transforming global foreign exchange markets

e-FOREX

e-forex.net **MARCH** 2024

UNLOCKING FX SWAPS
The migration to electronic channels gathers pace

FX PRIME BROKERAGE
Adapting to transformational changes facing the industry

E-FX IN AUSTRALIA
Decoding an increasingly complex picture

FX ON EXCHANGES
Exploring the benefits of centrally cleared futures

FX RegTech
Delving deeper into this disruptive force

COVER INTERVIEW
PAUL GROVES
UK B2B CEO AT FINALTO

LIQUIDITY • RISK MANAGEMENT • STP • E-COMMERCE

Welcome to

e-FOREX

transforming global foreign exchange markets

March 2024

A significant part of this edition is devoted to FX swaps and exploring the impact of new technology on this very important sector of the market. Voice trading still dominates swaps which has yet to see the full benefits that electronification can provide. However progress is being made with achieving more automation with these instruments which has improved price quality, availability, and transparency. As electronification expands to risk management and interdealer market execution, trading firms can expect to see the benefits that better quality pricing will bring.

Our regional e-FX perspective feature this time is focused on Australia and this also brings in the question of FX swaps again. Globally, the share of turnover executed electronically has trended upwards over recent decades as the impact and benefits of technology are increasingly felt by an ever more diverse marketplace. The 2022 Triennial Survey showed that 58 per cent of trades were executed electronically, which was a slightly higher share than in 2019. By contrast, the share of electronic turnover in Australia decreased over this period and in April 2022 was lower than it was around a decade ago. This decrease has been linked to the elevated turnover of FX swaps in the Australian market. As already mentioned, trading of FX swaps relies more heavily on voice intermediation than some other instrument types, in part because they can involve particularly large notional amounts and are contracted with bespoke settlement dates. So the full picture of how electronic FX trading in Australia has been growing is a complex one which we try to unpick in more detail.

In our Special Report this month we explore some of the key issues that have been shaping the evolution of FX prime brokerage. There is a lot going on here. The number of non-bank prime brokers looks set to increase and consolidation amongst traditional FX prime brokers also seems to be continuing which is causing some concern, especially among hedge funds as they face the risk of reduced access to liquidity and operational disruption from moving to a new provider. At the same time the FX Global Code is also starting to make its presence felt amongst providers who are now contending with the move to T+1 settlement which should ultimately drive down settlement risk and margin requirements for FXPB.

As usual I hope you enjoy reading this edition of the magazine.

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CONTENTS

Vivek Shankar
FX Swaps

Phil Morris
Execution flexibility

Paul Groves
e-Forex Interview

Nicholas Pratt
FX on Exchanges

Kah Yang Chong
Provider Profile

Paul Golden
FX RegTech

CONTENTS

COMPANIES IN THIS ISSUE

ANZ now live on CobaltFX's Dynamic Credit platform

Australia and New Zealand Banking Group (ANZ) has joined CobaltFX's Dynamic Credit platform to manage credit exposure for FX trades on interbank trading venues. ANZ's adoption of the platform demonstrates their view on the importance of a real-time, centralised FX credit management system, managing multiple trading venues from a single central global limit set, using dynamic distribution of credit availability. ANZ is the latest among a group of forward-thinking institutions seeking greater control, efficiency, and an alternative to outdated market access methods. David Thorne, ANZ Head of eFICC Europe and North America commented: "This new approach to credit management has helped eliminate carve-outs as well as reduce credit usage while improving our market access. This capability benefits our customers, counterparties, and the bank." Darren Coote, CEO of CobaltFX expressed: "It's a pleasure to welcome ANZ to the CobaltFX community of market leaders who are dedicated to transforming the nature of the FX market by reducing risk and enhancing market access for all."


David Thorne

NEWS

Wells Fargo to expand its e-FX pricing capabilities in Singapore

Wells Fargo & Company has announced plans to launch new electronic Foreign Exchange pricing capabilities in Singapore in the second half of 2024. The launch, supported by the Monetary Authority of Singapore (MAS), aims to deliver a lower latency trading environment to clients and promote greater efficiency for the Singapore and wider APAC Foreign Exchange (FX) markets. With the local pricing capability now available via the Singapore SG1 Data Center (SG1), Wells Fargo will be able to connect with more of its clients in APAC as well as price and execute eFX transactions faster and more efficiently. Vincent Hindman, global head of FX, added, "Wells Fargo continues to invest in the growth of its global FX business, particularly in our people and technology, in order to best serve our clients. The SG1 project will allow us to capitalize on this liquidity by offering it electronically via lower latency pricing so our clients can achieve better execution results."


Vincent Hindman

OSTTRA and Baton Systems partner to launch FX PvP service

Global post-trade solutions provider OSTTRA has announced the launch of an FX PvP settlement orchestration service designed to mitigate bilateral settlement risk between participants, while optimising intraday funding, liquidity, and credit risk. The PvP service will be delivered on proven distributed ledger technology (DLT) from Baton Systems and marks a significant milestone in increasing market wide access to PvP, helping to address FX settlement risk concerns. The focus will be on settling flows not currently settled on CLS, including non-CLS eligible transactions such as offshore Chinese renminbi, which has almost doubled in the percentage share of global FX trading volumes from 2019 to 2022 according to BIS. Chris Leaver, Chief Strategy and Marketing Officer at OSTTRA, added: "There's huge scope for further post-trade efficiencies across OTC asset classes: this new service represents an important milestone in the evolution of our FX network, extending existing workflows to reduce settlement risk for thousands of OSTTRA clients".


Chris Leaver

Elysium partners with Edgewater Markets

Elysium LD Technology, Inc., a subsidiary of Laser Digital, has announced a strategic partnership with Edgewater Markets Limited, a leading provider of electronic foreign exchange (FX) and precious metals liquidity and distribution solutions. Edgewater Markets has solidified its commitment to enhancing operational efficiency and client-centric solutions by integrating Elysium's cutting-edge RiskDB and Mission Control solution into its middle and back-office infrastructure. The integration of Elysium's "Prime Broker in a Box" solution empowers Edgewater Markets with robust capabilities, including core books and records management, margin management, client reporting, and straight-through processing (STP) to prime brokers, clients, and liquidity providers. This comprehensive suite of solutions ensures streamlined operations, enhanced risk management, and seamless connectivity across the trading ecosystem.

"Edgewater's commitment to innovation and excellence closely aligns with Elysium's vision," said Roque Castro, CCO of Elysium. "We're thrilled to embark on this journey together, leveraging our expertise to revolutionize middle and back-office infrastructure for Edgewater's UK business expansion. This partnership represents a significant step forward in delivering unparalleled value to the FX market."


Roque Castro

Finalto Asia and oneZero boost Asia-Pacific liquidity

Finalto Asia and oneZero are extending their partnership to boost liquidity for trading customers in the Asia-Pacific region. The addition of the Equinix Tokyo data center to existing New York and London data centers marks a significant upgrade to the reach of Finalto's oneZero curated liquidity offering that is available to Asia-Pacific customers.

oneZero's CEO and Co-Founder Andrew Ralich commented: "I am pleased to be cementing the fruitful partnership that Finalto and oneZero has shared globally. By leveraging our Institutional Hub, the addition of the Equinix Tokyo data center marks another distribution channel by which Finalto customers in the region will be able to access liquidity. Our strategic partnership caters not only to the liquidity needs of brokers and institutional clients in the region, but also to their desire for advanced and customizable functionality through an efficient and comprehensive solution."


Andrew Ralich

GCEX unveils its most advanced margin trading platform

GCEX has announced the release of its most sophisticated margin trading platform, XplorTrader.
This upgrade signifies a major step forward in catering to the increasingly sophisticated demands of institutional and professional traders, offering unprecedented flexibility and control for enhanced operational efficiency.
In response to the market's need for a comprehensive, easily customisable white-label solution, GCEX will now incorporate the newly unveiled XplorTrader into its white-label package - XplorBroker in a Box. XplorTrader grants brokers unparalleled flexibility in tailoring both visual and functional aspects of the platform to meet their specific user experience objectives, all within a secure and reliable environment.

Michael Aagaard, Managing Director, GCEX who has led this new product development, commented: "The introduction of an enhanced and flexible margin-trading platform to our technology offering underscores GCEX's commitment to continuous investment in technology. Our goal is to maintain our leadership in the market and enrich the trading experience of institutional and professional clients, aligning our technology with their business goals."


Michael Aagaard

NEWS

Tradefeedr and LSEG FX announce plans for a strategic partnership

Tradefeedr and LSEG FX have announced plans to enter into a strategic partnership to integrate Tradefeedr's unified data APIs within the LSEG FX trading ecosystem, including LSEG's leading venue FXall and flagship workflow tool, LSEG Workspace. This partnership will enable a new standard for automated FX trading by seamlessly linking decision-making and execution workflows and facilitating a data-driven dialogue between sell-side liquidity providers and the asset managers, hedge funds and corporates that transact over LSEG's extensive network. Dean Berry, Group Head of Workflows at LSEG, said, "Tradefeedr will be a welcome addition to the LSEG Workspace and LSEG FX ecosystems. By bringing together LSEG Workspace, FXall, and Tradefeedr, we aim to deliver another key element in our strategy to empower customers with data, analytics, and workflows across the trade lifecycle. We look forward to delivering the planned solutions with Tradefeedr in FX, and to exploring further collaboration across our services in the future."


Dean Berry

CMC Prime upgrade integrates Iress OMS

CMC Connect a leading provider of liquidity and white label trading solutions, has announced that orders for its CMC Prime service can now be placed via the Iress platform. The integration offers seamless access for institutions and professional individuals looking to trade the thousands of single stock CFDs listed by CMC Connect on a direct market access basis, covering 20 exchanges across Europe, Asia and the Americas. Position monitoring and cash management is conducted on CMC's proprietary trading platform, now supported by the Iress Order Management System to enable direct market access. Commenting on this Richard Elston, Group Head of Institutional at CMC Connect said, "We are delighted to have completed this landmark integration with Iress. The move puts the CMC Prime product array in easy reach of hundreds of financial institutions from across the globe, by allowing them to leverage their existing technology partnerships and transact with us in a way that requires limited additional resources."


Richard Elston

Broadridge launches global Futures and Options SaaS platform

Designed to transform order and execution management capabilities for sell-side institutions, Broadridge Financial Solutions has announced the launch of its global Futures and Options Software-as-a-Service (SaaS) platform, expanding its existing derivatives trading capabilities. The platform represents a significant enhancement to Broadridge's existing capabilities, enabling the delivery of new functionalities for global institutions operating in the Futures & Options agency execution business, offering a distributed architecture that enables operations from any jurisdiction and benefitting from Broadridge's broader multi-asset class trading and operations offering. "While existing systems often lack the flexibility required, Broadridge's Futures and Options platform stands out for its modular and flexible deployment capability, addressing industry demands head-on," said Ray Tierney, President of Broadridge Trading and Connectivity Solutions. "We strongly believe this fully hosted solution is a significant step change in order and execution management for the derivatives markets, helping firms simplify and optimize trading."


Ray Tierney

Deutsche Börse Digital Exchange conducts first successful transactions

Trading on the Deutsche Börse Digital Exchange (DBDX) has started successfully. During the first transactions by ICF Bank and Bankhaus Metzler on DBDX, the crypto-asset Ether was traded and settled against euros (ISIN: EU000A2YZK75). The crypto spot platform initially offers trading in Bitcoin and Ether. ICF and Metzler are the first pilot clients to use DBDX, which is designed for institutional market participants, via Deutsche Börse's T7 trading architecture. Miryusup Abdullaev, Managing Director of DBDX commented: "The successful launch of DBDX is a decisive first step towards a fully regulated and secure ecosystem for trading, settlement and custody of crypto assets, where market participants benefit from the existing technical connectivity. I look forward to further expanding this new ecosystem together with our customers. We thank our pilot clients, ICF Bank and Metzler, as well as the teams of Deutsche Börse Group for their commitment to achieving this milestone together."


Miryusup Abdullaev

CQG unveils new AI / Machine Learning trading toolkit

CQG has announced completion of internal testing and proof-of-concept using live data on what the firm believes to be a first-of-its kind artificial intelligence (AI) predictive model for traders. Following extensive machine learning (ML) training in a back-testing environment, the firm just started applying the technology to live data, with an extremely high level of predictive success in anticipating futures market moves. CQG CEO Ryan Moroney said: "In early 2023, we decided we wanted to do something different in machine learning and AI that leveraged our unique position in the market, building off our comprehensive database of historical trade data and analytics in a way that could help our clients and prospects analyze, predict and trade markets through a new lens. We built a lab, and Kevin Darby - our Vice President of Execution Technologies - has done an extraordinary job of turning that effort into an exciting reality with results that have significantly surpassed our expectations."


Ryan Moroney

Broctagon forms strategic alliance with Tools for Brokers

Broctagon has announced its latest strategic alliance with Tools for Brokers (TFB), a partnership which marks a significant step forward in enhancing Broctagon's client experience by facilitating seamless access to liquidity through TFB's cutting-edge Trade Processor liquidity bridge.
By integrating Trade Processor into its ecosystem, Broctagon strives to simplify the process of accessing liquidity for all its valued clients. This integration not only simplifies the steps involved but also broadens the scope of aggregated liquidity available to Broctagon's clientele. Consequently, clients can mitigate risks and secure optimal pricing, even amidst atypical market conditions or slowdowns.

Commenting on the partnership, Don Guo, the CEO at Broctagon, said: "Our collaboration with Tools for Brokers not only improves our routing and delivery of over 1800 financial instruments but also resonates with our core objective of providing innovative solutions tailored to our clients' evolving needs. This partnership solidifies both firms' dedication to driving client success."


Don Guo

Alp Financial Ltd (AlpFin) looks to significantly strengthen its market presence

AlpFin is a global trading technology service provider for institutional clients which is gearing up for a significant expansion of its activities and market penetration this year. We asked Chris de Sibert, its new Global Head of Sales and Marketing to tell us more about the firm's plans and preparations to achieve this.

Chris you have a wealth of experience from a 30-year career in FX sales. How will you be harnessing that to help AlpFin grow and strengthen its market position?

I first started at AlpFin by putting together a robust business plan which was validated by management. This was comprised of a series of pre-marketing steps necessary to strengthen our platform before reaching out to clients. Now that this has been achieved, I am fully focused on the onboarding aspect of my responsibilities. From a sales perspective, I have built my sales career on establishing meaningful relationships with trust as the foundation of these. Apart from the wealth of contacts I have across the globe, I plan to offer exceptional service to AlpFin's clients providing them with the value add of strong liquidity with low latency. I am now reaching out in a methodical fashion to clients where there is a strong match between their needs and the services that AlpFin offers. Part of this effort will also mean that I will be present at most of the international conferences throughout the year. AlpFin's ambitions in both developed and developing markets make us a partner of choice for any foreign exchange business.

Please remind us about the range of products and services that AlpFin currently offers.

AlpFin currently offers a comprehensive suite of financial products and services, including FX Spot, Precious Metals, and NDFs, catering to a diverse range of client needs and geographical markets. We currently offer Asian & LatAm NDFs and look to roll out African NDFs for H2'24. On the Precious Metals side, we currently offer Gold but look to expand the product set to include Silver, Platinum and Palladium for Q2'24. We are also considering Vanilla FX Options as a new product for 2025.

What sort of client mix are you providing services for?

Our clients span a wide spectrum, including Buy Side APIs and GUIs, Institutional APIs, Bank Desks (both API and GUIs), Bank Algo Agency, Quant Funds, GUI Discretionary traders (wealth managers, family offices), and Institutional Brokers (albeit in a smaller percentage). This diverse mix underscores our ability to serve various segments of the financial industry with tailored solutions.

