

July 2012

# e-FOREX

transforming global foreign exchange markets

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## Standing out from the crowd

How are FX e-commerce services being differentiated?

### **Banks to the buy-side**

FX Clearing brings risk mitigation to a wider market

### **News analytics**

Capturing market opinion for high performance FX

### **Anywhere, anytime**

Retail FX trading gets seriously mobile

### **FOCUS on Big Data**

FX meets a growing information tsunami

...liquidity...risk management...STP...e-Commerce...



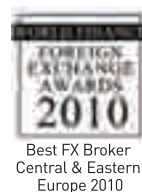
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DOM MAKLEPSKI

Welcome to

# e-FOREX

transforming global foreign exchange markets



## SUMMER 2012

One of the key feature articles in this edition of e-Forex examines what it takes to rise to the top of the FX e-commerce league tables and whether differentiation in e-FX can be successfully achieved by delivering more client focused and less product focused products and services.

An interesting area of development for e-FX is the provision of pre-trade services and, more specifically, the content involved which ranges from pure FX research to more proprietary and quantitative information. Packaging and delivering this content in the most expeditious way means making it available through multiple communication channels including mobile devices, something which is still in a relative state of infancy in the Institutional FX market. This is particularly evident when talking about mobile trade execution services which many firms currently prohibit due to internal policies.

However, as we report in our mobile FX trading article later on in this edition, the addictive nature of the Smartphone means that the powerful native features of mobile devices are now being seriously exploited in the Retail FX sector to deliver improved mobile trading solutions. Most brokers are competing to offer full desktop functionality on a small Smartphone screen with a simple user interface. Mobile devices enable brokers to offer clients value-added services, unlimited access to real time quotes, market data, charting packages, analytic tools and account status. They are also creating a new environment that allows traders to have a greater level of access in real time to not only brokers and analysts, but to other traders. Social platforms such as Twitter and Facebook are easily available on mobile devices and thus provide traders a medium to talk to other traders. This community feel to trading which is based around the use of mobile devices is also helping to facilitate growth in social FX investing activities. Users of investment networks can receive market alerts and analysis directly to their mobile devices. They can see how many users have rated the analysis, and even how many users have opened a trade based on the suggested trade signal. They can also see how many have shared this trade signal with other users to further understand how the community rates this information before executing their own trade with the simple click of a button.

Mobile technology is powerful stuff and the consensus seems to be that as broadband speeds improve we will see more fast execution features built in for FX trading with an increasingly diversified range of mobile applications being made available to both the Retail and Institutional trading communities.

As usual we hope you enjoy this edition of the magazine.

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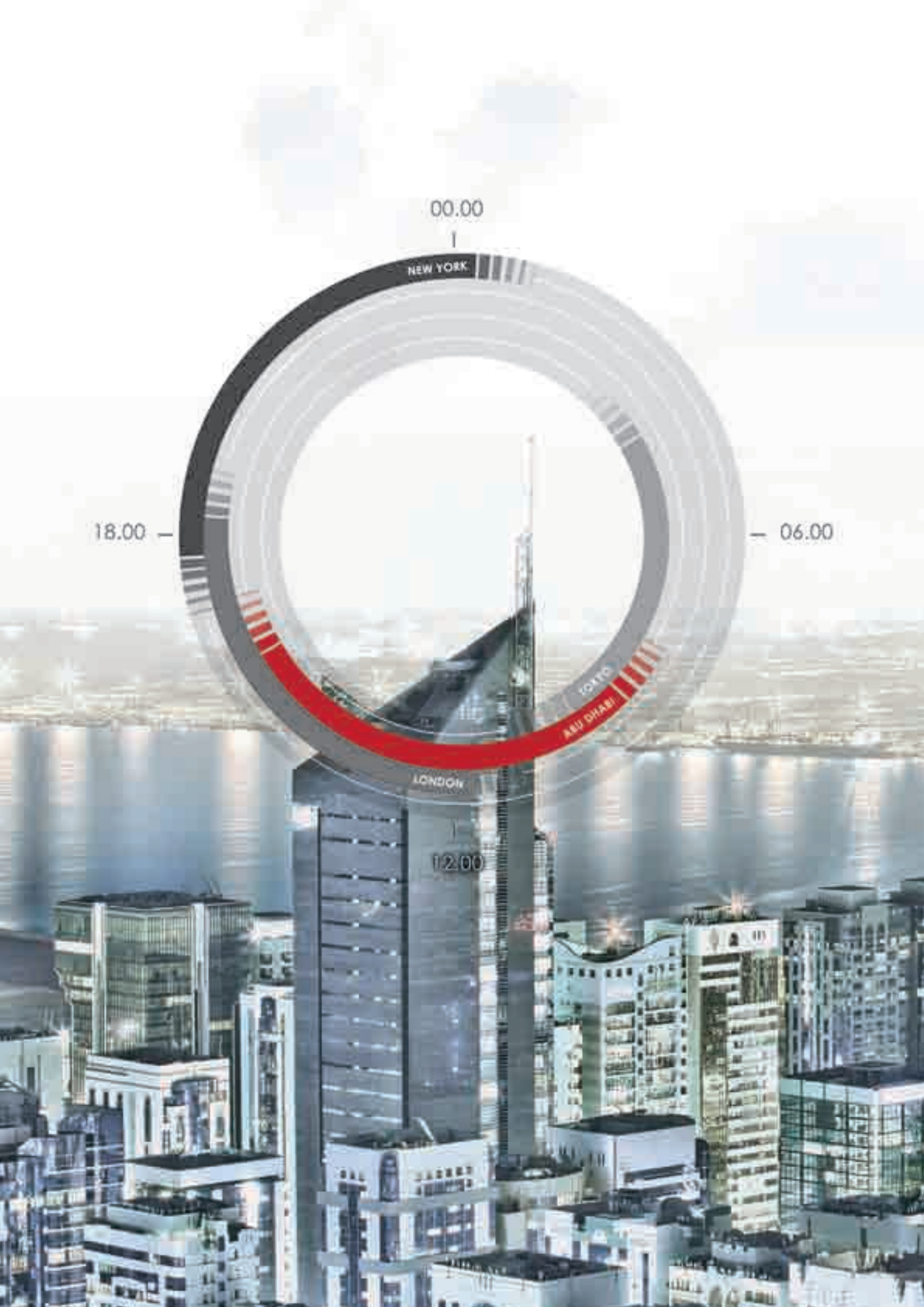
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**Manfred Wiebogen**  
Foreword  
FX Best Practices



**Frances Maguire**  
Leader  
FX Clearing



**Felix Shipkevich**  
Regulatory Roundup  
FX Regulation



**Nicholas Pratt**  
FX e-commerce  
Differentiating services



**Richard Willsher**  
Regional e-FX Perspective  
Latin America



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Big Data and FX



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Fast Track  
Electronic FX technology



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Mobile trading



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TraderTalk  
A unique view on managing money

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# Knight





Design and deployment of  
algorithmic FX trading strategies



Retail FX  
Going seriously mobile



News Analytics for high performance FX  
Capturing market opinion

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# A fully integrated solution for professional traders



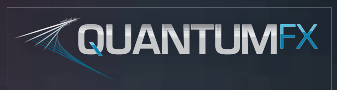
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Powering Institutional FX

## Phillip Futures offers FX White Label solution

Phillip Futures has announced the successful launch of White Label solutions to regional FCMs and brokers. The Phillip FX365 and FX Trader platforms are solutions designed for brokerages seeking to offer spot Forex trading to their clients. "Our White Label solution is a fast and efficient opportunity for our clients to embark on a product expansion and client acquisition strategy, and at the same time, have access to deep multi bank liquidity through a single source. In addition to supporting FIX protocol, our API options can be easily integrated with your current suite of trading systems, offering you flexibility and scalability, with direct access to prices from our multi-bank liquidity providers," said Mr Joseph Ng, Head, Foreign Exchange at Phillip Futures.



## Nordea builds its one click trading strength

Nordea has stepped-up production on its One Click Trading facility to offer streaming live FX spot prices covering all major currency pairs. The feature is included on its proprietary single-dealer platform as an addition to request for quote (RFQ) functionality.

"In today's volatile FX markets where fractions of a second count, having the proper tool at hand so you can react swiftly to new information and market conditions is essential. One Click Trading on e-Markets is this tool. Using highly advanced pricing and order execution technology, with high fill rate, large volumes and no partial fills, we ensure that the price you see is the price you get," said Kenneth Steengaard, head of FX, MM and Commodities Trading at Nordea.



**Kenneth Steengaard**

## TraderTools enhances FX aggregation platform

TraderTools has added new front-end integrations to its Liquidity Management Platform™ (LMP). According to Valbury Capital, "TraderTools will enable us to deliver liquidity to our clients through its proprietary trading screens, via an API or through our existing front-end platforms such as MT4 and VCL Vanguard, depending on the client's requirements." Rand Merchant Bank has also selected LMP as the foundation for its FX trading desk. TraderTools' FX trading platform will provide RMB



**Mark Mayerfeld**

clients with the latest FX pricing and aggregation technology, enabling superior algo-trading and auto-hedging capabilities. Commenting on the latest enhancements to LMP, Mark Mayerfeld, TraderTools' EVP International Sales, said, "We push technology to its limits in order to provide our customers with the most profitable FX aggregation platform available."





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## Advanced Markets releases UltiMT



**A**dvanced Markets and Fortrex have released UltiMT, a technology, liquidity and credit offering that enables banks and brokers to provide MetaTrader front-end system traders with direct, high-speed access to multibank foreign exchange and precious metals pricing and trade executions. The technology at the core of the new offering supports all trading, credit, liquidity, risk management, reporting and other functionality in a single solution. UltiMT can process trades entered via MetaTrader front ends in under 10

milliseconds. (see Product Review on page 122).

“UltiMT’s unified system architecture is a major leap forward that supports MetaTrader banks and brokers with extensive operational, risk management and trading advantages unrivalled by other offerings,” said Anthony Brocco, CEO. “The combination of this leading edge solution with Advanced Markets’ multibank DMA liquidity pool creates powerful new opportunities for MetaTrader banks, brokers and their trading customers.”

## Record Spot FX volumes for Squared Financial Services

**A**spokesman for Squared Financial Services said their trading volumes for April and May 2012 have exceeded all expectations and surpassed market averages by a substantial margin. The company believes this is a direct result of their strategy to offer “Squared Trader’s” premium liquidity to premium clients while routing institutional flows to their more robust offering “Squared Trader Pro”. Squared Financial’s new liquidity and trade execution analytics were instrumental in optimizing all trading in the one to five million price bands. In the near future Squared Financial Services also plan to launch a series of new instruments which have been driven by customer demand. These include spot WTI, THB/XAU, USD/CNH, & USD/RUB. By applying similar liquidity management techniques the company anticipates a uniquely competitive and interesting result for their clients showing Squared’s commitment to customer focus and service.

## Nabbe Investments acquires majority stake in TMS Brokers S.A.

**N**abbe Investments S.a.r.l. (“Nabbe”) has announced the completion of its public tender offer, with the acquisition of a 62.68% stake in Dom Maklerski TMS Brokers S.A. (“TMS Brokers”). Nabbe has announced its intention to de-list TMS Brokers from trading on NewConnect, the alternative trading platform of the Warsaw Stock Exchange. Nabbe, together with Mariusz Potaczala, founder and CEO of TMS Brokers, and other key investors, have entered into a Shareholders’ Agreement covering cooperation in the strategic development of TMS Brokers. “We are very excited to partner with Nabbe in

the development of TMS Brokers. Nabbe brings a level of business expertise and access to funding that will be important over the next several years”, commented Mariusz Potaczala. Nabbe is a subsidiary of Nabbe Holdings GP, an investment vehicle of a group of experienced individual investors who have obtained financial support from PineBridge New Europe Partners II, L.P., a private equity fund, which invests exclusively in Central and Eastern Europe, and is managed by PineBridge Investments. PineBridge Investments is an independent investment manager based in New York with U.S. \$67 billion in assets under management as of March 31,

2012. TMS Brokers is regulated by the Polish KNF and has been listed on NewConnect since January 18, 2011.



**Mariusz Potaczala**



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## eSignal 11.5 offers new drawing tools

**e**Signal 11.5, set to launch in August, will have numerous new drawing tools, including Speed Resistance Lines, Channels, Pitchforks, and new shapes. Also included is the unique Pitchfan, a hybrid of the Pitchfork, Gann Fan and Speed Resistance Line and a veritable Swiss Army knife of the drawing world. Any pitchfork type can be created in a style of the user's choosing by adjusting the angle of the parallel lines. The company says its new drawing tools give Forex traders the edge they need in currency markets by better defining support and resistance levels and pattern development.

## smartTrade launches LiquidityFX



Harry Gozlan

**S**martTrade Technologies has launched LiquidityFX, a packaged spot FX aggregation and smart order routing system.

Thanks to its extensive FX connectivity, LiquidityFX aggregates and harmonizes more than 25 exchanges, ECNs and single bank platforms, displaying their best prices at each size. The smart order router (SOR) manages executions to capture best prices while protecting relationships with liquidity providers,

## cTrader and cAlgo introduce web trading

**S**potware Systems have announced major new releases of their NDD manual and algorithmic trading solutions, cTrader and cAlgo. cTrader has introduced a host of updates and new developments, including the launch of cTrader Web, a browser version of the manual trading platform which is accessible from any desktop or mobile device.

**cTRADER Mobile**



New features also include ChartCasts, which allows users to share their live cTrader charts, a 'News' tab for streaming Fundamental news affecting the FX markets, and a number of new line study tools. cAlgo, the Non Dealing Desk algorithmic trading platform, has also seen a new release this month. The update introduces advanced back-testing for trading robots. Algorithms can be tested against historical data, and will enable users to see how the robot would have performed within a specified historical period. Spotware have also boosted their Proxy Cloud performance with the addition of numerous POPs in Asia.

which is key when trading FX. LiquidityFX prioritizes venues based on the freshest prices and highest likelihood of execution and breaks up large orders across multiple venues to capture a better average price and reduce market impact. Liquidity FX is available in both hosted and stand-alone options.

"LiquidityFX was created to give regional banks a way to gain access to more liquidity and expand their FX businesses without having to build sophisticated FX aggregation and routing technology in-house," says Harry Gozlan, CEO of smartTrade.



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## Gold-i partners with Interactive Data

**G**old-i has partnered with Interactive Data to facilitate data flow from Interactive Data to online retail trading platform, MetaTrader. Gold-i clients can now access Interactive Data's consolidated low latency data feed, PlusFeed, when using MetaTrader4 or MetaTrader5. The partnership between the two organisations will result in the full depth of market data being available to MetaTrader5 users for the first time. PlusFeed provides data from over 450 sources and exchanges worldwide, covering more than 6 million instruments. Through Interactive Data, Gold-i clients will have access to exchange-based data, news, corporate actions and reference and fundamental data.



Tom Higgins

Tom Higgins, CEO of Gold-i says, "Gold-i focuses on providing the retail trading market with the same tools and information as the institutional market. We are delighted to be working with such a well-respected data provider as Interactive Data to offer a broad range of global financial information to our clients via our super low latency Gold-i Gate Bridge."

## FCStone launches Emerging Markets Agency trading service

**F**CStone has launched an Institutional Indian Rupee NDF trading service, hiring Peter Trager to spearhead the effort out of their New York office. Trager, a 23-year veteran of the FX industry joined FCStone from MF Global, where he served as Global Head of Emerging Markets. This service



Peter Trager

encompasses quoting INR NDF prices via voice, instant messenger and Bloomberg chat. Peter is joined in this effort by Todd Saturn, also formerly of MF Global. "FCStone is uniquely positioned to provide Agency Pricing to our various clients who are actively hedging and proprietarily trading the INR, due to my deep relationships in the market place from years of trading Emerging Markets on the banking side," says Trager. Trager also added that despite specialising in INR trading, his desk has the ability to provide first-rate pricing in all Emerging Markets currencies. FCStone employs two shifts to cover both New York and London hours. FCStone is also planning a launch of an electronic offering of NDF trading.

## FXDD offers Mirror Trader system with zero commission

**T**he mirror trading method suggests trade recommendations in real-time and/or executes orders automatically on a trader's behalf. This approach to trading is often preferred by first-time traders and traders who want to execute orders with minimized emotion.

FXDD Mirror Trader now provides a simple user-interface in which a client can select and mirror over 50 strategies that can be executed on twenty-nine currency pairs. The system evaluates past profits and risk to suggest which strategies may be most appropriate for current sentiment. Once a strategy is selected, the trader can back-test it against historical data to review its risk and profitability profile. Exclusively through FXDD, clients can run Mirror Trader commission free. The only cost a trader pays is the bid/ask spread on the FXDD



MetaTrader 4 accounts. Note that past performance is not an indication of future results.



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## DealHub launches clearing and reporting solutions

**D**ealHub has announced the launch of DealHub Smart Trade Reporting, a simple to implement package of solutions to manage the new clearing and reporting workflows mandated by the Dodd Frank Act in the US and the MIFID and EMIR legislation in Europe. DealHub CEO, Peter Kriskinans, said "Banks and Brokers are faced with a tidal wave of regulatory change during the second half of 2012, creating huge complexity as legacy systems are upgraded and new systems implemented to cope with new reporting codes and new workflows, all of which are subject to change as regulations evolve in the months to come. DealHub Smart Trade Reporting cuts through that complexity,



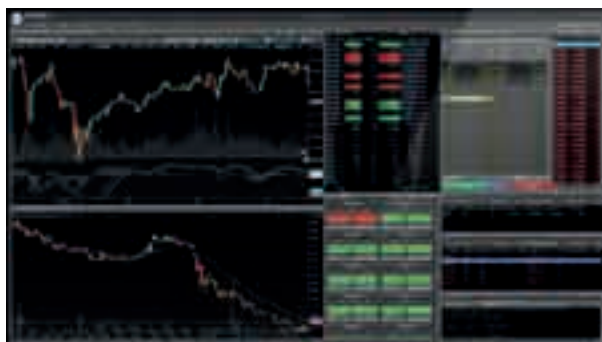
Peter Kriskinans

protecting core systems from disruptive change and establishing a flexible, rules-based framework to manage regulatory demands in 2012 and beyond."

## PFSOft updates PAMM-accounts system

**P**FSoft has updated the PAMM-accounts system on its Protrader 2 trading platform. Using this service every platform user can create a PAMM-account and manage both their own assets and investors' funds simultaneously. Note that with a PAMM-account a trader can operate on any market, including FX, stocks or futures.

The PAMM-service can provide flexible opportunities for fund managers. It is a combination of several managed accounts of investors who can check the statistics of all PAMM-managers



and choose the one they prefer. All shares are kept on the manager's account and at the end of a trading period investors receive their portions of the whole deposit, and the manager receives his reward. This fully-transparent system operates on the basis of an open-ended fund and permits brokers to provide more comprehensive services for their clients.

## Tradition launches traFXpure for Spot FX

**T**radition has announced the launch of traFXpure a new electronic trading platform for spot FX. traFXpure was developed to provide FX market participants with a low cost, convenient and equitable venue for sourcing FX liquidity and will utilise Tradition's resilient and flexible proprietary technology.



Mike Leibowitz

"The traFXpure platform is being designed with the support of some of the largest banks in the world. We look forward to working with these market participants to provide a best-in-class trading venue for spot FX product," said Mike Leibowitz, COO, US and EMEA, of Tradition.

## Dukascopy Bank opens an office in Hong Kong

**D**ukascopy Bank has expanded its international presence by opening a Representation Office in Hong Kong. The Hong Kong team will provide full support in terms of account opening and maintenance.



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## TopFX announces service expansion

**G**lobal sub-prime brokerage service provider, TopFX Ltd, have announced an expansion of their services, now offering complete broker solutions which incorporate a comprehensive and tailored suite of services and tools for starting FX brokerages.

Gabriel Styllas, CEO of TopFX, explained, "We have renegotiated current contracts with a number of liquidity providers which has resulted in a tightening of spreads across all currency and commodity instruments. At TopFX, we practice a strict fair-pricing policy, meaning the tighter spreads and all other benefits we provide are available within a non-restrictive plan with no minimum volumes, no minimum deposits, and no setup fees." There has also been a significant enlargement of TopFX's current list of supported currency pairs, expanding to include almost all tradable currency pairs.



**Gabriel Styllas**

## FTSE Currex FX Index series launched

**F**TSE and Currex Group have announced their worldwide partnership and the launch of the FTSE Currex FX Index Series, a new range of independently calculated, 24/5 streaming, executable spot FX benchmark FIX for currency pairs and currency baskets. The FTSE Currex FX Index Series provides the next generation of FX valuation and performance benchmarking for global capital markets. By establishing real-time Bid and Offer spot FX indices on 192 currency pairs (FTSE Currex FIX), from multiple independent contributors and at multiple depths of liquidity, global capital markets

## Absa Capital's PACE FX introduces trade in CNH

**A**bsa Capital has recently introduced trade in Chinese Renminbi (CNH) to PACE FX, its electronic FX trading platform. The introduction of the market for offshore CNH, deliverable in Hong Kong, has been an important development for Chinese currency market participants. CNH market volumes have risen steadily since its inception in July 2010 and the CNH provides more options for hedging and risk management.

"China is an increasingly important trading partner for South Africa and this development offers local clients full risk management capabilities for their Chinese exposure," says Stephen van Coller, Chief Executive of Absa Capital. Other emerging market currencies that are now offered are the Thai Baht (THB) and Saudi Arabian Riyal (SAR).



**Stephen van Coller**

benefit from improved clarity when viewing previously opaque foreign exchange pricing.

Mark Makepeace, Chief Executive of FTSE Group, said: "FX is the World's largest capital market and currency exposure affects investors in all asset classes. This new series of FX indices will be used by our clients world-wide as a better benchmark for managing currency risk and performance, and will support a wide range of passively managed FX currency funds and strategies."



**Mark Makepeace**





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# Formulating a new benchmark of FX Best Practices

Increasing regulatory initiatives strive to capture, to master but also to govern most of the financial markets. One of them, the Foreign Exchange market, is still a mainly OTC (over-the-counter) one, which has been overcoming the ongoing economic and sovereign turbulences remarkably well.

## What is the reason for that?

Players in the global FX market tend to act according to best practices in promoting efficient market practices. These practices are encouraging high standards of conduct and professionalism. Being a rather flexible, deep volume and counterparty driven marketplace the practitioners interest always has been to maintain orderly and efficient markets. High standards of dealing practice and integrity must prevail.

In history, the largely unregulated global foreign exchange market thrived and expanded for decades in the major international centres without any written code or guidelines on market practice or conduct. In the early 1970's when the O'Brien Letter was issued to authorized banks in London by the Bank of England, this situation changed. In 1975 the first ACI Code of Conduct covering foreign exchange and euro-currency dealing was published. There followed similar publications by the markets in New York (1980), London (1990), Singapore (1991) and Tokyo in 1995.

All these codes do not have any legal authority or statutory underpinnings (except where they may refer to legal requirements), but over time they turned into being 'best market practice' in an unregulated world.

Manfred Wiebogen  
President ACI, The  
Financial Markets  
Association.

### Code Comparison

Recently, the Federal Reserve Bank of New York led an initiative to compare the global codes of best market practices to help identify similarities/differences and to determine whether one single global code of conduct was a viable objective.

There are currently five separate committee codes in London, New York, Singapore, Tokyo and Hong Kong in addition to the ACI The Model Code (TMOC) which has been adopted by Australia, Europe and Canada (amongst others).

All these codes intend to promote best practices and to encourage high standards of conduct and professionalism in the wholesale market. The current review of the codes by the Canadian Foreign Exchange Committee, CFEC and the Federal Reserve Bank of New York raises the question: 'Is there scope for a single, global code across the groups?'

Well, the diversity of markets and products now traded and arbitrated by bank dealers dictates that there will inevitably be some areas of overlap where separate individual or local market codes already exist – probably more similarities than differences.

### Launch of FX Best Practices in Operations

In response to these international ongoing initiatives, ACI updated its code of 'FX Best Practices in Operations' which became officially launched during the last congress in Dubai March this year.

The update was developed by a team led by Andreas Gaus, Credit Suisse, member of the ACI Board of Education and Chairman of the European Central Bank Operations Management Group (OMG), who reviewed the Bank of England Non-Investment Products (NIPS) Code, the Federal Reserve Bank's 60 Best Practices and the ECB's OMG documents, among other documents, which were then formulated and updated to create a new benchmark.

The team reviewed the above documents, and ISDA's documents as well as the existing ACI Model



Best Practices – Setting the Scene

Code's chapter on Operations and formulated a new benchmark of FX Best Practices.

The team was comprised of individuals from Banque de France, CECA, Goldman Sachs, UBS, Banco de Portugal, Nordea, Dexia, Deutsche Bundesbank, HSBC, Credit Suisse and Citi. An external review was provided by Central banks and numerous Global Operations Managers from the Operations Committees of the Reserve Bank of Australia, the Monetary Authority of Singapore (MAS), the Bank of Japan, the US Federal Reserve System (FED), the Bank of England, and many other banks and professionals.

84 FX Best Practices in Operations have been updated or re-defined. The findings will now become implemented into the Model Code Chapter in Operations.

Remarkably is the number of volunteers, bank institutions and authorities cooperating in a 'non-binding' but recommended and mainly accepted international Model Code which is aiming to enhance existing market practices – without the need of becoming legislative.

Market professionalism but not lobbying of singular financial institutions has as usual come to the fore.





## From banks to the buy-side – FX Clearing brings risk mitigation to the wider market



**Frances Maguire**

The impact of clearing will be felt throughout the FX market. Frances Maguire looks at the main challenges ahead and what's in store.

Clearing for FX has been a topic of debate for quite some time, and it will soon be kick started in the US, when product definition rules are released detailing which products are classified as derivatives or swaps and therefore subject to clearing mandates.

The US Treasury has proposed exempting FX forwards and swaps from the definition of a swap, and therefore from the clearing obligation and this is a move that James Kemp, Managing Director of the Global FX division of the Global Financial Market Association (GFMA), the industry body of the FX market, would like to see finalised to bring greater clarity to the market. He says: "There is a very big drive for international convergence from the next group of jurisdictions looking to put their own legislation in place, so finalisation of the decision will allow the industry to move forward."

In Europe, the finalised European Market Infrastructure Regulation (EMIR) identifies that there could be products, such as foreign exchange, where the



key risk is actually settlement risk, not counterparty mark-to-market risk. It suggests that, because of the well-developed infrastructure in the form of CLS, such products may be taken out of the mandatory requirements for clearing, similar to the approach taken in Hong Kong, Singapore and Australia.

Says Kemp: “Regulators are starting to identify, and perhaps accept, that FX forwards and swaps do not have the same type of risk and that subjecting them to mandatory clearing obligations may actually harm the market and introduce more risks.”

### NDFs and FX options

NDF and FX options are likely to be subject to mandatory clearing and already a number of global offerings have launched for NDFs, but Kemp says the continuing challenge, identified by regulators, such as CPSS/IOSCO, is that FX options come with a requirement for physical settlement, in other words, the need to deliver the currency.

He adds: “The question is how well CCPs are to be able to deal with this risk, if at all, and what risk mitigation assurances would be required before the regulators

would be comfortable with a CCP being able to guarantee full and final settlement of the principle amount, on the day. FX is very much a funding instrument and there can be knock-on liquidity implications if the cash is not delivered.



James Kemp

*“Regulators are starting to identify, and perhaps accept, that FX forwards and swaps do not have the same type of risk and that subjecting them to mandatory clearing obligations may actually harm the market and introduce more risks.”*

“This could cause instability in the financial system and regulators are naturally concerned about breaks in the system, between clearing and settlement obligations. As we read it, a CCP would be required to guarantee the performance of the contract and the physical delivery of the principle. As it is a funding product, if there is a default and the cash is not delivered on the date, there could be liquidity crunch. This could mean the need for central banks to get involved – clearly, any such involvement should be a last resort and not a first resort.”

At the moment therefore, it is not certain how FX options could be cleared. In an effort to bring some clarity, GFMA’s Global FX Division has kicked off a project, working with interested parties, including regulators, central banks, CCPs and the Global FX Division’s 22 members, to analyse five years’ of FX

options' data to understand the implications and the pay-out amounts around different currencies in the event of a number of default scenarios. This will provide the regulators, and the CCPs, with a much clearer view of the risk problem to be solved. Initial results are expected during Q3/Q4. Hopefully at that point, it will become clearer what solutions may exist.

Kemp says: "Once the size of the problem is worked out, the industry and the CCPs, along with the regulators and the central banks can examine what the clearing models might look like and determine whether they feel comfortable with the solution."

Within the derivatives and equities markets, which are further ahead in central clearing, some commentators have already suggested that there are too many CCPs. For FX, in the case of the less liquid NDF market, it could very easily happen again especially if regulators insist upon having regional CCPs. Competitive forces may ultimately dictate how many are sustainable.

The FX industry has approached the problem of risk reduction with the view that regulators are better placed to deal with the larger, core issue of settlement risk through promoting CLS and then monitoring the market in terms of how participants are trading via analysis of trade repository data.

Says Kemp: "The Global FX Division operates on a truly global basis and we are keen to co-ordinate and promote international convergence in multiple jurisdictions across the globe. FX is a global asset class used by corporate and pensions funds for trade and investing and we want to ensure that we do not take what is a highly efficient global market and end up with a series of fragmented regulatory regimes to the detriment of everyone involved."

### Clearing gets going

LCH.Clearnet went live with ForexClear, initially clearing FX non-deliverable forwards (NDFs), in March and Gavin Wells, CEO of ForexClear at LCH.Clearnet, says that its global NDF clearing service is now operational with 14 members, with more preparing to join before year end.

Wells believes that ForexClear's global reach will capture the main clearing-member participants and the bulk of the market share, and with the introduction of a client clearing service next month,



Gavin Wells

*"If Dodd-Frank or EMIR had not emerged, we would still be clearing FX, but perhaps 12 to 18 months further down the road because the market would have been focused on rates and credit."*

further users will be able to benefit from the service. It currently covers six currencies: Brazil, Russia, India, China, Chile and Korea and at the same time the service is extended to clients, five new currencies will also be added. They will be Columbia, Indonesia, Malaysia, Philippines and Taiwan. He says: "The reason we have chosen these eleven currencies is that they cover 95% of the NDF market."

For clients, there will be two types of offerings and both will mature over the next six to twelve months. The first will be for the Futures Commission Merchants (FCM) and will start with a gross omnibus account structure moving to an LSOC structure in time for the November deadline from the CFTC. In Europe, it is less clear. It looks likely there will be a segregated account structure for Europe but details are yet to be finalised by ESMA. LCH.Clearnet will therefore start with a gross omnibus account structure and refine this as regulators require.

LCH.Clearnet designs all its services in collaboration with market participants and in the case of client clearing it has been working closely with members



# ForexClear

OTC Foreign Exchange Derivatives

## Custom-built

For FX market requirements

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## Client clearing

Launching a market leading,  
flexible client solution

## End-to-end clearing

Fully integrated post-trade processing  
& collateral management



and their clients, to ensure the new NDF service fits with their needs. Wells says that ForexClear is built on a unique approach to default management which leverages LCH.Clearnet's extensive OTC clearing experience. The service uses a value-at-risk approach to calculating margin, with filtered historical simulation, known internally as FxPAR.

As with any risk mitigating service, some users will focus on the quality of the risk management others will always focus on cost. Wells says that LCH.Clearnet has focused on its strengths, which are its risk methodology, default management process and the breath of collateral it accepts. The regulatory clearing mandate will require market participants to post more collateral and LCH.Clearnet is focussing on offering an efficient, centralised collateral management service. He also adds that robust risk management standards, meeting member and client requirements and cost expectations are all important. "If these factors were even, amongst all CCPs, then the final determinant would be the cost," he adds.

At this stage of building the infrastructure for FX clearing, reducing cost is challenging as the services are all in their infancy. As they mature, and other related FX products are cleared, this will increasingly become a focus.

#### Enhancing capital efficiency

While most coming to NDF clearing will already be clearing other asset classes, FX clearing will introduce a daily net calculation of variation margin that was not there before; whilst many participants were collateralising FX daily under the Credit Support Annex of the ISDA Master Agreement this was done bilaterally and was less efficient.

Says Wells: "With a clearing house, payments are netted multilaterally rather than managing multiple payments, so there is only one payment to the clearing house. With regards to initial margin, this is something that would not have been needed pre-clearing and the impending regulatory mandate, but in the future, will have to be posted for bilateral

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trades, whether cleared or not. On current CRD IV estimates, capital efficiency is significantly enhanced when products are cleared.”

As NDFs are financially settled, without exchanging notional amounts, the risk is smaller than in physically settling FX and LCH. Clearnet can use its proprietary Protective Payments Service to settle NDFs, without the need to connect to CLS.

In terms of FX options the clearing house is looking at extending the NDF service to cover all FX products, and will connect to CLS for the settlement of options once an appropriately robust model is agreed with Regulators and Central banks, a topic on which many in the industry are working hard.

Wells believes that the clearing model that will evolve for FX will be further shaped by market demands from here on. He says: “If Dodd-Frank, or EMIR had not emerged, we would still be clearing FX, but perhaps 12 to 18 months further down the road because the market would have been focused on rates and credit. Because of the regulatory mandates, there is a quicker move into FX clearing but many end-users, especially on the buy-side wish to voluntarily clear more of their FX than just NDFs, so that they get best use of their collateral. This means that many in the market want to clear FX. Whether it is mandated or not, all instruments in foreign exchange, except spot, will be cleared in due course”

#### Mitigating counterparty credit risk

At the end of April, CME Group also went live with clearing for NDFs in 12 currencies, to include the Peruvian Sol. NDF clearing is an expansion of its multi-asset class OTC offering enabling customers to leverage the same risk, operational and legal infrastructure across interest rate swaps, credit default swaps and FX.

Derek Sammann, Senior Managing Director, interest rates and foreign currency products for CME Group, says that the exchange is positioned to clear dealer-to-dealer as well as dealer-to-client business but trades cleared to date in NDFs have been on the client side. CME Group has been working with executing dealers, clearing members, clients and affirmation platforms to ensure its offering meets the needs of all market participants. Initial clearing members working toward an end-to-end fully automated clearing solution later this quarter include Barclays, Citigroup, Credit Suisse, JP Morgan Chase and Morgan Stanley. He says: “We are looking to work with the dealer and the clients to ensure all the operational and risk management processes are sound before volumes can increase and the service

can truly scale in the coming months. Our approach has been to leverage as much of our existing FX infrastructure as possible to try and keep this as cost effective for our clearers and our clients as we can.”

Sammann says that CME Group has committed to building a solution that will clear all FX products, regardless of mandates, because of the belief that there is a desire, and a need, for the market to mitigate counterparty credit risk, and this is what the CCP model does. This is part of the reason the group began clearing NDFs before the mandate, he adds.

To this end CME Group is working with the industry, the other CCPs, and GFMA's Global FX Division to overcome the challenges of clearing FX options and working out what a global CCP settlement model will look like, involving CLS. The FX market is also looking at how Dodd-Frank is defined and the proposed exemptions from the US Treasury versus the EMEA position at the moment, where there are, currently, no exemptions.

The CME Group has included clearing for spot in the solution it develops for FX clearing. Says Sammann: “The driver behind including spot FX is really down to the spot element that can be sometimes included in



Keith Tippell

*“We are taking the pain out of managing connectivity and the operational processes around managing new trade flows.”*

FX options portfolios, where a delta hedge is used. As this hedge may include spot or a forward transaction and it makes sense, from a capital efficiency perspective, to keep all of those instruments cleared at the same place.”

### Investment returns

Providing risk mitigation across the FX market is a central prong of the CME Group’s strategy and the solution is open to all who meet the robust requirements of the clearing house. “Mitigating credit risk on a broader scale is a positive move, rather than focusing on a particular sector or instrument. We have put ourselves in a position where we are open to the dealer community and the buy-side community, across all the products in the FX suite. It is about providing open access, with a broad suite, to mitigate credit risk and creates capital efficiencies for a wider market,” says Sammann.

As the FX industry considers the impact of clearing, participants will now have to look at how they will get the best returns on their investment on capital they outlay in respect to initial and variation margins and Sammann believes the liquid exchange-traded futures and options business will be leveraged to offset against the margin requirements in OTC FX instruments. He says: “The market will be looking for a good return on its investment because as these changes come in it is going to get costly. We know what the capital requirements are going to be under Basel III and it is going to become very expensive for certain market participants and they will go for a clearing solution that will give them the best return on their capital outlay and this will be driven by margin offsets against core futures products and OTC.”

“We will scale our FX clearing solution in line with market demand because there is counterparty risk out there in the marketplace with these products that they want to mitigate. Either they are required to clear FX instruments or there is a desire to do this and this will obviously grow volumes cleared over time.”

### Connecting it all up

In readiness for clearing, MarkitSERV, provider of OTC trade processing middleware solutions, has partnered with SWIFT to enable 10,000 financial institutions and corporations worldwide to deliver new FX trade messages, initially NDFs, to multiple CCPs via its innovative FX clearing and reporting gateway.

