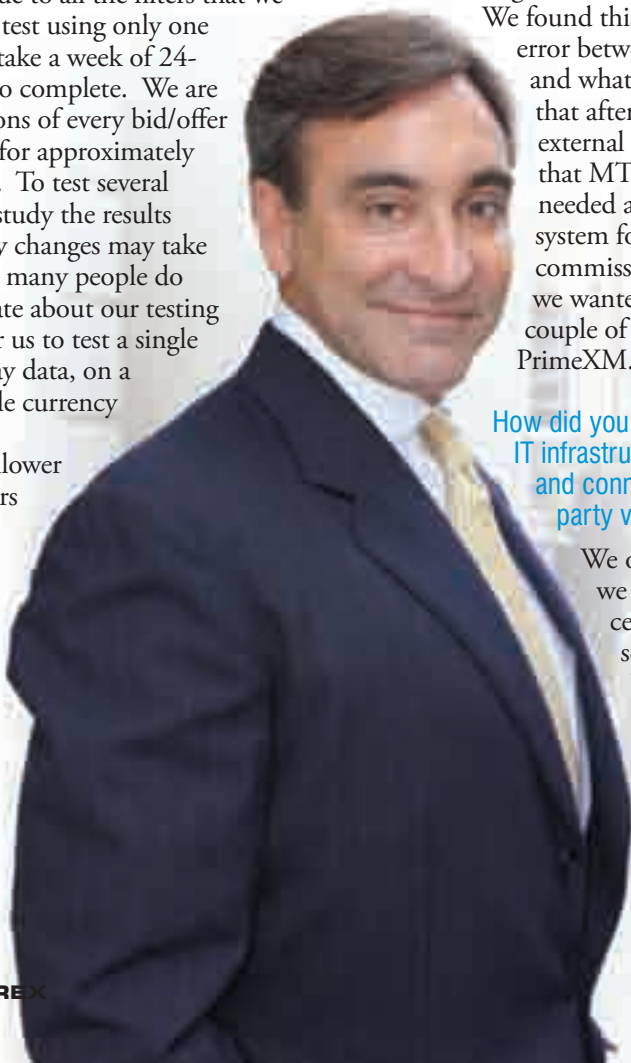
What trading platforms do you use and what factors influenced your choice?

We spent the first couple of years giving out projects to external IT and algo consultants. Unfortunately we found them to be expensive, arrogant, slow and poor project managers. We then brought our programming resourcing in-house and we used MATLAB and C++.

We found this process was also slow and liable to error between what the programmers crafted and what we wanted. The final outcome is that after experimenting with a number of external and internal solutions we found that MT4 could do about 80% of what we needed and it was a very easy and flexible system for us to update and modify. We commissioned the additional add-ons that we wanted and then we experimented with a couple of bridge providers before settling on PrimeXM.

How did you go about building your trading desk IT infrastructure and was the trading software and connectivity technology provided by third party vendors?

We originally started internally, then we bought a server to plug into a data center and then we finally went for a secure Cloud Computing solution. We still use our own server for testing and we use servers in both London and NY to demo test and to trade. We want our trading servers to be close to the bank servers. We have an IT service firm in Switzerland that we have used for many years to





provide our basic IT infrastructure and two separate cloud providers and PrimeXM GmbH for our bridge and aggregation solutions.

What new strategies and products have you been exploring as part of efforts to widen your range of trading ideas and investment solutions?

We experiment all the time. The recent trend has been to move to shorter-term time periods. Our current trades generally have duration of 4-8 hours. The models that we plan on bringing on line operate in the two-to-thirty minute time horizon. We don't feel that we currently have the interest to start trading in the sub-one minute time arena.

For those investors seeking currency returns from a managed account program, what advice would you give with respect to their choice of currency manager?

The currency market has a turnover of over \$4 trillion a day and it is a surprise, for a market that trades at many multiples of the total value of all daily global equity market volume, that there are so few dedicated currency managers.

Many currency managers fall into one of two categories: medium-term trend or carry traders. We do neither. The reason that we do not invest in these strategies is that they are highly correlated not only to each other – but also to other asset classes. Carry strategies, buying a high yielding currency and borrowing in a low yielding currency, creates a positive interest rate spread. It is also easily leveraged. The problem with this strategy is that it becomes easily crowded – and it feels like free money. Many investors deploy a degree of leverage in executing this strategy and so you end up with a boom

and bust cycle. As an example, the Korean won was a great carry trade for most of 2011 until September, when it promptly lost 14% of its value. The main reason that this loss was so large was that all the carry investors tried to exit a typical high yielding currency in a very short period – who takes the other side of this exit trade? Most high yielding currencies just don't have sufficient market depth, adding an unacceptable and unquantifiable risk to this investment thesis.

A medium term trend follower will end up with many of the same positions as the carry traders. Their systems will identify the momentum of investors buying into the high yielding currency and they will follow them in and they will also try and exit when the trend turns, exacerbating the price movement. In essence both these strategies produce the same correlated return. The other problem is that the same "risk-off" catalyst that caused the investor exit out of higher yielding currencies probably caused equity prices to fall – so you may end up with unwanted correlation to equity markets.