This is a highly competitive market. What attributes are going to make AlpFin stand out from the crowd?

At AlpFin, our unique selling points are centered around delivering unparalleled service and value to our clients. Particularly, we offer:

- Top-Notch Liquidity with a strong and credible lineup of real risk internalizers as LPs,
- First-Rate Analytical Capabilities into execution and liquidity performance both for takers and makers,
- Ease of Connectivity both on the technological and credit front,
- Product Offering in a growing phase.

How do you source the technology you use to deliver top-class execution and how are you leveraging it?

We partner with leading technology providers like Lucera in the eFX space to ensure top-class execution for our clients. By leveraging cutting-edge technology, we optimize our trading infrastructure to deliver superior results and experiences.

AlpFin has been investing significantly in reaching customers trading NDFs. How excited are you about the opportunities this segment of the market represents for the firm?

AlpFin is particularly excited about the opportunities presented by the NDFs segment. Building on our investments and expertise in this area, we are well-positioned to capitalize on the growth potential of emerging markets, as highlighted in our recent article on e-Forex in January. The expansion into emerging markets further underscores our commitment to tapping into new and dynamic opportunities.

What other key areas are you going to be focusing on this year to grow the business?

In 2024, AlpFin is prioritizing diverse key areas to drive business growth, including:

- Improved Analytics: Enhancing our analytical capabilities to provide deeper insights and intelligence to our clients and LPs.
- Increased Presence in EM Areas: Expanding our footprint in emerging markets to better serve the evolving needs of clients in these regions.
- Enhanced Sales Coverage: Strengthening our sales efforts to ensure comprehensive coverage and support for our clients.

Image by Shutterstock

How would you sum up your FX Institutional strategy for 2024 and what should we be looking out for in terms of new products and services from AlpFin?

In summary, our FX Institutional strategy for 2024 revolves around innovation, customization, and internationalization. We are committed to introducing new products and services that align with the evolving needs of our clients and the market landscape. As we continue to forge ahead, we invite you to engage with us to discover how AlpFin will drive success in 2024 by following us on LinkedIn @ AlpFinancial and by connecting with us at efxsales@alpfin.com

UBS forges ahead with strong investment focus for FX

UBS has established its place in the market as a leading FX powerhouse yet maintains its client-centric focus. It continues to invest heavily in its FX and precious metals franchise, continuing to be a trusted partner to its institutional and wealth management clients. Stephan Hoeger, Global Head, e-FX Sales, Paul Buttenmueller, Global Head, e-FX Trading, Haifa El-Hoss, FX Linear Product Strategy Lead and Ben Pearson, Global Head of G10 STIR & PM at the bank share the impact of recent new developments and reveal innovative changes in the pipeline, proving once again why UBS is the platform of choice for many in the global FX market.

The sustained levels of investment into FX and precious metals serve to highlight the paramount importance of these businesses to the whole UBS franchise. These asset classes are also considered key offerings for both institutional and wealth management clients, who form the DNA of the UBS core business model, says Hoeger. "UBS is already a powerhouse in the FX market and we continue to push ahead," he adds. "We are investing heavily in the business across the board. In addition, the recent combination of UBS with Credit Suisse has only served to provide further opportunities to scale our business to the continued benefit of our clients."

"We have continued developing our analytics offering to help clients better understand the microstructure side of spot FX."

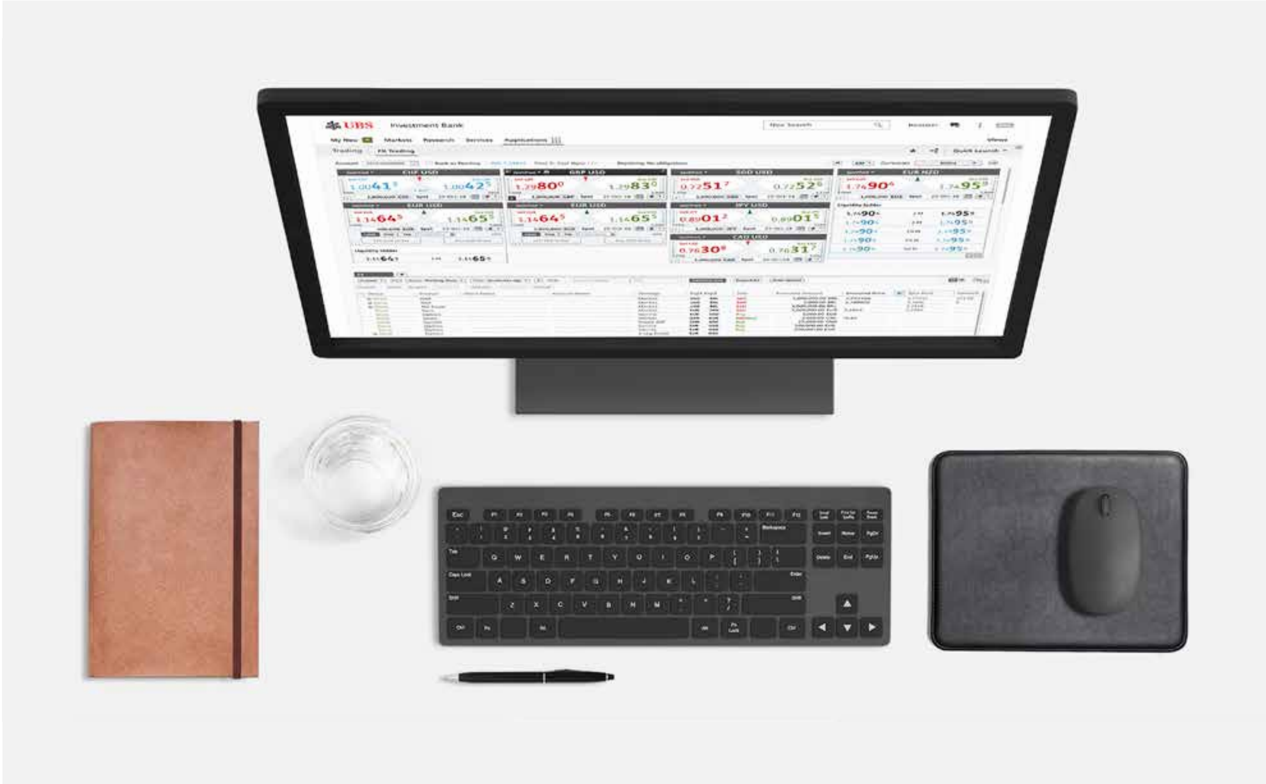
The newly combined investment bank has resulted the best of both worlds, notes Buttenmueller. "We can feel the additional scale and are looking to increase streaming and trading sizes to our clients, while on the precious metals front it means that two of the market's strongest players have come together with a joint offering," he says.

UBS also continues to expand its electronic FX capabilities, with a particular focus on spot and NDFs, Buttenmueller adds. "We recently started offering e-trading and risk management capabilities for Middle Eastern currencies," he says. "NDFs have also been a focus for a few years now and we will keep expanding the offering, including the recent addition of the first IMM date. For large risk transfers, we have started selectively supporting larger amounts via API."

The past year or so has also seen UBS grow significantly in market share across various products, most notably in FX spot and NDFs. "We also now operate one of the market leading franchises when it comes to our portfolio of emerging markets currencies," adds Buttenmueller. As part of the expansion of the currency offering, UBS will also be going live with additional Frontier currency pairs this year.

CUTTING EDGE INNOVATIONS

UBS continues to make significant investments in its precious metals business, where it was already the global leader even before the addition of Credit Suisse, which also had a very strong PM offering. "The precious metals business is front and centre for UBS and we continue to invest," Hoeger says. "We recently went live with our Loco London offering for Platinum Group Metals (PGMs) and we have increased liquidity for precious metals. Gold can now be priced and hedged electronically for up to 100k oz, while clients can trade physical gold on UBS Neo, our cross-asset trading platform, as well."



The past few years has also witnessed a complete rebuild of the UBS Neo platform

A further key area of continued investment is analytics, adds Hoeger. "We launched our analytics platform, UBS Neo FX options analytics, around two years ago. In addition, we have continued developing our analytics offering to help clients better understand the microstructure side of spot FX, such as how liquidity evolves over certain events, holiday periods and how spreads and volumes are behaving," he says.

Last year UBS also unveiled UBS Neo STIR Analytics, Ben Pearson adds "UBS Neo STIR analytics aim is to provide our clients with the right analytical tools to help them better navigate the volatile and often opaque STIR landscape. It allows clients to see each component of an FX Swap price separately, as a result it becomes easier for them to understand and predict the price action of market events. Furthermore, clients are able to find patterns, momentums, seasonalities and risks associated with each component of the price. Our institutional clients are very, very impressed with this tool," says Pearson

CLIENT FEEDBACK AND ONGOING INVESTMENT

The past few years has also witnessed a complete rebuild of the UBS Neo platform, with significant investment going into the FX Trading Application, El-Hoss notes. The focus has subsequently shifted towards engaging clients and assessing their user experience, she adds. "This year, our development priorities centre around enhancing customisation options and fine-tuning the user experience," El-Hoss explains. "As part of this push to further empower our clients, we are currently rolling out post trade as a self-service feature on Neo – enabling clients to handle amendments

"We also now operate one of the market leading franchises when it comes to our portfolio of emerging markets currencies."

Haifa El-Hoss

"This year, our development priorities centre around enhancing customisation options and fine-tuning the user experience."

independently, further simplifying their interactions across the platform."

Looking ahead, El-Hoss notes that UBS is currently in the process of re-building its order book, incorporating a modern UI and increasing the number of different venues that UBS can meet its clients on for the submission of resting and fixing orders, all aimed at optimising fill and execution rates for clients across the various trade and order entry types. "This has been a major multi-year undertaking," she adds. Building on the extensive client survey which the business conducted a few years ago, El-Hoss adds that UBS will be embarking on a similar exercise this year. "Our development extends beyond trading FX to encompass the client's entire user journey from the moment they login," she says.

In addition, Buttenmueller shares that UBS has been working on developing a new order type which allows agency clients to access UBS e-FX principle liquidity, enabling agency orders to get their orders filled passively. Hoeger notes that while it may be easy for firms to create agency algo orders, the real value to clients using an algo is to access the deep principle book of the bank. "We continue to invest in our principal order book to help clients access our unrivalled liquidity as well as to further minimise information leakage. It is a compelling reason for clients to choose UBS," he says. "The overarching theme across both our FX and PM franchises is all about this commitment to continuous investment and not standing still."

Ben Pearson

"With UBS Neo STIR analytics clients are able to find patterns, momentums, seasonalities and risks associated with each component of the price."

Image by Shutterstock

Unlocking FX swaps:

The migration to electronic channels gathers pace

Client demand to trade FX swaps is growing but pricing of these instruments remains a complex process. Vivek Shankar looks at what steps are being taken to develop more automated end-to-end workflows for FX swaps and what new developments with them are on the horizon.

Image by Shutterstock

In 2023, the Bank of International Settlements reported that daily new FX swap contract volumes averaged $4 trillion. Undoubtedly, rising interest rates have played a part in increasing demand for Swaps. But what about other factors like higher capital charges for repos and money market instruments? Vivek Shankar investigates.

Brian Bunyan, Product Manager at Barracuda FX, part of the ION Markets (FX) product suite, says they have certainly played a role. "Banks are seeking ways to reduce the impact of capital charges imposed by the Basel capital framework," he says. "Given the off-balance sheet nature of FX swaps, they present a more capital-efficient approach to funding for banks."

The rising use of swaps as a capital-efficient funding option is encountering issues thanks to swap pricing complexities. While data is playing a role in simplifying this process, an increasing demand for swaps is revealing new challenges in this fascinating market.

Here's why the FX swap market is growing and how technology service providers are helping firms overcome challenges along the way.

SWAP DEMAND DRIVERS AND DEALING WITH PRICING COMPLEXITY

Bunyan says that technological innovation is another factor contributing to swap demand. "Increased electronification and automation has improved price quality, availability, and transparency across an expanded range of tenors/dates and currency pairs while also reducing the administrative burden of FX swaps activity and providing enhanced workflow efficiencies," he says.

Meanwhile Jay Moore, CEO and Co-founder of FX HedgePool, feels

"Given the off-balance sheet nature of FX swaps, they present a more capital-efficient approach to funding for banks."

Brian Bunyan

passive trading strategies are playing a role. "Much of the FX swaps market is related to passive hedging of international exposures and/or global fund distribution strategies where cross border currency risk is often an unintended by-product of the investment itself," he says. "The growth of these strategies, across both investment and investor geographies contributes to increased investment and the associated increased currency risk."

"On the active side," he continues, "global yield differentials create opportunity for active risk-taking both in terms of discretionary exposure to currency risk as well as active participation across the yield curve in terms of contract tenor."

As demand builds, Phil Hermon, Executive Director, FX Growth & Execution at CME Group, says the FX swap electronification trails and this is creating pricing challenges. "FX swaps are trailing behind spot, forwards, and NDFs in terms of electronification and the potential benefits this can provide," he says.

"Trading inefficiencies exist within the FX swaps market because the ecosystem is reliant on fragmented request for quote (RFQ) and request for stream (RFS) liquidity pools," he continues, "in which clients need credit with a given liquidity provider to see or trade a given price."

"This reduces transparency and certainty of execution, makes automated trading activity harder,

and, ultimately, creates potentially worse trading outcomes for end users."

While there is plenty of room to increase electronification in the swaps market, Peer Joost, CEO of DIGITEC, says that speed, scalability, and robustness are of particular need in any solution. He highlights the scale of the problem.

"As trading firms look to improve pricing, they are building ever more

Phil Hermon

"Trading inefficiencies exist within the FX Swaps market because the ecosystem is reliant on fragmented request for quote (RFQ) and request for stream (RFS) liquidity pools."

"Unlocking the FX Swaps market is about solving for the underlying complexities of FX, which is credit and account level allocations,"

sophisticated pricing models which increasingly go beyond existing market data, to include yield curves and inferred FX swap points."

"For a large Market-Making bank, up to 20,000 data points need to be priced along a forward curve, which quickly adjusts when the market starts to move," he explains. "Models that solely rely on FX swap prices published by brokers are particularly vulnerable, as these data points are not only among the last to update in times of movement, they also do not cover relevant points such as central bank dates and liquidity events (such as month- and year-end) that show the largest effect."

Bunyan notes that some portions of the pricing flow have benefited from automation. "At areas of the curve where the vast majority of trading is focussed (90% less than 3 months, 70% 1 week or less,)" he says, "the larger banks have already automated the majority of client pricing having deployed powerful pricing engines that provide enhanced yield curve modelling and FX swap price construction."

"The focus more recently has been on solving issues to enhance automated risk management and inter-dealer market execution." He notes that as electronification expands to risk management and interdealer market execution, clients will see the benefits of better quality pricing.

Moore feels this improvement is sorely needed. "The recurring and predictable nature of many hedging transactions put buy-side traders at a significant disadvantage when it comes to pricing," he says. "Even when a trader can comp an order to several banks and accept what appears to be the best price, the predictable nature of the position may have allowed the banks to pre-hedge the order, which ultimately results in market impact." He points out that most TCA measures do not capture these market impact costs since execution is compared to the market price at the time of execution, well after the impact has occurred.