NDF trade messages sent over SWIFT can be routed automatically onwards to the designated FX CCP for clearing. MarkitSERV will automatically receive



Derek Sammann

*“The driver behind including spot FX is really down to the spot element that can be sometimes included in FX options portfolios, where a delta hedge is used.”*

transaction data from SWIFT, match the trade, send it, as required, to the nominated clearing broker for acceptance, and then deliver accepted trades to the designated CCP. Once the trade is cleared, MarkitSERV will send a cleared state notification via the SWIFT network to the originating party.

Keith Tippell, co-head of FX at MarkitSERV, says that its ability to enable all market participants to deliver (or receive) FX trades via a single point of access to its processing platform for matching, validation and onward routing to multiple CCPs makes MarkitSERV the first middleware vendor already clearing FX trades for tier one banks. “Today, all of the trades that have been cleared globally to date have been processed through the MarkitSERV platform. In addition to MarkitSERV’s proven matching and clearing services for OTC transactions, the real added value we bring is solving the connectivity conundrum; one connection to MarkitSERV provides efficient access to every clearing and reporting destination, now and in the future,” he adds.

It is highly likely that market participants will have to connect to more than one CCP, reflecting regional, and global, preferences and mandates as well as counterparty choice. MarkitSERV provides everything needed to connect, clear and report OTC



Joe Halberstadt

*"We have the data, wide connectivity to many thousands of organisations directly connected to the network and using it for FX messaging and we can feed this into the CCPs where required."*

derivatives trades and its innovative GUI dashboard shows the current status of transactions in process. Tippell says: "We send messages, in real-time, to and between participants advising of the cleared, and reported, states of FX transactions, enhancing operational risk management and process efficiency around outgoing – and incoming – trade flows."

Clearing will add a wholly new level of complexity to the FX front, middle and back office and MarkitSERV has invested heavily in making its service as seamless as possible. Over the past 18 months it has worked collaboratively with the FX industry to understand the new workflows and build a platform that is operationally effective and efficient. "These changes create uncertainty and add further complexity in terms of managing margin and collateral and assessing the overall impact on risk. We are taking the pain out of managing connectivity and the operational processes around managing new trade flows," he adds.

## SWIFT

It is no surprise that SWIFT is getting involved in the new processing procedures and services needed for FX clearing. The financial messaging network carries post-trade information for FX and FX derivatives and as the data is already contained in the messages it

makes a lot of sense for participants to use the SWIFT network to carry that data into first MarkitServ, which will then send it on to a CCP.

Joe Halberstadt, head of FX and Derivatives Markets at SWIFT, says that as clearing is now being mandated for all participants using NDFs, FX options at a later stage and in-future perhaps even forwards, the SWIFT network has the broad reach needed for getting data into clearing.

He says: "As a front end to multiple CCPs, MarkitServ acts as a single channel for getting NDFs into the clearing system but this needs extension for those regional banks and buy-side firms that have not built connectivity to MarkitServ. We have the data, wide connectivity to many thousands of organisations directly connected to the network and using it for FX messaging and we can feed this into the CCPs where required."

FX is a very large business area for SWIFT. The FX market is evolving in different ways – with clearing and trade reporting – and SWIFT wants to ensure its portfolio of services evolves along with the market and its remains relevant to its users.

SWIFT intends to provide a similar service for FX options once the challenges around the model are overcome. For FX forwards, Halberstadt says there very different view in the market. Some of the buy-side use some very long-dated forwards that might cleared, but much of the sell-side is not keen on clearing forwards, because of the cost of the collateral, and it remains to be seen how this develops over time.

For Halberstadt, differentiating the SWIFT offering is very straight-forward, it is about building on what is already in place to ensuring minimal effort to enable NDF clearing by using existing confirmations. The partnership with MarkitServ is a huge step forward in enabling regional and tier two banks to simplify how they can get trades into the CCPs as most are sending MT300 anyway to confirm NDFs and MT300 messages for spot and forwards. Now they just have to identify the CCP and it will be sent automatically to clearing, and possibly to the trade repository for reporting.

With so much change coming, cost and convenience will be high on the agenda for FX market participants and if risk mitigation can be coupled with these two factors and even drive down costs further in the long term it is far more likely to lead to a wider-scale adoption, perhaps even above and beyond what is mandatory, creating a wholly new infrastructure for the FX industry.



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# Regulatory Roundup



Felix Shipkevich, is a Principal at Shipkevich PLLC.

The past year has seen a great deal of change in the area of international Forex compliance. Although four years have passed since the Dodd-Frank Act became law, its repercussions continue to be felt. By the time the CFTC announced in May that it was extending relief for the second year in a row (with one commissioner expressing doubt that even the newly revised schedule was feasible), it was clear that real regulatory clarity was still a long way off.

Although much of the Dodd-Frank rulemaking focused on derivatives rather than Forex, currency traders were also affected by the stricter regulatory environment brought about by Dodd-Frank. With the CFTC still barely halfway through finalizing the fifty-odd rules it is required to create by the Dodd-Frank Act, it would be foolish to predict whether industry groups or pro-regulation advocates will win any individual battle. In light of the CFTC's weighty summer and fall calendar, however, the end of the year should bring much greater certainty about the rulemaking and its effects on Forex.

## Clearing FX derivatives

One emerging trend this year is the clearing of FX derivatives. Although the Dodd-Frank Act will not require them to do so until the end of the year, some of the world's biggest broker-dealers, particularly sell-side banks, have begun clearing OTC FX derivatives.

This is a sea change for an industry that has traditionally relied on bilateral trading with no middleman involved. It remains to be seen whether this will bring the benefits touted by regulators, such as transparency and less counterparty risk. What is clear so far is the regulations' expense, not least in terms of IT costs. With no standard protocol for connections between counterparties and clearinghouses, custom coding, with its hefty price tag, is inevitable.

Institutional investors have largely been unwilling to shoulder such costs and are relying on banks and brokers to set up the necessary infrastructure. The coming months will show whether they will pass on these costs to their clients.

## New NFA Rules

### • *Slippage and requoting*

One of the most important changes for US-based traders, or clients of US-based brokers, has been the new rule on price requoting and slippage. The rule, issued on January 26 and effective March 26, attempts to bring uniformity to events that were sometimes used by brokers to generate profit. For example, slippage must now be applied uniformly, regardless of market movement. If a broker requotes prices when the market moves against it, it must now also requote when the market moves in its favor. The new rules recognize that slippage and requoting will always be necessary in volatile markets, but brokers will no longer be allowed to use them to generate profit.

In addition, brokers are now obligated to clearly state the conditions under which slippage and requotes actually takes place, in order to ensure compliance

with the other new rules. The changes are part of the NFA's ongoing efforts to bring greater transparency to retail Forex.

- *Stricter requirements for segregated customer funds*

While some NFA rule changes are prompted by general considerations, others may be traced to specific entities and events. The so-called "Corzine rule" clearly falls within the latter category. Following the implosion of MF Global and the ongoing effort to recover customer funds, the NFA proposed new requirements governing the segregation of customer funds by Futures Commission Merchants (FCMs).

Under the rule, FCMs must have written policies and procedures governing the maintenance of the FCM's residual interest in customer segregated funds. The FCM must specify a dollar or percent amount that it seeks to maintain as its residual interest in customer segregated funds. In order to prevent the wholesale transfer of customer funds to MF Global's own accounts that preceded that firm's bankruptcy, withdrawal of more than 25% of the FCM's residual interest in customer segregated funds must be accompanied by written approval by the CEO, CFO or other designated principal. In addition, the NFA must receive written notice of the withdrawal, including reason, amount and recipient.

While the NFA may succeed in reassuring traders that the money they deposit with FCMs is safe, it is unclear how the new rule will actually prevent misuse of client funds. Had MF Global been subject to the rule, its only effect would have been to make it more difficult for Jon Corzine to claim that he had no knowledge of the withdrawals. The rule may contribute to clients' peace-of-mind and the amount of regulatory red tape, but it is difficult to divine its potential benefits.

- *Allocation of Bunched Orders for Multiple Accounts*

Another rule change, issued on April 18 and effective June 18, affected customers of Commodity Trading Advisers (CTAs) who place bunched orders on behalf of multiple clients using a percentage allocation management module (PAMM). The rule requires the quantity of lots in a bunched order to depend on the equity in each individual sub-account, not overall master account equity. In addition CTAs may no longer allocate fraction lots to sub-accounts; regular lots must be allocated instead, using a non-

preferential, pre-determined allocation methodology.

Many CTAs impose restrictions on client can deposits and withdrawals. When a client withdraws funds that are tied up in a bunched trade, his positions are reallocated to other clients, who then face greater potential losses. The new rule seeks to remedy this perceived injustice by requiring CTAs to allow clients to make deposits and withdrawals in a fair and timely without affecting other customers in the same program.

Finally, the new rule seeks to improve transparency and prevent abuses such as fraudulent allocation of trades, by requiring FCMs and RFED's receiving a customer order to prepare a written record of the order immediately upon receipt. The goal is to create an audit trail from the time an order is placed until it is executed.

By introducing this rule, the NFA is signaling that it views the use of PAMM as equivalent to operating a pool, essentially forcing CTAs to choose between registering as Commodity Pool Operators (CPOs), or treating sub-accounts as individual accounts. In light of the costly technical changes required to comply with the rule, there is a distinct possibility that it will limit growth in what has been a thriving business for Forex brokers.

## FX regulation around the world

- *UK: Two new entities to take place of FSA*

The biggest news in UK FX regulation this year is the dissolution of the UK Financial Services Authority (FSA) into two separate entities by early 2013. The Prudential Regulation Authority (PRA) will be a subsidiary of the Bank of England, and will be responsible for the regulatory functions currently carried out by the FSA. Although the split has not yet taken place, the FSA has already moved to a "twin peaks" operating model as of April 2, 2012, in order to prepare for the change. Despite its efforts to make the transition as smooth as possible, there are indications that it may turn out to be rockier than hoped, with much current staff leaving the agency. With the split itself intended to restore public confidence after the 2008 crash, it is unclear whether the reorganization will reassure investors.

- *Forex to be regulated in Russia by 2013*

With a multitude of both individual and institutional traders, Russia has long been a Forex stronghold. In





the past, clients of Russian brokers have largely had to rely on a voluntary self-regulatory regime created by the brokers themselves in order to create an image of Russia as a safe place for Forex traders. Now, things are about to change. According to government sources, Forex will be regulated in Russia by 2013. Among the rules Russian brokers will have to follow will be promotional material regulations intended to balance the currently prevalent emphasis on potential profit with a proper risk disclosure.

• *Middle East: Dubai still leading the pack*

Dubai remains the FX capital of the Middle East, with many major FX brokers opening branches there and registering with the DMCC. The regulatory environment is fairly relaxed compared to others, and there is a wealth of potential clients, especially for brokers who offer Sharia-compliant services.

After approving its first broker dealer last year, the Central Bank of Bahrain (CBB) has worked to put the kingdom in a position to compete with Dubai.

Progress has been slow, however, and Bahrain is still far behind Dubai.

Cyprus has also been making progress on the regulatory front, with the Cyprus Securities and Exchange Commission (CySEC) extending its regulatory regime to binary options and registering its first binary options market maker earlier this year. The binary options platform provider SpotOption is now considered a Cyprus Investment Firm (CIF), and adds investment services to its previous role of software provider.

• *Asia: How will Basel III affect banks in the region?*

Asian banks have largely been spared the turbulence that has plagued their European counterparts, and as a result, they have found reason to complain about having to comply with new regulations that were prompted by events in Europe. The banks argue that the Basel III requirements currently being debated are poorly suited to the idiosyncrasies of the region's banking system.

Asian banks should have no problem complying with the new, higher capital requirements; it is the classification of capital types that may cause issues. With sovereign debt harder to come by in Asia than in Europe, Asian banks rely on other types of capital to be considered Tier I in order to fulfill Tier I capitalization requirements. Basel III is already raising the Tier I requirement to 6% from the 4% mandated

by Basel II. If the types of assets that qualify as Capital I are narrowed as well, Asian banks may face greater Basel III compliance costs than they feel are warranted for their region.

Other effects of Basel III will be felt by FX traders around the world. As the agreement introduces higher capital requirements, limits leverage, and mandates clearing, costs will rise, and will be passed down to traders. Longer-dated Forex contracts are already being affected by the expected rise in costs.

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## New capital rules set to impact pension fund swap deals

New rules changing the amount of capital banks must hold to transact derivatives are likely to impact pension funds in Europe. The good news is the effect is likely to be limited with smart structuring.



**Sinead Leahy, Head of UK Pension Solutions Group** and **Sian Hurrell, Co-Head of European Rates Sales** at RBS, discuss the implications for pension funds.

Find out what we think. [rbs.com/insight](http://rbs.com/insight)



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# Standing out from a crowd – how are FX e-commerce services being differentiated?

Nicholas Pratt explores what it takes to rise to the top of FX e-commerce league tables and whether differentiation in e-FX can be more successfully achieved by delivering more client focused and less product focused products and services.

**T**he FX e-commerce market is a crowded and competitive place, especially in the single dealer platform division. If there was a league table for the banks in this space there would be at least nine of them in the top three. This does raise the issue of how banks are able to differentiate their offerings. In theory e-commerce platforms should present the opportunity to showcase innovation and compete on the best use of technology. The concern would be that

the various platforms are a simple extension of the banks traditional FX business and the majority of FX traders choose the bank rather than the platform. But given the level of investment that the top FX banks have put into their e-commerce efforts, they are of increasing importance.

#### Meeting client needs

BARX FX is the foreign exchange component of Barclays' multi-asset electronic trading platform BARX. According to Marek Robertson, global head of FX electronic distribution at Barclays, there are three factors integral to having a competitive FX e-commerce platform – investment, innovation and service. "It is not enough to just spend money, you have to get some product out there that satisfies clients' needs. And as the business grows, you also





have to keep investing in the background elements – the trading infrastructure, the capacity to process tickets and a whole range of activities that are not observable to clients but essential to their experience.”

In terms of innovation you have to seek, but not always succeed, to deliver something new that satisfies clients’ expressed desires but also what is unexpressed in order to be truly innovative, says Robertson. “It can be difficult to separate being client-focused from being product-focused. Of course you have to spend time finding out what the clients are looking for but to be innovative you have to offer something different which may not necessarily be what clients are asking for.” He cites examples of where he thinks BARX has been innovative in the FX e-commerce market over the last decade – such as offering trading via FIX, placing an extra decimal place on spot pricing, algorithmically generating and risk managing spot pricing and streaming exotics.

BARX uses technology developed wholly in-house, a decision that was initially tactical but has become strategic, says Robertson. “We view this as a differentiator and the intellectual property is



By Nicholas Pratt

important not just for price formation and risk management but also for the user interface. We feel that it is important to be able to devise and control as much of the client experience as possible and I don’t think this has been the case for all of the providers in the market that rely on vendors’ software.”

### Customisation

The nature of clients’ business also dictates the kind of customisation and personalisation that a platform provides, says Robertson. “There are two elements to the customisation. The first is at the administration level in terms of the permissions and constraints for users and other control functions. The second element is greater client customisation, for example to decide how their blotters will look or what format they want trade notifications to be sent to them. The demands vary but the technology has become more flexible and allows us to add more elements and do more interesting things.”

One of the areas of development for e-commerce services has been the provision of pre-trade services and, more specifically, the content involved - from pure FX research to the more proprietary and



Marek Robertson

*"It can be difficult to separate being client-focused from being product-focused. Of course you have to spend time finding out what the clients are looking for but to be innovative you have to offer something different which may not necessarily be what clients are asking for."*

quantitative FX research. According to Robertson this is an area where a big market share in FX can be valuable to clients providing that the service can package and deliver the content in the right way. This means making the content available through multiple channels such as mobile, something which is still in a relative state of infancy in the FX market.

"At the moment mobile is an interesting but not significant part of capital markets activity," says Robertson. "In terms of using it for pre-trade content, for price discovery and, ultimately for execution, we are somewhere between the first two stages. There are still some elements around execution that need to be worked out but when I look at what it is possible to do via mobile in my personal life, then I think there is lots of room for the development of mobile services in the FX world."

A final area of interest for the providers of electronic FX services is the unfolding regulatory environment, especially the changes around clearing and the mandating of central counterparties for certain instruments – something that is likely to lead to a general increase in the take-up of electronic trading.

Of course, a high part of the FX business is already executed electronically as it is a highly homogeneous asset class in terms of the actual assets, certainly in relation to say credit instruments.

But for multi-asset platforms such as BARX, Robertson expects the regulatory changes to raise the bar for platform providers. "Connectivity and the client interface will be the key concerns. Platforms will have to facilitate all the different workflows that clients will use for different instruments and look to integrate all the new requirements for central clearing such as margin calculations for derivatives and then integrating the execution platform with the prime broking systems, for example."

Autobahn FX is Deutsche Bank's e-commerce FX platform. It was first built 10 years ago and for six to seven years the users' needs did not change markedly. But in the last two to three years the changes to market structure, regulation and trading strategies prompted Deutsche Bank to rebuild its platform and to make it a modular platform with a component-based architecture. According to Ian O'Flaherty, global head of FX e-sales, this approach should mean that the platform never has to be rebuilt and should any new regulations or market demands emerge, a new module can be added to the platform.



Ian O'Flaherty

*"We want the platform to give clients an insight into our FX trading rather than just push them information. So we still encourage our sales team to talk to their clients."*



### Standing out

So what does O’Flaherty believe is the key to making one FX e-commerce platform stand out from another in what is an increasingly competitive marketplace?

“When we built the Autobahn platform, the first thing we worked on was the pricing and risk management and that is still the most important part of an e-commerce FX service,” he says. “Not far behind is the platform itself – it has to be based on good technology, easy to use, responsive and available but there is no point having all the bells and whistles if you don’t have the right pricing.” It is also good to have a broad distribution of clients with different trading objectives, says O’Flaherty, as is a good sales team. “Some people think that the increase in electronic trading means there is less focus on the relationship but I don’t think that is the case,” says O’Flaherty.

Risk management can vary in the e-commerce world. Whereas a large franchise like Deutsche Bank will internalise or ‘warehouse’ a lot of settlement risk in order to create liquidity, a number of e-FX providers will take an agency-focused approach and clear any risk straight away rather than internalising. This is where a broad distribution can help the larger franchises to generate liquidity from its ‘warehoused’ risk. Although, if the market continues to use liquidity aggregation, this will erode the benefit of internalising and may prompt a rethink from some of the market’s largest franchises. This also underlines the continued importance of client relationships, says O’Flaherty. “It is no different to what happens in voice trading – find out what the clients want and provide a service that accommodates them.”

While a diverse client base is good for risk management and generating liquidity, it could create problems in term of delivering a client-focused e-commerce platform. “If we can deliver a product or some workflow that enhances their business,



Ed Mount

*“If clients choose platforms developed by providers that are chasing short-term business but are not committed to the underlying market, then those relationships will be short-lived.”*

then that’s good for us,” says O’Flaherty. “But it is important to create core services that can be shared across the client base and that only a veneer of the platform is used to provide customised products to clients. The key is to do your homework early on and ensure that the majority of your resources are focused on the key services.”

Although O’Flaherty acknowledges the growing significance of new media and communication channels, Deutsche Bank is taking a circumspect approach to integrating mobile applications and social media into its e-commerce platform. “I think mobile is important in terms of having access to information



and analytics but I don't think there is much demand for mobile execution services. In fact regulation and internal policies often prohibit trading being executed by mobile or by any other means outside of a firm's network."

Deutsche Bank is providing more pre and post-trade analytics to clients, says O'Flaherty, but human interaction still remains an important part of the service. "Analytics can only do so much so it is important to have that human interaction. We want the platform to give clients an insight into our FX trading rather than just push them information. So we still encourage our sales team to talk to their clients. They may trade electronically and benefit from full STP and an electronic audit trail and better workflow but they still want to talk to traders and feel involved."

### Pricing, product and distribution

According to Nicholas Barker, e-commerce product manager at RBS Markets, the key to a successful FX e-commerce service is a combination of three factors – pricing, product and distribution – and ensuring that these factors are continually in balance and delivered as a cohesive unit. Underpinning these properties should be reliable technology, a large market presence and sound risk management, adds his colleague Ed Mount, head of technology trading for FX at the bank.

"Many of the new players in the FX e-commerce space tend to lead with pricing and very tight margins in order to quickly attract short-term volume," says Mount. "But the longer-term players are able to balance price with proper risk management and get more consistent pricing over a longer time because a large market presence combined with good risk management is what creates the best price. If clients choose platforms developed by providers that are chasing short-term business but are not committed to the underlying market, then those relationships will be short-lived."

A large market presence also helps, not just in ensuring favourable pricing but also in the ability to distribute the product to a diverse client base rather than focusing on a specific client sector. "It would be easy to go out and target high frequency traders which would give you a lot of volume but not a balanced portfolio. You need that diversity of clients to be able to offset flow and help improve risk management," says Barker.

Managing the balance between pricing, product and distribution is affected as much by changing regulations and market structure as by clients'



Nick Barker

*"It would be easy to go out and target high frequency traders which would give you a lot of volume but not a balanced portfolio. You need that diversity of clients to be able to offset flow and help improve risk management,"*

demands and proposed new rules for clearing, among other regulatory changes, are likely to be influential in the months to come, says Mount. "Increased regulation puts more pressure on e-commerce providers to deliver a full service rather than just a product, so more focus on pre- and post-trade analytics rather than just price formation."

The likely response to upcoming regulations is still being worked out in many markets so, says Barker, it is important that any e-commerce platform is able to provide a combination of services that are both off-the-shelf and customisable in order to provide clients with a consistent response to market changes and a stable trading environment.

### Niche led strategies

Some FX e-commerce service providers have a specialised focus, such as Nordic bank Nordea. According to Thomas Vinding, head of e-Markets at Nordea, the secret of success is to pick your niches and stick to them. "This will in the end be the differentiating factor for clients in choosing you as their preferred provider and also the areas where the investments you have made in your platform and services will pay off in the long term. This direction is very different from the one that the majority of

providers chose as their strategy only a few years back where many banks were of the belief that the one-size-fits-all approach was the way to go. The problem with this approach is that in the current e-FX markets you simply do not have a chance.”

This one-size-fits-all strategy can also be seen in those services which are overly product-focused, says Vinding, and is the reason why adding client-specific features and services become essential, especially where the platform is serving both top and lower tier customers. “Whereas FX professionals want a high degree of sophistication in the execution by using algos, limit orders, post-trade allocation and one-click streams with close to zero rejection rates, the lower tiers of users are better off with a simplified RFQ that works easy and consistently across the different FX products combined with appropriate charting and price updates and a range of typical back-office self-service features.”

Vinding also advocates a niche-led strategy when it comes to servicing an increasingly diverse client base. “The right strategy is to grow in your niches both in terms of widening it to a larger audience but also at the same time to prudently select the clients that you expect will help you in making your e-FX offering more diverse



and thereby more robust. FX providers that want to grow everywhere I believe will find themselves in a tough position given the current climate where spreads are still narrowing, the growth in overall economy is not there, regulation is increasing and the number of players in the market is decreasing. The ones that will survive are the ones that benefit from their niches.”

### Technology arms race

Of course some providers may take a different path and look to gain market share by increasing their technology spend, something which Vinding compares to an arms race conducted behind the scenes. “I suspect that this arms race will continue, meaning that providers will continue to upgrade software and hardware when appropriate as well as consolidate and use third-party software in areas where it has been commoditised.”

Vinding does believe the use of new media channels – from social media services to mobile applications – offers e-commerce providers the chance to differentiate themselves even further. In terms of using social media, Vinding says it is about creating value on the well-established networks such as Twitter and also about enabling social media in the bank’s own proprietary offering. “For example, allowing clients to interact openly with the analysts, to rank the research content and to make ‘follow me’ kind of features.” When it comes to the mobile applications it is all about utilising the power of these devices, says Vinding. “For example, providing the option to notify a client instantly, irrespective of where he or she might be in the world and capitalising on the ease of access as mobile apps are easily started.”

If a bank really wants to be the channel of choice for their customers (as well as the customers of other banks), it is important to remember all the operational, service, regulatory and market-focused issues mentioned above, says Vinding. “A bank is no better than its weakest point so it is very important to balance your efforts across all these different areas.”



Thomas Vinding

*“FX providers that want to grow everywhere I believe will find themselves in a tough position given the current climate where spreads are still narrowing, the growth in overall economy is not there, regulation is increasing and the number of players in the market is decreasing.”*

# A Commanding view of FX

Stefan Hamberger, Head of eFIC Sales at Commerzbank Corporates and Markets (C&M) talks to Frances Maguire about Commander, Commerzbank's newly enhanced eFX platform, which gives users greater command and control over their FX trading.

Commerzbank has seen the number of users wanting to trade online double in the past year. Based on the solid foundation of the Click&Trade FX platform, acquired in the merger with Dresdner Kleinwort in 2009, Commander has been enhanced to tackle this upsurge in electronic trading and built out from talking to customers about what they want from an eFX platform. A number of new features have been developed, including improved analytics, live streaming prices for NDFs, and added functionality for spot gold trading and structured products.

Why did Commerzbank decide to enhance its eFX platform?

As one of the first banks to offer a proprietary graphical user interface (GUI) and access via its application programming interface (API), Commerzbank set out to revamp the platform to bring it up to date and

into a new era of electronic trading. Click&Trade FX was developed in 2003 and after the merger we felt it was necessary to bring it into the family of products at Commerzbank. Commander gives us more 'colour' in terms of innovation and moving forward as the rebranding was not just a name change but about implementing new features and making trading more customised for our clients.

We took what was essentially an execution-only platform with the clear aim to make Commander a more rounded solution for the end-user and not just a pure trading access portal such as Click&Trade FX was. Commander provides access to trading with Commerzbank but with much more added functionality.





Symbol	Pair	Current Price	Previous Price	Change	Volume	Open	High	Low	Close
EUR/USD	EUR/USD	1.2500	1.2495	+0.0005	100000	1.2495	1.2505	1.2490	1.2500
USD/JPY	USD/JPY	98.50	98.45	+0.05	50000	98.45	98.55	98.40	98.50
GBP/USD	GBP/USD	1.5500	1.5495	+0.0005	20000	1.5495	1.5505	1.5490	1.5500
USD/CHF	USD/CHF	0.9500	0.9495	+0.0005	15000	0.9495	0.9505	0.9490	0.9500
EUR/JPY	EUR/JPY	125.00	124.95	+0.05	10000	124.95	125.05	124.90	125.00
GBP/JPY	GBP/JPY	155.00	154.95	+0.05	5000	154.95	155.05	154.90	155.00
USD/GBP	USD/GBP	0.6450	0.6445	+0.0005	10000	0.6445	0.6455	0.6440	0.6450
EUR/CHF	EUR/CHF	0.9167	0.9162	+0.0005	10000	0.9162	0.9172	0.9157	0.9167
USD/JPY	USD/JPY	98.50	98.45	+0.05	50000	98.45	98.55	98.40	98.50
GBP/USD	GBP/USD	1.5500	1.5495	+0.0005	20000	1.5495	1.5505	1.5490	1.5500
USD/CHF	USD/CHF	0.9500	0.9495	+0.0005	15000	0.9495	0.9505	0.9490	0.9500
EUR/JPY	EUR/JPY	125.00	124.95	+0.05	10000	124.95	125.05	124.90	125.00
GBP/JPY	GBP/JPY	155.00	154.95	+0.05	5000	154.95	155.05	154.90	155.00
USD/GBP	USD/GBP	0.6450	0.6445	+0.0005	10000	0.6445	0.6455	0.6440	0.6450
EUR/CHF	EUR/CHF	0.9167	0.9162	+0.0005	10000	0.9162	0.9172	0.9157	0.9167
USD/JPY	USD/JPY	98.50	98.45	+0.05	50000	98.45	98.55	98.40	98.50
GBP/USD	GBP/USD	1.5500	1.5495	+0.0005	20000	1.5495	1.5505	1.5490	1.5500
USD/CHF	USD/CHF	0.9500	0.9495	+0.0005	15000	0.9495	0.9505	0.9490	0.9500
EUR/JPY	EUR/JPY	125.00	124.95	+0.05	10000	124.95	125.05	124.90	125.00
GBP/JPY	GBP/JPY	155.00	154.95	+0.05	5000	154.95	155.05	154.90	155.00
USD/GBP	USD/GBP	0.6450	0.6445	+0.0005	10000	0.6445	0.6455	0.6440	0.6450
EUR/CHF	EUR/CHF	0.9167	0.9162	+0.0005	10000	0.9162	0.9172	0.9157	0.9167

### What was the thinking behind the added functionality?

More ability to customise, improved usability, with multimedia support, real time event news, tutorials, opinions and research. Ease of use scores highly on our customers' requirements as well as the ability to do much of their business on the platform, with access to rates and the necessary information they need around rates.

We have a large user base for Commander in the emerging markets where smaller banks do not have the tools of larger banks. So we put it a lot of effort into making it user-friendly for them, such as adding a position blotter, which gives them daily, intra-day, position evaluations. We customised Commander to help these clients to monitor and control profit and loss, both realised and unrealised, in real time, with both team-wide and individual views available, and providing traders with very detailed risk analysis reports. The platform provides charting, position evaluation, strategic research economic research and calendars, strategic research, offering trading ideas and information all in one solution.

We followed the same path in terms of the landing page, at first glance it

provides a calendar overview of all the economic data due to be released during the day, as well as access to our research portal.

We also added real-time charting tools which provide greater functionality to clients, with access to a comprehensive historical and real-time overview for a full market picture. A variety of popular technical analysis indicators and overlays are supported. Charts can cover timeframes from 15 seconds to four weeks, over more than four years and our unique 'Instant Zoom' enables users to drill down for greater detail, without changing the chart timeframe. FastFill orders, a functionality that enables users to place orders which are not visible to the market, very close to or inside the best possible market spread, can also be visualised on charts easily, with the drag of a mouse.

### What other new functionality has been added to Commander?

NDFs have already been added to Commander, and this offering will be expanded to include more currency pairs, such as the currency pairs against the euro. We will accommodate our user base not only in Commander but also on multi-bank portals but Commander is spearheading these initiatives because we clearly want

*"As one of the first banks to offer a proprietary graphical user interface (GUI) and access via its application programming interface (API), Commerzbank set out to revamp the platform to bring it up to date and into a new era of electronic trading."*



Stefan Hamberger



To what extent can Commander be customised by the user?

It's a very flexible tool. The client can completely customise the front-end of Commander; they are able to configure their interface and trading modes to view and trade what they need to, change the lay-out of the landing page, and choose the products and blotters they want to see, using one of the most user-definable GUIs available.

our single bank portal users to benefit from these new products first.

Kristall, the first of its kind FX structured products platform, which is based on cooperation and price transparency can also be accessed through Commander. The Kristall platform offers financial institutions the ability to establish or expand their own FX structured products capability with no set-up costs; every tool to price and book a product is included in the service. Kristall partners will also be able to share product pricing with their own colleagues or with Commerzbank experts, allowing for a pooling of knowledge and skills to better achieve their own clients' goals.

#### What else have you got planned for Commander?

In terms of products, most important for us and the next step in our evolution, is the development of more products. The next new product will be options, which we plan to have ready by the end of Q3 and ready for release to clients in Q4. FX options are an important product and the addition of options to Commander will make it a more rounded solution, giving the ability to trade all FX products on one platform. On one screen our clients can trade FX spot, outright, forwards, swaps, NDFs and spot gold.

#### What are the key strengths that single bank portals can offer?

It is about providing more than just execution and supporting clients from start to finish and beyond. Online, by phone, in person, our teams deliver a true etrading partnership. The full service throughout the trade lifecycle, across all products, is the strength of the single bank platform.

The platform has additional offerings and functions like the landing page and the addition of the position blotters and charting tools, which have been added to broaden the offering beyond executable rates and to significantly increase the value of the platform, particularly in emerging markets where banks might not have Reuters or Bloomberg.

#### What are the benefits of using a single-bank platform?

For clients, especially during recent times when credit lines have been very precious, strong relationships have brought better access to credit lines. For us, relationship banking is still important. Commerzbank has relationships with around 5000 banks globally and a large proportion of our client base is active on our single bank platform so its use is clearly relationship-driven. These relationships are strong and in many cases the reason for choosing Commander.



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# FX Options —

## enhancing the pricing and execution experience of electronic platforms



**Frances Maguire**

As advances in technology have meant that trading in vanilla FX options and structures is being more widely adopted, Frances Maguire looks at how pricing and execution on electronic platforms are now being enhanced.

It was with some incredulity that Mark Suter, CEO of the first electronic multibank FX options platform, Digital Vega, read the definition of a Swap Execution Facility (SEF) produced by the US regulator in 2010, because a SEF is exactly what he and his business partner had just built. “So theoretically we are almost compliant involuntarily, but the devil will be in the details,” Suter adds, much of which the industry is still awaiting.

However, the likelihood is that, along with clearing, FX options will have to be traded electronically and even as the industry awaits the final definition of a SEF, it is gearing up for a move to electronic trading.

### Increasing adoption of e-FX Options

With eleven banks pricing on the Digital Vega platform, daily trading volume across a range of currency pairs and structures, Suter says that adoption of electronic trading for FX options is steadily increasing as participants become more comfortable with online trading.

Apart from being a pioneer in the market, Suter puts the platform’s success down to the fact Digital Vega has become an accepted market standard – a disclosed model where banks know who they are dealing with and vice versa, and the number of banks a customer can request prices from is limited to five. He says: “The systems supports a range a different pricing capabilities so in the first instance the customer is able to get a very good indicative price off the platform without actually ask anyone as we have our own market rates, market volatilities, spot, forwards and deposits so we can give the customer a very accurate indicative price on a range of options and structures.”

Customers can then choose up to five banks, based on currency pairs, and on strength of relationship, and modify this at any point. The system also supports split requests and manual pricing from some banks, RFQ response and streaming simultaneously. FX options is benefiting from the browser-based



>>>



Mark Suter

*"Because this is a relationship-based system, we have always said there will be a differentiation between bank providers and customers. Others have tried using an anonymous model but the banks don't seem to want to support this."*

technology being deployed as is much quicker and more stable than the technology in use when other asset classes went electronic.

Suter says: "Because this is a relationship-based system, we have always said there will be a differentiation between bank providers and customers. Others have tried using an anonymous model but the banks don't seem to want to support this."

### Order management

For Suter, the move to electronic trading in FX options is just as much about connectivity, STP and reporting as it is about execution, particularly in the real money sector where Digital Vega has worked with a couple of large real money accounts to build a complete order management system for FX options, using a range of different execution methodologies, from an automated black box pricing system or from a range of portfolio managers to an execution desk, and delivering completed trades to custodians. Digital Vega is also fully integrated into the Traiana Harmony network and supports multiple prime brokers, with full STP capability.

Suter says: "What we are building, and delivering now, is a workflow solution. Until now a lot of the large asset managers have used existing order management systems linked to lenders to trade spot, we are now doing the same thing with options. We will integrate with their existing order management systems to give them the facility to trade FX options."

Much of the current focus is on the vanilla products and structures, as that is where there is greater volume, and Suter believes the arrival of the electronic FX options platforms has brought greater transparency and more liquidity to these instruments. As it is much quicker and easier to execute, volumes will hopefully increase and as result options are turning into a flow business – with the bigger banks building systems to manage this flow. Drilling down into the more exotic structures is going to be harder and less appealing to automate due to the greater levels of customisation and negotiation needed.

While the FX options industry is still waiting for final details from the regulators, Suter says that what is creating one of the biggest blocks is that no one knows how much this going to cost. He says: "A lot of the institutional investors we have spoken to have told us they understand the new regulatory requirements but no one has told them how much it is going to cost, in terms of clearing fees and the all-in cost of executing in this business. Until the industry knows how it is going to work and when it is going to work they don't want to invest more."

### Multi-dealer-to-client

Earlier this year, multi-dealer fixed income and derivatives trading platform, Tradeweb, entered the FX options race launching trading in options contracts across 10 currencies, on a request-for-quote basis. Tradeweb too will apply to become a SEF in the US and will conform to any trade reporting mandates accordingly.

Adriano Pace, director of equity and FX derivatives at Tradeweb, says that Tradeweb believes FX options will follow the same route as fixed income and equity derivatives in the move to electronic trading. He says: "In fact, FX options are probably more advanced than other asset classes in terms of electronic trading because of single dealer platforms, but the more recent trend has been towards aggregating prices in the same venue and that is where we have come in."

While there is no doubt that there is a regulatory drive at the moment towards electronic dealing, where some



instruments will not only be mandated to clear but to trade electronically on Swap Execution Facilities, Pace believes there was a natural move towards electronic dealing platforms anyway.

He says: “The larger dealers are aware of this and they need to have a strategy which is consistent with a multi-dealer environment. FX options are already traded electronically because of the streamed prices coming in from single dealer platforms, and due to client demand Tradeweb has built a multi-dealer platform.”