My advice is to seek diversification amongst managers of any asset class. In terms of managed accounts and managed account platforms, investors should closely examine what are the additional costs to host a managed account. The main reason that investors have had an interest in managed accounts in recent years is their concerns about fund liquidity, transparency and the accurate marking of positions. The currency markets are extremely liquid, as such currency funds should offer extremely good liquidity terms, and the marking of positions is not really subject to discretion, as example, the price of EUR/USD is universally available. So the question remains, do the benefits of a managed account justify the extra fees over investing in the fund?

We operate a managed account on behalf of an institutional investor. It works well because we have good autonomy on how it operates, its trading infrastructure and with which counterparties it trades.

We have made sure that the Eleuthera Currency Fund is getting the best possible pricing. We have developed a superb multi-bank, multi-ECN executable pricing feed. This kind of set-up may not be available in some managed account platforms.

Ultimately, we are fiduciaries and our job is to help investors achieve their risk-adjusted return objectives. We are counterparty and investor friendly and we believe that true investment success is built through finding long-term sustainable partnership solutions between all stakeholders.

Do you think the currency fund management business is getting harder in terms of delivering consistent returns?

We think it may be getting easier. Some of the more difficult years were 2005 and 2006 when low volatility created few opportunities for currency managers. Many managers produced low single digit returns when equity and credit markets were booming. Thus a diversified portfolio including all asset classes should perform well. In periods of high volatility, short-term currency trading returns should perform extremely well – when other asset classes are under stress.

When equity markets became more difficult the diversification benefits of investing in currencies also became apparent.

One reason that we think that the FX market is getting easier is that lower trading costs are enhancing our returns. In addition, the fact that S&P 500 is 12% below its price 12 years ago has helped devalue this cult of equity that indoctrinated investors in the 1980s and 1990s. This has forced investors to focus on attractive returns available in other asset classes. Very, very few investors have bothered to allocate to currencies as a stand alone asset class. Consultants don't know how to benchmark it, investors don't know how to classify it, and only now are they

are some institutional investors beginning to recognise that currency trading can be an attractive risk diversifier for their portfolios.

Due to its liquidity, simplicity and transparency and it has to be said, due in no small part to the explosion in the popularity of retail forex as a global phenomenon, the next big growth area will be the recognition of FX as a major asset class. It is long overdue and the possibilities are vast.

Looking ahead, how will you be addressing the main challenges facing Eleuthera Capital as you seek new ways for capturing and exploiting investment opportunities with currencies?

One point that is often overlooked by investors is that the currency market is perhaps the only market in the world that participants do not all share a similar profit maximising objective. A large portion of the currency market is comprised of corporate treasury managers whose sole objective is to transfer cash balances between various markets where they have to pay invoices or receive payment for goods and services. Sometimes they need to hedge out future exchange rate risk. They all share a common trait – they must execute a transaction that in itself is not profit seeking. This throws out many possibilities of alpha generation for us – these transactions often create short-term market distortions that we are able to exploit. In essence we can create profits by bringing the market back into equilibrium helping accommodate the daily trade flows of commercial transactions.

Our future management efforts are concentrated on two areas – striving to make our investment processes, risk management and trading models the absolute best that they can be and continuously researching new trading ideas. The dinner table conversation of our investment team usually involves discussing new or possibly better way of currency investing. Our focus is on shorter-term time horizons for a number of reasons. The objective is to be like a tollbooth on a highway. We want many trades going through generating modest, sustainable profits every day. In the shorter time frames the inevitable drawdowns can be absorbed and regained swiftly. We think that in this way we can monetise the market “noise” and create a higher quality and lower risk investment return for our investors in almost all market conditions.

We believe that by deploying decades of trading experience into a systematised investment process, and by continuing to implement new and evolving models, we can generate very attractive risk adjusted returns for years to come.



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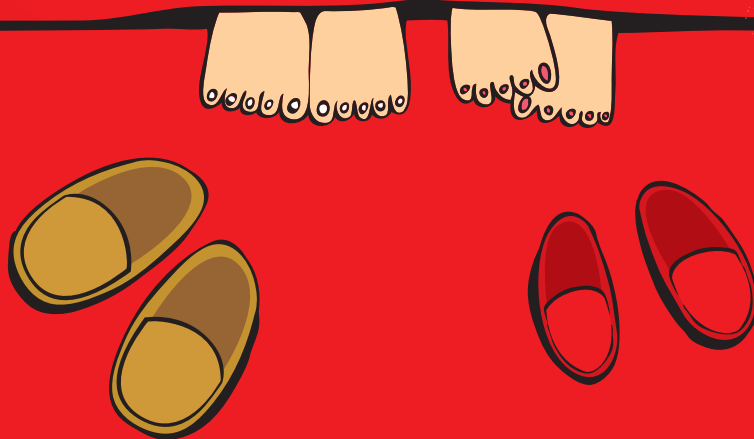
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