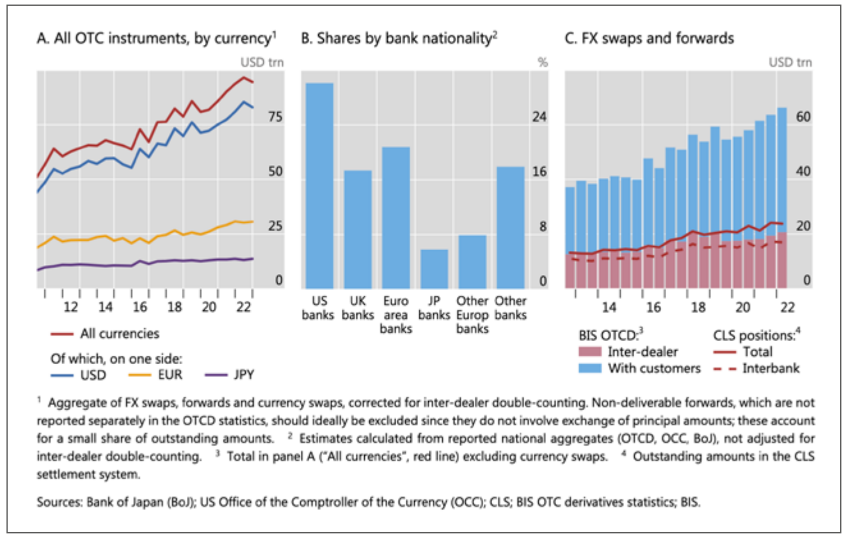
Given the fragmented nature of the swaps market and its inherent challenges, how are technology providers introducing more automation?

ELECTRONIFICATION IN PRICING AND EXECUTION

It's no secret that voice trading dominates swaps. Voice's dominance is giving technology providers insights into the pain points they have to solve to introduce more electronification in the market.

Hermon points to the intertwined nature of credit and liquidity in OTC FX swaps. "Typically, both counterparties in a trade need an ISDA agreement and sufficient bilateral credit to proceed," he says. "We aim to build liquidity on discrete points along the FX swaps curve within a central limit order book (CLOB), enabling algorithmic and API trading, while still providing options for manual trading through various front-end GUIs."

This approach separates credit from liquidity, eliminating the need for documentation or a credit line between trading counterparts. "Introducing a CLOB with firm, no last-look pricing that operates 23 hours a day and is truly all-to-all can significantly enhance transparency and certainty for traders," he says.



Overview of outstanding OTC FX derivatives The BIS OTCD data show that the aggregate of FX swaps and forwards reached $66 trillion in mid-2022

"For FX Swaps to automate further, there is a requirement for an efficient and increasingly more automated interdealer FX Swaps market..."

Moore notes the same challenge as Hermon and says, "FX HedgePool has developed fully integrated end-to-end workflow solutions to allow the buy-side to access liquidity from any number of counterparties, including peers, while adhering to account level broker restrictions and credit limits."

"Having addressed the complex credit and allocations requirements of the buy-side, a much broader range of liquidity providers can now be accessed, creating less fragmentation and more efficiency."

Stephan von Massenbach, Chief Revenue Officer at DIGITEC, says automation is increasing in pricing. "Workflows continue to be automated," he says, "in price discovery and producing an accurate swaps price, as more market data from multiple sources is integrated with pricing engines. Our clients integrate the DIGITEC/360T Swaps Data Feed (SDF) to further improve accuracy and then use D3 to distribute prices to venues."

von Massenbach says OMS is the next target for automation, enabling banks to place orders on interdealer Swaps venues. ION FX's Bunyan agrees that electronification in interdealer execution has lagged.

"LSEG Forwards Matching and more recently 360T SUN have added APIs to allow users to trade electronically," Bunyan says. "However, electronification of credit checking has been relatively slow for interdealer FX swaps."

He says credit checks follow a manual process instead of using a "hard credit" check that is built into an electronic workflow. "We are seeing an increased focus on addressing this issue," he continues. "360T SUN currently offers this capability (by maintaining limits in 360T or integration with a proprietary credit system), and LSEG Forward Matching is due to address it this year. Efforts to improve the automation of credit for FX swaps will continue to be a focus."

DATA AND TECHNOLOGY DELIVERY MODELS

While the swaps market undoubtedly needs more pricing transparency, a swap's structure creates a significant roadblock. "Market data and transparency around pricing are essential to an efficient market – from which FX swaps are a far cry," Moore says.

"The bespoke nature of the swaps market makes it very difficult to find a like for like comparison of pricing. Unlike spot trading, it's very difficult to identify comparable trade data in terms of size and tenor at the moment of the trade. "

He explains that the buy side currently relies on LP input for price reference points, considering those as "fair" values. Bunyan says the market is shifting away from this.

"The FX swap market's shift away from pricing sources largely based around broker published FX swap points for a limited range of tenors

Voice's dominance is giving technology providers insights into the pain points they have to solve to introduce more electronification in the market

"The long end required to price Cross-Currency swaps will need to be built out of swaps. Here, the effect of the LIBOR transition can be observed."


Peer Joost

to higher quality real-time streaming data feeds with granularity across the full curves has been a key enabler of electronification and automation," he says.

Bunyan says these price feeds help users build fully automated real-time curves with greater accuracy and granularity. "We are also seeing greater availability of these feeds for currencies where data was particularly limited in the past thus enabling accurate full-curve automation for a wider range of currencies," he adds.

"A key source of reliable FX swaps data is provided by the DIGITEC/360T Swaps Data Feed (SDF)," DIGITEC's Joost adds, "which enables clients to build fully automated and accurate real-time curves. The SDF is based on participating major FX banks' raw pricing, which represents Interbank quality."

He also lists the STIR Futures Market as a good data source and says that pricing data of key instruments like the one and three-month USD SOFR Futures and the three-month EURIBOR Futures need supplementing with market data from other assets, creating a cohesive pricing model.

"While the short end of the curve is based on Futures," Joost continues, "the long end required to price Cross-Currency Swaps will need to be built out of Swaps. Here, the effect of the LIBOR transition can be observed."

He notes that with LIBOR's phasing out, the IRS market isn't the source of liquidity it once was.

"Some markets, such as USD, liquidity has already moved to OIS, while others are transitioning (GBP) or lagging (EUR). This highlights the need to be able to quickly adjust the pricing models once the liquidity has shifted."

While technology is enabling better data delivery channels, how is it helping smaller institutions access the market cost-effectively? Surely, massive datasets and faster execution should benefit these firms.

Hedgepool's Moore says no. "Unlocking the FX swaps market is about solving for the underlying complexities of FX, which is credit and account level allocations," he says. "The reason why more all-to-all trading and alternative liquidity venues haven't been able to modernise swaps the same way as it has for spot is because a swap is essentially a credit instrument, which requires ISDA's and expensive credit carve-outs."

He explains that many banks offer swaps as part of a broad array of services, with low-margin swaps offset by value-added trading opportunities. Moore feels this situation has prevented progress for real money buy-side institutions.

"FX HedgePool has pioneered the novel credit intermediation model to enable all-to-all matching of FX swaps," he says. "This model leverages existing bilateral ISDAs between buy- and sell-side firms to deploy idle credit availability for the booking and settlement of swap orders in return for fixed fees for balance sheet usage."

The result is any party with a credit sponsor can participate while preventing information leakage and its attendant market impact.

von Massenbach and Bunyan point to the rise of SaaS pricing engines


A swap's structure creates a significant roadblock to more pricing transparency

The rise of SaaS pricing engines operating in the cloud are a potential game-changer for Swaps

operating in the cloud as a game-changer, helping smaller firms move away from pricing swaps on Excel.

"In the past, many of these banks would have struggled to justify the cost of on-premises applications deployed and managed on their infrastructure," Bunyan says. "In more recent times, the availability of these pricing engines as SaaS applications via the cloud has made the solutions more accessible."

INTERDEALER MARKET ELECTRONIFICATION AND THE FUTURE

"For FX swaps to automate further, there is a requirement for an efficient and increasingly more automated interdealer FX swaps market to help firms make markets to clients and efficiently risk manage their positions," DIGITEC's von Massenbach says.

"At DIGITEC we developed D3 OMS, to increase workflow automation and enable traders managing FX swaps risk to connect directly and efficiently place orders in these interdealer FX swaps venues. We expect the result to be increased volumes on electronic interbank matching platforms."

Moore feels this electronification is just a first step. "Why stop there? Like with spot venues where any trader, buy- or sell-side with a settlement sponsor can participate in the liquidity, having an FX swap dark pool for all market participants will lead to further efficiency for all," he says.

He notes that while credit-sponsored FX swap trades will be more explicitly expensive than direct interdealer trading, the implicit benefits of participating in the same pools of liquidity levels the playing field in terms of the investor outcomes."

"A buy-side using an ISDA-based credit sponsor is economically similar to a hedge fund paying a prime broker to access valuable pools of liquidity," he says. "Think of credit as the membership fee to access private liquidity pools. The fees are offset by the membership benefits, including anonymity and market impact."

"With solutions like FX HedgePool, FX swaps dark pools are no longer a fantasy, but a growing reality with a broad community of buy- and sell-side participants."

ION FX's Bunyan sees algo adoption increasing in swaps, in line with the rest of the market, and shines a light on clearing. "The need for clearing is perhaps less pressing in the FX swaps market but remains an area of focus," he says.

"We are likely to see further efforts to increase its adoption for a range of reasons including to reduce capital costs, mitigate risks, and obviate the requirement to address the many credit challenges by centralising it."

"Automation of EFPs and increased cross product fungibility," he continues, "between FX cash and futures is another area in which growth is likely to occur going forward."

Whilst CME Group's Hermon says liquidity centralisation holds plenty of promise. "We believe that a combination of FX Link (for spot starting FX swaps) and spreads of FX Futures (for FWD starting FX swaps) can help play a critical role within the evolution of FX swaps trading."

Hermon says many clients are already using these products, with a 21% year-on-year increase in volumes of G5 spreads traded outside of the roll in Q4 2023.

"FX Link volumes were 90% higher in 2022 compared to 2021 and have been broadly stable at their new level," he continues. "Both FX Link and spreads of futures enable automation, transparency, and the separation of liquidity from credit, but continued adoption and investment from clients, and in particular banks, will be critical to achieve a meaningful evolution."

Overall, the FX swaps market should expect greater levels of transparency, thanks to the role technology is playing in bringing more relevant data and enhancing cost-effective access to the market.

NCFX Forwards365™ and NCFX Basis365™: Revolutionizing price discovery in the FX swaps markets for buy- and sell side market participants.

By Kinga Broel-Plater, Chief Commercial Officer New Change FX

Kinga Broel-Plater

The revolution that brought electronic trading to every corner of the spot foreign exchange market is finally sweeping across the FX swaps market. Recent technological advancements and the emergence of electronic inter-dealer swap venues are supporting this transformation. Previously hindered by a lack of price transparency, poor technology, and a reluctance amongst liquidity providers to reveal their market positioning, the FX swaps market is benefiting from these new solutions. Not only do they aim to deliver a transparent trading experience and reshape traditional practices, but they also recognize the importance of relying on benchmark-quality data.

New Change FX (NCFX), renowned for its production of live, regulated FX benchmark data and analytics, recently launched its ground-breaking product NCFX Forwards365™ and will soon follow with NCFX Basis365™. This data will accelerate the electronification of the FX swaps market by filling in the gaps that have held the market back.

Accurate data in the FX swaps space can support market development and more efficient outcomes for buy-side clients, banks, and other market participants. It is essential for price discovery, pre-trade tools, training machine learning algorithms, establishing guardrails for electronic trading to enable efficient execution, post-trade analytics and finance and valuation.

THE COMPLEXITY OF SWAPS PRICING AND USE CASES FOR INDEPENDENT DATA

The pricing of FX swaps is complex. Every FX swap price reflects where any individual trader sees the market, any axe they have and a credit element. Pricing accurately is a resource intense process and mostly only available to banks, leaving clients in the dark.

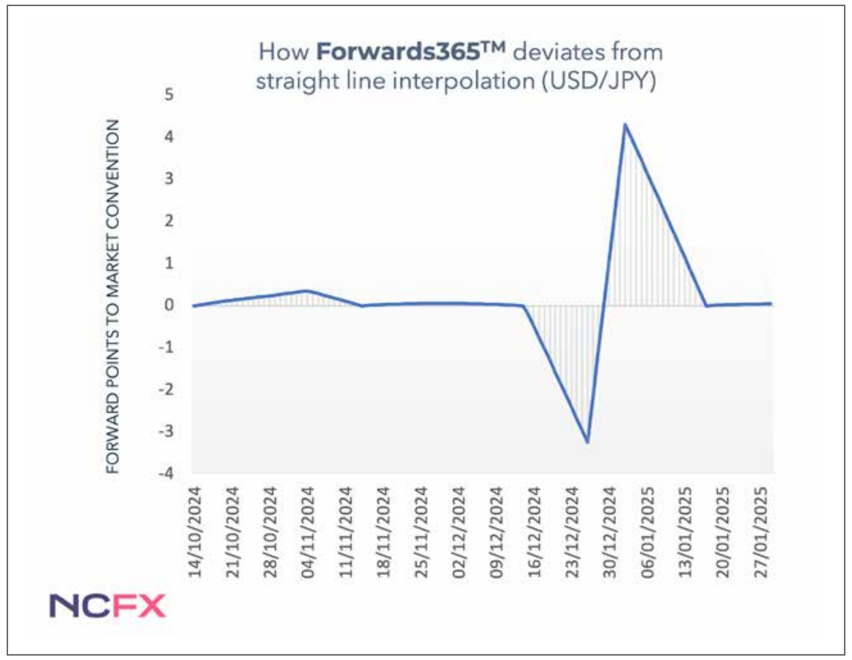
Liquidity and price discovery in the FX forward curve have traditionally been concentrated around the standard tenors, e.g. 1-week or 1-month tenors, with shorter dates tending to attract more liquidity than longer dates.

Adding to the challenge of pricing longer dates, the credit element becomes more significant when moving out along the curve. Price discovery for the dates between the standard tenors has been even more challenging. Until now, data providers were using straight-line interpolation between standard tenors. This simplified approach ignores principal factors like central bank rate changes, rendering the data wrong from the outset.

NCFX's Forwards365™ has revolutionised the data space by focusing on "market-neutral" pricing for the standard tenors and then using an appropriate method for incorporating other factors, like central bank rate changes and turns, appropriately. NCFX Forwards365™ provides accurate swap prices for all days along the curve for 365 days.

NCFX Forwards365™ delivers transparency and independent pricing and allows market participant access to data which, in the words of one of our clients, would require 'significant investment and take years and multiple headcounts to produce ourselves'.

The use cases for our clients have been many. For buy-side clients for instance, our data and NCFX Forwards365™ pre-trade tools help reduce market impact by allowing them to filter their liquidity providers before they ask for pricing. The data also helps reduce pricing errors and enables our clients to make more informed pre-trade decisions, like selecting the most advantageous date for them to roll to. Or it can be used to help determine what part of the curve a whole portfolio across multiple currencies should be rolled to. In other words, it can be used to determine the optimal roll date across all the competing currencies. Our TCA (Transaction Cost Analysis) clients can be sure that post-trade execution is measured against true, independent, and accurate benchmark data.



For "quants" and those building AI-models, the best input is critical; clearly, building solutions on inaccurate data is not only a waste of time but also delivers false outcomes. An increasing number of buy-side clients are building their own analytics in-house and focusing on machine learning (ML) projects for pre- and post-trade analytics, but these will have limited value if they are produced using the wrong data. By building an independent, granular swaps curve for all dates out to one year, taking care to properly construct the curve and make it as credit neutral as possible, we are enabling the production of game-changing models.