Some of the improvements on the FX options platform are generic to Tradeweb, by taking features from other marketplaces and mapping and adjusting them for FX options. Pace says: “One of the big attractions for clients on Tradeweb is the collection, the aggregation and the simultaneous display of dealer prices on one venue. With FX options, there is a proliferation of single dealer platforms, with quick pricing and streaming of quotes, but only for one dealer at a time. We have linked up electronically

to a number of liquidity providers so that a client can choose several dealers at one time and get simultaneous bid and offers on one screen. This makes the comparison of quotes much easier, and with that there’s an audit trail.”

Single dealer platforms have been built for speed, Pace admits, but for a client asking five specific dealers for quotes would be slower than sending one enquiry on Tradeweb to those five dealers, which would take a couple of seconds. Furthermore bespoke tickets can be created on Tradeweb to go direct to the dealers, and prices are updated automatically by streaming quotes coming in from the market makers. This, says Pace, greatly reduces the scope for errors compared to having to upload a request to several platforms or communicating by phone with traders.

The complete lifecycle has been automated, end-to-end, similar to equity derivatives and fixed income. Pace says: “In the optimal trade a client will upload a ticket electronically, it flows through to the dealers, which respond within a split second with prices, the client trades on the best quote and the trade is allocated on the platform. Nothing is needed to be done off-platform. The dealer can also embed credit limit criteria, pre-trade, so the request already takes this into account and if a dealer cannot satisfy a particular size it will automatically pass on the request rather than trading, conditional on a credit check.”

Transparency and full disclosure upfront is a key prong in the Tradeweb offering, Pace adds. The moment a request is sent, the client knows who the dealers are and the dealers know who the client is. “This is very important as it in some ways the platform self-polices itself because it is not anonymous. It also means that the dealer can tier its pricing, once the request comes in, according to who the client is.”

“Enquiries on Tradeweb can be bespoke in nature. It is not just a case of picking a currency pair and a strike. Tradeweb has created a capacity for multi-leg strategies – call spreads, put spreads, risk reversals etc.”

The platform is part of Tradeweb’s European fully regulated MTF and is set up as a multi-dealer-to-client platform. Pace says that a client has to be enabled by the dealer, and the only way a client can face a dealer is if the dealer has gone through a processing of checking documentation and approving that client. This generates a clear dealer community that is only



Adriano Pace

*“..FX options are probably more advanced than other asset classes in terms of electronic trading because of single dealer platforms, but the more recent trend has been towards aggregating prices in the same venue and that is where we have come in.”*



making prices, and a good quality asset management community requesting those prices. There are no introducing dealer brokers, making and taking prices.

Tradeweb currently only offers fixed strikes but it is already building capacity to be able send enquiries on delta-defined strikes as well as other innovations. Going forward, Pace believes the pace of innovation will be strongly linked to the ability of dealers to cope with it in an electronic manner. The majority of dealers on Tradeweb are already fully connected and integrated using APIs and are streaming prices. When Tradeweb builds new functionality it needs to conform with a dealer's ability to quickly integrate it into their systems.

### Achieving full automation

FX Bridge Technologies' trading platform enables trading in spot, options and CFDs across asset classes. Over the past year, the company has focused on improving its multibank liquidity and prime brokerage credit capabilities. In addition to adding new liquidity providers, FX Bridge is focusing on building functionality to allow users to seamlessly transition from analytics to execution.

Stephen Best, CEO of FX Bridge Technologies, says that they are now concentrating on design improvements in the areas of pricing and spread management, reporting, and improving the levels of automation and STP on its electronic trading platform. A big focus today is fully automating the end-to-end processing of FX options.

Best says: "The most important next step is for FX option participants - corporates/investors, brokers and

banks - to embrace automation. Additionally, there needs to be better transparency regarding the future regulatory environment that market participants will be operating in."

While in theory, Best says, the options pricing process will be improved by the arrival of electronic multi-dealer platforms, currently 95% of OTC trades are still manually executed either on the phone or via chat facilities. "A vanilla trade involving a liquidity provider, broker, and client can take several minutes to complete. In an environment where financial transactions are being automated at every level, FX options have fallen way behind," he says.

In addition to adding 'exchange-style' interfaces to the platform, FX Bridge has developed GUIs that allow users to trade custom date / custom strike options for institutional and corporate customers. Says Best: "We have also created a brand new suite of education, training and marketing products for retail brokers, which is available as a white label service."

Levels of customisation also enable users to change the layout, colour and font of the e-FX platform, as well as being able to display any or all of three different types of price quotations. The platform can be displayed in 16 different languages. Trade execution utilises Best Bid/Best Offer (BBBO) and multiple trade routing options (i.e. direct market maker STP, A-Book / B-Book routing by delta, routing by DTE, routing by customer, etc).

In terms of reporting, Best says: "Reporting is based on user authority, which can filter out customers



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Stephen Best

*"The most important next step is for FX option participants - corporates/investors, brokers and banks - to embrace automation."*

or be viewed in their entirety. They can be limited to management reports for summary data, without customer confidential information, or viewed at detail level. Reporting includes both sides of fills (customer / market maker), pending orders, filled orders, market conditions at time of fill (underlying instrument delta, gamma, theta, vega). Customer profiles, deposits and withdrawals are all managed on the platform or through API from central CRM and accounting systems."

For Best, the next round of innovation for FX options platforms cannot really come until platforms have finished ensuring they are in full compliance with the new regulatory environment. He expects further clarification of the processes required to come from regulators in the US in the coming months.

### Pre quote workflows

Franck Dewannieux, Product Manager at Murex Technologies says that there are already a significant yet still increasing number of platforms, both single-dealer and multi-dealer, coming to the fore but they are all focusing on providing greater transparency, ergonomics, and ease of execution. He says: "The distinguishing difference between single and multi dealer platforms is that the former aim to provide

distinctive value added factors, for example research and position analysis, whilst the latter aim to provide greater liquidity and transparency of standard products by combining multiple quotes, and offering a level of anonymity."

Dewannieux adds that there have been two main themes to Murex's focus over the past few years - performance and automation. He says: "We don't foresee minor volume evolution, we have re-engineered to support serious volume multiples, spurred on by clients' anticipating flows of ten times current levels. We deliver a fully integrated workflow we call 'One Stop Processing' as it can all be monitored from one screen, although in our 24 hour, multi region, multi entity environment it might be better named 'No Stop Processing'."

Furthermore, he believes that the 'ends' of 'end-to-end' have moved as markets became more electronic and automated. "The starting point used to be the trade, but we now start long before that with all the necessities of pre-quote workflows. In a flow world for the majority of 'reasonably standard transactions' traders are far less involved at the 'point of trade' but get fed deals, together with hedges, that have



Franck Dewannieux

*"The distinguishing difference between single and multi dealer platforms is that the former aim to provide distinctive value added factors, for example research and position analysis, whilst the latter aim to provide greater liquidity and transparency of standard products..."*



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been through the whole execution and capture cycle automatically. We also have to look at the other end of the spectrum to settlement evolution from daily to continuous. We support a much more inclusive 'end-to-end' nowadays than was conceived some years ago," he adds.

Theoretically, Dewannieux says the arrival of more multi-dealer platforms should result in tighter spreads, better liquidity and greater transparency, the current reality is that the single dealer platforms are capturing about twice as much trade as multi-dealer platforms, hence the liquidity is arguably less on the multi dealer platforms, although the long term trend is probably the reverse of that.

Dewannieux says: "Typically banks are quoting tighter spreads to direct clients via their own platforms, in part due to aiming to maintain a 'brand loyalty' but also to preserve a degree of confidentiality regarding the individual nuances of their volatility surfaces. It's similar to general trading practices on electronic exchange traded derivatives platforms, such as Eurex, where market makers tend to respond to individual quote requests (RFPs) using tighter bid/ask spreads than they stream to the broader market, seeking to maintain some control over the transparency of their 'best' bid/ask."

### Future trends

Dewannieux believes the trend, over time, will almost inevitably support multi-dealer platforms, standardisation, collateral and clearing as it is a trend that has been seen in other markets and asset classes, generally due to both enhancing risk and regulatory control and increased efficiency.

He says that great strides have been made to facilitate the better integration of pricing, distribution, analytics and bilateral trading features of FX options platforms, noting: "Some years back we distributed quotes, responded to RFQs and distributed and captured executions. Now we distribute reporting, position and risk analysis, trade queries and deal life cycle management, and the list goes on. Banks running e-platforms supported by the Murex distribution framework can extend every aspect of their business externally." So in terms of the next round of innovation with electronic FX options platforms, Dewannieux says simply: "Easier, Better, Faster, Stronger".

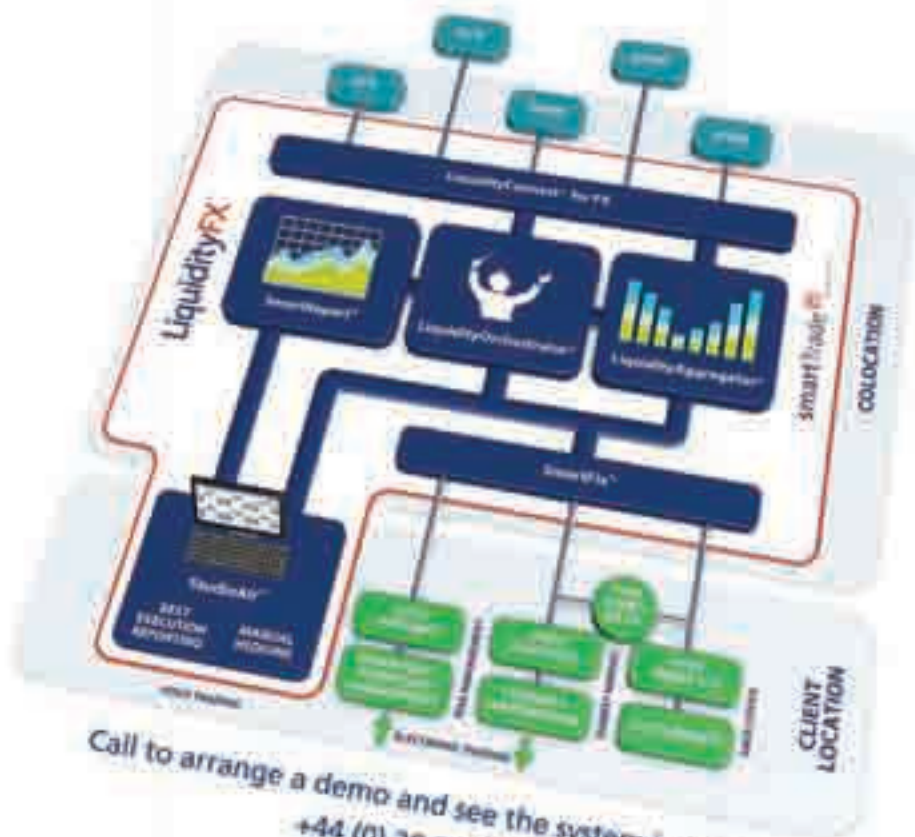


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# Regional e-FX perspective on Latin America



Richard Willsher

Global trade, local politics and regulation are the factors that most influence electronic foreign exchange trading in Latin America, while south of the US border the market is as rich and diverse as the countries that comprise the region.

In many ways Mexico is the role model. The Mexican peso is now the fourteenth most traded currency, according to the most recent Bank for International Settlements Triennial Central Bank Survey. Its share of average daily turnover in global foreign exchange markets in April 2010 stood at 1.3%, so while it is far from being a major currency, it does register alongside the Norwegian krone



and ahead of the Indian rupee, Russian rouble and Chinese renminbi. Mexico leads the Latin American pack, and is the biggest of the “big five” followed by Brazil, Chile, Colombia and Peru. Mexico leads not only in terms of size of turnover, but as a country that over the last three decades has been through the mill of indebtedness, default and rehabilitation with the most developed nations’ financial community and then full currency liberalisation with membership of the wealthier countries club, the Organisation of Economic Co-operation and Development (OECD). It is a path that other Latin countries have yet to follow to its end.

### Lessons from Mexico

“Mexico’s presence within the North American Free Trade Association (NAFTA) definitely opened things up,” explains Simon Jones head of FX e-trading at Citi. “We treat Mexico just as we would treat Swiss francs or sterling.”

“Mexico is in many ways a developed centre. I don’t think we can call Mexico an emerging market anymore,” says Matt O’Hara, senior vice president and global head of business operations at Thomson Reuters. “It’s an emerged and developed centre. They have been faster adopters of technology in order to enable their connectivity and internationalisation. Thomson Reuters worked with the Mexican authorities to help them meet their internationalisation goals. We helped them do that with our matching service, our interbank electronic brokerage platform, which if you fast-forward to the present day is now seeing a significant amount of global liquidity. We are considered to be the primary pool of liquidity and the reference rate for the Mexican peso. Around 80% of all Mexican volume is traded outside Mexico which shows the power of the forex market when a domestic community that was previously closed, opens up and connects to the global market place. It has grown hugely and is significantly traded in places like London and New York.”

That said, even in Mexico, local regulations can seem cumbersome if you are used to market conditions in Europe or the US. For this reason, says Michael Bernal, sales director for Latin America at FXall, multibank

platforms have additional appeal. “It is not only for transparency and pricing that multibank platforms are used, but also for their pre- and post-trade execution capabilities with end-to-end processing and connectivity to corporate treasury management systems. This enables them to reduce or eliminate manual interface in the processing of the transactions. For example the “know your customer” regulations in Mexico are quite different than they are in the US. You actually have to visit the customer at their place of business as part of the process” This is a theme that recurs again and again when you examine forex trading conditions throughout the LATAM region.

### Brazil

If Mexico is the role model, it is Brazil that those inside the Latin American theatre and in financial markets worldwide are watching most attentively.

The size of its economy, the power of its wealth generation capacity, its rich reserves of natural resources and agricultural production and its booming international trade relations, particularly with China, point to a market that offers massive opportunities for foreign exchange trading. That the bulk of this will in



Simon Jones

*“Mexico’s presence within the North American Free Trade Association (NAFTA) definitely opened things up. We treat Mexico just as we would treat Swiss francs or sterling.”*

turn migrate to electronic transacting seems inevitable and indeed the only practical way forward that can efficiently handle demand. However, the Brazilian monetary authorities are fully alive to the risks they face in what they term “currency wars.”

“Brazil is cautious because of the demand for inflow of capital,” says FXall’s Michael Bernal. “Brazil does not want the Real to appreciate so much that the currency becomes too strong. Over the next five to ten years regulation will slowly change to allow Brazil’s own internal market to trade more freely but in the meantime regulation is protecting the economy from overheating.”

Which is by no means the same thing as saying they are not open to ideas and progressive in their adoption of technology.

“Both Brazil and Chile are set to see further growth in the use of electronic trading systems because these are countries where volumes are growing at very fast pace,” according to Ernesto Semedo, Sales Manager LATAM from 360T. “The adoption of technology is a necessary requirement to keep pace with the increasing volumes.”

Most people we spoke to agree with this. “Brazil seems to everyone an obvious growth market for eFX Channels,” agrees Debra Lodge, HSBC’s managing director and head of eFX sales and strategy for Latin America. “Interestingly enough, there are only three players, HSBC being one of them, that offer a locally tailored solution and we expect to see major volume growth over these platforms in 2012. As of yet, very few multilateral channels have been able to mark their



Debra Lodge

*“Over the next couple of years we do expect more local players to release their own single dealer platforms (SDPs) plus enhancements by major international players to their offerings to cater to the often complex onshore BRL market.”*

presence in this market, mostly due to lack of local liquidity providers and the value of bilateral relationships with credit worthy institutions. Over the next couple of years we do expect more local players to release their own single dealer platforms (SDPs) plus enhancements by major international players to their offerings to cater to the often complex onshore BRL market.”


### Chile

Chile has long been regarded as Latin America’s economic model state. In particular the country’s revenues from the mining and sale of copper, its relatively small population and the richness of its farming and fishing industries have been for the most part well managed. Its US educated economists have established basic rules and infrastructure that place Chile among the top emerging market credits.

“A broad spectrum of clients in Chile have embraced eFX channels, market regulation is not overly restrictive, and we expect competitors will see this as an obvious target market after Mexico for both SDPs and multi dealer platforms (MDPs),” adds Debra Lodge.





An aerial photograph of a tall skyscraper under construction. The building's steel framework is visible, with a dense grid of columns and beams. A large crane is positioned at the top of the structure. The surrounding cityscape is visible in the background, with other buildings and a clear sky.

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*"Latin America is in many ways ahead of the game when it comes to the infrastructure and connectivity and the regulations,"*

Citi's Simon Jones notes that while the Chilean peso is generally traded in the form of non-deliverable forwards, he adds that Chile "would be a great case study of a Latin America country if it opened its markets up for deliverability." If and when Chilean, and indeed Brazilian currencies will become fully deliverable is a moot point. But the consensus does seem to be driving towards greater openness and less regulation in due course.

### Colombia and Peru

Both smaller in terms of potential market, Colombia and Peru are following a similar path to Chile in terms of their commodity-dependent economies and currency pursuing an internationalising agenda. Interestingly as Thomson Reuters' Matt O'Hara points out, these markets already have a regulatory regime which, when viewed positively, are ahead of markets in Europe and United States. "Latin America is in many ways ahead of the game when it comes to the infrastructure and connectivity and the regulations," he explains. "There is an OTC spot market which is

then cleared through the local exchanges in Chile and Colombia for example, and they are registered to the superintendencias, their regulators. The same is true in Argentina as well."

He adds that there has been a good deal of work done in countries like Colombia and Chile to overhaul their regulatory regimes such that their ability to embrace technological change and move towards open and transparent international trading in their currencies when appropriate, will be well advanced.

Meanwhile, although Peru may be further behind the curve than some of its bigger neighbours, its prospects look encouraging. "Peru presents an exciting opportunity for the future for eFX channels," says HSBC's Debra Lodge. "A dual currency economy (USD and PEN), and as of 2011, one of the fastest growing economies in the world, Peru remains one of the largest commodities producers and exporters, attracting investment from numerous multinational corporations."

### Drivers and products

History plays an important role in understanding Latin American countries' attitudes towards their currencies and to liberalising the markets in them. There is not a country in the region that has not at some stage over the last three decades or so experienced boom and bust. Boom in commodity prices; boom in foreign investment; boom in currency inflows and the euphoria associated with each of these. However, the same countries have experienced political turbulence, commodity price collapse, over-indebtedness driven by international banks, corruption and exodus of flight capital. The way in which Latin American currencies are regulated today in all the significant countries, with the exception of Mexico, needs to be viewed through this lens. Countries like Brazil, Chile and Colombia but also Argentina and Venezuela, wish to be masters of their own destinies rather than slaves of the international markets. Only their methods of going about it and their political motivations may differ.

Having said this, the region's most successful economies are dependent on primary industries of mining, oils and gas, and agriculture and livestock farming to generate foreign currency revenues. Hence the most important driver for foreign exchange trading is real trade. "A large part of the commercial FX market in



LATAM is driven by imports and exports,” explains HSBC’s Debra Lodge, “and having a good standing relationship with a bank is one of the determining factors for transacting business.”

Spot and limited maturity forward transactions meet the needs of most businesses. On the whole there is relatively little speculative foreign exchange trading – though there is some, of which more later.

“Clients in Latin America use the same set of things clients in North America or Europe use,” explains Caio Blasco, Deutsche Bank’s director of LATAM e-commerce sales based in Sao Paulo. “However, e-FX in the region is still some steps behind as clients are learning about algorithmic execution. Usually, what differentiates them is the number of currencies they trade, with the caveat that most currencies traded in LATAM are restricted by nature (BRL, CLP, COP, etc).”

Banks such as Deutsche, Citi and HSBC, but also other platform providers have combined their ability to provide first voice but then electronic platforms with the ability to provide the administration that is generated by the need to meet local exchange control restrictions.

Citi’s Al Saeed is project manager for their cross asset and research portal Velocity. “To execute an FX transaction in these countries involves an entire workflow. There may be heaps of documentation to process and approve and very few people do that. “Our corporate platform, FX Pulse, automates all of the regulatory requirements for places like Brazil. You have to describe whether the underlying trade is an import or an export, there’s tax to be calculated. It’s the same in Colombia where there is a tax calculation of every FX transaction. In Argentina there is an entire workflow for collecting documentation, making sure everything is in order, that the FX transaction is off the back of genuine trade rather than speculation before it’s approved.”

FXall’s Michael Bernal agrees with the premise of the importance of value added beyond facilitating trading. “We’ve found that corporates have been driven to our platforms by our automated processing which eliminates the need to send faxes, phone or e-mail confirmations. Instead confirmation is sent from the bank via SWIFT’s



Al Saeed

*“To execute an FX transaction in these countries involves an entire workflow. There may be heaps of documentation to process and approve and very few people do that.”*

messaging to the corporation. This means that payments are made automatically.”

Against a background of the regulatory need for forex transactions to be linked to real trade flows, it is not surprising that the range of instruments beyond spot and forwards are relatively undeveloped. Consequently, NDF products have grown up offshore. ICAP for example offers NDFs in ARS, BRL, CLP, COP and PEN and Thomson Reuters has supported the largest community of Latam and Global NDF traders on its Dealing platform since NDF’s were first introduced to the market. But this is by no means the whole story as Thomson Reuters Matt O’Hara explains.

“The foreign exchange market in Brazil, for example, grew as a futures market, primarily





traded on the BM&F market. There is a domestic spot market and we see that growing, but the majority of the liquidity is in the futures market just as there is liquidity in the NDF market offshore. So there are domestic capabilities in Brazil that work very well and electronic in nature. Then in Chile there are domestic trading platforms that are for the domestic spot market which have relationships with the local bolsas – or exchanges.”

We will look at regulatory issues in more detail later, but there are two other important areas that are in growth phase as far as electronic capabilities are concerned. The first is in speculative money and second is in retail. These are both “emerging markets” in their own right.

### Prime brokerage and hedge funds

“There is not a lot of movement in the G10 space at the moment,” says Citi’s Simon Jones. “There has been central bank guidance in CHF and JPY, EUR / USD has hovered either side of 1.30 all year, threatening much but delivering little. For a long while now our customers have been looking for other areas of interest. Brazil, Chile, Colombia and Peru to some extent, while among the deliverables, Mexico is our



Michael Bernal

*“You see relaxation of regulations in Brazil, then you see an increase in regulation in Argentina and Venezuela. Even in Mexico there are some regulations that are being placed on funds for financial reporting purposes.”*

biggest pair in the emerging market space. The majority of the market is Asset Driven or Speculative flow with spot and forwards against the dollar accounting for the bulk of it.”

He goes on to add that where such flows are provided by hedge funds they are accustomed to using electronic trading platforms and expect them to be available where Latin American currencies are concerned.

FXall’s Michael Bernal sees developments in the prime brokerage area. “On the prime brokerage side we are definitely seeing more high frequency traders (HFT) using prime brokers for liquidity and credit purposes. We are also seeing a very careful selection process with regards to who HFTs are using for prime brokerage as they tend to concentrate their exposures with only one or two institutions. There has been a strong growth in PB business in LATAM over the last couple of years, offered by the 5 – 10 major US and global institutions with a strong presence in LATAM.”

“We currently have a number of LATAM hedge funds based mainly in Rio de Janeiro, São Paulo and Santiago trading FX through our platform,” says



Caio Blasco

*“..we believe that prime brokerage is generally still under used in the region. The cross margin ability and netting facilities that an FX prime broker can offer clients can make execution much smoother while requiring fewer margin allocated to different banks.”*

Deutsche's Caio Blasco. "We are experiencing decent growth from those clients as it is a new asset class in this region. In the HFT space, there are few players, as the restricted nature of their main currencies make HFT challenging. At the same time we believe that prime brokerage is generally still under used in the region. The cross margin ability and netting facilities that an FX prime broker can offer clients can make execution much smoother while requiring fewer margin allocated to different banks."

This view is corroborated by Joseph Conlan Global Head of Sales at New York-based FC Stone LLC which provides clients with trading and execution services in a range of asset classes. "Prime brokerage is just gaining traction in the region, allowing participants to trade on the best rates market-wide, as opposed to being captive clients. HFT and algo trading will have an impact as more participants migrate to open markets and dark pools."

Debra Lodge also notes that prime brokerage is significant growth area for HSBC, "Prime Brokerage services are beginning to emerge in Brazil, and we expect this business to become more prevalent with the local hedge fund community in the near future. HSBC is a large organisation with deep capabilities in a lot of geographies and products, we aim to be ready with such products as and when these emerging



Joe Conlan

*"Prime brokerage is just gaining traction in the region, allowing participants to trade on the best rates market-wide, as opposed to being captive clients. HFT and algo trading will have an impact as more participants migrate to open markets and dark pools."*

markets dictate." Her colleague Jacqueline Liao global head of FX prime product and service adds, "We are already live and servicing clients in Brazil with our FX prime brokerage platform and continue to expand our base. Local knowledge has been paramount to ensuring our tools and technology are adequate for this market."

### Retail FX

If the smart money is just beginning to show an interest in LATAM and accessing it by electronic means, it is not surprising that the retail market seems to be relatively undeveloped as yet. This is also a market that brings with it some complexities.

"In much of Latin America the retail FX market is fed by remittances of emigrants, tourism and,



unfortunately, illicit money from drug trafficking and organised crime,” says Financial Software Systems’ Leigh Ann Wolfe director of new business development Latin America and the Caribbean. “To combat some of the negative aspects of FX trading, authorities in Latin America are increasingly erecting obstacles to the growth of the FX market. To the extent that the retail FX trading market grows in Latin America, sophisticated Latin American investors and traders will want all of the features that investors around the world expect and demand in FX trading platforms.”

Experience at Citi seems to suggest that the market interest also lies elsewhere as well as in pure forex. “We do see some interest in retail trading in Brazil,” explains Al Saeed, “but if you ask the retail providers where the interest has been over the last 12-18 months they will tell you it has been more in metals than in non-deliverables.”

The market in platforms and technology shows plenty of potential according to Ernesto Semedo of 360T, “Retail FX has been growing at a very good rate, although in some countries the marketing and sale of these systems are prohibited by law. Nonetheless, interest continues to grow on the part of individuals with a strong interest from Brazil.”

In summary, Luis Simões Pereira Head of Retail Sales in Latin America for Saxo Bank says, “Retail FX has been developing steadily, although facing some challenges. The multitude of Ponzi schemes across the region left some scars on the investors and regulation is in some cases complex or unclear. Across the board investors are looking for information and educational material and as they feel more confident, we are seeing growing rates of adoption. The European crisis has also played a role as there is a growing interest in the development of events in the continent and a growing will to speculate on the European currency(ies). In any event, active traders have pretty much the same set of interests as their European counterparts – pricing, margins and speed of execution are paramount.”



Luis Simões Pereira

*“Retail FX has been developing steadily, although facing some challenges. The multitude of Ponzi schemes across the region left some scars on the investors and regulation is in some cases complex or unclear.”*

### Regulation, regulation, regulation

For all the complexities and complications of trading foreign exchange in LATAM, market participants highlight regulation as the biggest single barrier and opportunity to development of e-trading.

That regulation is coming from both local markets and developed ones is good news and bad news as Saxo’s Luis Simões Pereira explains, “In several Latin American countries, we have observed a growing openness in the regulatory framework towards the FX market. Either through specific regulation or tacit approval, in a number of countries, it has become common to trade FX as any other asset class. However, the crisis hitting the developed countries





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*"From an interbank perspective, many LATAM countries already trade spot over interbank exchange platforms. Eventually as the markets grow here there will be room to expand to NDFs, futures and options. It remains to be seen if this will be done via an exchange or over the counter."*

has resurfaced some fears among the most important economies, that could set back the path towards a liberalization of the FX market."

FXall's Michael Bernal sees a divergence of regulation, with some countries loosening controls while others are becoming more stringent. "You see relaxation of regulations in Brazil, then you see an increase in regulation in Argentina and Venezuela. Even in Mexico there are some regulations that are being placed on funds for financial reporting purposes. The position reporting carried out in the US or in Europe is now being emulated in LATAM. This type of regulation is more of an accumulation of information of the financial risks that a country's institutions are facing. In places such as Argentina and Venezuela regulation exists for purposes of expropriation and government control. This sort of regulation is likely to impact capital flows."

The use of electronic trading platforms and capabilities is increasing in response to such regulation as well to customer demand. Greater compliance and reporting demands more efficient connection from front to back office using up-to-date electronic tools.

However, in some ways the development of reporting requirements in Mexico and the move towards greater market transparency is waiting on the more developed markets to provide a lead. This is surely coming according to Thomson Reuters' Matt O'Hara. "Short term I think the local market has to understand and prepare for the changes that are inevitably coming in the future. None of us know when these changes are going to happen or what exactly they will contain. But we've got a pretty good idea of what is going to happen around certain OTC derivative instruments. The paradigm is going to change. And with LATAM they trade with the regions and jurisdictions that are going to be impacted by these new regulations and so they need to be ready for that."

This also impacts the rate of innovation in the region as a whole. "The market has had to spend a lot of time and money, resources and investment on making sure that they can continue to operate and comply with the new regulations," O'Hara continues. "That means that the balance of innovations, especially around proprietary trading platforms, macro-based electronic trading platforms has had to slow down to make sure they can be compliant. That's something that the local market absolutely has to understand and be working on. There's a lot more education and awareness around and regulatory compliance to make sure that they're ready. Long term, when these regulations actually come in there are certain instruments that we believe and the market understands are going to be caught up in these regulations. NDFs for example. That is a primary trading instrument and hedging tool for LATAM. If NDFs have to be traded in a different way in order to meet these regulations then this is something that the local market needs to be preparing for."

### Price transparency

Citi's Simon Jones says bodies of regulation such as, Dodd Frank and MiFID that affect developing world currencies, as well as various localised regulations that are coming from Asia, will lead to price transparency that we haven't seen in LATAM before. He says, "This will open up the market for more hedge fund involvement and will give price transparency to the corporate and real money community that will be good for business. This will happen in the next 6-18 months. Ultimately the liberalisation of currencies in the BRICS or elsewhere is an inevitability. Knowing when this will happen is very difficult. You are definitely seeing steps in Brazil and China to pave the way for the day when their currencies become



Ernesto Semedo

*“Both Brazil and Chile are set to see further growth in the use of electronic trading systems because these are countries where volumes are growing at very fast pace,”*

deliverable as in Mexico, the United States and the United Kingdom etc.”

However, the process need not be that traumatic for LATAM countries. “There are many opportunities for cooperation in Latin America,” says Tod van Name, global head of FX Products, Bloomberg LP, “including a new regional exchange created by the integration of the exchanges of Chile, Colombia and Peru into a single marketplace called MILA (Mercado Integrado Latino Americano). The Bolsa de Santiago (Chile) is also speaking with Brazil’s BMF Bovespa about sharing technology. From an interbank perspective, many LATAM countries already trade spot over interbank exchange platforms. Eventually as the markets grow here there will be room to expand to NDFs, futures and options. It remains to be seen if this

will be done via an exchange or over the counter.”

One encouraging factor is that most technology providers seem confident that the communications infrastructure is sufficiently developed throughout the major LATAM markets to enable increasingly rapid development e-trading of forex.

## Conclusion

“Regulatory changes or not, clients throughout the region are beginning to warm up to the idea of using eFX channels to transact business,” concludes HSBC’s Debra Lodge. “Tailoring, but not necessarily personalisation, is the name of the game, we have to be able to support clients in a way they like to trade and the way the market moves, this is certainly not a one size fits all type exercise.”

The outstanding questions facing electronic FX trading in the region are very much those facing it in other regions of the world, including the major developed centres: what will regulation look like once the politicians and regulators have put the finishing touches to it? Secondly, when will new rules be put in place?

Layer on top of this the history, traditions and requirements of local economic management and the LATAM picture is full of hope and opportunity while cautiously reaching out to the rest of the global FX electronic trading community. All market participants we spoke to were full of optimism for the promise that the region offers for e-trading both for them and their clients.

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# Big Data —

## FX meets the challenge of a growing information tsunami



Dan Barnes

FX market firms are seeing a growth in trading volumes that is leaving their trading infrastructures struggling. Dan Barnes explores how, as legacy technology struggles to cope, new 'big data' systems offer faster, more reliable processing power.

The enormity of the increase in data processing facing the business of capital markets is hard to comprehend. Research firm Celent estimates that the average daily trading volume in the foreign exchange market was around US\$4 trillion last year, which represented a 20% increase over the past three years, preceded by an event greater growth of 72% prior to the onset of the financial crisis in 2008.

The electronification of trading is enormous. HFT volumes in FX will be in the range of 28% this year, compared to 5% in 2004. The big banks are running 92% of their FX transactions through e-trading systems. As a result, firms are having to invest in their processing capacity to stay on top of the market.

The term 'big data' has been coined to describe the capturing and processing of data too large to be held in a conventional relational database, often in real time. Originally used by online retail focussed firms such as Google and Facebook, who have to capture and process data often without knowing how it might

need to be used later. That makes the structuring of data into tables, a necessary formatting process for use in databases, impossible.

“There is a lot of unstructured data in finance that doesn’t fit with the standard relational technology,” says Louis Lovas, director of solutions at OneMarketData.(OMD) “The big relational vendors are nowhere to be found at the quant houses and big banks because their technologies do not fit. And there are a number of reasons why they don’t fit. In commercial industry big data is defined by the adage of the three V’s – volume, velocity and variety, a somewhat nebulous description relating to unstructured social content. In that context of social big data the goal is judging human behaviours, mood shifts and buying patterns. There is a disquieting alchemy behind the social science in the hunt for business benefit within the glut of data. The analysis involves not only what data to keep, but what to throw away.”

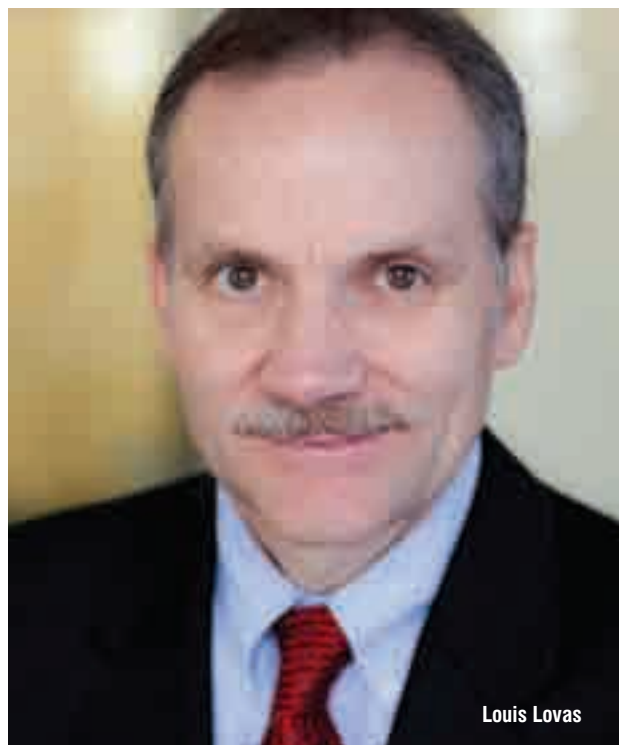
He continues, “By contrast, within finance the big data definition is much more precise since there is need for reliability, accuracy and timeliness. FX itself represents the world’s largest and most liquid market exceeding \$4 trillion daily turnover. Unlike any other asset class, the global currency market ‘never sleeps’. FX clearly fits well within big data’s high-volume definition.”

### The most valuable asset

Being sure in a business based on trading risk for capital is crucial, and as they say in the army ‘Time spent on reconnaissance is never wasted.’

“Reliable and accurate data is the ultimate driving force in all capital markets transactions,” says Paul Kennedy, business manager, reference data at Interactive Data. “Firms talk about cleaning or scrubbing data which is almost a religious issue as it is about individual versions of the truth. Do you have a supplier whose information you trust? Have you got an automated intelligence system to check if a price comes in that it is the price you are expecting; is it within the standard deviation of the last one? Is it a price and not a piece of text? How do I avoid the fat finger syndrome that you often get with order management systems?”

He believes the greatest challenge at the moment is that although firms have to understand whether the data they have is accurate, the business is being



Louis Lovas

*“Big Data is about the capture and storage of deep data and linking disparate data sets under some common thread to tease out an intelligible answer, a diamond from a mountain of coal.”*

buffeted by three winds of change: technology, cost constraints and the parallel search for profitability. The ability to generate and manage these massive data sets, with nano-second response times is a huge potential advantage but spending on the systems clashes with the tough business environment and tight spreads that characterise the market. Automation is one option firms can look at to keep their costs down.

Some of this technology is being adapted from other industries; the Hadoop data management system is an open source platform, based on a white paper Google released in 2004 detailing its MapReduce data management model. HSBC and Bank of America Merrill Lynch are both investigating its potential at present. By storing data in chunks that are not related, across an architecture of networked computers, it can be searched more flexibly and without the need to load and unload it into a database. The use of computers operating in parallel allows processing to occur at a much faster pace. There are also more established commercial options available.