For price-makers, like everyone else, resources are limited. Bank traders are now expected to make more prices across more currencies more of the time with fewer people than ever before. A bank's head of e-trading needs to provide tradeable e-prices and for them to be available to their franchise for as long as possible. Our feeds enable guardrails around that pricing giving the trader a clearer visualization of a potentially stale price. This is especially useful for the less-liquid currency pairs, flagging off-rates and providing an extra set of eyes on the screens. For some banks, having an alternative curve is reassuring while some smaller banks can save money by not building curves themselves for currency pairs where they see infrequent demand from their network. For these banks, having an alternative validation to the inputs from their liquidity providers or purchased data feeds, which may lack independence, enhances confidence and competitiveness in their client offerings.

For finance and risk teams, independent data enables true market valuations and reduces internal discussions between operations and trading teams.

NCFX BASIS 365™

As the backbone for an electronic market in swaps, NCFX Forwards365™ and its soon-to-be-released sister product NCFX Basis365™ are indispensable. NCFX Basis365™ is a live stream of the prevailing market neutral basis for all dates out to one year. It will enable the market to easily break apart the components of the swaps market. That is the credit component and the two components that make up the market neutral price: the relative domestic risk-free cash flows implied by the domestic interest rate curves and the basis implied by the cross-currency swap.

By illuminating all the components of the market, NCFX Forwards365™ and NCFX Basis365™ can draw liquidity into the electronic swaps market as market makers see opportunities to reflect their views on basis in this market.

SUMMARY

The landscape of FX swaps is on the cusp of a long-awaited transformation, driven by the convergence of technology, data analytics, and market demand for more sophisticated and accessible solutions. NCFX's Forwards365™, NCFX Basis365™ and analytics address the complexities of pricing, while advances in automation, data utilization, and electronic trading platforms are shaping a future where FX swaps are more efficient, transparent, and accessible to a wider range of participants. As the market continues to evolve, embracing these changes and relying on accurate and independently priced swaps will be crucial for staying competitive. Straight line interpolation, a crude approximation that was wrong by design, is no longer fit for purpose and will be consigned to history in the new era of automation and sophisticated modelling.

For more information please contact: kinga@newchangefx.co.uk or visit www.newchangefx.com

FX in Australia:

Decoding an increasingly complex picture of robust trading volumes split between electronic and voice execution

By Nicholas Pratt

For corporate participants in Australia's FX markets, commodity markets continue to be a material driver of total volumes and trends in currency flows, says Cameron Peter, managing director of Peter Lee Associates (PLA). "Corporate volumes across the natural resources and the food, beverage and agribusiness sectors - the two key commodity/export-based sectors - generated 61% of all reported volumes in 2023. They also generated 95% of all of the growth in corporate volumes between 2020 and 2023. However, this growth trend plateaued between 2022 and 2023, as commodity prices levelled off. The major growth sector over 2023 (albeit relatively small in volume) has been airlines/tourism."


Nicholas Pratt

Interestingly, the PLA research shows that the proportion of electronic trading of FX among corporate participants actually dropped in 2023, from 55% to 51%, its lowest level in four years. Peter puts this down to a reversion to pre-Covid behaviour as well as an historical high in swaps volumes.

SUPERANNUATION FUNDS GROWTH

When it comes to financial institutions, the increased assets under management (AuM) within the superannuation sector and the growing trend for these superannuation funds to insource FX management continue to be the primary drivers of increased volumes and will likely continue to drive volumes in the future, says Peter. "Total reported FX volumes of industry funds increased by 8% in 2023, exceeding one trillion for the first time. Against this, reported volumes of traditional real money funds was down last year," he says.

In terms of the efforts of Australian FX providers to expand their portfolio of FX products and services, it has mostly been a case of continuing the work done in the previous year, says Peters. "Firstly, they focused on EM currencies and NDFs where there are steadily growing volumes. Secondly, they have looked at algo trading, where institutional users are expanding the panel of banks which serve as their access points to algo execution. There is also a steadily growing number corporates using algos," says Peter.

"Demand for FX algo trading and electronic FX option trading continues to grow across the Australian buyside and investor community. Corporate demand has been driven mainly by large natural resources companies/ commodity traders who tend to use more spot. The number of corporate algo users has increased from five in 2021 to eight in 2023 and of the eight corporates that use algos, seven are natural resources/commodity traders," says Peter.

For financial institutions, increased demand has been driven by increased volumes, an increasing desire for best-execution and compliance/governance issues, says Peter. "Not only has the number of algo users continued to grow, but the percentage of their total volume executed through algos is at record levels."

Options trading though has remained at a low level relative to other countries, says Peter. "We are not seeing Australian respondents using platforms for options trading at this point. Options represent only 6% of reported volume amongst corporates and 3% across financial institutions."

New digital banking and payment platforms are also having an impact on the traditional FX market. "Australian banks are enhancing their transactional banking platform offerings, which are being increasingly taken up by large corporates," says Peter.

"In 2023, 45% of large corporates are now using host-to-host platforms. In addition, 22% have implemented API functionality into their transaction banking, with a further 29% planning to implement in the future. This additional functionality allows greater integration of both proprietary and third-party FX platforms into day-to-day banking," says Peter.

Should the e-FX market continue to grow across Australia, it could deliver further benefits for buy-side firms and investors over the next few years, says Peter. "Algo trading and TCA will continue to grow in Australia as respondents better realise the execution benefits, respond to requests by boards/executives for greater transparency and evidence of true competition in trading, and for improved MIS. For corporates, it is likely that also usage will continue to grow amongst corporates, as commodity prices stay strong and treasury staff in corporates become more comfortable with algo trading, and that the execution and pricing benefits of trading algos become more understood."

MORE COMPLEX TRADING REQUIREMENTS

One of the reasons for the continually growing demand for FX algo and FX option trading across the Australian buyside and investor community is that these market participants are looking to broaden the tools they have


Cameron Peter

"Not only has the number of algo users continued to grow, but the percentage of their total volume executed through algos is at record levels."

"With the growth in the Australian investment industry through compulsory superannuation contributions we have seen the scale and complexity of trading requirements continue to develop."


Alex Cooke

available to them for FX execution, says Alex Cooke, head of FX, financial institutions Australia, at ANZ. "FX algo is a simple, flexible, and transparent way for participants to execute their FX requirements while meeting their best execution obligations. With the growth in the Australian investment industry through compulsory superannuation contributions we have seen the scale and complexity of trading requirements continue to develop. Products that have good connectivity through buy side order management systems and then sell side capabilities will continue to grow in use. At ANZ we continue to see growing demand for our extensive FX algo suite of products from the investment community," says Cooke. "As buy side firms and investors continue their exponential growth in Australia from the mandated compulsory superannuation contributions, we foresee further demand for execution solutions that can provide scale while meeting best execution obligations and minimising operational risk. eFX solutions, like ANZ's FX algo products, meet all these requirements and help enable buy side firms to achieve execution efficiencies on a 24/5 basis," adds Cooke.

The commodity markets continue to influence currency flows and trading activity in the Australian FX market, says Paul Scott, head of eCapabilities and ePlatforms, markets, ANZ. "Australia is a major exporter of commodities, particularly minerals and agricultural products. Fluctuations in commodity prices, such as iron ore (due to impacts surrounding the urbanisation story within the Chinese economy) or fluctuations in gold (due to geopolitical activity and impacts on inflation) have significant influence on the value and volumes of the Australian dollar (AUD). Additionally, the AUD is considered a proxy for 'risk on' or 'risk off' sentiment and by default sees speculative trading activities, including carry trades and hedge fund positioning, contribute to short-term fluctuations in the AUD exchange rate."

In line with the global trend, Australia has seen an increase in FX turnover due to higher volatility related to increasing geopolitical activity, shifting expectations for inflation and central bank policy setting, says Scott. "In Australia, most of this increase has come from short dated (<7 days) FX swaps and outrights given the aversion to taking risk over longer periods. This is often due to increased uncertainty and volatility. FX swaps rely more heavily on 'Voice intermediation' given trades involve large notional amounts, bespoke settlement arrangements and Australia's greater concentration within the banking sector. Around 85% of the number of trades in Australia are executed electronically, however by volume this falls to 50%, which is below the global average of 60% electrification for FX swaps."

Amid these various trends, leading Australian FX providers have been broadening their portfolio of FX products and services and launching more flexible and powerful electronic trading platforms, real-time pricing solutions, currency research services and pre and post-trade FX toolsets. "FX providers are constantly refactoring, rebuilding or in some cases re-designing key aspects of the software, hardware and architecture to ensure they maintain performance as well as product enhancements," says Scott.

"Some of the key initiatives undertaken by ANZ to support the broader franchise include integrated liquidity and order management; pre and post trade client analytics; extensive FX Algo suite and provision of FX benchmark rates. We have formulated a dedicated eFICC Data


Paul Scott

"We have formulated a dedicated eFICC Data and Analytics team to create valuable insights from internal and external data.."

FX in Australia: Decoding an increasingly complex picture of robust trading volumes split between electronic and voice execution

"One development that we see gaining momentum is an increased acceptance of vendor hosted technologies in the areas of core price generation and risk management capacities."

James Alexander

and Analytics team to create valuable insights from internal and external data and help empower the sales team to engage with clients on relevant market trends and opportunities. Trade processes have been streamlined in order to drive down costs and ensure compliance with ongoing regulation changes."

TECHNOLOGY DEVELOPMENTS

Many recent developments in FX offerings may appear nuanced but can have a significant benefit for buy-side firms, hedge funds and broker dealers alike. As is often the case, the devil is in the detail, says James Alexander, chief commercial officer at 26 Degrees Global Markets, an Australia-based prime of prime.

"One development that we see gaining momentum is an increased acceptance of vendor hosted technologies in the areas of core price generation and risk management capacities. In the past, many liquidity providers have relied on proprietary technology to perform both core components such as pricing and execution, and non-core components, such as dealer platforms and TCA, of their eFX workflows."

The cost of maintaining and optimising such systems has often proven challenging, says Alexander. "This is especially true as refresh rates for FX pricing increase across the street and quote loads on infrastructure and networks continue to rise as a result. This effect places an increasing onus on capacity planning and management. The result is that liquidity providers are looking at ways to partner more seamlessly with vendor technology's that can deliver cost efficiencies without increasing operational risks," says Alexander.
"Intermediaries such as the non-bank prime brokers and prime of prime providers, have a significant opportunity to leverage ever more powerful trading technologies to provide a highly customised client experience combining credit and liquidity solutions with a range of value-add services such as customised quote filtration, flexible order routing and algorithmic execution. When supported by low latency vendor technologies such solutions, can represent a simple yet highly effective alternative to traditional prime broker solutions," says Alexander.

"The recent interest in trading in precious metals has seen a number of liquidity providers looking to offer an expanded range of precious metals such as gold, silver, platinum and palladium against a wider range of currencies in a bid to capture a slice of the significant increases in precious metals by within Australia and abroad," says Alexander.

RETAIL FX IN AUSTRALIA

The retail FX market is also evolving in Australia, partly due to the work that ASIC has done to regulate the market, says Alexander at 26 Degrees Global Markets. "The regulator has been proactive in recent years in oversight and enforcement when it comes to retail traders, especially where leverage is involved. Product intervention orders have been enacted and additional enhancements to regulation introduced via the likes of design and distribution orders. Leverage restrictions, negative balance protection, standardisation of margin-close out rules are all but a few examples of the proactive approach being taken by the regulator," says Alexander.

"Many of these regulatory enhancements emulate similar moves by regulators in other major jurisdictions and there are perhaps some insights that we can glean from the impact of these regulatory changes in other major developed jurisdictions. In the Japanese market, long considered one of the largest and most mature markets for retail trading, the introduction of leverage restrictions has an interesting effect," says Alexander.

"Initially retail participation and notional volumes fell but then rose in the years following as retail traders turned to more automated / algorithmic trading strategies and systems. With advancements in trading interfaces and programable trading, we may well see a similar pattern evolve in Australia."

EXPERT OPINION

Overcoming a lack of execution flexibility in FX

With Phil Morris, CEO of Reactive Markets

Phil Morris

In the past you have talked about the lack of execution flexibility that some clients still face. Please tell us more about what these challenges are and the problems they can create.

Our vision for Reactive Markets is to build a market utility that helps our clients optimise their OTC trading regardless of how they want to execute. We have 30 leading liquidity providers supporting spot FX, forwards, NDFs and FX Swaps, via streaming, RFQ and bank algos and everything is available over our low latency API, global UI and mobile app.

The Reactive Markets platform is designed from the outset to support the most latency sensitive systematic API clients to large globally distributed discretionary funds with hundreds of GUI users, and everything in between.

By creating a market utility that is open to all LPs which gives clients access to whatever they want to trade, however they want to trade it, we cater for a client's current and future requirements giving them all of the flexibility that they need. Along with offering the full range of FX products and protocols to our clients, full execution flexibility can only be achieved by placing no limitations on the LP's when it comes to customisation and bespoke pricing. In practice this means giving LP's the ability to spin up bespoke pricing sessions for any given client or even down to a Strategy/PM/Desk level within a client. This means LP's achieve an equivalent level of performance and flexibility through our network as they would via direct client connectivity, passing on these benefits to the end client in the form of tighter pricing and higher certainty of execution.

In what ways can solutions like your own, recently launched RFQ and Order Staging functionality, help to address the various issues?

Ultimately, this comes down to flexibility and giving each client complete discretion over how they execute a given order or group of orders. Supporting all products & protocols is one thing but the real value comes in allowing clients to access all products & protocols via any workflow the client deploys. These workflows range from full automation where clients execute Streaming, RFQ and Algo protocols via a single FIX API connection, to semi-automated workflows with rules based execution being overseen by human traders. Whilst RFQ is a large growth area for us, specifically in FX Swaps where the majority of transaction volume is still executed this way, we are now seeing Swaps as the last FX product to move to a streaming model. As more and more banks facilitate streaming Swaps, this presents a compelling offering to clients being able to enhance auto-hedging logic for Swaps and also trade passively targeting specific price levels against a stream.

How easy is it to integrate your RFQ service into any existing upstream and downstream trading processes?

One core principle of ours is that clients can access all asset classes, products and protocols via a single connection or channel (API, UI and Mobile). This means as we add new features such as RFQ, clients who are already integrated to our API for Streaming and/or Algo access can seamlessly add RFQ without requiring additional integration effort. This is true of both our upstream market data & trading API's, but also our downstream STP and post trade give up API's.

The Reactive Markets platform is designed from the outset to support the most latency sensitive systematic API clients to large globally distributed discretionary funds with hundreds of GUI users, and everything in between.

How would you describe the benefits of more proactive Liquidity Management and why is it fundamental to driving down execution costs and helping to create a more optimal execution experience?

Proactive liquidity management is at the heart of the Reactive Markets offering. Clients have access to detailed data around the performance of their LPs which forms the basis for healthy, open conversations with their LPs. These data driven discussions ultimately lead to direct pricing improvements in spreads and address performance issues such as higher than expected reject rates which can have significant trading cost implications.

Our experienced liquidity management team closely monitors our client's liquidity and can advise on the addition of relevant LPs with niche strengths, such as regional specialists, could positively impact the clients liquidity pool. Together this proactive liquidity management results in tighter pricing and better execution and a significant number of our clients reap the benefits of outsourcing this to our specialist team.

Of course, liquidity management is only half of the story and being able to take swift actions after data driven decisions is just as important. For this you need a technology provider that has access to a wide range of LPs and has the flexibility to quickly add new LP streams. We now have 30 liquidity providers on our platform pricing spot, forwards, NDFs and Swaps. Our ultra low latency platform enables us to remove constraints from LPs pricing so we support an unlimited number of pricing sessions for the LP. Consequently, we can run a truly bespoke pricing offering for each of our clients and can confidently curate, maintain and optimise the most cost effective liquidity pool for them.