“Big Data platforms like OneTick provide a premiere solution for large scale FX data management,” says

Lovas. “OneTick combine the attributes of a high performance, massively parallel database with real-time complex event processing in a single solution. Bundling a large analytical library of functions accessible via a graphical model builder, it is designed for quants and sophisticated traders. But is also includes the familiar interfaces of SQL/ODBC and APIs for C++, Java and C# for the developer community.”

Many of OMD’s current clients take advantage of data centre proximity hosting and co-location for managed services. This typically includes taking rack space, storage platforms (i.e NAS, SAN) and resident cross connects to markets from leading vendors.

“They look to firms like OneMarketData to provide the next level of managed service – data management to complement our licensed product. This allows them to focus on bottom-line profitability of the firm, achieved through those elements in the trade life cycle,” Lovas adds. In-memory storage and computation environments, such as SAP’s HANA platform, can handle several terabytes of data, which is enough for a firm’s daily operational data and provide a single data view for multiple user communities, who

would be able to access it in a way that suits them. For example, the front office might want look at real-time information while the middle office may use it to execute risk analytics.

“Risk and finance, from their traditional middle office seat, are now bridging the front and back office and bringing them closer together,” says Stuart Grant, EMEA business development manager - Financial Services at database provider Sybase. “As a result it is no longer good enough to move data around in batch windows, and execute risk measures on an overnight basis across a firm’s entire portfolio. Banks want to do this on an intraday, on-demand basis using current data. That’s where in-memory storage and Map Reduce come into their own, Map Reduce being a similar concept to Hadoop.”

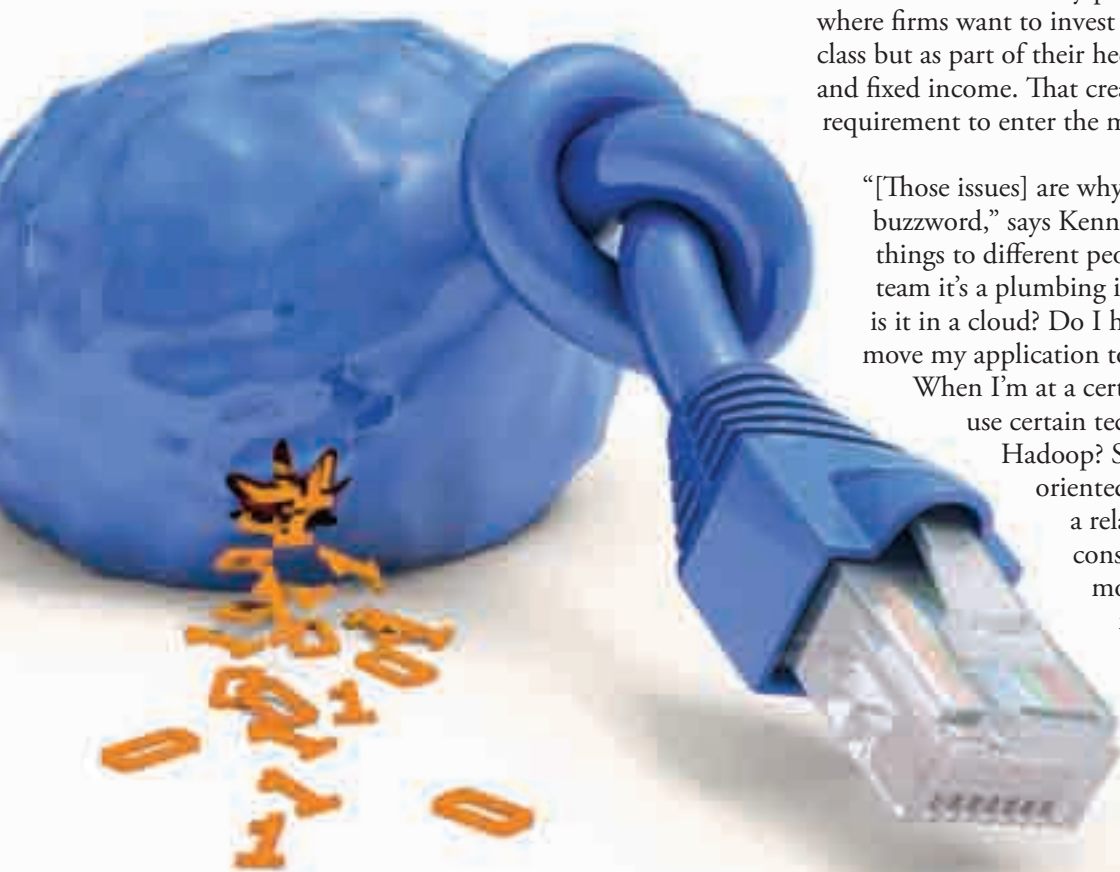
However whilst in-memory storage provides low-latency access to data, it is not cost effective to store all of a firm’s historical data in memory. Products like Sybase IQ, which is a columnar database, is capable of storing petabytes of data then providing techniques such as MapReduce to provide low latency analytics.

### The drivers for big data

While market participants are cutting costs, there is an almost contradictory push in the search for alpha, where firms want to invest not just in FX as a currency class but as part of their hedging strategy for equity and fixed income. That creates a more sophisticated requirement to enter the market.

“[Those issues] are why big data is such a buzzword,” says Kennedy. “But it means different things to different people. In the technology team it’s a plumbing issue. Where is the data, is it in a cloud? Do I have to move the data or move my application to manipulate the data.

When I’m at a certain volume do I need to use certain technologies? Should I use Hadoop? Should I use a column-oriented database instead of a relational one? I have to consider how flexible the data model is, for example if there is a new Greek currency tomorrow, what is the impact on the system? How do I value this strange new asset if I have no historical experience?”





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Paul Kennedy

*"If I have got an enormous quantity of bid-ask trading data how do I, as a human, make sense of that? Visualisation demonstrates that a picture can be worth a thousand words, it allows us to make sense of the numbers in the sense of where the market is going and what is affecting it."*

As a technology issue, Kennedy notes that business and traders can be oblivious to the 'plumbing' around big data, and do not tend to care about the solutions used, as long as they can make a successful trade. From the perspective of management it is often a question of whether the firm is being competitive and secure with well controlled costs.

Grant says that market conditions are driving up the number of FX transactions, creating the need for big data technology. "A number of the larger tier one banks are trying to dominate the flow of the FX environment to shore up revenues, because FX is relatively stable, regardless of what happens in other asset classes," he said. "The margins that banks earn in FX are slimmer than those in other asset classes. So they need that increase in flow to improve revenue and profit. That's where big data comes in, with costs associated with handling and processing of data."

"The driver is transaction volume," agrees Ralf Behnstedt, managing partner of consultancy FX Architects. "The algorithmic trading approach means

the computer decides when to buy or sell, so the simple calculation of scale by the number of traders connected to the FX markets doesn't happen anymore. You have a couple of computers making decisions that could give you 100,000 transactions and tomorrow just five transactions from them."

The turf war Grant asserts has been building in the EMEA FX market involves not only those large banks trying to claim dominance, but also as a consequence high street non-bank FX players, which is adding to existing connectivity challenges.

"Most organisations now regularly look at 50-60 feeds, which in EMEA is greater than if you were looking at the equity environment," he said. "In addition to the connectivity issues, they are now in a latency war. Some are reducing their latency in terms of their market making capabilities; how long it takes them to generate a price. I've heard of firms trying reduce price generation from 100 milliseconds to sub-10 milliseconds. When you think of the volume of prices going out to the market, that's significant."



Stuart Grant


*"The margins that banks earn in FX are slimmer than those in other asset classes. So they need that increase in flow to improve revenue and profit. That's where big data comes in, with costs associated with handling and processing of data."*



Outsmart the Competition







The other side of the equation is the development of algorithmic trading. Like equities, FX has been electronic for some time, but in equities there have been more factors to base algos on, making it dominant in terms of their complexity. As algorithms have become more sophisticated, the know-how has flown into the FX market with firms using multiple algorithms with commensurate growth in the measurement of their performance. To increase their FX order flow banks are now adapting these systems for retail clients.

“Some banks are looking at how they can bring their two sides of the FX business together to link retail and institutional flow,” says Grant. “So on the retail side we are starting to see FX provider offer algorithms to their high street customers. There are opportunities to reduce costs by improving your ability to trade and the speed at which you can trade based on the strategy you use. For example, who narrows their bid-offer spreads first when there’s an event in the market? Who are the laggards? That’s where big data really comes into its own, where organisations can start developing more sophisticated strategies.”

### Comply or die

This growth in trading has knock-on effects for other areas of the business. Each trade has to be checked by the bank to ensure that it is not exceeding risk positions or is in some way unauthorised. Behnstedt says, “Regulations pose a challenge for banks as they have to manage large volumes of data, for example based on know your customer rules, but they have a silo-oriented approach so there may not be much interaction between the Forex silo, the equities silo and the bond silo. As trading volumes increase so banks are less able to cope. They are looking for methods of volume intensive processing; it doesn’t meant that they will move from a position of 10,000 clients to 1,000,000 clients the next day, it is more an issue that transaction volumes might spike.”

Banks already have large structured information stores, data warehouses, but these are really designed

to be used after the trade has been made, notes Behnstedt. Often used to meet Basel III and reporting requirements, they are not designed to calculate details of the trading operations, such as the average mark-up of trades, or which currencies a client is trading and which he would normally have exposure in. Business intelligence technologies that allow a deeper understanding of this information are in place in firms but not usually attached to data warehouses.

“Business intelligence functionalities which help to analyse data are always held in systems in the middle office, sometimes in the risk management area,” he explains. “By making trading more automated banks have a problem in that they have to cope with the data volume and apply business intelligence. So they need to look for or build something that makes it easier to manage. The question is whether you can build and support this or outsource it to a provider.”

### The wood from the trees

Getting the data processed is well and good but at some point its analysis has to be crystallised into something that FX traders can actually use. Given that the definition of big data is a dataset beyond the capacity of a normal database, what tools can be used for the sake of practicality?

“There is understanding data using analysis, which I might call the value of the data, then there is visualisation, which are ways of interacting with the data,” explains Kennedy. “If I have got an enormous quantity of bid-ask trading data how do I, as a human, make sense of that? Visualisation demonstrates that a picture can be worth a thousand words, it allows us to make sense of the numbers in the sense of where the market is going and what is affecting it.”

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Ralf Behnstedt

*"By making trading more automated banks have a problem in that they have to cope with the data volume and apply business intelligence. So they need to look for or build something that makes it easier to manage. The question is whether you can build and support this or outsource it to a provider."*

"Big Data is about the capture and storage of deep data and linking disparate data sets under some common thread to tease out an intelligible answer, a diamond from a mountain of coal," adds Lovas.

In his view, it facilitates many functions including the provision of wider price transparency, both depth in terms of years of price data, and breadth, sourced across many banks and ECNs. It is then the fuel driving the quantitative trading engine – including alpha discovery and research, strategy back-testing and optimisation, portfolio valuation and transaction cost analysis (TCA). Accurate historical data – depth of book, trades, even daily closing prices are the ante to the fiercely competitive trading game.

"Big Data has improved price transparency which has made FX transaction cost analysis easier," he says. "The highly fragmented FX market can be brought together under big data platforms which support broad connectivity and can perform aggregation for accurate time and sales data. This is also accessible via complex event processing systems for real-time TCA."



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# Reducing latency in FX –

making the case for investing in new trading infrastructures

The arms race in to deliver high-speed, automated trading requires a solid underlying technology architecture – but as Dan Barnes discovers, the multi-price, multi-market nature of FX makes this a complex task.

**T**he foreign exchange market is characterised by a heavy fragmentation of liquidity destinations, yet with only five or six currency pairs dominating the market. For low-latency trading this presents a challenge. Regardless of a trading firm's internal technical abilities, its speed of trading is largely determined by the infrastructure on which it trades. Without a core market, such as exchanges provide for groups of equity traders, a forex trader may have 50-60 connectivity routes to other firms, each with their own latency issues.

## Data centres

To reach a destination or counterparty as fast as possible, many firms have to consider which data

centres will provide them with the best access to other traders and which networks offer the fastest and most reliable links. To reach the bigger firms is simpler than reaching the smaller firms.

“We have found most of our customers desire to be in the three key regional cities in the US, UK and Japan which has become the de facto standard.” says Alan Schwartz, president of TNS’ Financial Services Division. “The large financial players are all going to these regional centres, and their counterparties need connectivity into them. However, as not everybody is in one of these three locations, each trader has to take into account what the benefit of being there is. You do see people moving towards locating in the key data centres for the big players, while the smaller players use firms like TNS to get there.”

“That’s true for the main dealers but many of their customers are not centralized. This may be partly, because speed is not the focal point, or is just one factor in their overall FX trading strategy.” The main dealers may have to concentrate together, but Schwartz observes that other smaller scale customers



seem to be much more spread out, with a lighter density based within those centres, often reflecting the role of FX as being just part of their overall trading strategies.

“At a given time, customers tend to generally know which of the dealers they need to get to and that’s where the trade-off comes into play. They are usually quite aware of the venue’s location and their individual importance; however, they can’t entirely predict their future requirements,” says Schwartz. Customers will often target the venues and/or locations they believe are most important, however, management should be aware that additional locations may be required as they change strategies. TNS helps customers make their decisions based upon key data. For example, we can disclose network speeds, latency and costs. This helps guide their deployment decisions. We can offer online tools that provide latency information.”

The lowest latency a firm can achieve is by being as close to the trading destination, whether a venue or a counterparty as possible. That can best be accomplished by cross-connecting two parties in a

data centre where the executions are taking place. Schwartz observes, “Cross-connects are the closest in terms of proximity to the locations. From that you can go all the way back to being a typical extranet client of ours that could be in some far-off place, dealing with the issue of geographic location. Within a data center facility that houses a trading venue, we do offer cross-connects and also some specialized services like our managed gateway service where we manage and house equipment on behalf of our clients as some don’t have facilities of their own in a specific location. Our wide range of services reflects our desire to help customers of all sizes as some do not have the financial and technical resources to be in all the trading locations they wish to be.”

As the FX market is global, a firm could choose to be in a specific data centre to reach a venue, but if it needed to go to more than one venue, because there is not a centralised market, a trade-off has to be made as to where they are physically located and what their goal is.

### The need for speed

One driver for low-latency trading has been the increasing use of algorithmic trading which allow



Alan Schwartz

*“We offer an enormous amount of flexibility; often services are customized, based on the customer’s needs ranging from simple to complex multi-location designs.”*





Michael Cooper

*"The firm's chief information officer should have an understanding of the pre-trade, trade and execution latency budget end-to-end,"*

firms to automate simple strategies, with machines providing millisecond reactions to events such as news or price changes. It is also partly driven by risk reduction as other firms seek to limit the opportunity cost that faster price changes impose on their operations.

Gary Dennison, Managing Director at Divisa Capital, a New Zealand based FX broker notes that, "With HFT systems and algos increasing their messaging, coupled with greater volatility in the FX markets, speed of execution is more important now than ever before if you want to gain an edge in trading."

"People are looking to replicate what has been done in futures and equities," says Michael Cooper Chief Technology Officer Radianz, BT Global Banking and Financial Markets. "They have looked at the performance issues problem and solved them through multi-core processes, hardware-assisted behaviour, by kernel bypass; by leveraging a range of capabilities, functions and tools. For example, in a networking context we've eliminated transit hops and we've employed optical switching fabrics and mitigated serialisation delay through use of gigabit interfaces."

The market is not yet as mature as in other asset classes; research firm Celent has found that 70% of equity trading at present is provided by high-frequency trading (HFT) firms, but in FX HFT accounts for just 28% of trades. However Cooper sees this situation changing; where the same technologies are not available, there are ways of working around the situation.

"An increasing range of services are available; you are starting to see the increase of co-location for FX but it is not available for all venues yet," he says. "Where possible, data centres will be opened up for co-location. However, if this not feasible, this might require a move of the matching engine. But there's also local proximity; for instance, if you look at any given location in London – and that's probably the richest location from an FX perspective – there are a number of venues. So being proximate by being on a fabric like the BT Radianz Cloud gives you the ability to reach a range of locations in a low latency and deterministic manner."

Nevertheless, David Selby, Vice President Product and Strategy, euNetworks, asserts that the appetite for speed has become well established, with at least nine

*"There is a tradition in the network space of trust but also verify,"*



Spencer Greene

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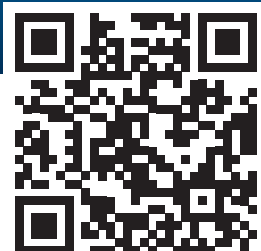


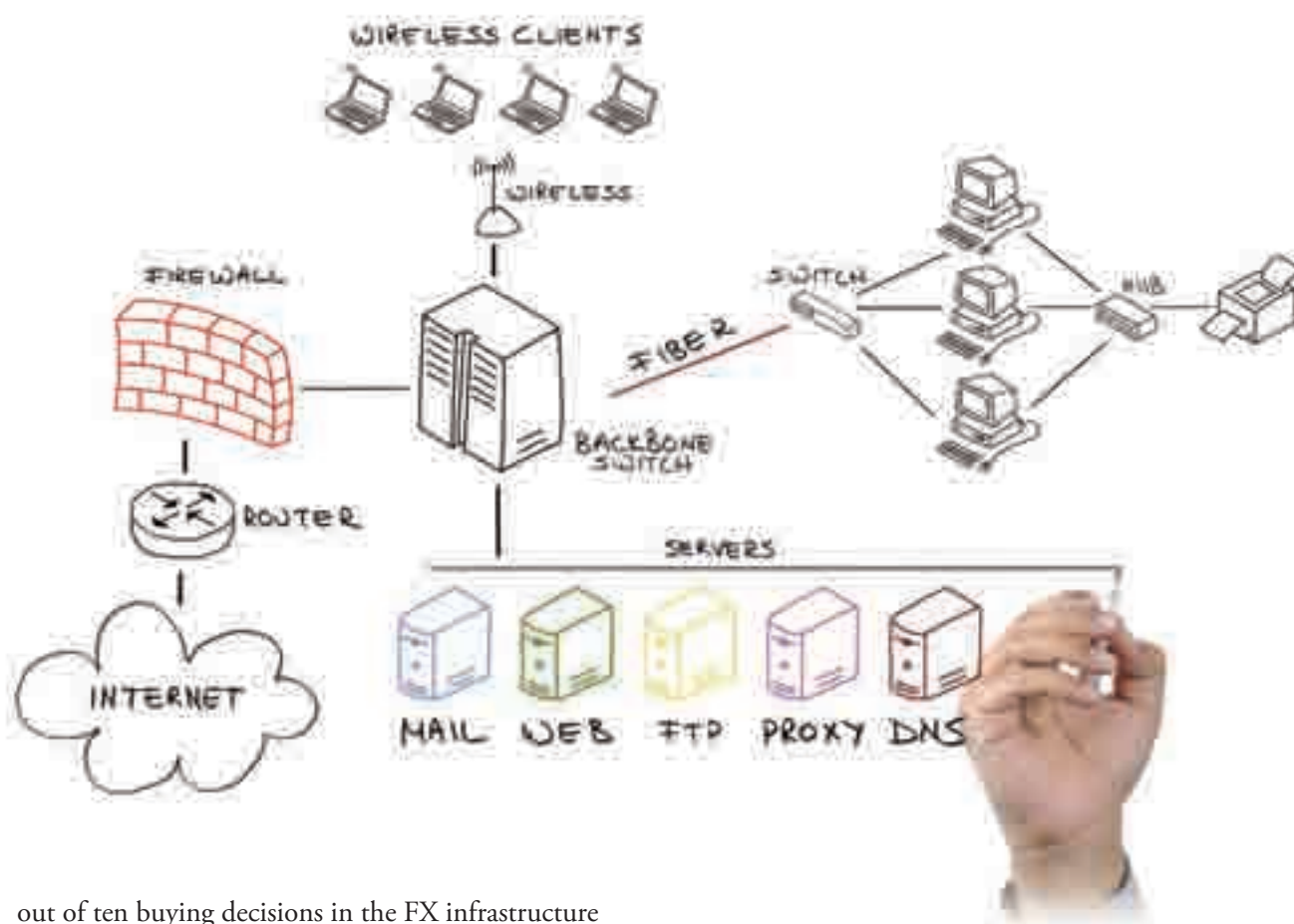
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out of ten buying decisions in the FX infrastructure market place are already based on latency.

“Customers want to see proven test results before they make a buying decision,” he says. “The shortest path and the lowest latency we offer is partly architectural due to the fibre assets we have in the ground. Second to that is that customers want to migrate to the fastest provider they can over the course of a long-term relationship. Our ever-green guarantees mean that we continually optimise our network, allowing our customers to focus on their trading strategies whilst knowing their trading platforms are built on market leading ultra-low latency connectivity.”

He says that the appetite of clients can be difficult to gauge, because although customers will say they are very latency sensitive there are limits to their requirements, which are most noticeable as investment carriers make their networks faster and faster. When prices go up and the carrier tries to get a return on its investment, some traders will decide that they can live with the standard product.

Their needs also change based on changing strategies; from trading all of eastern Europe, a firm might decide to focus purely on the destinations where they’re getting the best results.

“Key drivers for growth have resulted from financial exchanges optimising their systems and infrastructure,” he says. “For example we saw a large spike in requirements when a major Financial Exchange moved from a 1G to a 10G port interface. Due to ownership of the underlying fibre infrastructure, we were able to upgrade our customers to 10Gb capacity and therefore allow them benefit from the latency saving on reduced serialisation delay. Additionally geographic relocation of the financial exchanges also drives connectivity requirements to those sites.”

### Hooking up

The traditional method of connecting to the relatively fragmented FX markets is to use an extranet, typically provided by firms like BT, TNS, COLT or Atrium Network.

“Extranet is not necessarily high speed, it will get you connected to all of the various global platforms that you need to connect to,” says Rutger ter Hoeven at data centre supplier Interxion. “It is an MPLS network which is essentially a network that connects all the different venues to all of the platforms but there is no clear indication of how fast the packet will go from A to B hence the benefit of a point to point circuit where





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you have transparency over latency and that you can rely on when heavy trading is taking place.”

“Recently, we’ve seen a shift to market participants opting for dedicated point-to-point circuits from fibre providers like euNetworks, Abovenet, Algospan and others to reduce latency and increase predictability of round-trip delays,” he continues.

Network provider euNetworks says it has seen up to 30% of its recent growth driven by low-latency services.

“In most cases the large banks we work with are using the connectivity within their own trading strategies. A lot of the smaller traders that may buy more of a managed service tend to go through a reseller or a systems integrator. By providing ultra-low latency connectivity to resellers and system integrators, we are able to service the wider community,” says Selby. “We’re focused on differentiating ourselves in the market, delivering the best service possible,” he continues. “We do this by building our ultra-low latency euTrade network in a way that ensures nothing is extraneous. Whether it is a cross-connect or a fibre spool, it all adds up even if it adds just one or two microseconds. Our euTrade dedicated network is built on Layer 1 DWDM infrastructure. There is no legacy technology. We don’t contend any of our services, so if a customer buys a 1G or a 10G service, it is delivered on a dedicated path, providing reassurance to our customers of a consistent and reliable ultra-low latency solution.”

Schwartz says that changing customer demands mean his firm has to adapt to the requirements of particular client segments, and also the changes in data traffic that occur throughout the day.

“We offer an enormous amount of flexibility; often services are customized, based on the customer’s needs ranging from simple to complex multi-location designs. We’ll deliver a fast cross-connect at a data center if that’s all they want, or design a sophisticated deployment integrating their internal network to our network. The bandwidth and design is determined upon overall usage and speed requirements. We provide flexible, guaranteed bandwidth, to destinations. For example, we offer bursting services to assure stable data flow. This is particularly helpful in unpredictable data environments such as market data. Bursting, large amounts of bandwidth, based upon changing trading characteristics are a critical need for FX clients”



Gary Dennison

*“With HFT systems and algos increasing their messaging, coupled with greater volatility in the FX markets, speed of execution is more important now than ever before if you want to gain an edge in trading.”*

### Getting the measure

However Schwartz also warns that the full range of latency options are only possible if a firm can monitor its performance, so monitoring tools are key. These are used both in-house and also provided to customers who want to have visibility over their network. Although the client would not necessarily manage it, if they are able to view it and see how they are trending, they can make further decisions about capacity requirements based on the level of bandwidth they are using as trades take place.

To monitor latency effectively a firm needs to have equipment that sits at both ends of a connection. The ability to make that happen will depend on the architecture it has; whether it uses an outsourcing provider, whether a third party is at the other end of the connection is going to permit equipment to be attached. In some cases it may be a trader is working between the firm’s own offices in multiple locations, giving full access, in others the firm may only have access to what is happening at its own end.

“Starting with the outsourced model the obvious question is how do you know what is being introduced

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in a third party context?” asks Spencer Greene, senior VP product management and marketing, at network visibility firm Endace. “You should demand that they provide some measurements; not everyone in that space is doing measurement today but I think that it’s best practice that the firms providing the network services serving the FX low latency market are moving toward having measurement as part of their service offering.”

He observes that traditionally within the network services environment, a firm buys a link from one place to another supported by a service level agreement that confirms the supplier intends to meet a certain latency and connectivity level, and in the case of a problem they are to be contacted. Providers should have very fine granularity measurements of how they are performing.

“There is a tradition in the network space of trust but also verify,” he says. “If you have enough at stake then you can deploy your own equipment either at one end of the spectrum or two ends of the spectrum, that will capture the network traffic, timestamp it which is key to allowing latency measurement to happen, then use

those timestamps to do your own measurements and keep your vendor honest.”

The trick is not that firms are not measuring latency, but that they are not measuring at the right level of detail to be useful.

“First providers are often not measuring at a level of sufficient precision or frequency to get a detailed picture across the whole day. They would know when it’s not busy, if they have a certain piece of fibre what is the latency of that fibre; everyone knows that. But if you ask them, was there any period that latency increased by more than 50%, even for a second, folks generally will not know that,” Greene advises.

It is not always the case that when a network service firm knows that information, they will share it; network operators in all sectors, will often provide as little information as they are obligated to provide because if it turns out that have a deficiency in the network they have no interest in exposing that. It is not technology restrictions that are limiting successful measurement, he adds, but a lack of understanding in how to apply the technology for best effect.

“My sense is that right now everyone is developing their measurement strategies differently,” he says. “I recently asked an architect at a big bank what he thought the greatest deficiency was in this market, expecting him to say mention a feature or capability; instead he said that best practice in the monitoring space is lacking. He observed that in a data centre the bank was building every aspect according to a best practice document, but when it comes to monitoring most firms are making up the process themselves.”

Greene continues, “Something we at Endace are working on is developing best practices and making recommendations to people so they have appropriate visibility, the ability to diagnose issues and remedy them when they come about. The other issue is that the whole industry of networking has spent a lot of effort on preventing problems and detecting problems. The whole troubleshooting and response side has been under-invested.”

Schwartz also notes that, “For those who decide to deploy themselves (do-it-yourself), diagnosing concerns and issues becomes more of a challenge because of the rates that are involved, or the spikiness of the data. This is in addition to geographic or regional difficulties.



David Selby

*“In most cases the large banks we work with are using the connectivity within their own trading strategies. A lot of the smaller traders that may buy more of a managed service tend to go through a reseller or a systems integrator”*



TNS is an engineering-focused company which has been an edge for us. Our experienced teams know the market and our engineers are hard-core network people. We continuously invest a great amount of financial and human resource into developing better monitoring tools and procuring equipment to remain competitive.” “Some of the issues that occur can stem from the customer side rather than the network side he adds, in terms of the bandwidth available. It can slow process up significantly if the customer doesn’t have the infrastructure in place to bring the necessary fibre into their facility.

“In the case of physical bandwidth it is not something you can flip on overnight. You have to procure an upgrade which can result in a time delay. Sometimes we can make temporary adjustments. For example if the customer has some information that they don’t need, we could temporarily filter it to remedy the problem..”

#### Outside of the network

Measuring latency at a networking layer should be augmented with code that gives some level of awareness of what is happening within trading applications, and intelligence of the analytics that the latency measurement is going to apply advises Cooper. “For example, can you differentiate a transaction from an acknowledgment?” he asks. “As you start to use increasingly granular latency measurement you have got additional considerations with analyser performance

and capture, time stamps, reference clocks etc.”

“The firm’s chief information officer should have an understanding of the pre-trade, trade and execution latency budget end-to-end,” he suggests.

“That will give you a measure of where you are. You’ll also want to determine items like what the turnaround time at the execution engine is, as that will ultimately constrain what you can do in terms of latency. As you start to dissect the end-to-end latency you will get greater clarity around the performance of individual elements and where it makes sense to focus time and budget.”

As part of this process one cannot ignore the importance of the trading applications that are used and their effect on latency. When trying to improve on their performance, the decision of whether to buy or build the systems in-house has consequences. Packaged solutions are improving in quality and can also be monitored by a service level agreement to ensure that they are performing.

“As a very interested observer, rather than a supplier of IT, I think FX traders have to look at where they very clearly can differentiate and what they can maintain,” says Cooper. “My perception is that a lot of the systems and capabilities are becoming less differentiated; best current practice is no longer ‘black magic’. So there are now quite a few options using a very capable set of systems and service providers. You have to look very closely at yourself and be honest.

If you really think you can differentiate yourself then perhaps consider it but we see some of our client's capabilities - Aphelion for example - and they have a level of expertise that I would consider difficult to replicate."

"My personal feeling is that so much of the high performance piece is done so well by third parties that you have to look very closely at how you think you are going to differentiate and if you maintain it as well," he adds. "Commercially there are trade-offs but there are some advantages in having a model that allows you to select best-of-breed in a more OPEX model rather than a people and capital intensive model."

Similar concerns exist for firms who wish to develop their own infrastructure, says Divisa's Dennison. "The issues are many but cost, functionality, reliability are just of a few of the challenges a firm must overcome in order to develop a viable solution," he says. "Quality assurance testing will require months and months of testing of an Alpha offering before a Beta version can be rolled out to clients for testing. The benefits may be minimal compared to the many issues a firm will face trying to develop and implement this new technology."

### Beyond the speed limit

Although speed is crucial for many high performance FX trading firms it isn't so important for everyone. Banks and other traders typically refresh their network to reduce latency and to reduce risk, usually with a mixture of the two, based on the firm's view of their optimal trading infrastructure.

"Speaking to the sell-side institutions, FX desks as well as boutique trading houses, we find they like to connect to the ecosystem from a single data centre. By using a data centre like ours where you have access to some interbank platforms as well the bank platforms, it makes it easier from a connectivity perspective," says ter Hoeven.

"Where there used to be a clear-cut, speed-based approach to trading for example setting up a trading algorithm in a stock exchange's data centre, that model is no longer viable," he contends.

"Firms made a lot of money that way; if you were the fastest and the first to put that in place you could win," he says. "In today's highly competitive market



Rutger ter Hoeven

*"Some people require low latency some don't. I spoke to a large Nordic bank recently that still has more than ten milliseconds round-trip delay, but they didn't see that latency as particularly harmful for their trades."*

the complexity of trading strategies has increased. You often have to work across exchanges, asset classes and possibly even multiple countries. Bring that together with both market data and the execution position and trading infrastructures become so much more complicated."

Where in the past he says firms would invest in any venue that they could execute on and create the fastest solution, that is only supported by 5-10% of the market in his view, with the rest taking a more balanced approach with an acceptable, although often low, latency to reduce risk in trading infrastructure rather than beat the competition on speed.

He adds, "Some people require low latency some don't. I spoke to a large Nordic bank recently that still has more than ten milliseconds round-trip delay, but they didn't see that latency as particularly harmful for their trades. Latency is not always the driver for this, rearranging the network might be for achieving a reduction of costs, or to reduce the complexity, which maybe the biggest advantage of a connectivity hub."



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# FASTTRACK

Technology – helping to meet the challenges of electronic FX

With Peter Kriskinans, Managing Director of DealHub, one of the leading providers of financial market software solutions.

Peter, the DealHub product suite was first launched back in 1997. Since then, why have so many of the world's top FX dealing banks chosen DealHub to support their e-trading and trade processing requirements?

DealHub was born 15 years ago, out of a close collaboration with a large Swiss bank – and since then, we've never lost sight of the importance of deep engagement with our customers. Over the years, we've worked side by side with clients to build a profound understanding of their workflows, developing products that solve real issues and work seamlessly with in-house systems. I think a key reason for our success is that we offer the kind of convenience you're looking for when buying an off-the-shelf product from a vendor, with the integration and performance you might expect from a bespoke solution.

We've also kept a very sharp eye on speed and reliability as we've built out our solutions, always looking to improve performance, streamline our software and build in the resiliency that eliminates downtime – that's why the world's biggest banks trust us with their high volume, high speed, high risk traffic; we never cut corners.

DealHub has won many awards, particularly for your Post Trade Services. Do you see any significant STP bottlenecks remaining in Post Trade FX Workflows or have most of these now been overcome?

I think the challenge the industry faces now is less about removing bottlenecks and more about reducing risk – in both an operational and a market

sense. From an operational standpoint, it's all about reducing complexity; cutting through the spaghetti of infrastructure that's grown up in most banks over the years and replacing it with a best-of-breed solution that minimises integration points, physical infrastructure and translation between multiple data formats. Getting this right can dramatically cut error rates, support costs and processing times.

To reduce market risk, I think there's scope to make more fundamental changes. In today's connected world, there's no reason that a lot of the tasks traditionally performed deep in the back office can't be moved earlier in the workflow. For example, there are no technical reasons that trades can't be confirmed in near real time, identifying out-trades and ensuring that risk systems have an accurate view of exposures at all times. We're getting more and more engagement from customers in this area – so it's a space to watch.

What work is DealHub doing in extending your products and services to help FX trading firms prepare for the proposed Dodd-Frank and EMIR regulatory changes?

This is obviously a big focus for the whole market right now. A lot of the emphasis has been on establishing connectivity to new CCPs and trade repositories – but the conversation we're having with customers is increasingly turning to the internal workflow challenges resulting from the new reporting obligations. The impact on a bank's core systems and processes is potentially huge – and it's all subject to change as regulations evolve.

Our response is a package of solutions launched in May; DealHub Smart Reporting, which addresses all the key challenges posed by the new regulations. By abstracting all regulatory workflow and connectivity into a middleware layer, we protect core systems from disruptive change, establishing a flexible, rules-based framework to manage regulatory demands in 2012 and beyond. We've had a really positive response to the launch and are committed to making the transition to the new regulatory regime as painless for customers as possible.

**In addition to your post trade services, DealHub has a growing reputation in the e-FX space. How are current market dynamics affecting demand for your price distribution backbone?**

With two new ECNs launched in the last month alone, it's clear that liquidity fragmentation is a trend that has some distance to run. It's very hard for a bank to compete effectively for FX business without pricing into multiple trading venues, in addition to any single-bank offering they might have. Managing the different protocols, trading rules and market structures used by each venue can be incredibly complex and time consuming. This is certainly a key driver of demand for our Connectivity Manager solution, which handles all venue interfaces, while centrally managing pricing and orders in a normalised format. The fact that we can offer these capabilities co-located with key venues makes it a very compelling proposition for banks looking for a fast and flexible leg-up in e-FX.

**Have e-FX services become a simple commodity which every major FX provider must have in order to compete or can they actively help them gain market share by deploying more scalable and flexible platform infrastructures to facilitate improved price generation, order management, post trade services and risk management operations?**

e-FX services are certainly close to becoming ubiquitous – but I don't think they are in any way commoditised. In fact, in a market where spreads are ever tighter and it's increasingly hard to compete on price, building stand-out e-FX services to wrap around your core pricing is an increasingly common source of differentiation. Customers of all sizes are coming to us now, because the first generation of 'off the shelf' ecommerce tools no longer give them a competitive edge. Whether they're looking for ultra-low-latency proximity hosting to improve hit rates on an ECN, flexible margining tools to better manage their pricing, or a customer friendly credit system, our toolkit of e-FX services can help them craft a new infrastructure tailored to their unique goals. And because our solutions are modular and we understand complex



Peter Kriskinans

integrations, we can take a very flexible approach to implementation, replacing legacy components one step at a time, or dropping in a complete solution from liquidity aggregation through the pricing workflow to distribution and order management.

**Where do you see the next round of technology innovation in FX being focused?**

With the kind of competition we've just talked about, the smartest organisations are starting to use live data to drive decision making in real time. That could mean using latency monitoring tools to continually fine-tune performance across an ecommerce infrastructure, or it could mean real-time analysis of end to end profitability of customer flows, driving pricing and market participation strategy on a second by second basis. The more you can automate those data flows and decision processes, the more competitive and profitable your business can be.

**We continue to report on exciting growth in e-FX throughout many Emerging and Frontier markets. What steps are you taking to further increase the reach of DealHub within the global FX marketplace?**

We're continually looking at new opportunities, and it's exciting to see how quickly emerging markets are catching up and competing with more established geographies. The new DealHub office in Singapore reflects our commitment to the Asia-Pacific region, where banks want to catch up fast, but are often in a different regulatory environment which dictates the ways they interact with clients. We have the suite of products and experience from existing clients to help them leap-frog forward.