Proactive liquidity management is at the heart of the Reactive Markets offering. Clients have access to detailed data around the performance of their LPs which forms the basis for healthy, open conversations with their LPs.

Paul Groves

Finalto:

A truly global community of dedicated professionals

Paul Groves UK B2B CEO at Finalto is a well known figure across the FX industry and has a proven track record in driving innovation and growth within the organisations he has worked for. e-Forex caught up with him to learn more about his current activities at Finalto and how he is working to shape and refine the strategic direction of the firm.

Finalto: A truly global community of dedicated professionals

Matthew Maloney is our Finalto Group CEO

Paul, you have worked at Finalto for over 14 years. Please tell us a little about how your career at the firm has progressed and what your day to day responsibilities now involve?

I joined CFH back in 2010 after many years working on trading desks. I wanted a change of direction and CFH wanted someone with market experience and a good network to help grow the business. The company was effectively a start-up when I joined but luckily the management in place were forward-thinking and structured so we soon had a stable and competitive offering in place.

Stanislav Bunimovich is our Group COO

In 2019, I was given the role of Head of European Sales. This somewhat took me away from the usual day to day interaction with clients and focused me more of helping and guiding the Sales Team. After some internal changes I was offered the role of B2B CEO covering our Liquidity, Risk and Technology areas.

Like all CEOs I am here to ensure we are regulatory compliant, have a solid dependable offering for our clients and ensure the future is mapped out for the B2B side of Finalto.

Formerly known as Tradetech Group, Finalto is a collection of B2B and B2C brands. What are these various entities and what was the reason behind the group's rebranding initiative in 2020?

Finalto is made up of CFH Clearing Ltd and Tradetech Alpha on the B2B side and Markets.com on the B2C side.

After a number of acquisitions and name changes we recognised that there was a level of confusion about who we were and what we did, so a key reason to introduce the Finalto name was to simplify the situation CFH and Tradetech Alpha were both absorbed under the Finalto name, to create our institutional offering, while Markets.com retained its name in order to differentiate the retail brand.

What range of products and services does Finalto currently provide?

Finalto offers a broad range of products, all via one pipe or GUI. This is an area we pride ourselves on and one we sometimes take for granted, as I understand this is not always the case within our peer group. We offer FX, Bullion, Energies, Indices, Equities, Softs, Base Metals and Cryptos.

You cater to a wide spectrum of clients. Please tell us more about who these are.

Historically, our client base has come from the Retail Broking market space and that area is still very important to us. As we have grown, we have seen our clients grow and I strongly believe we have maintained relationships for many years as we create connection that is genuinely mutually beneficial. As our price engines and technology has improved year on year, we have attracted and maintain a broad range of clients including Funds, Algo traders, Family Offices, HNW Individuals and Prop houses.

Andy Biggs is our Global Head of Risk and Liquidity

Who are the key members of your executive team and what roles are they each playing within the firm?

In our London Office, we have Matthew Maloney, our Finalto Group CEO, Stanislav Bunimovich our Group COO and Andy Biggs our Global Head of Risk and Liquidity.

My remit as B2B CEO covers our FCA licenses, while we have Alex Mackinnon based in our Singapore MAS regulated office as our CEO Asia. Between us, there is a lot of experience covering all aspects of the business and although the ultimate decisions come down to the local Directors we do have a great sounding board structure to discuss and analyse the business.

What are the unique attributes that make Finalto different from many other brokers operating in this highly competitive market and what do people particularly like about its culture?

Finalto was in no way an overnight success. The company has grown and matured over many years, and we are still constantly innovating to ensure we remain ahead of the curve. Although the group employs over three hundred people, I would like to think we still have the fresh, dynamic mentality of a start-up in the way we approach our day-to-day business.

I think having our own proprietary tech stack has helped underline the fact we are not just a pure liquidity provider - there is much more depth to our offering. This in turn gives our staff more areas of opportunity to be creative and innovative.

Our main Asian office in Singapore is run by Alex Mackinnon

Finalto: A truly global community of dedicated professionals

In 2023 we added two new data centres in New York and Singapore underlining our commitment to be fully global

Please tell us about some of the recent highlights of the company's growth and development.

In 2023 we added two new data centres; one in New York and the other in Singapore. This has helped improve latency and indicates our commitment to be fully global. There has also been a lot of work done recently by our Tech and Liquidity teams in setting up local connections with our providers. This, combined with an investment in the Solace Hardware which dramatically increases our ability to consume price updates, underlines the fact we believe up-to-date technology combined with stable distribution channels is important to our business and our clients.

What work have you been doing to cement Finalto's status as a truly global provider of liquidity and what benefits does bringing liquidity closer to clients deliver for them?

As I mentioned above, the data centers have been an important move forward, but we are also mindful to interact with all the credible Hub and Bridge providers so we can reach as many clients as possible.

We have great relationships with all the leading companies in this field and our Client Services team have strong links with all these providers to ensure we are both on top of any issues should they occur. Naturally providing local liquidity will cut latency down for clients but it also sends out a message that we value investing locally to improve our price distribution.

Our offering is flexible and is relevant for a broad range of Financial Institutions

Unlike some other firms, Finalto has a dedicated team of in-house experts working to craft bespoke integrations, execution and trade engines, real-time analytics, API connections and much more. Why have technology and data in liquidity pricing become such a key factor for success in this business and how do they help Finalto to differentiate itself from competitors?

Right from the start we had our own technology in some form. Initially just the one platform, but we soon expanded to cover all aspects of platforms, back office, rate engines, aggregation tools, margin engines, FIX API and more, whilst always being mindful our system has to be able to connect to other tech stacks that our clients choose.

Although we interact successfully with all the main tech providers in this market we still have the ability to offer a full in-house built and maintained solution, and this allows us to create systems that let us provide flexibility and stability in uncertain markets. I strongly believe there are only a small group of companies that can do that.

The Asia-Pacific region is currently a hotspot for e-FX growth. How important is this part of the world for Finalto and how do you plan to create a more connected, efficient, and client-centric trading ecosystem across it?

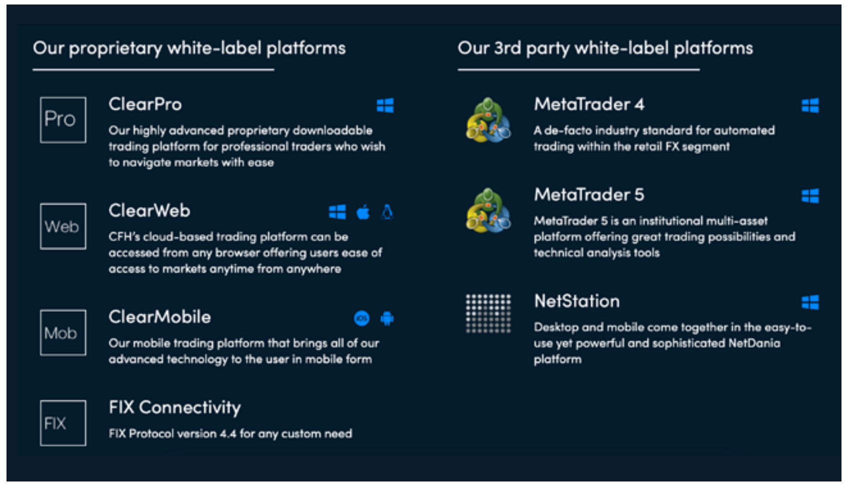
We now have our main Asian office in Singapore which is licensed by the MAS and run by Alex Mackinnon. In 2023 we set up our data center in SG1. We have recently added a One Zero connection from Tokyo TY3 going into our Singapore data center. On top of this we have the ASIC regulated office in Sydney run by Chris Cotterell. We understand the importance of the area to our future growth, so we have installed seasoned market professionals to run our offices and made significant infrastructure investments to ensure Finalto is the go-to provider.

Where else might we expect to see you focusing efforts to grow Finalto's geographical footprint over the next few years?

I think, like a lot of companies in our space, South America is grabbing our attention so we're looking into that as an area for potential development. We have a regulated entity in South Africa where we have an ODP license, and we are beginning to put that to good use helping local brokers. We have a good network globally and are prepared when new areas become of interest.

We have been reporting on a number of collaborative initiatives Finalto has recently been undertaking with other firms. Why are strategic partnerships so important for Finalto?

Finalto: A truly global community of dedicated professionals



Finalto offers a wide range of platforms

Distribution of our goods and services through professional and like-minded companies has always been an important part of our business. Strategic partnerships on a local geographical level really gives us the best of both worlds in terms of local knowledge and understanding, as well as putting us in front of the right people.

What work are the Finalto team currently doing to explore and develop new products and services to cater for the evolving needs of your clients?

Without giving too much away we are always looking for ways to make improvements in our tech and infrastructure. These – often small - changes are carried out to benefit the client and Finalto but may not always be that obvious to all. We're also always investing in updating our client-facing initiatives which are designed to improve clients' ability to be more successful in business. For example, we have spent a lot of time and effort recently looking at ways to improve the day-to-day risk management of B book brokers and now can provide a tool which sits between the STP and B book world. Watch this space.

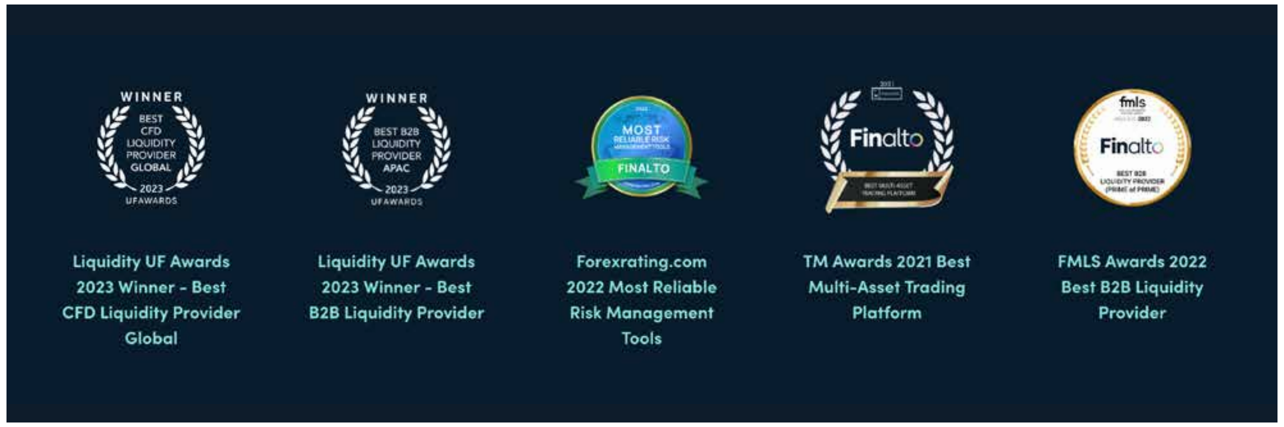
Plans to globalise services have been a consistent cornerstone of Finalto's development strategy so far. Can we expect more of the same this year and what are going to be your priorities as you and your team work to grow the business further and maintain its market leading position?

We want our offering and products to be as consistent as possible no matter which Finalto office you open with or Data center you are being priced from. This sounds an obvious statement but it's one that takes a lot of co-ordination and work from our staff and providers to achieve.

It's been said that innovation isn't just a buzzword at Finalto, it's a way of life. For a company that has always taken a forward-thinking approach to try and deliver unmatched value to your clients what do you see as the biggest opportunities for Finalto over the next few years?

We have a solid base and infrastructure. Although initially our product was focused on retail brokers - who remain and will always be a very important part of our business - our offering is flexible and is relevant for a broad range of Financial Institutions. As it's our own proprietary tech, we can make changes relatively easy to accommodate new genres of clients should the business opportunity present itself.

If we combine this with a Global outlook and the ability to move swiftly into newly opened areas, I would say our biggest opportunity will be our ability to maintain and grow our existing client base combined with attracting clients from geographical and business types we could only have hoped to work with years ago.



Finalto continues to win industry awards for its best-in-class solutions

I THINK HAVING OUR OWN PROPRIETARY TECH STACK HAS HELPED UNDERLINE THE FACT WE ARE NOT JUST A PURE LIQUIDIY PROVIDER - THERE IS MUCH MORE DEPTH TO OUR OFFERING

Image by Shutterstock

Stacking up the benefits of centrally cleared futures in FX

Important general elections amid ongoing geopolitical and macroeconomic uncertainty means 2024 could be decisive for trading FX on exchanges, discovers Nicholas Pratt

Demand for FX futures and options is driven by the benefits of central clearing, which include capital, margin and operational efficiencies, as well as demand for the unique liquidity that CME FX futures offer the marketplace. says Paul Houston, global head of FX products at CME Group.

"There is a virtuous effect of having a broad range of over 90,000 traders using FX futures. This large and diverse ecosystem of traders helps to generate a unique, robust liquidity pool with naturally opposing flows and interest. Given the all-to-all market customers can trade passively with more control over execution as well as take the firm liquidity that is available in the central limit order book," he says.

Paul Houston

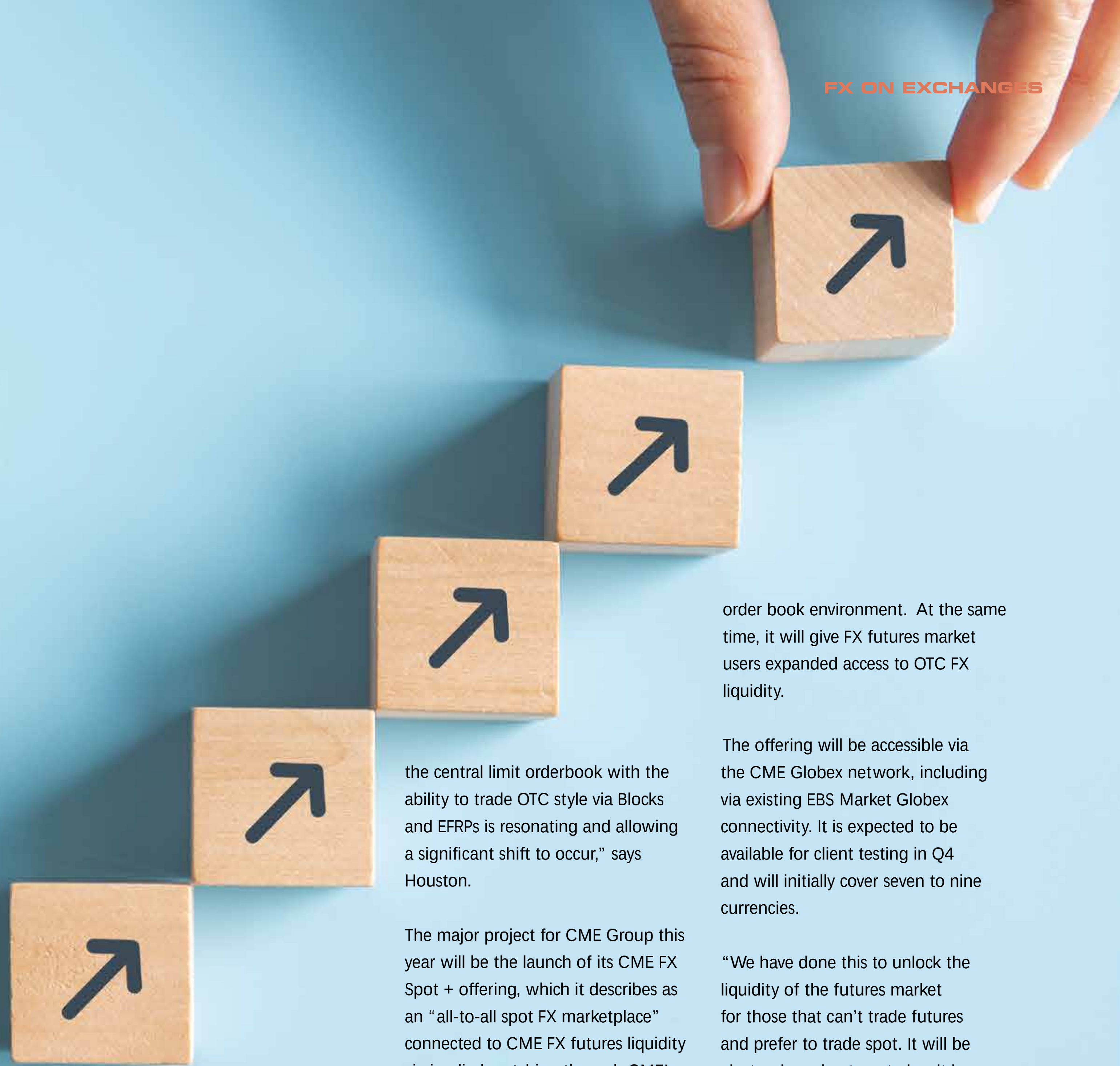
"The demand for FX futures and centrally cleared FX comes from both the cost efficiency, influenced by regulatory requirements, and the benefits of liquidity."