Nicholas Pratt

Everything is getting faster, it seems. And the faster things get, the shorter they last. Whether this relatively unrefined truism can be applied to FX algorithmic trading remains a moot point but, as Nicholas Pratt discovers, it is clear that service providers are devoting an increasing amount of time to building tools that can help to speed up the construction process for FX trading algorithms – from design to development to deployment.



Achieving more rapid design and deployment of algorithmic FX trading strategies



There is a shortening time cycle in the creation of the algorithms as they move more rapidly from conception through testing to live trading. Furthermore, service providers are also offering more tools and techniques to help with the back-testing and benchmarking of FX algorithms thus subjecting them to an ever more intensive level of scrutiny.

“We are seeing a whole generation of traders doing things in different ways but because of the economic uncertainty, people want more assurance that the new strategies will be profitable and they want some proof of concept before they will commit the resources necessary,” says Gary Stone, chief strategy officer at Bloomberg Tradebook.

### Backtesting

As part of a client’s subscription to the Bloomberg Professional service, Bloomberg has developed a number of backtesting tools of various degrees of sophistication and rigour. Traders can design and backtest their strategies on the Bloomberg Professional service and then implement a successfully backtested strategy with Bloomberg Tradebook. At the most

basic end of the spectrum the backtesting tools enable traders to test the potential profitability of a new strategy without having to revert to a back-office team of quantitative analysts or application developers. According to Stone, the idea is to provide traders and front-office staff with a straightforward tool for creating real-world simulations that they can apply to their trading algorithms. “It is an accessible and powerful backtesting tool that serves our clients well. It comes with a very robust strategy template and provides all the P&L, risk factors and analytics.”

Bloomberg also provides backtesting tools for coders and programmers that are equipped with more complex mathematical models and enables users to code in their own indicators and scenarios rather than select from a template of set risk conditions. In both cases, the idea is to help traders and quantitative analysts alike get to and get through that ‘proof of concept’ process.



Gary Stone

*"I think traders have always had some kind of back-testing in their heads. The technology on the Bloomberg Professional service now exists to enable them to do it more rigorously by recreating their trading environment."*

In some cases, clients want to get through the 'proof of concept' process relatively quickly but at the same time they want to inject more rigour into the backtesting process, which can create some tension. "If I'm creating something quite robust then there is often more time involved and that lag time is very important," says Stone. This lag can be extended if the full suite of backtesting resources are not available to firms or, as is often the case within larger institutions, the validation or backtesting department and the production department are often in separate divisions and unable to work directly with each other. "I think traders have always had some kind of back-testing in their heads. The technology on the Bloomberg Professional service now exists to enable them to do it more rigorously by recreating their trading environment."

### Shelf life

Regardless of the technology developments, algorithmic trading is still about the 'idea' but while the idea may be original at its outset, if it's successful it will soon become popular before becoming

commoditised and then fading away. So just as there is a limited shelf-life for ideas, do the algos have a similarly limited shelf-life?

"Execution algos are changing because of the changing market structure in FX," says Stone. "On the other hand, the strategies have a limited shelf-life but it is difficult to say how fluid this area is. My suspicion is that there are a set of basic strategies that will be here to stay, such as "WAPs" which will be used to execute large orders that are hitting a certain benchmark. Then there will be other strategies that will come in and out of fashion and are based on the traders' imagination and opportunism. These strategies all require different algorithms and more customisation based on where the algo engages with the market. When we look at the algos, they are more being tweaked than replaced."

The ability to tweak has been greatly enhanced by the performance analytics – from back-testing to benchmarking – that have been made available by various service providers. TradingScreen is an execution management system offered to the buy-side. It also includes an FX liquidity aggregation service and offers users access to the algorithms offered by a number of investment banks "In some cases we can host the algos on our platform but it is mainly about enabling the sell-side to expose their algos to the buy-side," says Jean-Philippe Male, Head of OTC Products, TradingScreen. "Neutrality is an important issue so we remain agnostic as to the algorithm and the strategy before the customer makes their choice."

Once the decision has been made TradingScreen then offers its buy-side customers a real-time and independent transaction cost analysis (TCA) module to test the effectiveness and performance of its chosen algos. "We have a set of benchmarks that we go through with the customers so that we can test the algos, see what has been done and compute some objective and independent performance metrics. The customers can then run a series of regular reports on the various algos that they have selected," says Male.

### Real time TCA

TCA is still in its relative infancy in terms of the FX market, so it may seem surprising to see it offered in real-time but, says Male, there is a great demand for it. "In the beginning, the algo providers would offer its users a performance report at the end of the day and this then progressed to an intra-day report. In



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all cases, the TCA was provided some time after the trading activity so the information is received after the fact. Our TCA is provided in real-time so that users can monitor the performance of the algos as they are trading. We show what venues are hit by the algo and whether it was passive or active using graphical tools. And we have a set of benchmarks that show the level of slippage and other data elements.”

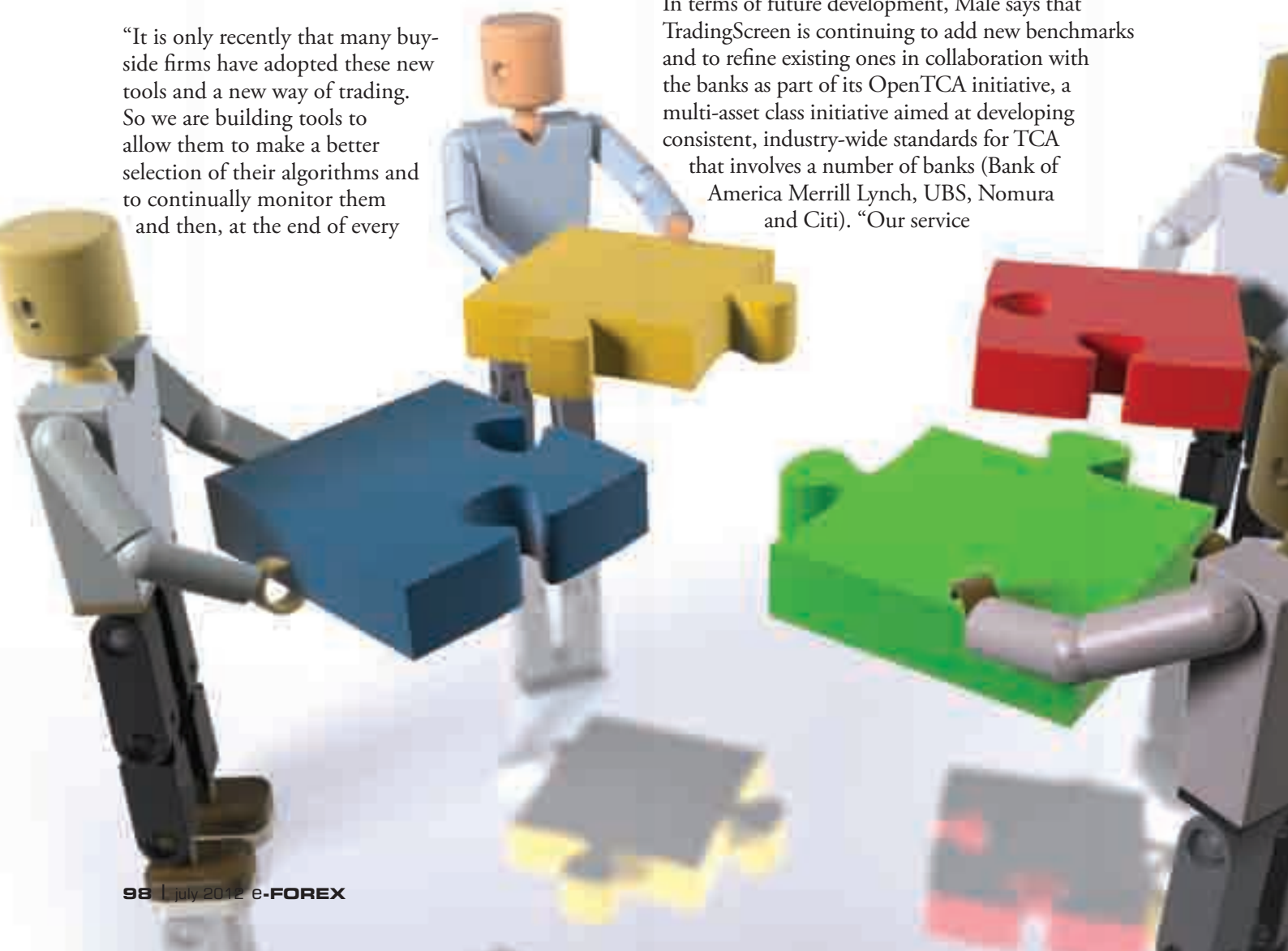
Given the development of real-time TCA and other backtesting tools and an increasingly competitive marketplace (for both the users and developers of FX trading algorithms), one might think that this could lead algorithm users to switch providers more often. Or perhaps the converse is true in that the enhanced monitoring capability enables users to tweak their algorithms more effectively and enhance their trading performance without having to dump the algorithms they are using. The reality is often a combination of the two, says Male, but it must be remembered that the buy-side’s use of bank-provided algos is still relatively new.

“It is only recently that many buy-side firms have adopted these new tools and a new way of trading. So we are building tools to allow them to make a better selection of their algorithms and to continually monitor them and then, at the end of every

month or quarter, take a step back and look at the performance of each algo and decide which ones they want to continue to use. In terms of our input, we only show the numbers based on the benchmarks that they clients have requested,” says Male.

He goes on, “The algos that we offer access to are supplied exclusively by banks, although some of them are built by the banks and some of them are provided on a white-label basis. In the beginning of FX algos, the hedge funds were the main users and were using the bank-supplied algos as a way of benchmarking their own algos but now we are seeing large asset managers and corporates requesting algorithms in the RFPs they send to the banks. This has been a massive incentive for the banks that were previously uninterested in developing or offering algorithms because a bank that is not providing them may lose order flow in terms of losing customers even if the algos themselves only make up a minimal amount of their clients’ order flow.”

In terms of future development, Male says that TradingScreen is continuing to add new benchmarks and to refine existing ones in collaboration with the banks as part of its OpenTCA initiative, a multi-asset class initiative aimed at developing consistent, industry-wide standards for TCA that involves a number of banks (Bank of America Merrill Lynch, UBS, Nomura and Citi). “Our service



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helps the banks to fine tune the algos they offer and to get better results so it is important to get them involved in the development of TCA,” says Male.

### User groups

Despite the increasing demands for FX algos from more traditional buy-side firms, there are still two distinct user groups. Whereas the more aggressive hedge funds, high frequency and momentum-based traders are relying on algorithms to generate alpha, the asset managers and corporates are using algorithms as a labour-saving device more than anything else, turning to the algos to automate the execution of a large order and minimise market impact, for example.

Will more effective testing lengthen or shorten the average algorithm's life-span? “If you look at the equities market, the VWAP is still the most heavily used algorithm and that has been around for more than 10 years now,” says Male. “I think we will see a similar thing in the FX market where there will be handful of dominant and long-standing algos used by most participants that will be time sliced or TWAP algos that. And then there will be a few more algorithms developed by the banks aimed at the alpha generating traders and those will have a very short life-span because as soon as the market works out how these algos operate, they find a way to exploit this flow.”

Despite this bifurcated market, Male maintains that TCA is a valid means of analysing the effectiveness of both the labour-saving and more opportunistic algorithms used by the opposite ends of the buy-side spectrum. “There is still a big difference between the performance of one bank's VWAP and another bank's. So there is still definitely a need for more performance analysis. A lot of the banks are still in the building phase of their algorithms so have not invested heavily in their performance analysis and feedback. But I would maintain that if you are developing an algo, you need to test it heavily and the ones that are doing that are enjoying better performance.”

As the use of algorithmic trading develops in the FX world, many of the algorithmic trading providers will face the same issues. Most providers share similar user demographics – the hedge funds, the broker dealers and the large asset managers. The hedge funds will be using the platform primarily to benchmark the effectiveness of their own proprietarily developed



Jean-Philippe Male

*“A lot of the banks are still in the building phase of their algorithms so have not invested heavily in their performance analysis and feedback. But I would maintain that if you are developing an algo, you need to test it heavily and the ones that are doing that are enjoying better performance.”*

algorithms. The broker dealers are looking to use liquidity aggregation, order routing and netting. And the asset managers are looking for workflow and access to aggregated liquidity.

### Development process

According to Harrell Smith, head of product strategy at Portware, a developer of automated trading software, the level of involvement of the vendor in developing algorithms varies considerably based on the client segment. Hedge funds who are developing proprietary, alpha generating strategies have an attitude of don't call us, we'll call you. Traditional asset managers, however, rely on Portware to provide integrated access to algorithms from leading FX dealers, as well as execution algorithms that Portware has developed and makes available to all clients as a core part of the Portware FX platform.

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Harrell Smith

*"In FX, the market is changing and clients want to react quickly to different trading environments so updating the algos, testing them and putting them in place in a timely manner is really critical. Speed is always of the essence..."*

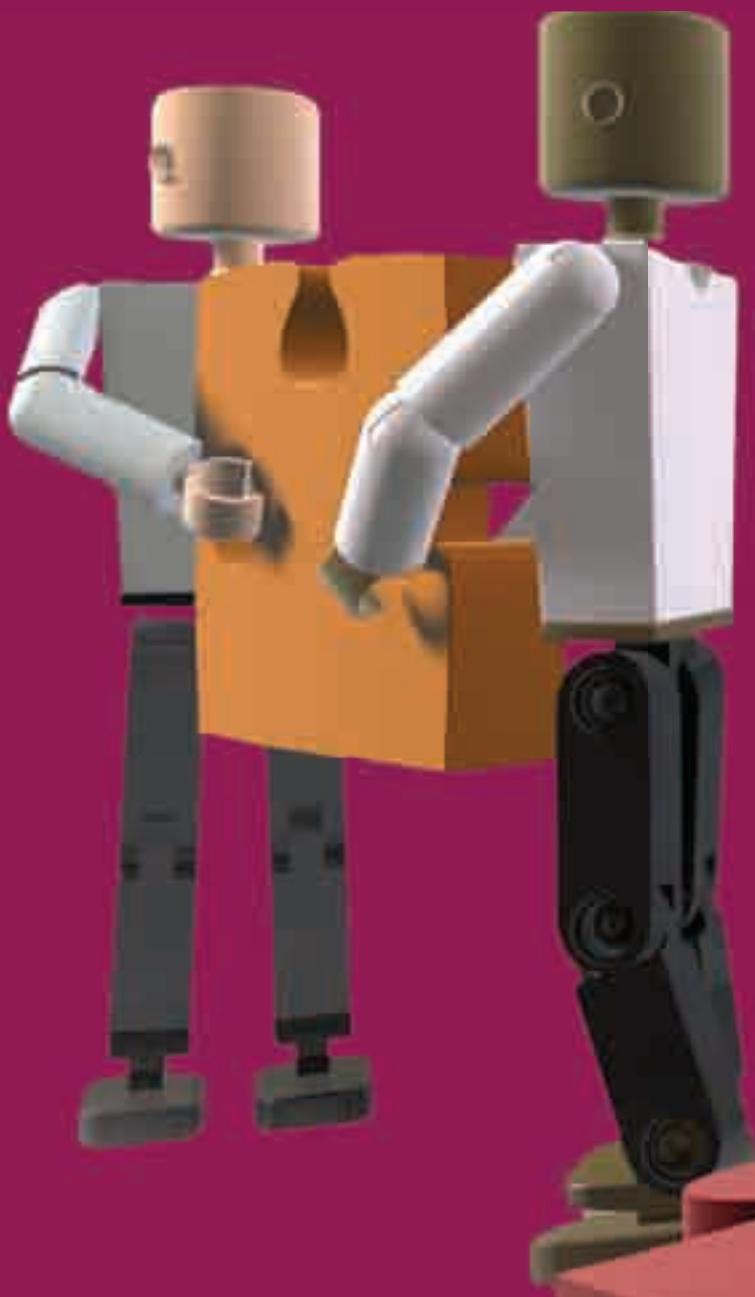
Still, firms who are creating proprietary strategies look to Portware for advanced development toolsets that can help them reduce time market and react more quickly to structural changes. "We provide a very flexible development environment that allows clients to design, run and backtest any kind of algorithm or trading strategy they want. They can leverage historical or simulated quote data from either internal or third party systems and use our real-time TCA and reporting toolset to gauge strategy performance against any number of benchmarks."

Smith notes that in today's fluid marketplace there is a constant demand from clients to be able to develop new algorithms at an increasingly faster rate. "There is always a demand among clients to get their strategies up and running as quickly as possible," says Smith. "In FX, the market is changing and clients want to react quickly to different trading environments so updating the algos, testing them and putting them in place in a timely manner is really critical. Speed is always of the

essence and that has been a major influence in terms of developing tools we make available to clients."

### Cost issues

Aside from the quickening pace of development, the major challenge that service providers face, says Smith, is that perennially thorny issue of cost. "It is the same with any client - they want to have access to a powerful toolset for building their own strategies and they want flexibility and ease of use. It remains an issue and we take that into consideration. But we feel we have built a comprehensive development so the cost for the end user in terms of building out that infrastructure is minimal. Providing a turn-key out of the box product is something that we have focused on since moving into the FX market."





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Presumably while cost is a factor, few clients are willing to sacrifice the functionality of their algo products, so some burden must fall on the vendors to meet his shortfall. The cost issue has also been driving vendors' efforts to design far more open system architecture that can support the creation and testing of fairly complex proprietary algorithmic trading strategies. And when it comes to the longevity of FX trading algorithms in an environment of such testing and analysis, Smith believes it is likely to lengthen rather than shorten the shelf-life of many algorithms. "There really is no final end game and clients are constantly tweaking their algorithms and strategies. In a market as dynamic and fluid as the FX market, there will always be a need for constant refinement."

This is a view shared in part by Gerry Turner, executive director at Object Trading, a global provider of counterparty-neutral direct market access (DMA) for electronic traders of multiple asset classes. "Firms generally have an idea of what their algorithms are intended to do and if the algo still makes money, they will continue to use it," says Turner. "I'm not sure that increasing or decreasing latencies are affecting the algos."

### Latency

What Turner does note, however, is that there appears to be an effort among the large banks that dominate the FX market to try to 'commoditise latency'. In the FX market world there is more fragmented liquidity than in the equities world, given that there are a limited number of currencies but an increasing number of price providers and latency is seen as a differentiator by many of the liquidity providers, says Turner.

This has led to a race for low latency and increased certainty from trading technology providers as well as the traders themselves. But after a period of sustained spending on reducing latency, especially in the equities market, there is evidence of a desire among the big banks that provide the majority of the prices in the FX market to commoditise latency, so that it can be removed from the equation and liquidity providers can go back to competing on price or other factors such as the depth of the market, the cost of execution or the range of the clearing services.

It is a development that is both logical and surprising, says Turner. "It is very surprising that banks have started to collaborate even though the logic is clear. The arms race we have seen in the last few years in terms of spending on latency- reducing technology



Gerry Turner

*"If the market becomes more convergent in its use of technology, then this means that algos should have more optionality, venues will be easier to access and the markets will behave in a more predictable way and react in similar timeframes."*

has not helped anybody and by levelling the playing field, they will be able to return to the days when price was king. The banks realise that they don't want to lose out to smaller venues that may have marginally better technology and lower latency and would rather compete on other factors with a more rewarding return on investment than is currently the case in terms of low latency technology."

When banks begin to collaborate in an effort to level the playing field, it is not always a positive development - especially if it involves price-fixing of some kind - but, says Turner, in the context of commoditising latency, algorithmic FX traders should benefit. "If the market becomes more convergent in its use of technology, then this means that algos should have more optionality, venues will be easier to access and the markets will behave in a more predictable way and react in similar timeframes."



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# News Analytics -

## Capturing market opinion for high performance FX



Nicholas Pratt

As the use of machine readable news becomes more accepted among FX traders, Nicholas Pratt examines the challenges facing the providers of such services – from sentiment to speed to social media.

This magazine first wrote about machine readable news in 2008. Back then it was a relatively nascent technology within the FX market. The main data providers – Dow Jones, Thomson Reuters and Bloomberg – had all developed elementised news services so that their news-based data could be fed into traders' algorithmic trading engines. Similarly the trading engine providers had adapted their architecture to be able to receive news feeds rather than market data feeds and then incorporate these feeds into new or existing trading strategies.

What was clear at this time was just how much more development was possible. These same offerings are now being extended to provide more digestible analytics which can be easily exploited by high performance FX trading firms. The next generation



of algorithms are also being designed with machine readable news in mind and the ability to effectively exploit the increasing amount of news data available in the market.

More has also now been achieved in terms of automatically tracking sentiment, political bias, credibility and other more nuanced and qualitative features. And a number of providers have stepped into the MRN market to offer complementary services designed to help with the dissemination and interpretation of news or to bridge the gap between the news providers and the trading engine developers.

### Remaining challenges

Yet a number of challenges still remain. These include integrating the increasing number of data sources, especially the immensely varied range of news that falls under the broad banner of social media, and managing to extract the truly useful elements in order to deliver more targeted and filtered services. Furthermore, the



demand for the ability to deliver ever more targeted and specific services and to do all of this at an ever increasing speed – is evidence that the battle for low latency is still alive and well in the world of machine readable news.

“When the use of machine readable news first started, the focus was very much on structured economic data, such as nonfarm payroll reports,” says Ryan Terpstra, the founder and chief executive of Selerity, a US-based provider of MRN services. “We saw an opportunity to expand on the content that was being used for MRN-based trading because it was no longer just for futures traders working off economic news,” he says.

One effect that has resulted from the increased use and sophistication of MRN in the FX markets is that some automated traders and market-makers no longer back

out of the market when an economic announcement is imminent, says Terpstra. “In the event of a central bank announcement, automated trading among the large banks that also operate as market-makers in the FX world have generally suspended liquidity until the outcome of the event was known. But now, the more sophisticated players are able to trade through the event because they are taking low-latency event data and adjusting their prices accordingly,” says Terpstra. “This creates more liquidity for traders and a new source of revenue for market-makers.”

Lower latency and greater accuracy have been the key developments, says Terpstra. Speed is critically important for banks wanting to make markets in FX in order to keep pace with those firms on the other



Ryan Terpstra

*“In the FX world, economic events are robust and reliable news sources while geo-political events are more challenging because they are not timetabled or recurring events.”*

side of the trade, as is the accuracy of information. “Traders also want precise calendar information and timing as to when an announcement will come out, down to the millisecond level.”

They also want strong forecasts and estimates leading up to an event because their strategies are based on trading the expected against the actual. The reliability of estimates can vary depending on the event type and source, says Terpstra. “For example, economic data sources are relatively reliable, while corporate events are more challenging to estimate. In the FX world, economic events are robust and reliable news sources while geo-political events are more challenging because they are not timetabled or recurring events.”

Social media is hard to ignore in this day and age, but Terpstra says it is still in its infancy in terms of its use in FX algos. “I don’t know if many FX firms are using social media in their MRN-based algos, but there are plenty of firms, automated market-makers especially, that are experimenting with it. If they see a lot of chatter around a particular symbol, they may widen their spreads until they can get a human trader to look at what is happening in the market.”

### Automated plus manual

Some firms using MRN services in their trading strategies still have a combined automated and manual process in the case of events that are difficult to fully automate. “There is still a manual element involved in many firms,” says Terpstra. “When it comes to geo-political events, the more sophisticated firms are generating automated news alerts which can then be interpreted by a human to assess what’s happening and interact with the automated news feed.”

The biggest challenge with geo-political events, says Terpstra, is understanding the context and the different implications of a single event – a complex task for a machine to perform and one where human intervention is still deemed necessary. “But while these events are a technical challenge, they also represent great trading opportunities because the market movements can be very sharp, such as when S&P downgraded Spanish sovereign debt. However, I think the current approach of combining automated MRN services with human analysis is a temporary stepping stone. Stronger interpretation by automated means is the future because speed is key in these events and the means to make a greater profit.”

RavenPack is a US-based provider of machine readable news with a focus on the linguistic analysis of high-volume news data. The service originally focused on the equities market and providing news on 30,000 companies worldwide and then disseminating it according to its relevance, its novelty, the type of event involved and the sentiment expressed. Since then the service has spread to other asset classes, such as FX, and further event categories have been included. “We have added ‘location’ to the analysis and we can also detect how events across different places affect currency fluctuations,” says Armando Gonzalez, president, co-founder and chief executive of RavenPack. “If you have a global macro event, like the Tsunami in Japan, then you need to include location in the context of your analysis.”

### Growing maturity

Gonzalez says that these new event categories are a sign of maturity in how MRN services are developed and used. “Originally MRN was only concerned with scheduled news events but now we are factoring in unscheduled events such as a Federal Reserve guidance and we can have the algorithms react.” Progress has also been made in terms of tracking sentiment, from the relatively rudimentary approach of analysing the language in a news report to assess how ‘positive’ or ‘negative’ a story might be to more progressive



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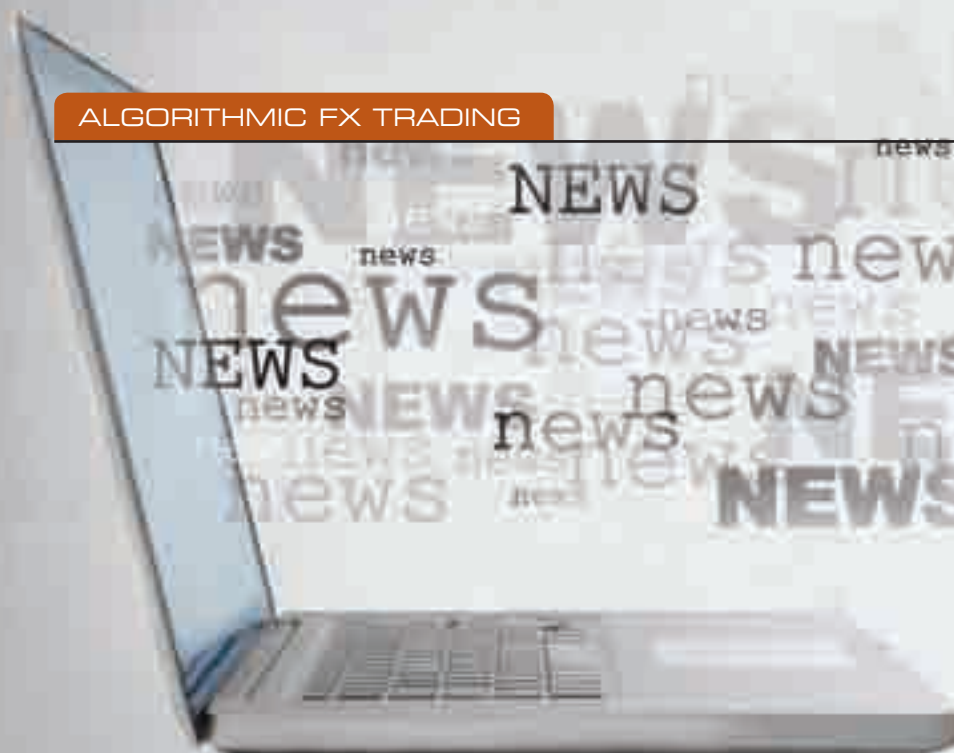
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services. For example, RavenPack offers something which Gonzalez calls “expert consensus”, where the algorithms will try to presume how an expert analyst would interpret a news story. And market prices are also factored in to assess how the market has reacted to a news story.

“Our approach is very transparent and allows some flexibility for users,” says Gonzalez. “We are a provider of qualitative market data. We provide a data set with multiple techniques and multiple scores and clients can decide how much weight they apply to each of these. We continue to add more data to the same stories. The hardest part for the client is to then apply that data to its trading strategy through quantitative analysis.”

RavenPack only works with professional media, says Gonzalez, which excludes a lot of social media. “The biggest problem with social media is the amount of noise. Following a big event, say a terrorist attack, people will use Twitter and certain words will be used so many times as to create a whole load of false positives. But the technology doesn’t yet exist to filter out the unhelpful ones. So it is not so much the volume of data but the uncertainty around the usefulness of it.”

Social media is now more prominently used in the corporate world. More companies have a Facebook page and a Twitter account, for example. This does not necessarily mean that the use of social media has become more professional but the ability to distinguish those with something genuine to say from those that are essentially spamming will be crucially important for any MRN algorithms working with social media, says Gonzalez. He cites the use of verified Twitter accounts (the social media equivalent of digital certificates) and services such as Klout (a



Armando Gonzales

*“The biggest problem with social media is the amount of noise. Following a big event, say a terrorist attack, people will use Twitter and certain words will be used so many times as to create a whole load of false positives. But the technology doesn’t yet exist to filter out the unhelpful ones.”*

provider of social media analytics that can measure the influence a social media user has within their network) as examples of the progress that has been made in this regard. “We need more of this in social media so that we can separate the news from the noise.”

It is still very early in the life of social media, says Gonzalez. “The technology exists to detect patterns

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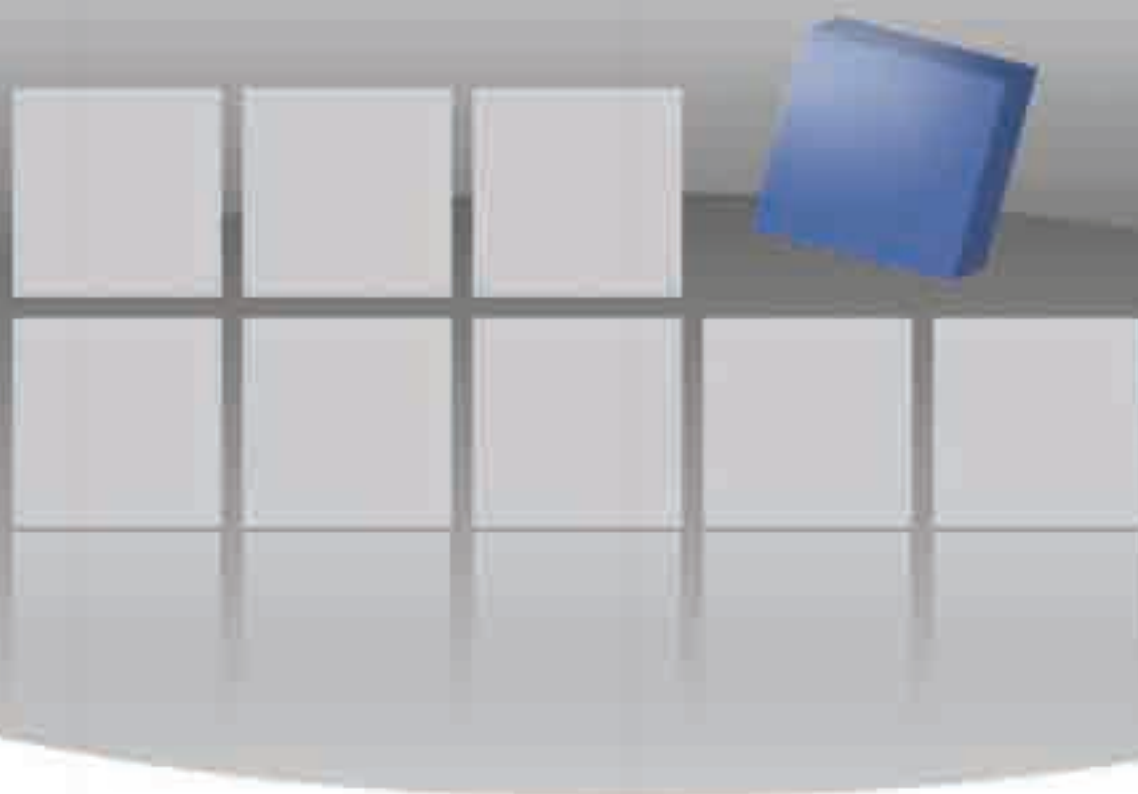
*"No-one is going to structure an event-based trading strategy on every tweet. There may be certain events that break on Twitter but most traders will find it more helpful to look at longer-term trends."*

but there also needs to be a social willingness to address this and enough years to be able to form a meaningful history of data." It is therefore a combination of all of these factors that will make social media a more useful and reliable component within MRN services.

The biggest challenge for MRN users and providers is not how to exploit social media but to determine what factors are truly driving today's markets, says Gonzalez. "For example, is it really Greece that is affecting the market right now or are there other factors at work? Is Greece just in the media a lot? This is what we are trying to address with our service. For years the market has been building models based on numbers – we are trying to build models based on qualitative interpretation."

## Behavioural finance

Thomson Reuters has a number of services in the machine readable news area, including its flagship news analytics service which focuses on two main areas – companies and commodities (including energy products). To address the FX market it has Event Indices which seek to predict near-term (30 min) volatility in certain currencies. With the recent launch of MarketPsych Indices, which offers real-time psychological analysis of news and social



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media, Thomson Reuters now includes sentiment analysis for FX-related news events, measuring the emotional indicators of news and social media content across different topics as a way to help forecast and predict currency trends, according to Rich Brown, global head, quant and event driven trading solutions at Thomson Reuters.

MarketPsych Indices have taken Thomson Reuters service to the next level, addressing sentiment and not only applying it to individual companies but also applying it to a sector (such as tech stocks) and then by market and country, says Brown. Similarly the service measures the amount of interest in certain topics per country, such as the level of uncertainty, stress or urgency in certain currencies. "For example, what is the current level of fear in Greece and how might this affect long and short term currency rates in FX? It helps to draw some comparison of sentiment between different countries and currencies."

Beyond traditional sentiment analysis, behavioural finance is an increasingly important factor in financial markets and Thomson Reuters' MarketPsych Indices detect certain emotions that could lead to cognitive bias in investment decisions – for example, what level of fear, joy, uncertainty and confidence is evident. One factor of particular interest is the Market Risk Index or 'bubbleometer' as Brown calls it, which aims to detect the level of speculation in news and social media. "The more speculative the commentary, as a whole is, the more likely it is that we're in a bubble - and bubbles have a propensity to pop. One can also track the level of financial gloom in Greece, or confidence in Japan to make judgments on the effect it will have on the market structure. It may not directly predict price movements but it can give an insight into the market regime and whether the market is overly optimistic, for example. For FX it is about looking at the sentiment and psychological metrics of each currency and how they correlate with the movements in price."

Another big change in the last five years of MRN has been the increasing importance of low latency, especially for scheduled events. "If you are a proprietary trader, you need that data as quick as possible. Typically the data is being sourced from multiple providers, as many as five perhaps, and traders will want to check that those numbers match

up. So this is putting increasing pressure on the data providers because there are now comprehensive benchmarks for speed and accuracy," says Brown. This pressure has led to a greater focus on the MRN providers forging exclusive arrangements with some data providers to ensure that they are able to release market information ahead of their competitors.

But whereas the structured news announcements will be increasingly focused on low latency and exclusive arrangements, there will be more room for innovation in the unstructured news space, however this may not yet include social media, the influence of which, says Brown, has not been as great as one might expect. "No-one is going to structure an event-based trading strategy on every tweet. There may be certain events that break on Twitter but most traders will find it

more helpful to look at longer-term trends. There is also the task of separating the noise from the news and ascertaining whether it is a substantive, market-moving piece of information."

Consequently, says Brown, the MRN market in FX will still be chiefly concerned with structured data. "In terms of making more strategic trading decisions and looking

at the context of news, there is a large opportunity for growth as you look to see how you can summarise the speeches and the sentiments involved, such as consumer confidence, and then make quantitative assessments."

## Conclusion

The adoption of MRN beyond economic data points in the FX world still lags behind the equities world. It is still a niche market so there is room for further development. But as providers start to try different ideas, they have to consider how much the market can actually absorb and what services they can truly utilise, says Brown. "As sophisticated as some of these services are, the key to greater adoption may lie in simplifying these services and using visualisation as a means of tracking sentiment rather than taking thousands of feeds on company announcements. This is a way to take all the complex MRN capability and put it into the hands of humans so that they can put this information into better perspective in terms of overall trading strategies. So it is possible to pursue both ends of the market – the high frequency, black box traders and also the more traditional traders."







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# FX trade workflows and regulatory change

New regulations mandating clearing of FX OTC products and trade reporting of all non-Spot trades will not only introduce the need to connect to central counterparties (CCPs), Swap Execution Facilities (SEFs) and Trade Repositories to the FX back office, it will also impact all aspects of the clearing workflow for FX derivatives. Nick Dyne and Keith Tippell, co-heads of MarkitSERV's FX business debunk a few myths around just how much market participants will be impacted by the new regulatory landscape.

**As a small buy side firm, the new regulations will not affect us greatly as our banks and brokers will send the necessary trades to CCPs and SEFs and report these trades for us. It will not greatly affect how we process trades today.**

**KT:** All buy side firms should, as best practice, store USIs (Unique Swap Identifiers) for all reported FX trades since it will be the specific identifier used by the regulators to investigate any trades. US entities may have additional reporting obligations over and above this requirement. While the impact of change may not seem particularly onerous to a small buy side firm, appropriate connectivity will still need to be established to accommodate workflow changes.

MarkitSERV is trade source, participant and destination agnostic; our partnership with SWIFT, for example, enables us to process users' NDF trades through to clearing and to deliver cleared state messages – with USIs as appropriate – back to users. Moreover, many small buy side firms are already

connected to the MarkitSERV FX platform. As such, the conduit is already in place to facilitate future reporting and clearing processing and workflow requirements.

**As a large buy side firm, our main concern is processing bilateral confirmations alongside connectivity to clearing venues; as such, we would be better served building a solution in house.**

**ND:** Not really. New confirmation, clearing and reporting requirements are already complex; with different regulators and rules in different locations, multiple and varying trade processing workflows, numerous (and growing numbers of) end destinations (CCPs, trade repositories etc). There are already five FX CCPs – with more to come. By its very nature, matching (legal confirmation) will require connections to all execution brokers. Non-US CCPs will have to register as DCOs (Derivatives Clearing Organisation) to clear any US business. It is also impossible to predict with any certainty what the regulated FX end state might look like.

Building an infrastructure to accommodate even the known obligations is only the beginning of a long term investment and commitment (time and people). From Day 1 you'll have to maintain and upgrade a multitude of connections (and associated workflows) to a host of execution venues and clearing and reporting participants. Even for a large buy side firm, this ongoing cost may prove prohibitive. By contrast, a single connection to the MarkitSERV FX platform supports all post trade connectivity, processing and workflow requirements - current, imminent, looming and any new requirements that may arise in the future.

**As a fund administrator, the most important aspect for us is integration with internal reconciliation and allocations systems. As such, we would be better off not outsourcing connectivity.**

**ND:** As an essential participant in the FX trade lifecycle, fund administrators will need to accommodate new clearing and reporting requirements, including receiving trade messages with associated USIs. Rather than managing the burden of building the necessary 'spaghetti' to connect to multiple client counterparties, a single connection to MarkitSERV is the only pipeline required to receive trade information efficiently.

**As a small domestic bank, most of our business is in spot; since we have few changes to make we can wait and see how things develop.**

**KT:** Unless all of your FX business is spot (which is not likely), you need to act now to accommodate reporting and clearing requirements for any non-spot business. All non-spot trades must be reported and NDFs must be cleared. While doing nothing and waiting to see what happens is a strategy, it isn't likely to be a winning one; playing (inevitable) catch-up will be much more expensive and a much greater resource burden. Change is coming and it will require changes to your process workflows. To paraphrase William Henry Davies, there is no time to stand and stare.

**We don't need to start work on this until SEFs are up and running and all regulatory changes are finalised.**

**KT:** You really do. SEFs will not be up and running until some time after new regulations are finalised, and in force. As such, you will have clearing and reporting obligations that precede the arrival of SEFs. Further, not all business will be required to be transacted through SEFs. Most firms have already started to address new clearing and reporting challenges and many are finding that using a middleware provider is the most effective



Nick Dyne



Keith Tippell

and efficient way to meet regulatory obligations and deadlines. Further, most SEFs are expected to publish to the MarkitSERV platform to reach designated FX CCPs.

And don't take our word for it. David Holcombe, of Rule Financial, a trading specialist and business IT consultancy, has been quoted saying "Firms not doing their heavy lifting now – to build the foundations that don't need final detailed regulation in place – are putting themselves at risk of ultimately having too much big organisational, operational and technical change to achieve in an impossible time frame."

**Keeping trade confirmations, reporting and clearing separate is going to be more cost-effective at this stage and until the new infrastructure is established; this will also reduce risk.**

**ND:** For some firms, for example those with very high spot activity, migrating all processing to a clearing and reporting platform may not be efficient. However, for



the vast majority of FX participants, consolidating all trade processing activities within a single processing structure will create significant cost efficiencies and will reduce operational risk.

**No one solution fits all.** As a broker-dealer with many and different sources from which to derive data, we would be much better served by building and managing our own connectivity.

**KT:** There has been a lot of debate among broker-dealers around the 'build or buy' connectivity conundrum. All but the very largest houses have elected to use middleware providers for trade reporting and all of the G14 banks are already subscribers to the MarkitSERV FX platform for clearing. Since trade reporting offers the greatest potential scale economies, it is reasonable to suggest to smaller players that going it alone will be too expensive, now and going forward.

**Middleware simply connects the pipes; there is not much added value from appointing a third party provider.**

**ND:** MarkitSERV's FX platform has been developed with significant contributions from major buy- and sell-side players. Both constituents have designed it to deliver significant additional trade processing and workflow management.

For most parties, reporting will involve more than just the submission of trades to a Global Trade Repository, including but not limited to RCP (reporting counterparty) determination, USI generation and message validation. In addition to these specific functions, the MarkitSERV FX hub offers additional value in respect of normalising messages from and across multiple venues and enhancing post trade efficiency with allocation, aggregation and other workflow management tools.

**Trying to improve FX STP at the same time as complying with new regulations for mandatory clearing and reporting complicates things and slows them down. It's best to focus on compliance only at this stage.**

**ND:** Whether mandated or not, all new requirements in the FX post trade space fall under the generic STP umbrella – with an emphasis on 'straight through'. Rather than dealing with compliance in isolation, we encourage clients to take a more holistic approach to their post trade processing and workflow management requirements, instead of trying to bolt on new systems and processes randomly to an existing infrastructure.

**It's only mandatory to clear and report trades; same day confirmations are not mandatory, nor will they be in the near future.**

**KT:** This is not entirely correct; reportable, cleared trades are subject to mandated confirmation time scales. Per Dodd-Frank, if a trade is accepted for clearing by a DCO (Derivative Clearing Organisation), the DCO must report all confirmation data "as soon as technologically practicable after clearing". For non-cleared transactions, the RCP (reporting counterparty) must report all confirmation data "as soon as technologically possible after confirmation", and no later than 30 minutes after confirmation (for electronic confirmations) or 24 business hours after confirmation (non-electronic). Electronic, same day (T+0) confirmation of all trades is also supported as best practice by the Bank of England and Federal Bank of New York.

Referencing previous answers, the most efficient way to manage mandatory and non-mandatory confirmation, reporting and clearing processes for FX – particularly given the continually shifting sands – is to let a middleware provider like MarkitSERV take the strain of managing the connections and the workflows – now and as they evolve.

**Regulatory changes are simply adding clearing and reporting to the end of the process, they will not affect the entire trade lifecycle.**

**KT:** Reporting and clearing are new and integral components of the total trade lifecycle. Reporting requires the generation of a Unique Swap Identifier (USI) at – or very shortly after – the point of execution. Thereafter, every economic change associated with the trade (e.g. amends/cancellations/allocations) may generate a new USI (and in respect of allocations, multiple USIs). Non-economic amends (e.g. fund name changes) will also need to be reflected at CCP(s).

Further, and prior to the creation of SEFs, it is anticipated that quoted prices will depend upon specific CCPs; as such, clearing workflow evidently extends to the pre-execution phase of the trade lifecycle. Cost of capital will also be affected by new margining and collateral requirements (which also impact risk and risk management). Given this, participants will have to build appropriate workflow support throughout the trade lifecycle – at the very minimum, to support USI capture (from SEFs, RCPs and/or CCPs themselves).



# Gold-i Gate Link –

## A unique real-time back office integration product



Tom Higgins

Leading trading systems integrator, Gold-i has risen to the forefront of the industry by spotting gaps in the market and developing products for which there is a genuine need amongst brokers.

To enable brokers to integrate MetaTrader with back/middle office and CRM solutions, Gold-i developed the Gold-i Gate Link. It is a unique product which allows full integration with the broker's bought-in or in-house back/middle office systems and CRM solutions – all in real-time.

With the combination of Gold-i's super low latency Gold-i Gate Bridge and its post trade integration product, the Gold-i Gate Link, Gold-i is the first company in the world to offer complete liquidity provider and back office integration in real time. This has enabled many regulated companies to enter the FX and CFD market, which would otherwise have been impossible.

### Reliable and Robust

The Gold-i Gate Link has been built with full awareness that communication can go wrong between disparate systems. Every message is therefore logged and not marked as successfully stored by the back office until the back office sends a positive acknowledgement.

Tom Higgins, CEO of Gold-i comments, "The Gold-i Gate Link has been popular amongst brokers because all communication is in real-time,

with no polling or file-based transfer, resulting in a lightning-fast interface, with a typical latency of 1ms. In addition, the Gold-i Gate Bridge and Gold-i Gate Link are highly scalable. They will work with any asset class in retail and institutional trading, on a global basis."

### Two Way Trading Data Synchronization

The Gold-i Gate Link allows two-way trading data synchronization. Typically clients use the Link to send new trades, trade modifications and cancellations, commissions, balance adjustments, account creations and account modifications from MetaTrader to the back office. The back office sends details of account creation, balance adjustment and trade bookings to MetaTrader. Account and trade reconciliation can also be managed on a real-time or periodic basis.

In line with Gold-i's strategy of continual innovation, Gold-i plans to add a payment option to the Gold-i Gate Link, enabling automated transfer of payments in and out of the systems in all currencies. This will remove the current need of having to make payments manually out of the system.

*For further information about Gold-i, visit [www.gold-i.com](http://www.gold-i.com) or telephone +44 (0) 1483 685410*

Sucden Financial, which offers white label solutions and multi product STP liquidity to retail brokers across the globe, has been a Gold-i client for over two years. When they decided to offer MetaTrader4 to retail FX brokers, they researched the market and selected the combination of the Gold-i Gate Bridge and the Gold-i Gate Link.

Jonathan Brewer, Head of eFX Sales at Sucden Financial explains, "When we first interacted with Gold-i, we were new to MT4 and felt Gold-i had the necessary expertise to help us

deliver a competitive product to market in a short time period. The Gold-i Gate Bridge is rich in functionality and an essential cog in the machinery we offer to clients. The Gold-i Gate Link has proved to be a very fast and highly reliable post trade integration tool. Both products help us to provide a very successful offering to retail FX brokers – a market which we had not targeted before. Gold-i is quick and responsive to customer service enquiries and has also tailored their products to meet some very specific customisation requirements for us."

# cTrader – a turnkey Non Dealing Desk platform

Spotware Systems is a financial technology provider that strives to put the interests of traders at the heart of all their product development decision making. e-Forex talks to Ilya Holeu, Managing Director, about cTrader and cAlgo, the company's DMA, NDD and STP Margin Spot FX platform.

**Ilya, why are increasing numbers of retail FX traders looking to choose brokers who offer an agency model of trade execution?**

Traders are looking to leave the outdated dealer-desk model behind and transition to a more transparent and fairer agency model of execution. DMA, STP and NDD are quickly replacing the decade old inadequacies currently prevalent in the retail FX space. We're part of a growing number of companies in FX looking to eradicate the problems of failed entries, constant requotes and slow platforms, in exchange for zero requotes, increased transparency and a removal of the conflict of interest between trader and broker.

This alignment of interests liberates traders from the market maker's suffocating grip on trading conditions. We guarantee no risk of price intervention, no stop-loss hunting and no price injections, and we don't allow virtual dealers who can manipulate positions by, for example, only permitting negative slippage. Traders have decided they want their orders executed at real market rates, not a closely adjusted reflection designed to decrease broker risk exposure at the cost of a severely damaged trading environment. These traders are discovering that there is a realistic alternative to the many frustrations they face every day, and are looking to Direct-Market-Access to significantly improve their trading conditions.

**How does cTrader help brokers to meet this demand and deliver an institutional grade DMA and STP trading environment for their clients which is mutually beneficial for both parties?**

Spotware's PaaS (Platform as a Service) solution helps brokers and traders capitalize on high-end

STP and DMA FX trading. The platforms (cTrader and cAlgo) are easy to implement and immediately expand the broker's offering to include an excellent direct-access trading solution which offers both manual and algorithmic trading, on any device or screen size, be it desktop, mobile or resizable browser. Our FIX connectivity, proxy cloud and proprietary protocol ensure ultra-low latency data delivery, deep liquidity and real trader benefits.

**What direct operational and business benefits does cTrader offer brokers?**

The agency model we implement is demonstrably more profitable than standard market maker setups – increasing revenue earned per million traded, and decreasing risk exposure faced by an unhealthy dependence on volatile market periods. The model also delivers more predictable streams of income, with adopting brokers far more able to accurately gauge monthly revenue. We have concentrated on developing a solution with an LTV proposition that improves significantly on existing eFX platforms. Accounts with cTrader also have longer lifespan. The improved trading conditions and the eradication of the conflict of interest help to lay the foundations for longer term, mutually beneficial relationships that allow brokers to slash expenditure on semi-effective acquisition strategies and concentrate instead on more profitable customer retention strategies. As for cost-control, our Platform as a Service means no outlay on expensive hosting, IT infrastructure, or additional dedicated staff – resulting in a significantly reduced total cost of ownership.





### How is cTrader integrated with and made available to brokers?

For brokers, cTrader implementation simply means subscribing to use our service. Our people take care of 99% of the required work, and leave it to the brokers to begin collecting new traders and new volumes. Some brokers may want to integrate their own management or CRM software systems, and we provide a complete set of integration APIs which facilitate this use of third party software. We also provide an Oracle reporting database in addition to the operational 'Demo' and 'Live' trading environments.

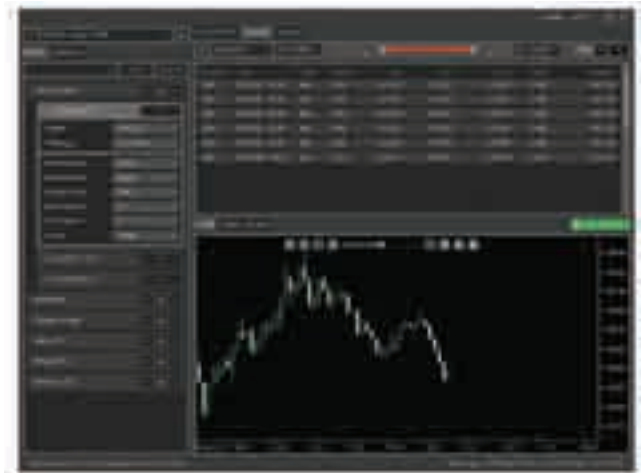
### How much freedom of choice regarding supply of liquidity do brokers have with cTrader?

cTrader is strictly liquidity-agnostic. We don't control the number of LPs simultaneously sending prices, or the types of LPs our brokers have a partnership with. Unlike most popular FX platforms, our solutions require no bridges or workarounds for LP connectivity. We support almost all FIX API versions, such as 4.2, 4.3 and 4.4, and we offer adapters to all major banks, liquidity providers and aggregators. We also provide a facility within the cBroker management application to apply markups to all incoming symbol liquidity streams. Markups are applied separately for Bid and Ask prices and for each tradable FX pair, whether the symbol is set to Book-A or Book-B.

Where liquidity is concerned, our attention is devoted exclusively to streaming whatever liquidity our brokers choose in the fastest, most efficient way possible.

### What back-end administration solutions do you offer to help brokers who have adopted your service to manage and customise their own specific product offering?

cBroker is our comprehensive back-end solution for managing your cTrader and cAlgo services (as well as any future releases of Spotware products). It's an all-in-one, light and downloadable application that lets brokers monitor, customize and tailor their service offering down to the finest detail, and all from an easy-to-learn and easy to use interface designed to minimize hassle and maximize productivity. From cBroker, service providers can: set margins, open client accounts, examine client accounts, manage trading symbols, manage trading times and time zones, view event logs, create client groups, manage risk exposure, generate reports, examine statistics, and much, much more. All these functions are also available over an API. cBroker is a fantastic management system from



which to create and optimize a complete FX service.

### How have you leveraged Cloud technology to solve the problem of latency and help brokers offset infrastructure costs?

Our platforms automatically connect to our proxy-cloud when launched, and use their BPA (Best Proxy Algorithm) technology to select the most appropriate connections for each individual user.

The proxy cloud, and utility of the IBM hardware cloud, are included in our PaaS solution, again allowing brokers to offload the cost of expensive outside infrastructure that may normally be needed to correct or improve latency issues. As our connectivity engineers work to uphold the stability of our existing proxies, they also continuously reassess connectivity locations and add new POPs in the global locations which matter most to our clients. This ensures that brokers and traders receive the fastest last mile speeds and the lowest possible latency.

### What steps have you taken to cater for automated traders looking to develop robots and custom indicators for use in a direct-access FX trading environment?

Our feature-rich algorithmic trading platform, cAlgo, lets traders create, deploy and manage their own custom robots and indicators. cAlgo provides all the tools necessary for traders to succeed at automated trading in the same live DMA environment as cTrader. cAlgo gives traders the ability to perform trading functions using automated scripts, and back-test the algorithms to analyse their performance under a specified historical time period. cAlgo's .NET based infrastructure also means traders can draw from the expertise of millions of programmers already coding in C#, and our API has been designed specifically for algorithmic currency trading, using human readable syntax to effortlessly engage end users.

# UltiMT – an exciting new unified solution for MetaTrader traders and brokers



Anthony Brocco, CEO of Advanced Markets, a leading provider of foreign exchange direct market access (DMA) services, talks to e-Forex about the launch of the company's new technology, liquidity and credit offering, UltiMT.

**Anthony, what is UltiMT and why does its unified system architecture represent a major leap forward?**

UltiMT represents major leaps forward for MetaTrader brokers, banks and traders in terms of technology, operational stability and low latency direct market access. The solution's system architecture unifies all functions in one platform, eliminating virtually all integration points that cause system failures and latency. The system's stability is remarkable. In live beta installations, UltiMT has been running for nearly a year without a single out trade or downtime instance.

Connecting UltiMT's technology platform with Advanced Markets' DMA liquidity pool enables low latency trade executions on neutral, multibank liquidity, which improves risk monitoring and

trade execution performance for brokers, banks and traders.

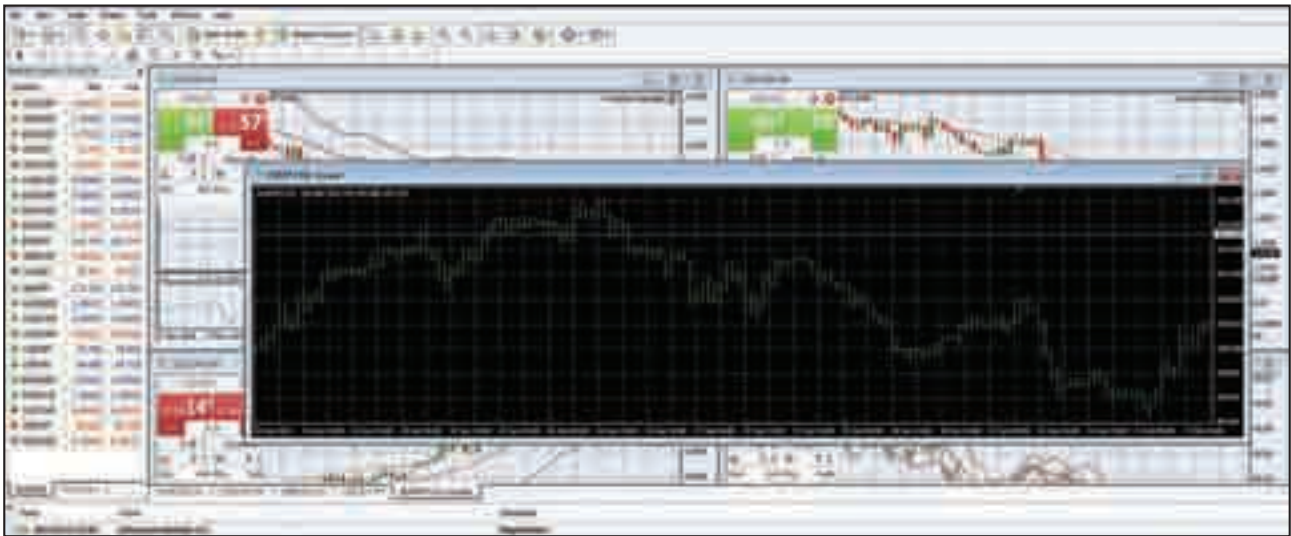
**What operational benefits will UltiMT bring to banks and brokers who operate MetaTrader platforms?**

Clearly, UltiMT's outstanding operational stability addresses a major concern of banks and brokers. Low latency trade executions without requotes or out trades are keys as well.

UltiMT's low latency environment also enables bank liquidity providers to send out a rate and have it come back for confirmation while it's still valid. This enables banks to provide tighter bid/offer spreads and minimize rejections, which benefits them, brokers and end-user traders.

PRODUCT LAUNCH





### What technology is at the core of this new offering and why was it chosen?

UltiMT's core technology is the Fortex DMA trading platform that Advanced Markets has been using since 2009. Fortunately, Fortex also developed the first MetaTrader "bridge" nearly a decade ago, so they were the perfect technology partner to develop UltiMT with us. To give you a sense of the power of their technology solutions, Fortex's MetaTrader bridge has routinely processed more than five million tickets a month and as much as \$13 billion per day in volume.

### How quickly can UltiMT process trades entered via MetaTrader front-ends and how does its design overcome many of the compatibility gaps and integration issues commonly seen in other competing solutions?

In UltiMT, MT4 is used only as a user interface. The UltiMT trading platform can process trades in less than one millisecond, meaning MT4 users will see their trades processed in under 10 milliseconds.

Moreover, the system can handle as many as 1,000 concurrent executions per second, per server. This renders the usual limitations of MT4 non-existent.

UltiMT has only one system communicating with the MetaTrader front-end as opposed to two, three or more. All other solutions have to integrate an external liquidity source, to a bridge, to MT4, and then once the trade is hit by the client, it has to travel back to the bank that sent the rate and still has to be valid. This creates latency in other systems.

### In what ways will the combination of this leading edge platform with Advanced Markets' multibank DMA liquidity protocol create powerful new opportunities for the trading customers of MetaTrader banks and brokers?

UltiMT enables MT users to trade in a low latency, institutional liquidity environment, with no or extremely low slippage. Also, with regard to MetaTrader, low latency trade processing enables EAs to get groups of trades executed at more consistent rates. Additionally, the market data feed is very popular with traders who recognize their MetaTrader Expert Advisors perform more robustly with a high quality, low latency live, executable multibank market data feed like UltiMT's. UltiMT's market data feed also benefits brokers and banks, which use it to power real-time risk management systems, to execute trades as well as to benchmark rates shown to them by other counterparties.

### What features and credit solutions are available with UltiMT that will help banks, brokers and intermediaries meet regulatory and compliance requirements?

UltiMT uses a US CFTC and NFA-compliant backoffice environment built by Fortex. To complement this operational capability, we offer actual customer funds segregation with custody banks and other innovative credit structures as well as standard margin and prime brokerage accounts.

### What feedback have you had from customers benchtesting UltiMT to measure its trading performance on DMA liquidity?

We have used and tested our solution for almost a year now with several of our brokers in actual live trading. Through millions of executions our brokers have experienced "Zero" out trades and "Zero" down time. I am confident that no other MT4 solution can make this claim. In a nutshell, our broker clients tell us that when running a company that is totally dependent on an outsourced provider for its overall technology, liquidity and trading environment, it's absolutely vital to get these things right. UltiMT gets those things right, which we are very glad to hear.



# LIQUIDITY BRIDGING –

HELPING FX BROKERS TO MANAGE RISK, CAPTURE  
BUSINESS AND IMPROVE CUSTOMER LOYALTY



Heather McLean

Liquidity bridges are now seen as an established and crucial element in delivering electronic forex trading services. Heather McLean explores how they can also help FX brokers capture more business, increase customer loyalty and manage risk more effectively by streamlining the back office and making operations run in real time, a vital task given today's rising retail trade volumes, and increasingly savvy customers.

Andrew Ralich, co-founder and CEO at oneZero Financial Systems, says that over the past four years the retail FX industry has grown significantly. This growth has created a landscape where both competitive and regulatory pressures continue to test the limits of the traditional back office infrastructure, he notes, adding: "Lower trade size restrictions designed to attract business from emerging markets such as Asia, where micro-trading is immensely popular, have introduced a scaling challenge for pre and post-trade execution. The immense volume of requests that come from more accessible algorithmic trading platforms such as MetaTrader4 still needs to be archived, reconciled and audited. When oneZero got into the retail FX space, we were focused on addressing this challenge for large, enterprise-level brokers looking to offer the MT4 Platform, and are now able to build on that technology foundation to offer routing and back office solutions to organisations that are continuing to cope with the rise in trade ticket volumes,"

### Pressure cooker

As to what back office pressures are facing retail FX brokers, who are now having to cope with increasing trade volumes generated by high frequency, automated, mobile and algorithmic traders, Tom Higgins, CEO at Gold-i, comments: "The ever-increasing number of accounts and transactions makes managing a broker's back office a complex and error prone task. Many medium and large brokers are implementing the Gold-i Gate Link to connect their back office system to the front office trading systems. Using this approach they can have instantaneous access to all front office data in their back and middle office system, in true real time."

"Increasing trade volumes are a blessing, as when people trade more, brokers prosper," says Timur Latypoff, director at Tools for Brokers. However, he adds that supporting growth is not always a smooth process, as more brokerage firms are faced with the limitations of underlying technological solutions; trade servers work slower, failing to cope with high numbers of clients and trades, even becoming less stable. "Most of the problems can be mitigated by using third party solutions, but not all. Either way, it's better to be prepared for them beforehand. When the lightning strikes, things go awry," Latypoff warns.

Latypoff continues: "Another issue is since high frequency trading is getting more and more widespread, traders search for (and eventually find,) better execution conditions. Brokers nowadays cannot afford to have execution delays anymore; everyone's spreads are getting tighter and people understand that the golden days are over. Now only those who can show both top notch client service and outstanding technological advantage at the same time will survive."

The back office is always a contentious area and is even more so today, as the influx of trade volumes is multiplied by high frequency, automated, mobile and algorithmic traders. Doron Cohen, co-CEO at Leverate, notes that even more challenging than high frequency trading are the challenges that social trading present. Social trading requires coping with a diverse amount of trades, including high frequency trading, but increased exponentially by dozens or hundreds of copiers of successful gurus on social networks. Cohen continues: "Leverate solved this problem with LXRisk, a multi liquidity and full control risk management system, which not only supports Sirix social, but also shows the brokers full exposure per book as well as its P&L in a single location."

## Managing overheads

Increasing numbers of brokers are looking at reducing their market risk by offering STP and ECN trade execution platforms to high volume clients, which necessitates the provision of access to third party liquidity providers. Ralich comments: “As any business matures, there is always a push to generate more predictable, consistent revenue streams. There are a number of potential incentives to managing client risk, but there is also a considerable amount of overhead involved in running a 24/7 desk, as well as market risks to take into account.”

He notes that, “By switching some, or all, of a broker’s client base to an agency model, both the overhead and revenue consistency become much more manageable. Most brokers already have third party liquidity available to them, which they use to manage risk and offset their own positions. The transition to offering a real time STP is now more a matter of semantics than relationships. With STP technologies, such as our liquidity bridge, pushing into the under one millisecond range for executions, most clients do not see a difference between traditional B-Book and STP execution. This frees up the broker to identify situations where they are

comfortable managing risk, and situations where they are happy to offset that risk.”

Ralich adds: “We are continuing to evolve our technology to make it easier for the broker, in real time, to decide which clients, groups of clients, symbols and/or positions they want to offset. In addition, our business intelligence tools have been developed in a way that helps brokers become better informed when they make these decisions by identifying opportunities where client trading is more conducive to an STP model.”

On reducing brokers’ market risk, Latypoff says: “Firstly, it has always been known that dealing with high volume clients has always been a market risk. There are many schemes one can use to mitigate the risk, but the only reliable way to reduce it down to zero is executing trades against third party liquidity providers. It’s like pushing your risk down the line to someone bigger. More and more brokers are deciding to stop playing dangerous games of manual risk management, and now rely on contemporary software solutions like Liquidity bridges to do the job. Of course, when you reduce the risk, you also dramatically cut your profits, therefore we will not be seeing 100% STP and ECN trade execution in the near future as smaller clients are easier to manage, and brokers usually still keep them away from third party liquidity, relying on own risk management.”

Latypoff continues: “Secondly, not offering STP or ECN trade execution is tantamount to market making, imitating how the market works, not working at market conditions. That brings us to what some traders consider cheating by exploiting non-market behaviour for the purpose of earning money with lower or no risks. Although it is possible to battle this by putting additional constraints in trading rules and customer agreements, arming your servers with special algorithms (and many do that,) the only mathematically effective way is going down the STP route, as real market execution cannot be manipulated.”

Increasing numbers of brokers are looking at reducing their market risk by offering STP and ECN trade execution. Higgins notes that this is because the algorithms used by clients are becoming more sophisticated, and many brokers simply cannot afford to wear the risk and cover the trades later. He adds: “A super low latency liquidity bridge can offset as much



*“Uptime and reliability of servers is a huge issue for brokers, as poor performance affects the broker’s reputation and opens the broker to additional risk.”*



or as little risk as the broker wishes, allowing them to select and vary their risk profile as the markets ebb and flow.”

While Higgins says: “Smart brokers will constantly assess their clients’ ability to make profitable trades, to help them decide who to cover and how much to cover. Brokers may choose to cover 100% of trades, 50%, 0% or any other level. Some brokers, may even use advanced facilities like reverse coverage where they bet that the client has got it 100% wrong.”

### Pimp that bridge

Liquidity bridges can now be configured and customised to automate and solve many of the risk management issues facing FX brokers, says Ralich. oneZero Financial Systems has had great feedback on its latest round of liquidity bridge innovations, which have been geared specifically towards allowing brokers to manage their entire risk base, not just trades that have been handled via STP from oneZero Financial Systems’ back office interface, states Ralich.

He notes: “By providing brokers with more transparency in terms of A/B Book exposure, we have put the information they need right in their hands, enabling them to make the correct decisions in real time. We’ve identified limitations in how various trading platforms consolidate and manage risk, and have provided tools to our clients to transcend traditional ‘B-Book’ execution and dynamically monitor and adjust STP parameters and spreads using information and settings available through our technology.”

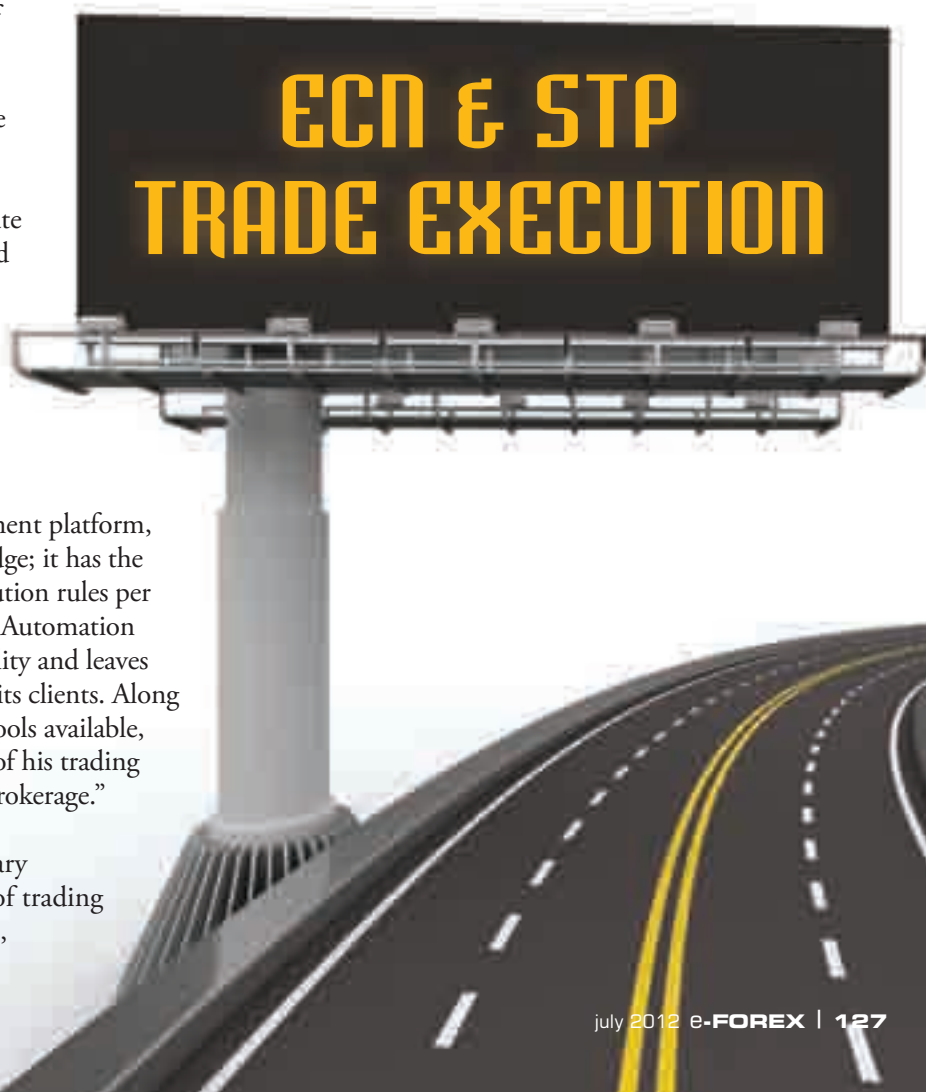
Cohen remarks: “Our risk management platform, LXRisk is a lot more than just a bridge; it has the capability of running specified execution rules per trader, per amount and per symbol. Automation allows true non-dealing desk capability and leaves no conflict between the broker and its clients. Along with the back office and reporting tools available, the broker can monitor the success of his trading behaviours and total results of the brokerage.”

While Latypoff adds: “Contemporary liquidity bridges support all kinds of trading operations and all execution modes,

reducing risks down to zero. Moreover, all trading operations can easily be marked up by arbitrary values, allowing brokers to execute trades for their clients at a price constantly worse than prices they get at their counterparties, thus brokers can earn a constant amount of money on that price difference on every lot traded. Also, bridges do not enforce brokers to use only STP for all clients. One can easily choose groups of clients to stay on B-book, that is not execute their trades against external liquidity, thus retaining profitability of dealing desks with an option of switching quickly.”

### Business engines

The newest integrated bridging solutions offer low latency STP, flexible order routing, advanced customer profiling and wide administrative capabilities, in addition to their basic liquidity management operations. Commenting on his company’s product, Cohen says Leverate’s LX Risk acts as a single point of information, gathering vital, online intelligence such as exposure, profit and loss, and rules settings in a



single platform. "This saves the broker loads of time in management and risk management," he adds.

These latest generation of integrated bridging solutions act as powerful and consolidated business engines. Higgins notes: "Monitoring performance and slippage in real time is essential information that a broker can use to maximise its profitability. The Gold-i Gate Bridge provides rich real time information for the brokers, available in their everyday management tools, in addition to the unique Gold-i Position Keeper showing profitability and risk in clear and concise screens."

While Ralich states: "When we first entered the liquidity bridge market three years ago, the value-add for brokers was the ability to provide single provider A-Book execution to platforms traditionally designed for internal risk management, and to do this extremely fast while still being stable. Nowadays, to maintain our position in the bridge space, we've had to continue to innovate. Brokers now look to our technology not only as a means of offsetting risk, but as a gateway to their entire platform operation, from real time execution, to post trade reporting, to client profiling and trade research."

"The biggest addition to our line of products has been coupling our STP routing technology, which has grown from a single provider solution to a multiple provider aggregate solution, with a fully functional back office system, our ARMS Platform," continues Ralich. "We've really focused on putting information in front of the broker, rather than have the bridge act as a behind the scenes piece of software that simply routes trades. Our monitoring, settings controls and reporting functionality has migrated away from the server itself and onto the web, where brokers can now access trade data, performance metrics and configuration options by simply opening a browser. This really frees up our customers to focus on how they want to use the Bridge without needing an IT degree to manage the software."

### New clients and customer loyalty

Functional liquidity bridging solutions improve customer loyalty and handle increasing trade loads more efficiently, says Ralich. He remarks: "A broker has three very distinct responsibilities: continue to bring on new clients; maintain the existing relationship with clients; and manage internal operations. In all three of these categories, liquidity



Timur Latypoff

*"More and more brokers are deciding to stop playing dangerous games of manual risk management, and now rely on contemporary software solutions like Liquidity bridges to do the job. Of course, when you reduce the risk, you also dramatically cut your profits, therefore we will not be seeing 100% STP and ECN trade execution in the near future.."*

bridge solutions continue to provide added value for brokers. In attracting new clients, a broker can advertise its stable, 24/5 feed and market access. Of course, this requires the right bridging technology as not every solution out there has the same reliability."

"In maintaining existing relationships, brokers can provide direct market access for clients who do not fit their standard risk profile," Ralich continues. "This helps brokers who traditionally would turn away scalpers, high frequency algo systems, and predatory flow catering to a broader range of clients. With the right bridge solution, brokers can be confident their technology infrastructure can handle the increased burden of high frequency clients, without risk to them or their existing business. Lastly, the better routing and subsequent reporting and research technologies a broker has available, the more efficient and streamlined their operation can become. By freeing up resources in IT expenditure via hosted, fully managed solutions, or lowering support ticket burden by increasing uptime, a broker has more time to focus on marketing, customer retention and other client-facing aspects of their business," says Ralich.