"On the clearing side, netting against a central counterparty drives several benefits - netting of exposures helps with margin and capital efficiencies; facing a single counterparty drives operational standardization and removes the need for multiple legal documents" says Houston. "The ability for customers to move notional from the OTC market to clearing to assist with generating capacity to trade, as well as potentially managing uncleared margin rule calculations is increasingly resonating, and we have seen some of the worlds largest hedge fund names engage us on these topics during 2024."

"The impact of regulatory change is more long-term and structural," says Houston. "Regulations such as UMR and SA-CCR continue to shape the FX marketplace, but it is often more immediate drivers such as volatility, unique liquidity, or freeing up trading capacity that brings more traders into the centrally cleared markets. For example, our biggest ever trading day was on March 8 last year during the volatility triggered by the retail banking crisis, when 3.15 million contracts were traded with a notional value of $296 billion USD."

"The potential benefits of central clearing for FX products has to go hand in glove with there being sufficient liquidity to not only establish new positions, but also to roll or exit existing positions", says Houston. "At CME there is a combination of a deeply liquid and robust central limit order book that combines with the ability to trade on an OTC basis with 25+ liquidity providers. The combination of these two trading mechanisms is critical for clients to get the certainty and trading efficiencies they need to manage their FX activity."

A key benefit of the anonymous all-to-all orderbook, is that participants can trade passively with a wide range of client types. In Q4 of 2023, buyside participants were able to trade passively 63% of the time in G10 pairs, which not only delivers trading efficiencies for those customers but also serves to deepen the liquidity available to other participants.



"The development of the hybrid OTC-style trading model via Blocks and EFRPs is ongoing. Block and EFRP trading serve to augment the central limit order book, providing clients with additional flexibility and complementary liquidity. The recent all time record in cleared open positions from asset managers helps to illustrate that the combined liquidity from the central limit orderbook with the ability to trade OTC style via Blocks and EFRPs is resonating and allowing a significant shift to occur," says Houston.

The major project for CME Group this year will be the launch of its CME FX Spot + offering, which it describes as an "all-to-all spot FX marketplace" connected to CME FX futures liquidity via implied matching through CME's FX Link platform. "We are looking at offering our FX futures in spot form. New clients continue to adopt and embrace the trading of FX futures, but some traders have expressed a clear desire to access the FX futures liquidity via trading FX Spot+ as it will remove the need for booking, clearing and processing an FX futures position," says Houston.

This will give CME five main offerings – EBS Market, EBS Direct, FX Futures, FX Link and FX Spot + – and it will enable spot FX participants to access CME FX futures liquidity in OTC spot terms within an open central limit order book environment. At the same time, it will give FX futures market users expanded access to OTC FX liquidity.

The offering will be accessible via the CME Globex network, including via existing EBS Market Globex connectivity. It is expected to be available for client testing in Q4 and will initially cover seven to nine currencies.

"We have done this to unlock the liquidity of the futures market for those that can't trade futures and prefer to trade spot. It will be electronic and automated so it is particularly attractive for small banks," says Houston.

IMPACT OF VOLATILITY

For Singapore Exchange (SGX), the focus to date has been on Asian FX futures, for which it is the leading venue. One of the big developments so far in 2024 has been the rising volumes for Asian currency pairs. "We have seen a succession of single-day volume and open interest records for our flagship contracts (CNH, INR and KRW) and we are still in the first quarter of the year," says KC Lam, executive director and global head of FX and rates at SGX.

Stacking up the benefits of centrally cleared futures in FX

"Given the volatility we expect this year, liquidity will be more important than ever because it will allow traders to manage risks, to easily get in and out of positions."

KC Lam

The growth has been most evident in SGX's USD/CNH futures contract, given that it is the most widely traded international RMB futures. The trend is also reflected in other currencies such as the Korean won and the Indian rupee.

The reason for this trend is the macro-environment, says Lam. In addition to the volatile interest rate environment and the major conflicts in Israel/Gaza and Russia/Ukraine, there are a number of general elections due to take place. "Almost half of the world is going to the polls this year and that means that there will be a lot of volatility."

The numerous discussions and rumours around the likelihood of U.S. Fed rates reductions, and anticipation of policy easing by Asian central bankers for currencies such as the Indian rupee and the Indonesian rupiah, have also driven volatility in the FX world and will therefore have an impact on volumes.

Consequently, for centrally-cleared FX, 2024 will be a big year, says Lam. "It is not just about regulation anymore," he says. "Our liquidity has increased. And given the volatility we expect this year, liquidity will be more important than ever because it will allow traders to manage risks, to easily get in and out of positions. The tailwind of regulation will help but liquidity is the biggest driver now."

Liquidity begets liquidity and when you hit a certain level, it results in more volume, says Lam. "For example, the USD/CNH contract is now the second most-traded currency futures behind USD/EUR futures. It did not even feature in the top ten, a decade ago. SGX has an 80% market share of the open interest in USD/CNH futures contract. The ongoing geopolitical tensions between the two largest economies in the world, U.S. and China, the unipolar versus the multipolar world and resultant volatility has increased the volume of trading, a development which reflects the risk appetite and risk management strategies of market participants."

The increase in volume has been accompanied by an increase in the number of new market participants opting for centrally-cleared FX futures. Many of these have come from buy-side firms, including asset managers and hedge funds as well as commodity trade advisors looking to hedge their commodity trades, says Lam. "The USD/CNH futures in SGX trades up to 12 to 18 months and has very high liquidity so it is appealing to hedgers. Moreover, SGX offers margin offsets to reduce the cost of trading."

So what product developments are in the pipeline for SGX? "We continuously listen to our clients and continue to use their feedback to refine our products, for example; to be more in line with OTC options market, we are making changes to the final settlement time aligning it to OTC FX options expiry at 2 pm Singapore time (3 pm Tokyo Cut)," says Lam.

"SGX has also made acquisitions in recent years, including the purchase of BidFX, MaxxTrader, as well as our establishment of an electronic communications network CurrencyNode. We are looking at how we can introduce more synergy between OTC and futures trading. For example, we are looking at developing a product that can sit in both environments. Traditionally, this has been done manually but we are looking at ways to enhance the trading experience by placing it on a venue. We are looking to bring more transparency and efficiency to the process. At the same time, we are looking to broaden our product offering to include short-term interest rate derivatives linked to Singapore and Japan's overnight interest rate benchmarks," says Lam.

Despite the increase in centrally-cleared FX futures, Lam does not see it replacing OTC trading. "Central clearing is a complementary tool that people can use to grow the market. And as markets grow, your needs change. It allows you to leverage a liquid OTC FX market but with the security and efficiency of centrally-cleared markets," he says.

Lam is not about to predict the outcomes of the upcoming general elections around the world. "With over half the world's population having election, this year will be one of change and volatility which is always very exciting for the financial markets ."

MACROECONOMIC ENVIRONMENT

According to Lee Bartholomew, global head of fixed income and currencies product design at Eurex, the current macroeconomic environment has been supportive for trading in the listed market and for promoting the virtues of centrally cleared derivatives.

"The broader rates market has enjoyed a strong start to the year. Fixed income

"The banks are more comfortable with the notion that listed products and OTC trading can co-exist and they are looking to scale this."


Lee Bartholomew

made record numbers in January and there was further double-digit growth in February. Central banks have been playing a cat-and-mouse game on rates. Yes, inflation has been coming down, but it is still unclear if central banks have the tools to keep inflation down in the longer-term," says Bartholomew. "Fixed income volatility is still in tight ranges in Europe, so that market has been subdued. Similarly, FX markets have been quiet in recent months but there has been some volume growth."

The influence of the macroeconomic environment is also important given that the regulatory tailwinds that have driven the development of the centrally cleared futures market have stilled somewhat in recent months. "Whenever you're trying to build out a nascent market, it always takes more time than you think, unless you have a regulatory tailwind," says Bartholomew.

Both the Uncleared Margin Rules (UMR) and the Standardised Approach to Counterparty Credit Risk (SA-CCR), served their purpose of making bilateral trading more expensive and pushing more firms to consider central clearing as a more cost-effective alternative. Now it is about showing that central clearing has benefits beyond cost and can be a long-term complement to bilateral trading.

"Regulators want to see listed markets co-exist with OTC markets," says Bartholomew. "And from a market participant's perspective, it is about more liquidity. If you're allocating a lot of capital to FX markets and using leverage, you want to see returns increased. So there has been a lot of focus on listed markets becoming more liquid. This is a medium-term project with exchanges, like Eurex working with the market."

In terms of the FX market, overall activity has been somewhat subdued in comparison to the high volatility of two years ago that created bigger volumes. The involvement of more hedge funds operating in the rates space has seen an increase in focus on Yen.

To this end, Eurex has recruited more clearing members.

"Eurex is focused on executing our strategy," says Bartholomew. "The LP scheme has been tweaked and we have brought in more market makers in order to improve liquidity in terms of the depth of the order book and pricing. Liquidity is increasingly important for market participants. Banks want to improve the return on their capital."

Electronification is another way for banks to improve their return on capital and there has been an increase in the electronification of the market, says Bartholomew. The support of regulators has also acted as an accelerant and led to a co-existence between OTC and exchange traded/ centrally cleared FX.

At the credit end of the market, there is likely to be a move to an equity-lite market, says Bartholomew. "That would be more attractive to bank and non-bank liquidity providers. The buy-side wants access to more liquidity pools so I see our role as facilitating that move and providing more products.

"We are looking at the synergies between Eurex and 360T and to accelerate the development of the hybrid trading model in FX. We are looking at the distribution of listed products through 360T which would reinvigorate our options offering. Then the focus will be on executing currency pairs, " says Bartholomew.

"Banks are looking at their bilateral trading costs and ways that they can be reduced. The banks are more comfortable with the notion that listed products and OTC trading can co-exist and they are looking to scale this. They also like the automation that comes with the listed market," says Bartholomew. "We are likely to see a continuation of that this year. It is a portfolio effect. We are also seeing a growing demand to trade basis. Then it is about making sure we are competitive and focused," he says.

"Sometimes you need to focus on your core strengths as well as execute on the new developments you have committed to. Now we need to bring those two elements together – new currency pairs; EFP; new product offerings and making sure clearing members can interact smoothly," says Bartholomew. "We launched credit futures several years ago and now we are close to a tipping point. When Credit Suisse happened, we weathered the storm well and our volumes were consistent. We are looking to do the same with FX. It is likely that we will have some market events this year which might mean that risk is currently being underpriced but I believe we have the right product mix and the right market focus to ensure that liquidity remains consistent," says Bartholomew.

TradeNeXus – becoming an essential part of its clients' post-trade workflows

TradeNeXus is a part of GlobalLink's suite of market-leading e-trading platforms, technology, data and workflow solutions from State Street. We asked Kah Yang (KY) Chong, Acting Head of TradeNeXus, which delivers straight-through processing, operational efficiencies and settlement risk reduction, to tell us more about the comprehensive services it offers.

Kah Yang Chong

Please tell us a little about the various market participants who make up the TradeNeXus ecosystem.

TradeNeXus is an award-winning post-trade FX and money markets platform for asset managers. Our ecosystem consists of more than 400 global asset managers across 190,000 funds interacting with over 70 banking groups and 800 custodians. Our ecosystem also integrates important financial market infrastructure providers such as CLS and LCH.

Why did you decide to build this community?

The community is built to drive efficiencies and add value across clients' workflows in post-trade FX. Post-trade FX remains a fragmented market with many bespoke and legacy processes, and our core product brings together clients and their counterparts to drive consistency, STP and minimise costs. We are focussed on innovation, and continue to invest in new features and ideas as the growing need for automation, data-driven decision making and simplicity continues to be key drivers in post-trade FX.

We have been at the heart of FX post-trade for over 20 years, and we continue to see growth in volumes and clients, which is testament to how the industry values our product.

What are the core services and functionality that TradeNeXus offers?

TradeNeXus' core functionality is trade matching, confirmation and settlement messaging for foreign exchange (FX and FXO) and money market transactions. The platform offers consolidated multi-counterparty view of post-trade activities, including exception-based confirmation management workflows. SWIFT messaging is a core component of TradeNeXus and the platform automatically enriches custodial SWIFT messages with broker SSIs. TradeNeXus settlement workflow supports Gross, Net and CLSSettlement which is facilitated through user tailored rules to determine settlement method. Net settlement figures are also agreed on the platform between our clients. Our platform provides customisability to meet unique client needs, whilst maintaining a consistent workflow for both asset managers and banks.

In what ways is the shifting regulatory environment continuing to put increased pressure on buyside firms, especially asset managers, to seek more effective clearing and optimization workflow solutions?

The FX industry has been recently focused on the upcoming T+1 securities settlement change in US and Canada effective May 2024. Firms have been preparing their organisation to ensure they continue to achieve timely execution, undertake post-trade workflows and settle on a timely basis in this compressed settlement cycle. With less time to settle trades, global firms will need to improve their processes including simplification and automation of their FX processes to avoid any settlement issues. We have seen an increase in adoption of our CLSTradeMonitor partnership product to provide clients with more transparency on the settlement process.

In addition to T+1, Standardized Approach to Counterparty Credit Risk (SA-CCR) is now in force with majority of the global banks, and it continues to have an impact on buy-side clients through the need to actively manage portfolio exposures, availability of credit, and execution prices. Buy-side firms are starting to take more active steps in post-trade to manage their exposures through portfolio optimisation by undertaking compression, rebalancing or clearing.

You have worked hard to make your solutions seamless for clients. What advantages does that have, particularly for firms that want to adopt your add-on services?

TradeNeXus' simplicity is its strength. Clients who utilize TradeNeXus today can opt into our add-on services modularly and continue to benefit from a consolidated dashboard and workflow to manage all their post-trade activity. This includes leverage existing account setups, integration workflows, and rules engine which will minimize the uplift required for clients to adopt. This speeds up time-to-market and reduces training and resources required.

Please give us some examples of the collaborative work you have recently been undertaking with other organisations which has helped you to expand TradeNeXus beyond a matching and messaging platform.

TradeNeXus and StreetFX have recently won "Best bank for post-trade services" in the FX Markets Asia Award 2024

In 2023, TradeNeXus collaborated with State Street's StreetFX to deliver a T+1 partnership solution with DTCC. By connecting to DTCC Institutional Trade Processing (DTCC-ITP) and its central trade matching platform, CTM®, StreetFX can automatically execute the required FX trade necessary to fund the purchase/sale of related securities transaction. Once the FX trades are executed, they will flow through to TradeNeXus for straight-through-processing for post-trade workflows, serving as a potential solution around T+1 considerations. This initiative was recognised in the FX Markets Asia Award 2024 as TradeNeXus and StreetFX was awarded "Best bank for post-trade services".

In recent years, TradeNeXus has also collaborated with market partners to launch new joint offering including CLSTradeMonitor integration, LCH clearing connectivity workflows, and trade optimisation workflows with Capitolis, all accessible within the TradeNeXus dashboard.

What are your plans for growing your portfolio of post trade FX services and solutions this year?

The process of netting in FX outside of CLS continues to be fragmented causing manual work or issues in settlement. TradeNeXus has created a consistent workflow for netting, and will be further automating the netting process through new messaging types that banks can systematically reconcile and approve. This will reduce issues and improve time to settlement.

Additionally, TradeNeXus will go live with new features to improve matching and identification of CNH and onshore CNY transactions. By introducing these standards, clients who opt in can benefit from higher STP and lower risk around misidentification of these trades. Finally, TradeNeXus will be enhancing our reporting suite to introduce enhanced broker KPI reporting. This will allow clients to assess their relative broker performance in post-trade, allowing parties to identify common themes and issues for improvement.

How much more innovation can we expect to see from TradeNeXus in the future to ensure it continues to be at the centre of the post-trade ecosystem?

TradeNeXus will continue to invest in new features that can add value to the post-trade ecosystem. In the drive for greater automation and market structure changes like T+1, there are significant opportunities to re-look at existing FX processes and improve on them. TradeNeXus constantly engages with its clients and partners to improve its service.

RegTech:

A disruptive force that's helping to streamline and automate FX compliance operations

Paul Golden

Image by Shutterstock

Paul Golden discovers that firms should not underestimate the work involved in building FX Regtech architecture that automates processes without leaving gaps in compliance with laws, policies, internal protocols, best practices and emerging trends.

"The data challenge is even more daunting when one considers applicability across the FX transaction lifecycle."

Udai Abburi

The global, decentralised, 24-hour trading cycle of the FX market poses a number of unique regulatory technology (RegTech) challenges. These include breaking down data silos and homogenising data across a patchwork of applications, platforms and execution venues while ensuring quality data on a real-time and batch basis.

Content needs to be sourced, analysed and digested across disparate channels, posing challenges in relation to volumes of documents, accuracy, timeliness, and synthesising content into readily actionable objectives.

DATA CHALLENGE

"The data challenge is even more daunting when one considers applicability across the FX transaction lifecycle, inclusive of pre-trade, trading and post-trade workflows," observes Udai Abburi, senior director and head of enterprise solutions and technology at ION Markets (FX).

By employing automated rules, RegTech can rapidly assess the applicability of regulations in various jurisdictions, enabling compliance teams to focus their efforts. Platforms often integrate features such as real-time monitoring and reporting, allowing compliance and risk management teams to recognise new patterns in suspicious behaviour but also stay abreast of regulatory developments and adapt their strategies accordingly.

"Experience gained from other markets has highlighted the significance of agility and adaptability," says Katarina Pranjic, head of regulation & policy at LexisNexis Risk Solutions. "It has also drawn attention to the importance of user-centric design and functionality."

When implemented effectively, RegTech solutions can help streamline the complexity of multi-jurisdictional compliance. Lessons learned from other market verticals have underpinned the importance of adaptability and scalability agrees Kristian Davies, head of customer success at Grath.

"RegTech solutions are continually enhancing their capacity and flexibility to collect and analyse regulatory data," he says. "Larger quantities of data at the top of the funnel provide actionable insights, facilitating proactive compliance measures, trend identification and predictive risk assessment for FX trading firms."

These firms can achieve true end-to-end compliance by establishing a seamless framework that integrates external regulatory requirements with firm-specific risks and internal controls and procedures.

RegTech has reached the stage of its evolution where it is almost spoiled for choice in terms of where it goes from here suggests PJ Di Giammarino, CEO & founder JWG.

"One of the main themes that emerged from our annual conference in February was that regulators are really doubling down on data quality and controls," he says. "These are big asks when you are trying to achieve auditability across the whole middle and back office for next generation regulation with transparency at its core."

FACILITATING ACCESS

Julie Tuffrey, associate director at fscom says RegTech should ideally support best practice, offer flexible pricing, and be easy to access and connect with. "There needs to be recognition of the unique needs of firms who focus on their clients' currency needs and specific trading activities as well as firms that deal with high volume, wholesale FX trading," she says. "Understanding these differences is key to making RegTech scalable and effective across the board."

In the area of trade and transaction reporting, regulators have been working towards global harmonisation by coming up with the common domain elements - 110 data elements that CPMI-IOSCO proposed to be used by firms when reporting OTC derivatives transactions.

Katarina Pranjic

"Experience gained from other markets has highlighted the significance of agility and adaptability."

"AI algorithms can be programmed to detect exposures that are left unhedged or even positions that could have been closed out."


Jeroen van Doorsselaere

By using RegTech solutions for their trade reporting, firms can save time and money by outputting files for multiple jurisdictions from a single centralised data source explains Quinn Perrott, co-CEO TRAction, who says firms often have to significantly improve their data platforms and processes to meet new regulatory requirements.

"Some great insights can be derived from joining different sets of data, such as trade reports and reference price data at execution time," he continues. "The results can then be used to highlight trades that deviated from an acceptable execution price."

Data protection considerations are also crucial when it comes to data analysis, according to Tuffrey.

"Since the data belongs to firms and their customers, getting permission to use it for analytics is essential but where permissible, it can be invaluable to support regulatory compliance," she says. "Likewise, while machine learning and AI have a valuable role to play in the evolution of RegTech this is not without some downside and risks. Firms must prepare properly before using AI to avoid potential pitfalls."

INTERPRETING RULES

Regulations are complex and require expert analysis and skilled interpretation, she continues. "There is potential for AI to help, for example by providing alerts and indicators and setting basic rules and parameters for review, offering more insight into regulatory challenges to then be performed by skilled experts," says Tuffrey.

Di Giammarino describes natural language processing's role in cutting through the noise of seemingly endless regulatory updates and isolate relevant updates as one of the most important RegTech capabilities.

"Once firms have identified these updates, they have to make sure that all the systems they do business with (in terms of booking trades, for example) are aligned," he explains. "This is where the Common Domain Model comes into its own. If I have a digital model of an FX trade and the regulatory reporting requirements for it are specified in common code, I can rely on it as a safety rail to ensure I am aligned to my regulator's expectations in the eyes of the industry."

In the FX industry, integrating data analytics and automation capabilities into RegTech platforms enables sell-side and buy-side firms to make data-driven decisions and optimise operational processes.

Pranjic explains that machine learning algorithms are integral to RegTech platforms, enabling analysis of vast volumes of regulatory data to identify patterns, trends, and anomalies. "Rather than merely enhancing capabilities, AI-driven RegTech solutions can fundamentally transform how organisations approach compliance and risk management - provided they have the right data to realise this transformative potential," she adds.

As the general architecture of FX RegTech solutions entails a scalable data platform able to store and manage historical data, aggregated data facilitates more sophisticated regulatory intelligence.

"This includes sophisticated dashboards to visualise and chart the data and the ability to slice/dice and aggregate the data in various ways and provide for monitoring and alerting through user configurable and rules-based processing," says Abburi. "More advanced data analytics spanning pre-trade, trade and post trade operations are increasingly the norm."


Quinn Perrott

"Some great insights can be derived from joining different sets of data, such as trade reports and reference price data at execution time."

"Firms must prepare properly before using AI to avoid potential pitfalls."


Julie Tuffrey

Transaction cost analysis can be provided as a complementary solution to measure metrics such as fill ratios and price variations as well as determining market impact and execution hold times. Liquidity trends and anomalies, spreads analytics and skew trends, and execution timing are also key areas of focus.

CLIENT INSIGHTS

"Another important area is client analytics," observes Abburi. "This includes providing insight on client order flow and execution such as hit rates, identification of toxic flows, client trading activity and patterns, instruments traded, trading volumes aggregated across instruments and time dimensions, and profitability analysis."

When asked how FX trading firms should leverage RegTech to get closer to achieving true end-to-end compliance, he recommends investing in best-in-class solutions for specific needs. "This implies that solutions from multiple vendors are required and should be further supplemented with in-house capabilities where available."

By employing automated rules RegTech can rapidly assess the applicability of regulations in various jurisdictions

The selection process should take account of the provider's ability to support sustained compliance through customisable solutions with a wide range of interoperability options and access to value-added solutions including alerts, monitoring, visualisations and advanced analytics. It is important when regulators are publishing machine readable content that regulatory technology automates interpretation and compliance requirements adds Jeroen van Doorsselaere, vice president of global product & platform management at Wolters Kluwer. "AI algorithms can be programmed to detect exposures that are left unhedged or even positions that could have been closed out," he says.

Real time regulatory risk management in the FX market has a long way to go. That is the view of Remonda Kirketerp-Moller, founder and CEO of Muinmos, who attributes the difficulty of lack of real-time regulatory risk management to limited availability of standardised and updated data, and lack of understanding of the meaning of compliance across the ecosystem.

"Aggregating, interpreting, consolidating and cleansing data is a mammoth task," she says. "However, the industry is moving in the right direction in terms of addressing the challenge of turning data into machine readable code. What we need are more RegTech vendors who get excited about the process of cleaning and connecting data rather than just providing data feeds."

Kirketerp-Moller says the market is largely populated by resellers who in


Kristian Davies

"RegTech solutions are continually enhancing their capacity and flexibility to collect and analyse regulatory data."

"Aggregating, interpreting, consolidating and cleansing data is a mammoth task."

Remonda Kirketerp-Moller

many cases have no idea of the quality of the data they are selling, what they are selling and what it solves.

"Firms are often drawn in by an attractive user interface – I would go for the solution with the best data quality regardless of the interface," she continues. "But that is a challenge, partly because the market doesn't really understand where to look, how to look, and where the issues are."

Kirketerp-Moller refers to the client onboarding process as an example of the complexity of compliance. "To be able to say 'can I onboard/keep this client yes/no' takes more than a basic KYC/KYB/AML check. It requires deep learning and AI to analyse dozens of regulatory parameters, both internal and external, and this is what sophisticated Regtechs are solving," she says.

"Even with a basic screening checker, you would think it should be straightforward to determine whether a potential client is a politically exposed person or on a sanctions list, but it isn't because it depends on how the authority updating the data issues those updates and the accuracy of the data," adds Kirketerp-Moller.

PJ Di Giammarino

"Regulators are really doubling down on data quality and controls."

INTEGRATION IMPORTANT

Few systems deliver true end-to-end compliance, so the best approach is to leverage compliance solution providers that integrate well with back office systems or at least with each other's offerings suggests Perrott.

When it comes to determining which solutions are most appropriate for specific compliance risks, he suggests starting by asking peers. "There are also some good RegTech directories and industry bodies, and events are a great opportunity to talk to multiple providers and attend seminars."
Davies recommends conducting a comprehensive internal assessment of key compliance risks and operational requirements to identify the most suitable solution(s).

"When selecting a RegTech provider, firms should prioritise factors such as regulatory expertise, solution scalability and flexibility, adaptability to evolving requirements, data security measures, user-friendliness, interoperability with existing systems, quality of customer support, and cost-effectiveness," Davies says.

Pranjic suggests forming a working group, which depending on the size and structure of the company may consist of representatives from risk and compliance, legal, strategy, IT, project management, procurement and data protection. Gaps that need addressing through RegTech solutions should also be identified during this process.

"Requesting demos or proof-of-concept trials for shortlisted solutions allows for evaluation of functionality and usability," she says. "Compatibility with existing systems and infrastructure is another important consideration, while understanding costs and asking questions about included data coverage, benefits of longer contracts, and support offerings is also crucial." The ability to digitise a single version of the truth that is baked into the control systems takes a lot of noise out of the compliance process according to Di Giammarino.

"An often overlooked aspect of RegTech is that it is not just about compliance or efficiency – it is about freeing people up to do their jobs," he says. "For example, implementing trade surveillance controls enable better, standardised data cross order management systems, enabling many desks to spot trends and patterns across their customer base."

Firms need to view the process of collecting customer and transaction data for regulatory compliance as an opportunity rather than a 'necessary evil' suggests van Doorsselaere.

"This process gives firms the ability to look through their data and use it to improve decision making by focusing on those parts of the transaction with the highest margin after regulatory compliance," he concludes.

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EMS Platforms: Standing out from the crowd

Sebastian Hofmann-Werther, Head of EMEA at 360T, outlines what really differentiates EMS platforms today.

Sebastian Hofmann-Werther

Execution Management Systems (EMS) have always been of key importance to buy-side firms trading FX, but in recent years this has become more acute as these firms have been under growing pressure to reduce execution costs, increase productivity, reduce operational risks and streamline the entire trade lifecycle.

Recognising the value and importance of EMS platforms to these client segments, 360T has in recent years invested significant time, effort and resources into building what we believe is a best-in-class, next-generation EMS.

This claim is backed up by the recognition that we have received from the financial industry — in 2023 alone, 360T was named as the Best EMS for FX at the US Markets Choice Awards, Best EMS Provider at the WatersTechnology Asia Awards, Best FX Order/Execution Management System at the Euromoney FX Awards and Best Buy-Side EMS at the WatersTechnology Buy-Side Technology Awards 2023.

IT'S NOT JUST ABOUT AWARDS THOUGH;

WHAT REALLY MAKES A GREAT EMS PLATFORM?

Obviously, there is a set of standard functionalities that any EMS platform needs to have in order to help buy-side firms of all shapes and sizes improve their FX trading capabilities. But going one step beyond this, we believe that there are — broadly speaking — four main pillars which differentiate EMS platforms today: Automation, Data, Workflow Solutions and Innovation.

Having high-quality data integrated into the platform is a major differentiator

1. AUTOMATION

Whether it's a result of market volatility, company growth, internal pushes for efficiency, etc, it seems like every buy-side firm that we talk to today is being asked to handle additional tasks, while Trading and Treasury teams aren't necessarily increasing at the same rate. As a result, we're seeing a broad push towards greater automation across the entire FX industry.

But while every EMS platform provider is touting automation tools, "Automation" itself is a very broad term. To some it means automating manual time-consuming processes such as grouping orders considering bank basket intersections. To others it can mean auto-executing low value orders where traders add little value. In our opinion, an EMS should be able to support full automation across the entire trade lifecycle, including low touch or full no-touch execution where trades are sent automatically from the Order Management System (OMS) or Treasury Management System (TMS) to the EMS, netted and executed based on a set of predefined parameters and using high-quality data as a benchmark, and then seamlessly transmitted back to the OMS or TMS without any human intervention.

The parameter setting capability built into the EMS is of vital importance for this type of trading. As extensive as the options are, where we have differentiated ourselves is in understanding the real use cases which clients face before and at the point of execution. Basic controls around currency pairs, notional size or time of day are standard but levels of liquidity in the market, what percentage of the bank basket is quoting, the speed of the quotes coming in are where we are helping bring an edge in the execution process.

Having high-quality data integrated into the platform which can be used as one of the parameters to ensure trades are never executing more than a pre-determined distance from the market midpoint is also, we think, a major differentiator. And it is critical that the benchmark used is accurate not just for spot but the entire swaps curve. Which brings us onto…..