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### Scalability and reliability

Scalability is an important issue that needs to be addressed to ensure that a bridging solution can meet future volume growth and expected demand. Higgins says very high performance and low latency are vital and are now demanded by all brokers. He states: “Any liquidity bridge with a latency of more than a few milliseconds is just not acceptable any more. Advanced techniques like memory, resource and thread management and developing in pure C++ allow massive performance potential, giving a superb trading experience to brokers’ clients and the lowest possible slippage.”

While Cohen says: “Uptime and reliability of servers is a huge issue for brokers, as poor performance affects the broker’s reputation and opens the broker to additional risk. Robust systems that are able to cope with very large volumes of small trades, portfolio manager accounts and so on are totally reliant on the quality of the bridge and execution mechanisms.”

Ralich warns: “It’s critical that your bridge technology provider completely understands the platforms they are working with. We have spent thousands of hours

testing, researching, and optimising the ways in which we interface with MT4 and other trade systems. At this stage in the evolution of the bridge industry, it’s fairly easy to tell what third party providers have the best performance; they are the ones maintaining strong partnerships with large, enterprise brokers.”

He advises that brokers keep an eye on their bridge technology provider: “If you see your provider is not being used by, or even worse being let go from, a major player, it is most likely because their technology has proven not to scale. Many brokers do not do their research up front and get entrenched in a solution that will never allow them to reach their full potential.”

### White Label choices

Liquidity bridge vendors that are succeeding in the market often offer White Label solutions in partnership between brokers, with technology coming from vendors and liquidity from brokers, says Higgins. The combination of superior technical knowledge and operations from vendors and superb liquidity from brokers is a winning combination, he remarks.

White Labelling options and service models are available for the provision of liquidity bridging products. Cohen comments: “Today White Labels are able to receive the same offering available for direct participants; the limitation is always placed on the broker as to what to offer its clients. So it’s a factor of two, the back office and bridging capability and the brokers wish.”

The most popular service model for White Labelled liquidity bridging is a flat monthly fee plus per volume fee, claims Latypoff. He notes: “Some companies give out liquidity bridging as a part of their more complex offering, with a price included. Other companies even offer liquidity bridges for free, simply widening execution spreads (thus, it’s the same thing as having per volume fee, just another flavour). Our company sells bridges at a flat rate, on single payment basis, which is convenient for brokers that want to be independent in their business.”

### Choosing a provider

The choice of liquidity bridge vendor is vitally important for a broker, says Higgins. “The decision should be made carefully, and certainly not on price alone. The broker should be able to see their vendor as an extension of their own company, building a strong relationship with them. Important areas to consider



Andrew Ralich

*“A broker has three very distinct responsibilities: continue to bring on new clients; maintain the existing relationship with clients; and manage internal operations. In all three of these categories, liquidity bridge solutions continue to provide added value for brokers.”*

are customer service, reliability, performance and low-latency, asset class coverage, and functionality. Your vendor should be happy to offer customisation on demand and should welcome your requests to extend their products.”

The main factors to consider are the range of products, the average spread and liquidity depth, speed of execution, rejection rate, rules options, quality of the risk management platform, options in running multiple books and regulation and type of regulation, says Cohen.

Configurability, reliability and performance are the three key areas that should influence a broker’s choice of liquidity bridge provider, according to Ralich. He explains: “The bridging market has evolved to a point where being fast and stable is no longer the end of

the conversation. Anyone shopping for a bridge in the current market needs to dig deeper into what back office and reporting tools the provider has built into their system, as well as what capabilities the bridge has beyond just routing trades. Solutions for failover, aggregation, and smart routing should be in consideration.”

Ralich continues, noting that care is needed: “If you are looking for a MetaTrader4 bridge, an important consideration is how the bridge interfaces with MT4, and the provider’s experience with that platform. Many of the ECNs (such as Currenex and Integral,) are now offering their own bridges. The assumption by brokers is that a large provider will obviously have a stable solution for adapting into MetaTrader4, but they neglect to stress test the specific components



## AUTOMATED RISK MANAGEMENT



Tom Higgins

*"Any liquidity bridge with a latency of more than a few milliseconds is just not acceptable any more. Advanced techniques like memory, resource and thread management and developing in pure C++ allow massive performance potential, giving a superb trading experience to brokers' clients and the lowest possible slippage."*

that interface the ECN with the platform. Many companies have found that though the ECNs are very capable of managing trade routing, they are not as experienced with MetaTrader and thus their internal solutions are years behind the third party bridge providers in terms of reliability and performance."

However, Latypoff says the first point to consider is price. "The price tag is essential for most companies, since STP is inherently much less profitable than market-making, and every extra per volume fee directly decreases amount of money the company makes," he says, continuing: "Secondly, it's trust. Liquidity bridges are a piece of software that deals with clients' money directly, therefore there should be strong trust relationships between technology provider and brokerage firm. Most software license agreements, if you read them carefully, don't guarantee you much, and if something happens (and things happen when you expect them least,) it's not a court decision that will help you, but people who you trust."

"Thirdly, I think it's competence," continues Latypoff. "It's a good idea to buy software directly from vendors, as only they can usually provide quality and timely

support. Any third parties in between would work like a broken telephone, not something that anyone would want," he claims.

### The future

Going forward 12 months, Higgins says: "Vendors who will be thriving in the 2012 and 2013 will have a full service offering, covering not just liquidity management, but also back and middle office integration and add-on tools to manage risk and increase profitability."

While Latypoff says: "From what I see, in a year more and more platforms will be connected to each other, providing and consuming liquidity at much larger scale. For traders this will mean tighter spreads, faster execution, less slippage, higher available trade volumes, more tradable instruments, and, most important, higher transparency, where it will be possible to validate most or every trade, and ensure that forex is a fair and civilised market."

"Online trading is not immune to the sweeping paradigmatic shift of *social everything*," says Cohen. "The next 12 months will be all about the marriage of online trading and social networks. For this reason we have released a new version of LXRisk, essentially a risk management system on steroids, with more than enough muscle to face the liquidity and risk challenges that social trading presents."

Ralich says the leaders in the bridging industry will continue to evolve and capture more marketshare not by simply riding the wave, but by building on their existing foundation and continuing to differentiate themselves. He explains: "Brokers need to take this into consideration when choosing a provider. There will be fewer newcomers and more bridge companies falling to the wayside over the next 12 months, so choosing a provider with proven staying power is important. The companies to rely on for technology over the next 12 months are the ones who will continue to evolve their offering, and capture more value for the broker, not just in simple bridge integrations but also as a provider of back office, smart routing and other technologies."

"Even if you just need a bridge today, it's important to consider what you will need two years from now and look at how the different offerings have evolved over the past two to three years," Ralich concludes.



# Top questions to ask when evaluating an MT4/Bridge solution

By Andrew ralich, CEO at oneZero Financial Systems

As Retail FX continues to sweep across the globe, there is one question that faces every broker who decides to market to retail traders: How will I deploy and manage a MetaTrader4 offering? Despite the ever growing popularity of internal proprietary systems and “differentiating” platform offerings... there will still always be a demand for the ubiquity, flexibility and familiarity that comes with MT4.

When choosing how to offer MT4, there are a number of technology providers who have dedicated their business to simplifying this process for brokers. From full end-to-end MT4 offerings that include hosting, bridging and liquidity to more advanced systems designed to couple MT4 to a legacy risk management model, the various “flavors” all come with caveats of short-term benefits vs. long term growth plans.

In an effort to simplify this process, the best thing a broker can do is focus on the following questions:

## 1. What liquidity do I want to be connected into my MT4 Platform?

For brokers with existing ECN/LP relationships, this decision comes down to how to connect their preferred liquidity into MT4. Choosing a 3rd party Bridge provider will allow the broker the flexibility to switch liquidity venues, or introduce failover / alternative liquidity options down the road, versus committing to a Bridge solution that is tied to a specific source of liquidity. For brokers looking for new liquidity relationships, a Bridge provider is often a great resource for understanding what each ECN, prime broker or bank relationship has to offer.

## 2. As my MT4 Platform expands, do I intend to rely on 3rd parties to manage my infrastructure or do I want to, at some point, take on that responsibility internally?

As the internal footprint of an MT4 deployment increases, the demand for in-house MT4 expertise also grows. Relying on a 3rd party provider is often essential in ensuring that a broker can maintain a consistent, relevant MT4 knowledge base to address any challenges that arise. Choosing the right 3rd party partner means making sure they are willing to grow with you, in parallel with your business needs, balanced against their desire to attract retail clients themselves, and that they remain LP agnostic.

## 3. How will I address increased regulatory demands and client reporting needs?

Not every broker, from the onset, deploys a fully functional back-office system to manage their cross-platform client offerings. When deploying MT4, many of the initial needs for both client and regulatory reporting will exist right in the platform itself. Long term, as brokers look to consolidate back-office reporting and address additional needs from their regulators and clients across multiple platforms, it's important to ensure their tech providers have either an in-house reporting solution or are flexible enough to provide post trade reporting, back-office and other integrations that will allow the MT4 platform to scale.

In the end, the risk vs. reward that every broker must face is that, inevitably, they will need an MT4 option for their clients. Whether or not they choose to bite the bullet up front and take on a provider who will scale with them, or risk a switch in technology and infrastructure down the road, all depends on their appetite for balancing time-to-market and long term strategy.



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**A lot of exciting business developments and product launches have recently been taking place at CommexFx. Can you tell us more about these?**

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As an ECN, there is no conflict of interest with our clients and we never trade against our clients. Our best interest as a company lies with profitable traders who will be with us for the long-term.

Implementing deep liquidity and giving our traders access to one-click platforms like CTrader as well as the industry standard MT4 makes for far better customer satisfaction and trade execution.

**In what ways is CommexFx working to give investors a better and more productive trading environment?**

You have to understand that as an ECN we are essentially a technology provider. We're a broker in the real sense of the term. We don't take sides and we always work with the best interests of our clients in mind.

Investors need to know that they are trading on a transparent model. No hidden fees, no dreaded re-quotes and above all, a fully regulated trading environment.

Safeguarding our traders is paramount and for CommexFx that means that segregated accounts and membership of the ICF (Investors Compensation Fund) are part of our regulatory environment.

**What types of account do you offer and what instruments can be traded with your firm?**

First of all we need to point out one fact about all the CommexFx accounts. All regularly traded accounts of any size are swap free. That's a starting point for us and goes back to our wish to level the playing field for all our traders.

As far as account levels go, traders can experience the CommexFx advantages from as little as \$1 deposit.

Keep in mind the ECN part. Our bottom line comes from volume and fees generated on client trades so clients can open a trading account with whatever level they feel comfortable with all the way up to institutional accounts which have a \$100,000 minimum.

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**What plans does CommexFx have for expanding its business operations and extending the current range of your products and services?**

I've already touched on one aspect and that was extending our list of traded instruments. Everything we do is client orientated and everything we do has to work for all our clients.

Just as an example, if you're trading the EURUSD on MT4 on a brand new PC and with a super-fast internet connection then the execution should be the same for somebody trading the EURUSD on MT4 on a slow PC and with a slow internet connection.

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# Anywhere, anytime – Retail FX goes seriously mobile



**Heather McLean**

Heather McLean explores in what ways the more powerful native features of mobile devices are being exploited to deliver improved mobile FX trading solutions

Sometimes called the small screen, the smartphone is the new must-have tool for every trader that wants to work in real time, 24 hours a day, seven days a week. The ultimate in personalisation, the mobile phone and now the tablet are the accessories that people never leave home without, and never sleep without according to the May 2012 Mobile Workforce Report from mobility services firm, iPass.

The report showed that 71% of Asian mobile workers report they sleep with their smartphones in the bedroom, followed by 58% of North Americans and 55% of Europeans. Additionally, 56% of Asian mobile workers sometimes or obsessively wake up during the night to check their smartphone, followed by 31% of North Americans and 21% of Europeans. The findings also show that 88% of these mobile workers said wireless access was as important or almost as crucial to their lives as running water and electricity, while 95% of those questioned globally reported significant reductions in their job productivity without wireless access.

## Addictive devices

Given the addictive nature of the smartphone, the powerful native features of mobile devices are now being exploited to deliver improved mobile FX trading solutions. Sammer Bhopale, CMO at FXCM, states that along with the advancement in technology for smartphones and tablets, we are also seeing more individuals using these devices as a replacement or enhancement to their web or desktop platform.

Bhopale comments: “FX Traders are no different. Years ago they would check the market rates on their phones and if they wanted to make a trading decision they would call in orders if they were away from their computer. This is no longer the case as technology has advanced such that traders can now use mobile devices to not only check the market rates, but to make informed trading decisions as well as act on those decisions, anytime and anywhere. At FXCM, our clients want trading functionality and features similar to our FXCM Trading platform on their smartphones. We have thus released our tablet applications and smart phone applications to meet the needs of our clients.”

Ivan Maksimov, research, monitoring and brokerage officer at Dukascopy Bank, says the main benefits provided to forex traders by modern smartphones and tablets can be described as the world in your pocket and at your fingertips. He comments: “The rapid development of the mobile user interface, driven by Apple iOS and Google Android, turned smartphones



from geeky accessories into an indispensable tool for everyday life, suitable for all users, allowing them to concentrate on one main task; in our case, trading. Our trade-on-tap feature and pinch-to-zoom charts are just as convenient as they are useful. Also, with a mobile phone you can trade 24/7 from any corner of the world, which is a huge advantage.



Sammer Bhopale

*“...technology has advanced such that traders can now use mobile devices to not only check the market rates, but to make informed trading decisions as well as act on those decisions, anytime and anywhere.”*

“Additionally, with modern mobile technologies such as push notifications, your smartphone becomes your personal assistant. You don’t need to spend the whole time in front of your computer, monitoring your orders, waiting for a specific price level or breaking news; as soon as any of those events appear you will receive a notification and will be able to respond with trading actions just by sliding a finger on the screen,” remarks Maksimov, who adds that the number of Dukascopy Bank mobile trading new users tripled in 2011 compared to the previous year.

Jonathan Assia, CEO at eToro, comments: “Today’s mobile devices are actually handheld computers which allow developers to create sophisticated applications where users can stay connected to the markets in real time. Today users who have version 2.2 of Android and newer can receive real time updates via Google’s Cloud to Device; with today’s improved mobile networks, stronger hardware and more available memory there is now a solid notification network and infrastructure which allows users to stay on the pulse of market activity. In addition, high resolution touchscreens make it now feasible for users to engage



Ivan Maksimov

*"Additionally, with modern mobile technologies such as push notifications, your smartphone becomes your personal assistant. You don't need to spend the whole time in front of your computer, monitoring your orders, waiting for a specific price level or breaking news."*

with high grade charting software and do their trend analysis while on the go."

Notes Mariusz Potaczala, president of the management board at TMS Brokers: "Multi-channel access and interactivity are now essential features for a competitive forex product offering. Active investors regard access and transparency as central to effective investment management. Mobile trading solutions allow investors to receive and act on information any time. Mobile devices enable forex brokers to offer clients value-added services, unlimited access to real time quotes, market data, charting packages, analytic tools and account status," continues Potaczala. "Mobile devices permit continuous risk management and trading functionality, which is now comparable to that on downloaded trading applications. Most forex traders regard mobile devices as providing highly reliable and efficient 24 hour access to their trading accounts."

#### Making FX trading more accessible

Analysis applications and education materials made available on mobile devices make forex trading more accessible, claims Grace Chan, director of the marketing and sales channel at Phillip Futures in Singapore. She states: "This is especially true for future Generation Y investors, who already have mobile



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phones integrated into their daily lifestyle. This will help to attract new clients.”

Maksimov comments: “Mobile trading allows you to stay flexible and mobile, wherever you are. That means you always have a finger on the market pulse and are able to keep control over your trading account. It allows you to respond faster, get the clear perspective of any market-related event immediately, check your trading ideas, and trade on the go.”

Meanwhile, Bhopale states: “The more we can educate our traders such as by giving them access to analysis at their fingertips, the more likely they are going to trade smarter and therefore have a better performance rate. By offering and having a presence on mobile channels we are offering traders another chance to receive analysis, learn and educate themselves.”

Mobile trading and analysis apps can assist with forex education and trading performance.

Assia comments that his company believes in the wisdom of the crowds as being the best tool for education and trading performance. “It is for this reason that in addition to in-depth technical analysis, charts and trader insights, we have incorporated a tool into our mobile apps called Social Bar.

Social Bar allows users to like and rate an alerted position in order to help others base their decisions on the collective wisdom of other mobile traders. Users are able to comment and rate positions based on whether or not they would buy or sell and share it with the entire mobile user community. eToro presents its Mobile Trade Alerts users with a wealth of information that is facilitating users to make smarter trading decisions,” states Assia.

### Differentiating services

FX brokers are trying to differentiate their mobile FX trading services, says Maksimov. He explains his

organisation’s strategy: “Dukascopy Bank’s philosophy is to give access to the flexibility that is offered by modern smartphones, and at same time provide a full set of trading related features. In other words, our goal is to offer full desktop functionality on the small smartphone screen without a complicated user interface. An example is our new charting tools, recently added to the iOS and Android trading platforms. These charting tools are fully scalable and customisable with a wide set of indicators represent a real step forward in usability and functionality for mobile traders.”

At this point all FX brokers have a mobile offering, remarks Bhopale. He says the differentiation point is about how close the app is to providing traders with all the information they need to make intelligent trading decisions. “The charts on the mobile trading apps must have popular indicators, the ability to have multiple time frames and the ability to do analysis directly on the charts,” he says. “Another differentiation point is providing news in the mobile app itself so traders can read what is happening in the markets.”

On differentiation, Potaczala says that with the increasing use and reliance on mobile

devices for access to information and trading, brokers will compete based on the quality of the mobile applications offered. Device-optimised applications with attractive user interfaces will continue to increase in sophistication and utility, he reckons, while clients will consider the quality of a broker’s mobile device offerings as a key factor in evaluating the strength of its product offering, he states.

Potaczala adds: “This is especially true for clients that are early adopters of technology who seek out brokers with the most innovative offerings. Brokers can gain a competitive advantage by being the first to market





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Jonathan Assia

*“...high resolution touchscreens make it now feasible for users to engage with high grade charting software and do their trend analysis while on the go.”*

with the next generation of mobile offering. Many top tier forex brokers in Poland are actively investing in mobile applications. This has been especially true in 2012, when many new applications were launched. At the same time, institutions which already offered client access to mobile trading applications have upgraded those services to keep pace with the latest functionality. TMS Brokers offers a number of trading platforms supported by mobile devices for a broad range of users: from new market entrants to high-net-worth and institutional investors. These platforms are supported by mobile devices running IOS (iPhone, iPad - TMS MT4 and GO4X) and Windows Mobile operating systems (TMS Direct)."

Chan comments: "Among brokers trying to differentiate their mobile FX trading services, most have basic features in terms of price, order placing features and maybe charts or news. Phillip Futures tries to bring more value to clients by offering multi asset classes as well as an open environment where non clients can also have access to prices. Apart from forex, the Phillip POEMS Mobile FX application also allows the trading of other products, giving users a wider choice. Non-clients can view prices on the Phillip POEMS Mobile FX application without having to

log in. This way, we hope to attract non-clients who may be interested in opening an account to trade but would like to view price feeds before doing so."

Users of the Phillip POEMS Mobile FX application receive customisation features and easy user management, with convenient placing of trades and secure confirmation, notes Chan. Additional functions like order management and record keeping are available to users at a glance. To deliver an improved user experience, the Phillip POEMS Mobile FX application has charting features with live prices, allowing users to stay abreast of market movements. The news function in the Phillip POEMS Mobile FX application brings live news feeds from the markets, while the announcements page shows the latest updates to keep users constantly informed.

### Regional developments

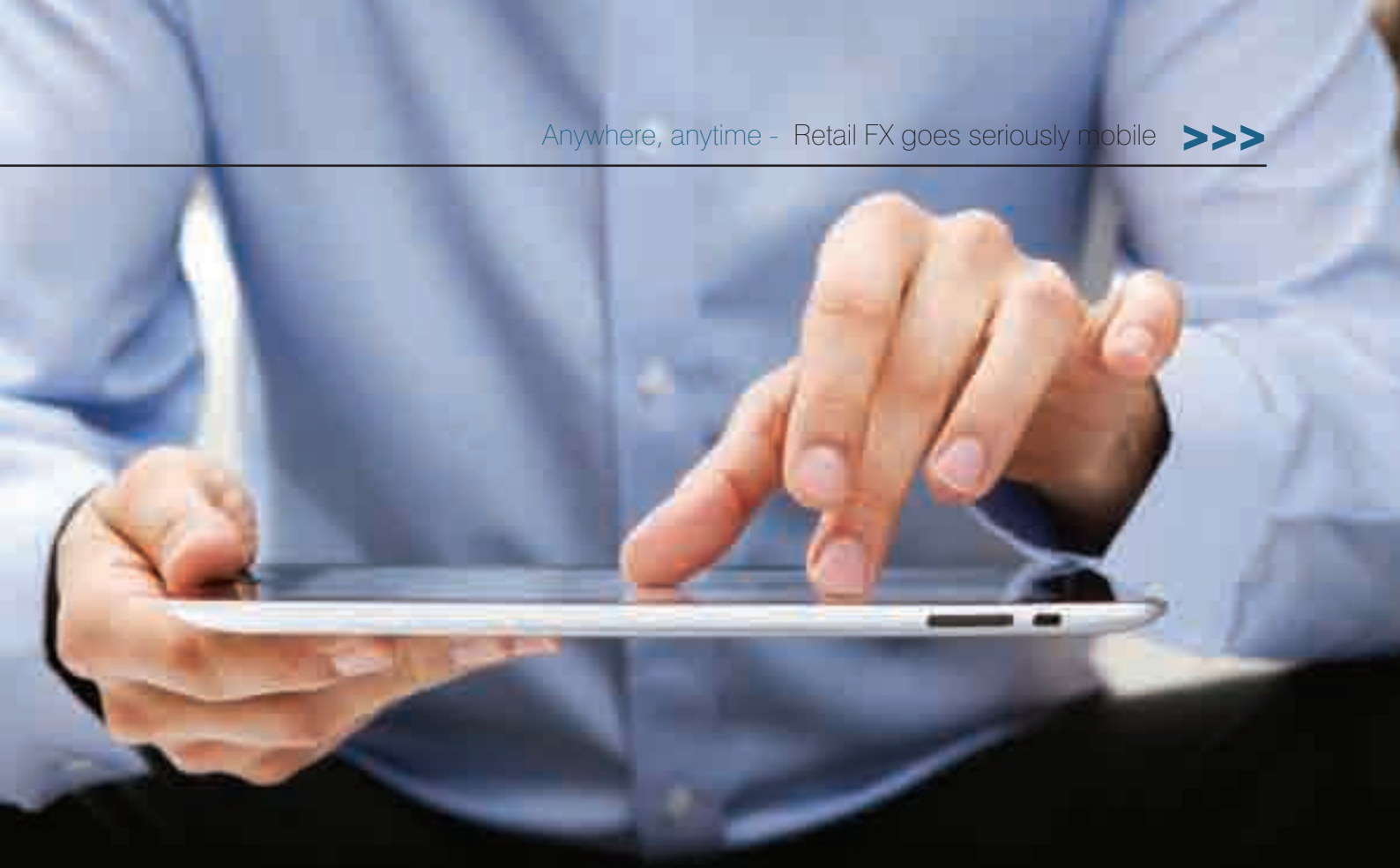
Asia is an advanced region in the use of mobile device trading. Chan comments on the area: "Mobile penetration rates seem to be higher in Asia, therefore there is larger potential of growth for mobile trading in Asia. The features required by Asian mobile users do not differ much from the other parts of the world, though language should definitely be a point of consideration when developing a mobile trading app in Asia."

Chan adds: "Mobile FX trading started to surface in the Asia region following the proliferation of smartphones.

Institutions worked on basic features such as prices and order execution mode initially. However, as connectivity speeds have improved, many have now started placing emphasis on building features that cater to trade analysis, such as charting and news."

She continues: "Locally, we do not see much deviation in terms of features





on mobile FX trading. At Phillip Futures, we try to differentiate by putting multi asset classes of products on the platform, so it caters for both FX trading as well as equities and other products. The Phillip POEMS Mobile application boasts of a full suite of products available on a single mobile platform.”

There are regional variations in the way FX traders use their mobile devices around the world. According to Dukascopy’s statistics, traders from North America and Asia use mobile trading applications more often than European users, which can be explained historically as South Korea, Japan, and the US’s Silicon Valley are the main drivers of mobile technology evolution and development today, Maksimov explains.

Regionally, Europe is behind other markets in the use of mobile trading apps for forex, Assia says. He comments: “Currently the US, North Korean and Japan are the leaders in the mobile trading markets. Since mobile trading has only been around for the last few years and is still in the early stages of adoption we cannot offer any definitive analysis as to the behaviour of mobile traders, but if we could correlate it to the uptake of mobile usage and the high engagement rate on mobile apps in general, than we predict that these usage statistics will transgress over into the world of mobile trading.”

Bhopale agrees, but ties Europe in third with the US, behind Asia. “In looking at our most recent stats, Asia as a whole is trading more heavily on mobile devices, followed by North America and Europe,

which are about equal in trading on mobile devices. Additionally, the top three countries that lead in mobile trading are Japan, China and the US. This is to be expected as all three regions have adopted mobile very quickly into their everyday lives.”

The use of mobile applications in forex trading is increasing rapidly in Poland, as well as in Central Eastern Europe, notes Potaczala. He comments: “We expect that this trend will continue, not just for trading, but for unrestricted access to market and account information. Mobile trading is available in Poland through a broad range of devices and operating systems. Especially popular are applications for devices using iOS, Android and Windows Mobile operating systems.”

#### Who, what and why

There is a wide range of new smartphone apps available for mobile FX trading. These include FXCM’s, which has developed mobile trading apps for iPhone and Android smartphones. In addition, it has an iPad tablet app, Android tablet app and a trading app that works on the Amazon Kindle. Bhopale adds: “For both smartphones and tablets, we focused on the devices that make up a large marketshare of the devices used, then developed best of breed trading apps internally.”

Currently Dukascopy Bank offers two types of mobile application for both iPhone and Android: Swiss

Forex is an application that provides market data, price alerts, and market-related information, without trading abilities; and SWFX Trader is a mobile trading platform with full trading support.

eToro provides clients using its Mobile Trader app quick and easy access to the financial markets. Assia states that what makes eToro stand out in the area of mobile is that it offers its Mobile Trade Alerts app for using on Android devices, so users can receive market alerts and analysis directly to their mobile devices and execute on the suggested trade signals with the simple click of a button. Users can also rate the trade signal, see how many users have rated the analysis, and even how many users have opened a trade based on the suggested trade signal. Lastly, users can see how many have shared this trade signal with other users to further understand how the community rates this information.

Most brokers offer free basic content to help their clients make more sound trading decisions, said Chan. She remarks that Phillip POEMS Mobile FX application is a free service offered to both clients and non-clients.

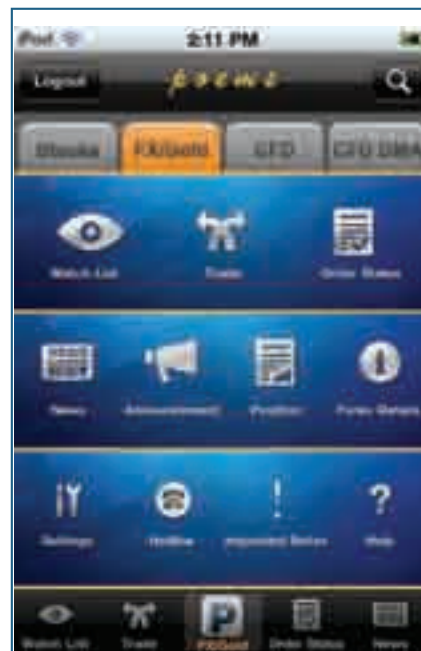


Mariusz Potaczala

*"Mobile devices enable forex brokers to offer clients value-added services, unlimited access to real time quotes, market data, charting packages, analytic tools and account status,"*

All mobile app content from Dukascopy Bank is free, Maksimov says. "Dukascopy Bank offers to its client totally free access to market news, historical data, and analytical research.

The bank is now looking forward to extending the functionality of its social networking service, Dukascopy Bank Forex Community, by allowing participants to exchange premium content, such as custom indicators and strategies."



eToro's Trade Alerts application and the features incorporated into it are completely free. Assia says the company takes a user-centric approach, so it provides its users with as many tools as possible, including comprehensive charts, in depth analysis, information about specific trades, market news, and social tools where users can rate and comment on various positions.

FXCM also provides research for free to all traders. It does offer a premium version of its DailyFX, called DailyFX Plus. "If you do open an account with FXCM you get access to in-depth education and trading signals," says Bhopale. "The trading signals can be sent via Twitter to your mobile device to update you on where a signal has been generated. This provides users information when there are market movements in real time, accessible via their mobile phone and thus able to make trading decisions."

### Catering for changing lifestyles

Mobile devices are helping to facilitate growth in social FX investing activities, states Assia. He says that eToro has seen exceptional growth in its web-based platforms, WebTrader and OpenBook, and that it expects to see similar growth in its mobile marketshare in the coming year. He explains why: "As smartphone penetration increases more and more, users will be equipped with the necessary mobile hardware to





engage with every aspect of daily life, and investing their money is one important aspect of their daily activity. As mobile access to relevant and timely financial information becomes standard practice, users will become better informed and

more engaged with investing their personal assets. This opens the opportunity for more users to tap into the world's most liquid markets and either trade on their own or simply copy the investments of the best traders in the network." "The ability to constantly know what your money is doing is an empowering feeling to users which gives them full control over their invested funds at any given time," continues Assia. "Adding to this is users' ability and motivation to be constantly connected to their social circles, which is why we predict that social trading will increase strongly on mobile and with it the uptake of FX trading in general."

Mobile phones and tablets are changing the playing field in many ways, states Maksimov. "With the speed of information exchange continually improving, mobile applications allow you to stay connected to the pool of social networking synergy. Without spending valuable time reading multipage researches, the user can always access comments and opinions on a market event and respond on the go."

Chan agrees. She says mobile devices provide convenient on the move price monitoring that caters to the lifestyle of professional traders. She adds: "Mobile services also enable clients to stay aware of their positions, which could help them make more informed trading decisions. In terms of executed volume, we felt the growth of mobile trading may not be exponential, as a majority of high volume traders will still prefer to rely on the desktop. However, mobile devices have definitely made it more

convenient for new traders on the move to get in tune with the FX markets."

While Bhopale comments: "Mobile devices have created an environment that allows traders to have a greater level of access in real time to not only brokers and analysts, but to other traders. Additionally, social platforms such as Twitter and Facebook are easily available on mobile devices and thus provide traders a medium to talk to other traders. This has spurred more discussion and created a community feel to trading, which has created the social aspect of FX trading."

"As a broker, FXCM has worked hard to redefine its social presence so that traders can easily access our analysts for updates, as well as ask questions about the markets," observes Bhopale. "DailyFX, the research arm of FXCM, provides real time news updates on Twitter and Facebook, which is an incredible resource for any trader. FXCM has over 8,900 likes on our on our Facebook fan page and over 17,000 followers on our Twitter account."



*"Locally, we do not see much deviation in terms of features on mobile FX trading. At Phillip Futures, we try to differentiate by putting multi asset classes of products on the platform, so it caters for both FX trading as well as equities and other products."*

### Growth, evolution and innovation

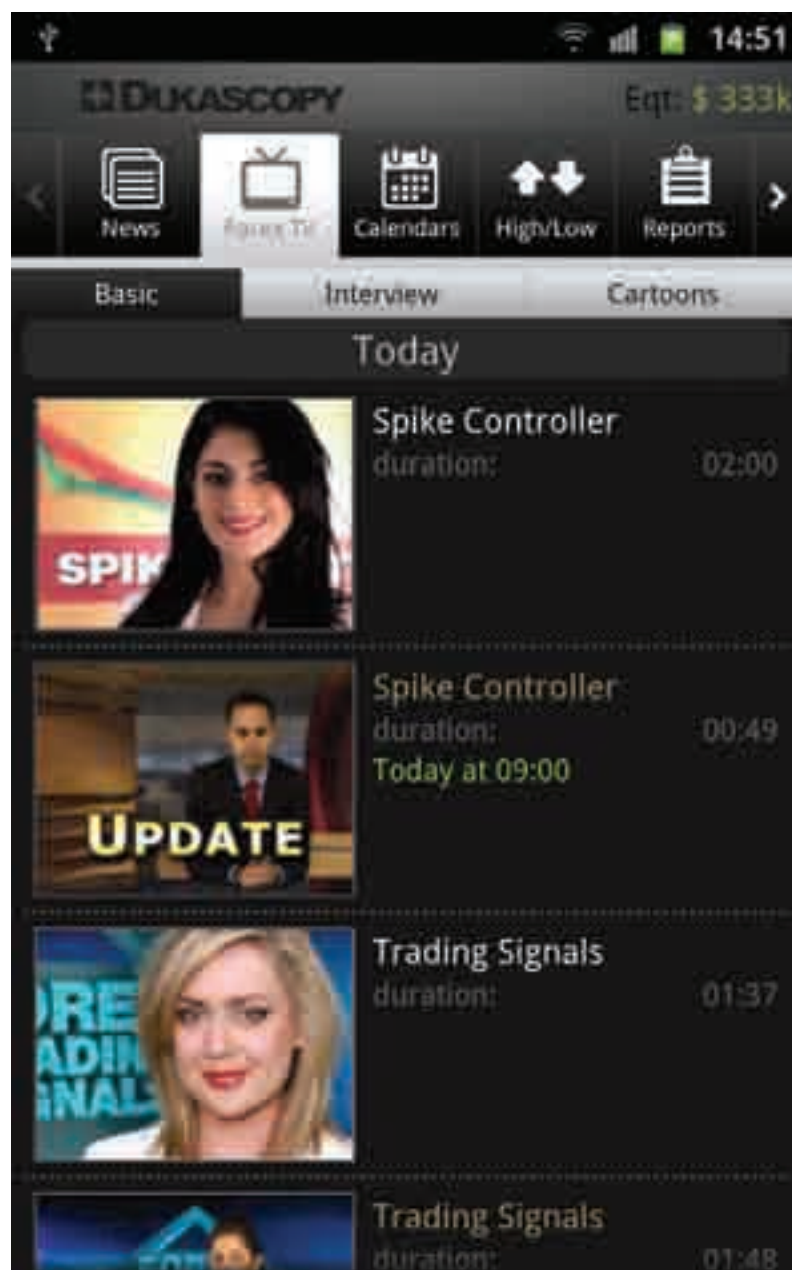
Mobile forex trading is definitely growing and evolving quickly, and will continue to do so over the next 12 months.

Chan comments: "As broadband speeds improve and stabilise globally, we may see more fast execution features built in for mobile trading. We feel that brokers will also start offering a more diversified product range on the mobile platform. Social communication, user generated content from forums and user communities for the discussion of strategies could be extended features integrated into mobile trading apps in the future."

Potaczala agrees that connectivity speeds will change the pace of the game: "Mobile forex trading will further increase in popularity when the latest LTE mobile internet operating in 4G technology will be available throughout Poland and the region. This technology will provide faster service and eliminate the risk that mobile trading will be slower than across a downloaded platform. What is more, mobile applications users will benefit from the increased processing power of mobile devices, with the likelihood that mobile devices will soon run trading algorithms. The future may also allow automated trading on smartphones with high speed server connections."

As for innovations we are likely to see in the mobile FX trading space over the coming year or so, Assia remarks: "eToro is looking towards the future of mobile trading by incorporating a Copy function into our exiting Trade Alerts app. In the future users will be alerted of specific positions they are interested in, and they will be able to copy those specific position without having to copy other trades of the trader they are following. We're looking to launch Copy + (the manual copying of specific trades) later in 2012."

Dukascopy Bank's future goal is to bring automated trading and integration into cloud services and social networking for all its mobile trading platforms, claims Maksimov. As a result, it will provide its clients with the ability to be in control of their automated strategies from their mobile devices, an environment for the trader thanks to 24/7, around the globe access to their



own set of customised tools, and the possibility to use the synergy of social networks, share market views and receive additional market information.

Concluding, Bhopale says: "Mobile FX trading activity will only increase, especially as tablets replace laptops and desktops as the primary means of browsing the web. As a result, brokers will have to quickly adapt and provide trading apps for tablets that mirror their web or desktop trading platform from a usability and functionality standpoint. Traders will expect to be able to do everything they can now from desktops computers on their tablets."

Welcome to the era of the small screen, FX traders.

# Valbury Capital – bringing traditional service values to FX brokerage



Mark Hanney

e-Forex talks with Mark Hanney, CEO of Valbury Capital, an FSA regulated brokerage firm operating from a London base.

**Mark, why was Valbury Capital established and what trading products does the firm provide?**

Mid-market clients have had a relatively limited choice of broker in recent years. This choice further diminished with the demise of MF Global.

Valbury Capital Limited was established to provide the mid-market with a dedicated broker option, fully regulated by the FSA, and designed to combine the electronic platforms, voice execution and liquidity that clients require, with competitive pricing and an individualised service as standard.

We have a special focus on Asia - Valbury have been providing brokerage and corporate finance services in Asia for over 25 years and Valbury Capital aims to build on this expertise, providing Asian based clients with a specialist London based broker, and providing international clients with a specialist gateway into the Asian markets.

We are multi-asset, and have opted to develop our own liquidity from direct bank sources to give us the competitive, transparent pricing and deep liquidity that our clients demand.

Our product range includes FX, Futures, Options, Equities and CFD's.

**What types of trader and investor can benefit from your services and what do clients particularly like about your brokerage solutions and the way you do business?**

Valbury Capital aims to bridge the growing service gap between the large investment banks and the retail firms. Our clients require their broker to provide much more than an anonymous electronic trading platform, but consider the large institutional providers increasingly remote and impersonal.

Clients include banks, hedge funds, proprietary trading groups, professional and high net worth private individuals. They value our independence and our ability, to provide a combination of platform, product, price,

liquidity and service level that meets their requirements, whether trading electronically or voice.

**What range of trading platforms does Valbury Capital offer and how would you summarise their most powerful and useful features which makes them so popular with clients?**

We are platform neutral - we offer a range of leading trading platforms so that our clients can choose the platform that best suits their trading requirements or preference. This is preferable to simply promoting the merits of a single "proprietary" or tied platform. Current platforms offered include; TraderTools, Fidessa, PATS J-Trader, PATS Pro-Mark, Trading Technologies and MetaTrader4.

We will continue to add platforms based on client need and preference. Where clients already have their own platform we also offer the option of taking our liquidity via FIX API connectivity.

**What plans do you have for expanding your existing range of brokerage products and services to provide clients with even more investment and trading opportunities?**

We will continue to listen to our existing or potential clients and develop our broking products and services accordingly.

At present we are looking at ways to further develop further our Asian services. These growth markets, such as Indonesia, are of particular interest to International traders and investors and Valbury is an established broker and exchange member in the region. We are positioning ourselves as a leading gateway to the region, where Valbury offer a range of investment banking, research and corporate finance services as well as broking.

**What White Label and Introducing Broker programs are available from Valbury Capital for institutional firms who may be interested in partnering with your company?**

Valbury was established with a view to providing a superior hub to white label and IB partnerships. We aim simply to provide the same levels of relationship driven support and services to our IB relationships that we do to our direct clients.

We are of particular interest to Asian based IB's due to our ability to provide leading platforms and liquidity combined with a deep understanding of the requirements of clients in the region.



# ayondo —

## giving traders and investors access to Street Alpha

Manuel Heyden, CEO and founder of ayondo GmbH, talks to e-Forex about why this social trading platform is proving so popular amongst the online trading and investment community.

**Manuel, when was ayondo launched and why did you decide to develop the platform?**

On the 24th of April 2009 ayondo went live. Before that we had a 12-month development phase. We wanted to be sure that the platform was running smoothly from the start without errors. That was crucial because the idea is simple: the best traders are fighting to win the favour of all active investors. My co-founder Julian Handte and I launched the company because we ourselves are traders and have seen how beginners in trading fail again and again.

I myself worked previously at ABN Amro in the development of the market index trading platform and studied behavioral finance intensively. From the theory and practice we knew that there are a few hidden champions in trading. The task was: how can we make their profitable know-how available for everyone. The solution is ayondo.

**What instruments are currently traded on ayondo and what product levels do you offer?**

On ayondo traders can trade CFDs on the usual

## PRODUCT REVIEW



The main ayondo landing page

Market Underlyings. Also important of course are the foreign exchange markets and commodities such as gold, silver and oil, as well as classic indices such as the UK 100, U.S. 500, U.S. 30, U.S. Tech 100 or the DE 30. ayondo offers good traders the opportunity to publicly display their track records and gain a one-off certification. After successful certification, these traders can sell their signals automatically onto their personal group of followers.

On the other side are the many thousands of ayondo users who can ask excellent traders to provide signals for their own trading. The user can choose at any time his or her favorites amongst their ayondo traders and follow them manually with their own accounts. However, this is tedious and time consuming. Much easier is the ayondo automatic. With one click you can select up to five top traders and run their trading signals automatically onto your personal account. That's the benefit of ayondo that you can follow top traders automatically. On top of that, the entire ayondo platform for all traders and users is free.

**You have talked about creating a new category of investment called "Street Alpha". What is this?**

Street Alpha marks the success of the few prominent traders in proprietary trading. These are individuals who trade highly professionally and privately - but only do this for themselves. They are winners and they generate Street Alpha because these gains have not been earned from third parties or siphoned off by third parties. We see this valuable know-how in how to make profits as of yet an untapped opportunity. We are convinced that very good solo traders can make even better social traders. ayondo is exactly the platform to prove this. Our goal is to make Street Alpha accessible to all market participants and for the benefit of all concerned.

**Over the last few months ayondo has seen remarkable growth within Germany. What sorts of traders and investors are using the platform and what features do they particularly like about it?**

There are two things making ayondo remarkably different and act as key factors in our success. ayondo is a product completely made in Germany with all those positive connotations for which "made in Germany" stands for. The platform and the entire business model are honest, transparent and reliable. What we do is thought out, it works and it's safe. This brings us to the second point, and that's capital protection and the protection against losses for traders

and followers. This is our top priority. No one invests so much in advance in this area as we do. If you are asking what traders and investors particularly like about us, then it's these two previous points in which we excel. I think when it comes to your own money then transparency, security and risk protection are key fundamental factors.

**What benefits do the most successful traders get from publicising their trades on ayondo?**

The certified traders on ayondo can gain a large number of followers with their above-average successes. For each follower that follows a trader automatically, the trader receives a fee per full round trade. For a winning trade, the fee is three times higher than that of a losing trade. In addition, it plays a role in how much capital the traders moved with his followers. We currently have top traders who have already have several thousand followers and earn from ayondo five figure sums monthly.



Manuel Heyden



Personal starting page on ayondo. Once logged in, the User can personally edit their starting page to suit their own wishes

### What's involved in getting certified to offer trades to ayondo?

Anyone on ayondo can start their certification with just one click. From that point on the following rules apply: The realised gain must be greater after 90 days than one percent. A least two round trades per week must be made or alternatively at least 10 round trades per month or overall 100 round trades within the 90 day process. The risk must not exceed 25 percent in the form of the maximum drawdown. Anyone who can meet these requirements will be certified as an ayondo trader after 90 days. About 200 have been certified since our launch three years ago.

### What education and technical support services do you offer to help traders leverage the full functionality available with ayondo?

ayondo provides comprehensive support services with instructions and videos on the platform. We also have a helpdesk (e-mail, telephone) in all languages shown on the ayondo portal. These are not outsourced call centers, but highly qualified staff directly at the headquarters in Frankfurt / Germany. All sorts of questions can be answered there directly and personally. One must not forget that ayondo itself is not a broker, but works together with renowned

Broker partners such as Ava FX, ActivTrades, Alpari and Gekko Global Markets. Each of these partners offers diverse learning opportunities to improve individual trading. Overall, we place great value on the feedback and suggestions of our users. ayondo is a portal by traders for traders. We didn't invent ayondo for ourselves but for the majority of active investors who want to be successful together. That's why we talk about social trading. Meaning we learn from each other and we trade with one another.

### Do you think social trading platforms like ayondo can help to break down some of the barriers associated with more complex online trading activities and as a result increase the attraction of investing in currencies for some individuals who may never even have traded before?

Yes because social trading - as we understand it - is simple, transparent and fair. It's obvious that many investors, who are disappointed by more traditional financial products, are turning more and more to these alternatives. The aim is for the mass of users not to understand in detail the complex currency markets, rather, that the top traders trading on ayondo can. It's similar to being a football coach, who evaluates his team after every game and then reconstructs it. So as a





The ayondo top Traders profile page with all relevant statistics and information displayed at a glance

follower you'd search subjectively for the best ayondo traders and let them trade for you.

#### What plans do you have for rolling out ayondo to new markets and attracting a wider global audience?

We have a clear plan for developing the international markets. With our new version, which will go live soon, we'll be actively integrating six other languages on ayondo. In addition to all ayondo functions and targeted marketing in these languages, we'll then be offering our helpdesk in Spanish, Portuguese, French, Polish, Czech and Slovenian. Then we'll be taking further steps into the non-European markets. Whether a trader or follower sits in India, Australia or Germany won't matter in the end. It's about the street Alpha, which is generated anywhere in the world, and made available anywhere in the world. This is ayondo's global vision.

#### What partnerships with brokers have you entered into to help further develop your growth strategies?

Currently ayondo is partnered with the Brokers AvaFX (Accounts from 100 €), ActivTrades (250 €) and

Alpari (500 €). With the launch of Gekko Global Markets in Germany and the UK, we have also recently added this broker to ayondo. All partnerships with these brokers were very well prepared and implemented both technically and content-related. The smooth interaction in practice is more important to us than the rapid increase in the amount of partner brokers. We set here clear priorities and are very satisfied with the results of our cooperation's. All brokers who want to meet with our high standards are welcome.

#### In what ways do you think innovative social trading platforms like ayondo may change the existing online trading model and ultimately the way the retail FX market works?

In my experience the Retail Forex market has focused in recent years too much on the creation of technological platforms and lost sight somewhat of what really can make the trader profit. This is exactly where social trading is at this point. It shows the performances of traders fully and out in the open and thereby demystifying trading. You can see how difficult it is but one sees at the same time what individuals are capable of achieving. And that's the challenge for the traditional currency trading market: When just a few are incredibly good, why can't we not make this Street Alpha available to everyone? Why shouldn't that work? What's stopping us? Not for nothing is there demand for the democratisation of financial markets. With the structural transformation of the industry, cost-effective, fair and above all transparent products are in demand. With ayondo we are making our contribution towards meeting this.

# IN THE CHAIR

# AFX Capital –



combining technology, experience and dedication to customer service

e-Forex talks with **Manuela Mazzacco**, CEO of AFX Capital.

Manuela, how would you describe the mission of AFX Capital and why do so many traders like using your firm?

At AFX Capital, our mission is clear: to provide our clients with an online trading experience that is second to none. We do this by offering best in class technology, excellent education and customer service delivered by a team of experts and, of course, competitive pricing and spreads.

Our clients say they prefer trading with us for several reasons; confidence in the fact that we are licenced by some of the strictest regulators in the world, the reassurance that they can work with experienced and knowledgeable individuals and for the simple fact that the platforms and technology we offer makes their job easy.

Your London subsidiary, AFX Markets recently became fully authorised and regulated by the FSA in the UK and you are also licensed and regulated by CySec and fully

comply with MiFID and other international financial and regulatory requirements. How important has this type of client guarantee now become in the Retail FX industry?

For sure it is very important; both for our clients and also for AFX Capital. Our clients can be confident that they are trading with a firm that is not only licenced and regulated in multiple jurisdictions, but that some of those jurisdictions are the very strictest in the industry.

We were very pleased to receive our FSA licence as we are focussed on developing our international business from the London office and this was a big milestone in that growth strategy.

Given the number of FX firms that exist in the market these days, it is important for us to differentiate ourselves as a serious, professional organisation. We continually work to ensure we satisfy the toughest regulators in the industry, as exemplified by the fact that we are one of the first trading firms to have been

approved under the new ESMA regulations, which are even more rigorous than the FSA!

Additionally, we are licenced and regulated by CySEC as you mention, and also registered and authorised by CONSOB in Italy and licenced by the DMCC in Dubai.

#### What range of instruments can be traded with AFX Capital and what trading accounts do you provide?

Our clients can trade CFDs across a broad range of instruments, from Forex to Indices to commodities and equities. We are continually expanding our product range to ensure our clients have a premium trading experience, allowing them to trade what they want, when they want, how they want. We currently offer no less than five account types offering features and benefits appropriate to the level of support and complexity required.

#### What are the main trading platforms you offer to clients?

For institutional clients, we are proud of our bespoke platforms AFX Infinity and AFX Fast which offer features such as ECN Prices and professional tools such as Enhanced Strategy Optimiser, Advanced Charting Tools, Enhanced Risk Manager to mention just a few. We also have PowerWeb which is compatible with MT4 and can be used on any computer with an internet connection. For purely retail transactions we have MetaTrader 4 and MetaTrader 5.

Mobile trading is a massive priority for us and we offer solutions for iPhone and iPad, Android, Blackberry and standard mobile platforms, all of which are continually evolving.

#### What educational, training and product support services do you offer to help clients harness the power of your trading platforms and improve their trading and investment skill-sets?

We firmly believe that is our duty to provide our clients access to the best education, training and support possible. We offer these services in a range of guises, meaning clients can use whatever method is most convenient. Our customer service team are on hand by phone, email or live chat and there are user-friendly educational aids on our website.

Clients can stay abreast of market developments with daily commentary provided via our website, Twitter and Facebook, and they can also avail of daily research and analysis reports that are sent out by email.

Another exciting education option is for clients to participate in courses and training in an interactive environment, provided by our specialist educational partners. Anyone interested in this route should talk to our Client Services team to find out the next available locations and dates.

#### In this edition of e-Forex we have been focusing on mobile FX trading. What mobile applications does AFX Capital provide and do you expect to see increasing interest amongst clients for mobile trading technology?

As the CEO of this company, this is always top of my agenda. We invest heavily in product and technology development and mobile trading is always a top priority.

The evolution of trading has gone from the pits of the 80's to at-home trading and now the current trend for mobile trading. Our view is that this only going to explode further.

With the sophistication of smart phones, wide availability of 3G networks and Wi-Fi, there is no such thing as downtime. People are constantly glued to their mobile devices, and we must respond accordingly by providing trading solutions that match clients needs and expectations. Information is power and we have every intention of ensuring that our clients have that at their fingertips, which is why we offer our MT4 platforms on all mobiles – from iPhone and iPad to Android, Blackberry and standard mobile phone platforms.

#### What White Label and Introducing Broker programs are available from AFX Capital for institutional firms who may be interested in partnering with your company?

Our competitive compensation rates together with a superior set of products and services make us attractive to institutions and introducing partners and for those looking for a White Label, we offer a bespoke, turn-key solution.

As we have teams spread across multiple locations speaking multiple languages, we can competently service clients all over the world.

#### AFX Capital recently opened an office in London and made some important new managerial appointments. Can you tell us a little more about these?

Although we work in an online business, we recognise that people are most crucial to our success; both our clients and our team.

We opened our office in London in June 2011. Our dual focus since then has been obtaining the FSA licence (which we now have), and hiring a strong,



experienced management team who will help us realise our vision for further international expansion.

The most recent recruit is Rachel Clark who joins us as Chief Operating Officer. Rachel is well respected in the industry after spending seven years at IG Group in roles spanning sales trading, international business development and marketing. Her experience and knowledge will help us shape our global growth strategy to drive the business into the future.

Another key hire for us in May was Ian O'Sullivan, who has come in as our Head of Marketing. Ian has significant experience in the spread betting and CFD business having worked for Spread Co and Spread Ex. Ian also used to be an options market maker 12 years ago when he moved to London from Ireland, so has a great knowledge of the financial markets and what a trader/client is looking for from the other side. They join Alessio Falanga who is our European Head of Sales and Angelo Ciavarella, European Brand Manager. Alessio has extensive experience with CMC Markets and ActivTrades. Angelo also comes to us from ActivTrades having worked with E\*Trade Financial prior to that. Angelo and Alessio have very strong industry knowledge and contacts and are a formidable team!

This team of managers will work with our existing management team based in offices in Milan, Dubai and Cyprus, comprising industry specialists, many of whom have experience in this industry dating back to the "formative days of Forex" in 2001 !



Rachel Clark and Ian O'Sullivan

**What plans do you have for expanding your existing range of brokerage products and services to provide clients with even more investment and trading opportunities?**

We are currently rolling out the MT5 platform to our clients and are also looking at complementary products to offer alongside our current product suite. For example, we are currently in the process of introducing Binary Options, in response to client interest. We are looking to further expand our range of instruments – if a client wants to trade something our product development team will respond accordingly.

**What's the easiest way for new clients or trading partners to contact AFX Capital?**

The best way to contact AFX is to send an email to [partnership@afxcapital.com](mailto:partnership@afxcapital.com). One of our partnership team will respond as a priority. Of course interested parties can always use the live chat on our website or call any of our regional offices to speak with someone. And we would always welcome anyone who is local to any of our offices to arrange a time to come in, meet with us and discuss their needs in person.

*All contact details are on our site, [www.afxcapital.com](http://www.afxcapital.com)*



Alessio and Angelo



## TEAMWORK. TECHNOLOGY. PRECISION. POWER.

Whether you are trying to navigate through rough seas or trying to trade the financial markets, we at AFX Capital believe these four key principles are what you need to rely on.

That's why our excellent client services team are available 24 hours a day, five days a week. It's why we have offices in multiple locations covering Europe, the Middle-East and Asia.

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Jim Conklin and Karlheinz Muhr



# QFS Asset Management –

## taking a unique view on the business of managing money

e-Forex talks with two new members of QFS Asset Management, Karlheinz Muhr, CEO and Jim Conklin, Ph.D., Head of Research. QFS is a leading asset and risk management firm based in Greenwich, Connecticut, USA.

**How long have you been in the asset management business and what attracted you to the industry?**

**Karlheinz:** I have been in the investment business for over 25 years. I joined QFS last year, and became the CEO as a result of the acquisition of Cenario Capital Management. I was the Chairman and co-founder of Cenario after leaving Credit Suisse in 2009. Cenario provided investors with volatility risk advisory and management services. Additionally, we developed a proprietary Risk Index (the CRIX) – a leading indicator of heightened risk aversion and market turbulence – which is still available on Bloomberg Terminal. I was fortunate to have been one of the people in the industry to have pioneered the concept of volatility as an asset class. In 1999, I formed Volaris with my partners, which was sold to Credit Suisse in 2003. I stayed at Credit Suisse and served as a Managing Director of Credit Suisse in the Asset Management Division and was head of Credit Suisse Volaris. I was also a member of both the Chairman's Board and the Management Council of Credit Suisse.

My academic background is in economics and finance. I got into the investment management business by starting on the fixed income trading

desks of First Boston Corp. in 1985. I went on to hold a variety of positions at UBS Warburg and Credit Suisse First Boston, spanning from head of Global Credit Fixed Income to head of Derivative Mortgage Trading. I think this helped shape the way I think about risk in the context of asset management. At QFS, we don't believe there is such a thing as a free lunch. I believe prudent and successful investment management comes from a manager's ability to truly understand and manage risk. The investment decision process should not start with "what return do I need or target?" But, "what is my risk budget?"

**Jim:** I joined QFS last year as well, as the Director of Research. I have over 14 years of investment experience, working as a quant-trader and strategist in FX volatility trading, currencies, commodities, fixed income relative value, and equity long-short at various institutions. Before joining QFS, I was Head of Investment Research at FX Concepts and a member of the Management Committee there. And before that, I was a Portfolio Manager at Fortress Investments in the Liquid Markets group. Like Dr. Grossman, I came to finance from academia, having held faculty positions at the University of Texas in Austin and the

University of Madrid Carlos III. I switched careers because I wanted to apply the skills and knowledge I learned in academics in a fast-moving environment that rewards decision-making.

My time at QFS has been especially gratifying because I share convictions with my colleagues about the investment research process and risk management. My doctoral thesis in economics incorporated game theory, dynamic modelling and numeric computation to solve models of sovereign debt repayment. Those models amount to understanding why sovereigns choose to pay or default. In the mid-90s my work was beginning to seem a little 'academic' due to a dearth of defaults; however the last decade has provided a rich environment for application of my area of specialization. Coincidentally, Dr. Grossman was a professor of economics at Princeton while I attended as an undergraduate student. Later I got my PhD in economics from Stanford, which gave me the opportunity to study under Robert Hall, Thomas Sargent and Joe Stiglitz. It was an exciting time to work with scholars whose research focused on the interaction of uncertainty, imperfect information and government policy, and how these factors affect asset prices, business cycles and macroeconomic growth.

**When was QFS Asset Management (QFS) founded and what were the original objectives for the company when it started?**

In 1988, Sanford Grossman, PhD founded Quantitative Financial Strategies, Inc. as a financial research firm to develop investment models using his pioneering work in quantitative finance. The QFS Currency Program is based on research in international financial economics that explores the transmission of information through asset prices in the presence of shifting global capital flows.

One of the most significant publications that relates to the origins of the firm is *The Informational Role of Prices* (MIT Press, 1989). The idea of being able to

make inferences from asset prices to make economic forecasts forms the fundamental underpinnings of the firm's approach to investing. The firm's original objectives remain the same as they are today: to provide investors with a favourably risk-adjusted investment returns in liquid markets that have low correlation to other components of their portfolio, while using a rigorous and systematic method of risk reduction and optimal position sizing.

**Who are the key people involved in the firm and what are their main day to day responsibilities?**

**Karlheinz:** We have made changes at QFS to give the firm a more institutional structure. We have operating committees with Dr. Grossman and me as the two members of the Board. I chair the Management Committee and he chairs the Investment Committee. Naturally, we have many of the other expected committees, such as compliance and operational risk. While we are a relatively small firm, we have found that instilling these processes helps us achieve our goal of industry best practices.

Jim Conklin is the Director of Research and manages a team that includes five PhDs. Steve Van Besien, a co-founder of Volaris and Cenario Capital Management, chairs the Origination Committee. Steve has a background of over 20 years advising clients on risk. Robert Shustak is our COO and CFO and chairs Operational Risk, the committee that oversees operational and accounting functions. David Zimmerman is our General Counsel. Jonathan Silber is our Head of Trading and George Holt is our head of Technology.

I would like to mention that a fundamental change that has taken place at QFS is my assumption of the CEO position. This gives my partner and the founder, Dr. Grossman, the opportunity to be fully engaged in the research process. We are already seeing the benefits of a more invigorated and accelerated research process. Naturally we are fortunate to have Jim Conklin



managing the process and contributing his ideas and skills.

**Jim:** We are pursuing a business plan to build up the research team slowly and steadily over the coming years. We enjoy a marvellous legacy of a rigorous research tradition. We have an extensive library of proprietary research the firm has done over the years, and a team of senior researchers trained in and committed to our research process. As we expand the team, our goal is to both maintain our research tradition and enhance our pace of innovation. Consequently, our hiring process is quite selective and we plan to grow the team slowly over time, interviewing doctoral level researchers from both finance and non-finance backgrounds. We hire for both strong skills and training and for new ideas and perspectives.

#### What asset classes does QFS currently trade and what percentage of your business lines are focused on currencies?

The QFS Currency Program trades currencies through OTC forwards and options. The QFS Fixed Income Program trades sovereign debt bond futures and futures on short-term interest rates (such as Eurodollar and Euribor rates). In addition to currency forwards and bond futures, the QFS Global Macro Program also trades equity index futures and commodity futures. We trade currencies directly in the QFS Currency and Global Macro Programs, but QFS's research on all asset classes benefits all of QFS's investment strategies, even if we don't explicitly trade a specific asset class in a particular strategy.

#### How does Risk Management influence and shape your overall investment philosophy?

**Karlheinz:** There is an old axiom in our industry. There are only two things you can really control: Risk and Fees. So, you better get those right. We believe we do a good job on execution costs for our trading and we really focus on risk. Most money managers build their methodologies from the question "what return do I want?" We turn that upside down and start by asking how much risk we want to have in the portfolio. After we've established a risk budget, the market will tell us what the expected return is at any given point in time. Everything we do after that is to manage the expected return: our trades embody our processes' reaction to shifts in expected return opportunities within a determined risk budget. Jim will discuss our Drawdown and Scaling Technology later in the interview.



#### What currency programs does QFS offer and how have they recently been performing?

**Karlheinz:** QFS offers one standalone currency product, the QFS Currency Program. It can be accessed through various structures or one of many platforms. Performance has been strong as we have moved through the period of Great Deleveraging (July 2007 – April 2012). Over this time frame the QFS Currency Program has an annualized return of 9.14% on a composite net basis. This has been a very difficult period for traditional beta exposures, which is why the QFS Currency Program acts as a tremendous portfolio diversifier. Additionally, we offer traditional and alpha currency overlay and bespoke client structured mandates.

#### What are the main factors that drive your firm's currency investment decisions?

**Jim:** Two major themes drive our approach to investing in countries via currency markets:

The first macroeconomic thesis is that divergences in growth from expectation drive capital flows to their uses of highest marginal productivity across the globe. By identifying such shifts at the business cycle forecast horizon, we endeavour to anticipate future currency movements. That is, as our signals detect fundamental macroeconomic divergence, where one economy is projected to accelerate from its prior expected growth path, our forecast anticipates an appreciation in that economy's currency. On the other hand, our forecast falls when we detect deceleration relative to a prior expected growth path.





The second thesis embedded in our currency forecasts is that at a long-run horizon the relative soundness of monetary and fiscal policy is a key determinant of the movement of exchange rates. In similar fashion to the divergence thesis above, we derive sufficient statistics that form a future projection of the credibility of a nation's commitment to sound money. To illustrate the concept of a sufficient statistic that proxies for broader, long-term monetary soundness, consider the 5-year - 5-year forward break-even inflation rate in the U.S. As the rate rises, it signals that participants in both inflation-linked and nominal U.S. government securities markets believe that the inflation rate 5 years into the future will rise, whether by lack of institutional commitment on the part of the Fed or by circumstances imposed on the Fed by the U.S. Congress.

#### In what fundamental ways does your investment approach differ from many other money managers?

**Jim:** Principally, we are an investment firm dedicated to trading fundamental macroeconomic ideas. As an integral part of our investment process, we employ the scientific method to vet and refine our ideas. Specifically, our research process always begins with a fundamental thesis or idea; for example, "international capital flows are an important determinant of movements in foreign exchange rates." Next we derive a falsifiable, quantitative expression of that idea and we look to test it against data. In fact, the vast majority of the research documents that we generate describe empirical implementations of ideas that we are able to falsify and consequently do not trade. In this sense we differ from the majority of "quant shops" or CTAs, in that they are typically more agnostic (Bayesian) in their use of signals and factors. Often

a "quant" firm emphasizes the systematic nature of their investment process, and typically uses factors or transformations of historical data that have forecasted returns successfully in the past. The essence of our process is our focus on fundamental causes in the research process from the outset.

**Karlheinz:** QFS's competitive advantage rests on the fundamentally-based investment processes developed by QFS's research team over the past two decades. Some of the hallmarks of QFS's approach to investment process development include mastery of academic research in economics, finance and quantitative fields (our research team's five PhDs have 80+ years of experience in the academic and private sectors); the centrality of fundamental rationales behind our investment theses, whether macroeconomic, micro-structural or behavioural; systemization, automation and diligence in the daily operation of our investment processes; strong emphasis and resource dedication to risk management and draw-down control; and finally, ongoing research and development as the core competence and activity at the firm. The firm is widely considered a leader in the field of global macro trading, quantitative risk management and advanced portfolio optimization techniques. The firm's research culture is dedicated to scientific investigation and reliance on detailed, repeatable methods to govern investment-related activities. We have found that our Currency Program has a low correlation with other hedge funds or trading advisors.

#### Do you have any particular preference for specific trading time horizons, such as medium to long term?

QFS's investment Programs take a unique approach to producing alpha based on macroeconomic fundamentals that play out over a business cycle time horizon. QFS utilizes econometric models, theories of the informational roles of prices and a robust, systematic, disciplined portfolio construction and risk management approach to build risk-controlled portfolios that capture alpha over a 6-24 month time horizon.

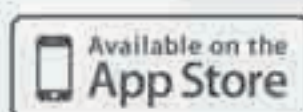
#### We all know that FX is a deep and liquid market. How important is that to the development of your trading models and strategies and what relevance does it have for your draw-down control methodology?

**Jim:** Keynes was attributed as saying, "the market can remain irrational longer than you can remain solvent." Like the quote says, we recognize that non-fundamental factors can move asset prices in the short run. Drawdown and Scaling Technology is essential to our investment process because it imposes risk discipline required to stick with fundamental themes over the long-term. Drawdown scaling is embedded in

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our optimal portfolio construction methodology and operates within a real-time computing environment. To most effectively deploy the technology, we trade assets with deep liquidity and maintain a 24-hour-a-day execution desk.

The Drawdown Control methodology is based on academic research by Dr. Grossman in the early 1990s. The method solves the problem of maximizing an investor's lifetime wealth of a portfolio, subject to a maximum loss or drawdown limit. The solution to the problem outlines both an accelerating schedule for reducing risk as the portfolio approaches its drawdown limit, and a symmetric schedule for ramping up risk as the portfolio appreciates once again. A significant benefit of this approach is our ability to attempt to financially engineer the mitigation of the left tail in our return distribution. And, in fact, our Currency Program has exhibited characteristics of positive skew.

**Karlheinz:** Our approach to forming expected returns is bottom up and fundamental, implemented through a sophisticated process and methodology that we've developed through many years. That approach is designed to allow us to move in and out of markets rapidly to capture the changing global opportunity set. Of course, there are times when markets aren't driven solely by fundamental information. Our drawdown control methodology drives our process to seek to exit losing positions in a fast and expedient way. The depth and liquidity of futures and FX forwards markets, and option markets on them, typically allow us to do this.

**In the past you have talked about countries acting like corporations when it comes to currency trading. How does this impact on your investment thinking?**

In currency trading we look at countries like corporations. The *central bank* is equivalent to a

company's *treasury department*, the *dividend* is like the short term *yield* and the *currency* is like a company's *stock*. Many of the factors you would use to analyse a company, we use to analyse a country. We believe that over time money will flow from countries with low marginal productivity of capital to countries with high marginal productivity of capital just as it does with corporations. Sometimes this coincides with GDP growth (slow to high), but not necessarily. Money will flow from countries that are imprudent with their currency management to countries that are prudent with their currency management. You can think of it as exploiting the dispersion of global business and monetary cycles: We "borrow" (sell) from countries where growth prospects are poor, short-term interest rates are low, and monetary policy is or will be loose. At the same time, we "lend" (buy) to countries where growth prospects are good, short-term interest rates are relatively high, and monetary policy is or will be tight. We use deep economic fundamental analysis to make a judgment call about countries and markets we want to be in. All our positions are long/short; long one currency and short another.

**QFS takes a systematic approach to investing. How do you apply this to your model development?**

**Jim:** Our model development process tries to accomplish two principal objectives. First, we specialize in understanding the investment opportunities created by macroeconomic, financial and policy events. So we start with a fundamental hypothesis. Elaborating investment hypotheses as measurable, falsifiable statistical equations is the next step, and coding and statistical testing of the idea completes the process. We reject the large majority of the ideas we test, but for those that hold up, we implement them as expected return equations.



The second objective we try to accomplish is to implement our conclusions about fundamental investing in as consistent, disciplined and objective way possible. Armed with explicit equations expressing our views about expected asset returns, we use technology to automate the implementation of our investment ideas. Each Investment Program at QFS uses a fully integrated system consisting of several computing modules (subsystems). The major component systems focus on expected return calculations, risk assessments (variance/co-variance matrix), a dynamic portfolio optimization approach (find the trading plan that maximizes expected return subject to risk levels) and a drawdown control system designed to reduce risk (positions) subject to the level of drawdown. All elements – expected return forecasts, correlations/volatilities, portfolio optimization and drawdown control – operate in real time and incorporate live data feeds and continually readjust the positions suggested by the model as influenced by changing conditions.

**How do you go about back-testing your proprietary currency trading systems and signals to confirm that your strategies will perform as required and will remain relevant to the long term trading goals and performance criteria of the firm?**

**Jim:** Once a quarter on every model, the QFS research team runs statistical tests to review the models' statistical consistency.

**Karlheinz:** QFS's trading systems constitute an integrated network of programs for research, statistical analysis, testing and simulation, data collection, portfolio optimization, risk management and accounting. QFS's trading systems operate in real time, integrating information from real-time data feeds, performing portfolio valuations, optimizations and associated trades.

**In this edition of e-Forex we have examined the development of Machine Readable News and how the next generation of FX algorithms are now being designed to more effectively capture the power of the news. How does QFS go about exploiting real-time insights that are embedded within market and economic data?**

**Jim:** The area of machine-readable news is fascinating and is something we are following. Historically our focus has principally been on modelling macroeconomic fundamentals with a fairly long time horizon, again, with models based on fundamental hypotheses. Nevertheless, our real-time trading

system's optimization design naturally lends itself to aggregation with higher frequency signals and there are theories of market micro-structure that might combine well at the frequencies machine-readable news work for.

**To what extent have you developed research agendas and analytical programmes to help improve the design of new trading strategies and to maintain the performance of your existing investment processes?**

The Investment Committee oversees the operation and performance of the trading systems. The Committee draws on information from markets directly, analysis from the research group, and feedback from the execution desk. At least quarterly, the Committee makes decisions to modify parameters governing the trading system (e.g. tolerance to portfolio risk), makes decisions governing non-trading system related factors (e.g., counterparty selection), or manages contingencies

unforeseen that prevent the trading system from generating executable signals (e.g., emergency closure of markets).

To support a consistent, disciplined application of each trading strategy, investment decisions are made by the models. Members of management and trading monitor the accounts during the trading day to ensure that exposures and risk guidelines are being maintained. Ongoing improvements to the models are made under the direction of our research team of five PhDs (including Dr. Grossman and Dr.

Conklin). In addition, a four-person technology team assists in the implementation of the research effort. A staff of five traders, led by a Director of Trading, executes the trades that are indicated by the model (trading occurs 24 hours a day, five days a week). The trade execution group has authority for overseeing the implementation of the trades and has limited discretion related to the timing of execution

**How much reliance does QFS place on the latest automated trading tool-sets and execution algorithms to help you better manage risk, optimize trade execution pathways and meet your investment objectives?**

**Jim:** Our proprietary trading system incorporates dynamic programming techniques to optimally enter/exit trades while minimizing long-run transaction costs in real-time. Once signaled by the model, trades are executed by the trading desk on a best-execution basis, and generally are completed within a given



trading session. The trading desk re-evaluates the trading models at frequent intervals during the day.

**What electronic trading platforms does QFS find most appropriate to use and what factors influenced your choice?**

We chose to develop a proprietary trading system in-house nearly two decades ago. Our approach to risk control, specifically our implementation of draw-down control in real time, requires a custom approach.

**How did you go about building your trading desk IT infrastructure and was the trading software and connectivity technology provided by third party vendors?**

Our trading system infrastructure has naturally evolved over the last two decades. Our proprietary C++ framework and programs were all developed in-house by the firm's technology and research staff in consultation with our traders. This ensures a deep understanding of our trading system's internals, which we view as one of our core competencies. We have traditionally not relied on 3rd party vendors in this area unless source code was part of the delivery, and even then only for things like user interface tools.

In order to maintain an object-oriented infrastructure that can adapt to change over the long term, we have constantly reevaluated the architecture and determined when code reuse, refactoring, or reengineering various modules was the right choice for the problem at hand. Some elements of the code date back nearly twenty years, but the overall system is constantly growing and changing, and is now nearly a million lines of C++ code just for the production code base. Data and data management are obviously a critical part of our technology infrastructure as well, and our programmers are adept with the APIs of the leading market data vendors, including Bloomberg and Thomson Reuters.

Technology infrastructure also helps to manage operational risk. We endeavor to design high availability into all of our critical business processes, and hardware and software solutions play a critical role there. Technology can eliminate single points of failure, and facilitates real time replication to our backup site. We maintain and regularly test a business continuity plan that is robust and very detailed, and we have backup sites in Stamford, CT and Wappingers Falls, NY which together can quickly take on the primary site role.

**What new strategies and products has QFS been exploring as part of your continuing efforts to widen the range of currency investment solutions and customised services you make available to clients?**

For the past few quarters our primary emphasis has been in developing FX volatility trading models. Beyond that, modifications to some currency forecasts incorporating new data sources and the addition of a few new currency pairs are items that are also important initiatives. Again, because our expected returns are based on economy-specific implementations of broad fundamental trading theses, adding new assets does take considerable time and care.

**Looking ahead, where do you see the main challenges facing QFS as you seek new ways for capturing and exploiting investment opportunities with currencies whilst maintaining the key strengths and operational advantages of your investment and risk management services?**

**Jim:** The firm has an academic environment, meaning researchers have plenty of time and quiet to focus on investment problems. Our ideas come from our own model and our quarterly statistical reviews of our models, changes in markets and shifts in global policies, and reading papers and through internal discussions. We think about the global economic environment.

We study the world economies and determine what is working and what isn't. Are we missing any risks or new opportunities out there?

A constant challenge is to balance very different mentalities required to manage quality research. One mentality must focus on details and maintain a precise, accurate process for insuring the accuracy of new research and the error-free production of models currently invested. Another mentality requires the researcher to follow current events, think creatively about new ways to quantify and express market and economic processes in abstract ways, and think of how to combine data to test new approaches. The kind of stimulus and environment needed to derive mathematical formulae, check data, review computer code, and keep abreast of markets and events can be very different. Finding individuals who have the talent, training and enthusiasm for such a broad range of endeavours is especially challenging.



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