2. DATA

Market data is the essential fuel of automation as real-time feeds can be used as a price tolerance check to help firms ensure that their execution performance is maintained (or even potentially enhanced), even with less human intervention.

We think that a key differentiator here though is the ability to support auto-execution across multiple products, not just Spot FX. That's why we have also integrated our in-house differentiator, the award-winning Swaps Data Feed (SDF) created by 360T and DIGITEC, into our EMS.

The SDF is a completely unique product because it is derived straight from the pricing engines of 20+ top FX banks. Alternatives exist but they are either from undisclosed sources, interpolated and missing critical market data points or simply aggregations which are not subject to the sanity checking process that Digitec affords us.

As such, it is really the only accurate tool for proving best execution and, crucially, can also be used as a tolerance check for auto-execution, ensuring that no use as both a tolerance check and to prove best execution trades are ever executed more than a predefined distance away from the market midpoint.

Also, many of the major third party feeds are fully integrated into the EMS for decision making assistance and checks for deviation from fixing benchmark orders.

3. WORKFLOW SOLUTIONS

Workflow optimisation is a top objective for just about any buy-side firm in operation today. As stated previously, their workflows can be particularly complex due to the large volumes of FX trades which they are trading on behalf of a wide array of funds, each of which might have different credit or execution requirements.

One example of an innovative new workflow solution that 360T is pioneering within our EMS is a "Split Risk" functionality, which enables users to automatically compete the forward points before directing their Fixing Orders to the successful market maker.

Another is the "Mixed Givens" solution, which allows buy-side firms to net currency pairs with varying notional amounts and then trade the leftover value in competition, helping to ensure that they get the most favourable pricing available. As part of this workflow, buy-side firms can receive automated-pricing from their counterparties and enjoy full post-trade straight-through-processing (STP) whilst also eliminating some of the "clean-up trades" often associated with these portfolios.

4. INNOVATION

All of the points above are examples of innovation, and we truly believe that this is crucial for any EMS platform.

In our experience, buy-side firms want technology partners rather than providers. This means understanding their needs not only today but also in the future and jointly developing a roadmap to build towards this which in turn benefits all clients. At a time when development resources everywhere are stretched thin, we see these firms increasingly looking towards their technology partners to help them continue to improve their FX trading.

For example, a number of our buy-side partners wanted to be able to trade Base Metals using the same streamlined workflows and automation tools that we have made available to them for FX trading. Working in close consultation with these firms we were able to build out this functionality within the EMS, providing an entirely new way for them to execute their Base Metals trading.

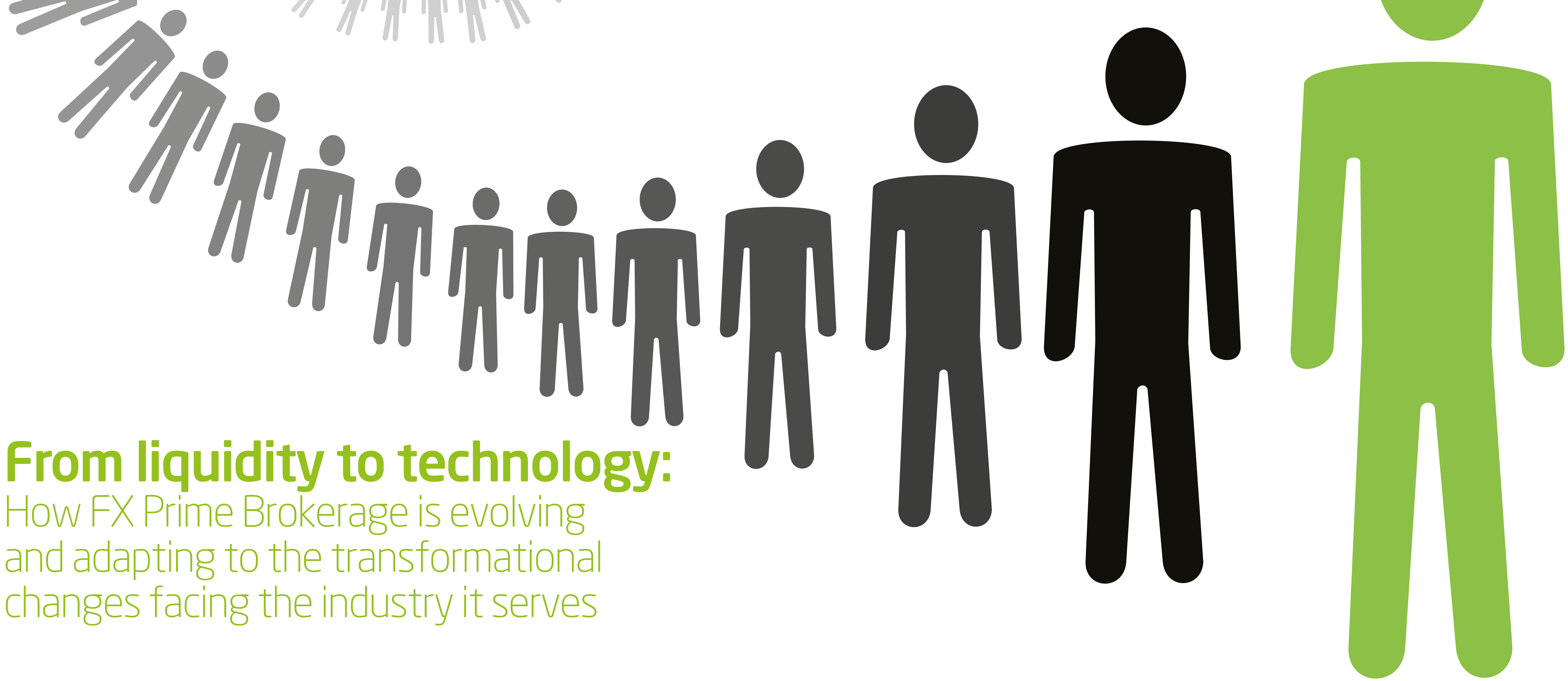
360T ensures that our EMS remains at the forefront of innovation through our commitment to conducting three new technology releases per year, which helps to ensure that our EMS remains at the cutting-edge of the FX industry and is able to develop alongside the evolving needs of our diverse and global client base.

FX is, and always has been, a highly competitive marketplace, and buy-side firms have a number of EMS providers to choose from. That's why we have always believed that to stand still in this market is, in effect, to fall behind and therefore we need to be constantly and proactively innovating both in response to existing buy-side needs but also anticipated ones.

CONCLUSION

Clearly, this is just a broad overview of what we at 360T consider to be the most important components of a modern EMS platform – in reality, each of these differentiating factors are worthy of an article of their own. It also hopefully helps to provide an outline for how we have, and continue to, develop our own platform.

While we are proud of what we've built at 360T, we also understand that there is no room for complacency and so we will continue to enhance and refine the features, tools and functionalities already on our EMS whilst still delivering new and innovative ones.



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From liquidity to technology:

How FX Prime Brokerage is evolving and adapting to the transformational changes facing the industry it serves

Vivek Shankar talks to some leading providers to discover more about some of the key issues that are influencing the evolution and growth of the FX Prime Brokerage market.

Vivek Shankar

The prime brokerage world has seen some significant volatility over the past year. Regulatory changes (like the EU's impending Digital Operational Resilience Act,) the rise of multi-asset trading solutions, technological innovations, and rising exchange fees have led prime brokerage providers to rethink their business models. Despite all this, the sector's outlook remains bullish. A recent report by Acuiti, in partnership with Standard Chartered Bank, detailed the rising demand from proprietary trading. Not everything is rosy, though. A separate Acuiti report noted concerns amongst smaller hedge funds regarding the consolidation in the prime brokerage world and its impact on execution risk. Prime brokerage service providers are facing tough questions from their clients and the industry, at large.

"The pace of innovation in Prime Brokerage has left the door open to some rogue operators who are doing little more than recycling liquidity from multiple existing pools."

Michael Ayres

"Legacy liquidity providers have been evolving their business models over the last decade or so," says Michael Ayres, CEO of Rostro Group. "Ultimately that has left a number of smaller players without good liquidity lines or provisions and as a result we've seen this dramatic expansion in the sector."

So how are they dealing with these changes, and what can we expect over the next year? Let's dive in.

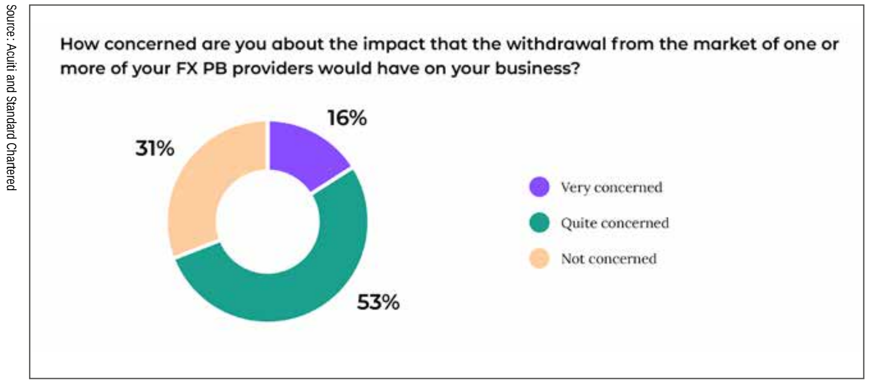
SECTOR CHANGES AND GROWTH AVENUES

Gerard Melia, Head of FX Sales at StoneX Group notes that electronic trading has increased recently. "There has also been an increase in requirements for multi-currency delivery services," he says. "Our client base depends on our reliability and cost-effectiveness to optimise their FX operations, while our portfolio of deliverable currencies allows them to scale their business quickly and efficiently."

The electronification theme ties into broader digital transformation narratives, with market participants increasingly seeking greater efficiency and reduced costs. James Dewdney, Associate Director, Institutional Sales at Saxo Bank, zeroes in on the latter.

"The aim of our institutional business is to help our partners leverage technology to achieve scale, with modest CAPEX/OPEX relative to the opportunity they aim to address," he says. He adds the quality of technology solutions on offer has created a positive innovation loop that isn't slowing down.

"The quality of tech solutions spanning compliance, CRM, risk management, dynamic credit, liquidity aggregation, trade matching, EMS/OMS, and data science are empowering smaller firms to offer service quality more akin to larger brokers."



The Rising Risk of FX Prime Brokerage Consolidation
How hedge funds are adapting to an ever more uncertain environment for FX PB

While regulatory changes have occupied prime brokerage service providers' minds, the FX Global Code has had a bigger impact on operations, according to 26 Degrees Global Markets' Chief Commercial Officer, James Alexander.

"The heightened scrutiny brought about by the FXGCC has encouraged liquidity providers to both generate and cancel far more quotes than was previously the case," he says. "This practice has the effect of lowering the need for longer 'last look' windows and lowers rejection rates."

While all of this is desirable, it has had infrastructure impacts. "It significantly increases the quote load on infrastructure and networks involved in the processing and transmission of quotes to clients," he explains.

"Liquidity providers would rather generate a quote and cancel/replace it quickly than be seen to be rejecting an order. This trend is expected to continue as major exchange and aggregation venues lower their quote throttles and increase refresh rates."

Coupled with these changes, Alexander says FX demand in APAC markets is strong. " It is clear that several Investment banks continue to target this region as a key part of their growth strategy for FXPB. This is not the case for other asset classes such as Equity and Equity derivatives."

Has the move to T+1 settlement had any effect on this demand, though? Alexander believes Asia will benefit from it. "Asian-based teams are well placed from a time-zone perspective to assist with the EOD settlement processing workflows that T+1 will require."

"The move to T+1 settlement for certain spot instruments should ultimately

"We feel that the traditional FXPB model is under pressure from emerging multi-asset brokers who can serve their clients' needs more effectively than traditional providers."

drive down settlement risk and margin requirements for FX PB," he continues, "driving growth opportunities once all parties 'bed in' the required infrastructure and operational changes needed for this change."

Rostro Group's Ayres believes growth is present, but not in established markets. "Traditional markets – places like Western Europe or Australia - may be well served but growth potential here is stagnating and that's why our proposition centres around actively reaching out to ensure underserved markets have access to the financial services that they need," he says.

"In recent years we have seen a divergence in rates, with various central bank policy shifts triggering the rate raising cycle we are going through now. This has made the FX market a more interesting place, with carry trading, treasury risk, and FX derivatives generally starting to gain more attention."

Dewdney adds that despite Tier 1 FXPB providers' reduced appetite for smaller NAV clients, growth is far from reduced. A shift to ROE (from revenue) has resulted in these providers reconsidering the business, making room for alternative FXPB providers to step in.

"This has led to greater innovation and competition," he continues. "FXPB activity is now spread across multiple players. From traditional Tier 1 banks through to Tier 2 banks, and NBFI 'prime of primes' who have leveraged effective technology and a specialised focus to capture market share."

FX's high daily liquidity (USD 7.5 trillion) and 24/6 availability offers a relatively cheap way of expressing macro views while incurring low transaction costs.

"Fintech innovation is challenging the status quo when it comes to payments and cross border transactions," Dewdney explains, "where increased transparency and awareness has led to greater customer scrutiny over fees."

Meanwehile StoneX's Melia offers a balanced perspective. "We've identified significant growth in the non-traditional FXPB business model," he says. As clients discover alternatives to bank liquidity and PB, new competitors have emerged. "They are well capitalised, have high regulatory standards, and provide emerging-market liquidity to compliment their G12 portfolio," Melia says. "In fact, we feel that the traditional FXPB model is under pressure from emerging multi-asset brokers who can serve their clients' needs more effectively than traditional providers."

Clearly, client expectations are posing some of the biggest challenges to FXPB's growth. How are these evolving and how are service providers aligning themselves to cater to these expectations?

Source: Acuiti and Standard Chartered

Regulatory developments have been occupying the minds of PB service providers

CLIENT EXPECTATIONS AND CATERING TO THEIR NEEDS

When asked why he feels traditional FXPB service providers are under pressure, Melia points to their inability to cater to client needs. "Recently, we've seen a handful of examples of bank PBs pulling back from supporting FX clients, and we suspect that this will continue to happen in the future."

"Banks, for example, have significant revenue requirements from their clients that manifest in the level of support and pricing offered to mid-market clients and below," he continues.

Melia clarifies that he believes Tier 1 PBs can offer high-touch services. Cost-effectiveness is the real issue. "They simply cannot do it in a cost-effective manner," he says. "This has created a huge opportunity for firms like StoneX to provide high-touch services and compelling pricing to satisfy this growing mid-tier market."

Ayres offers a few examples of features Rostro Group is focusing on. "On the liquidity side we focus our time on building strong competitive G4 pricing and also local market access to EM pairs that can drive higher yields for both our client and ourselves," he says.

"On technology, the ability to build out customer reports that allow our institutional clients to provide their finance, risk and support teams with a variety of information sets, bringing data to the forefront of our services sets us apart."

Ultimately, Ayres believes that counterparties expect cutting edge technology built in a secure and robust way that will integrate readily with their existing platforms.

Dewdney adds that agility is also a major factor powering the growth of non-bank and Tier 2 brokers. "They have shorter onboarding journeys and are more specialist to the segment they address. Prime of Prime's work well clearing Spot FX for retail intermediaries, however, they don't offer the derivatives products that will be required by most hedge funds."

He points to Saxo's suite of fully funded and derivative macro products; equities, ETFs, fixed income, listed derivatives, FX options, swaps, and NDFs as an example of the kinds of products hedge funds demand.

"FXPB activity is now spread across multiple players. From traditional Tier 1 banks through to Tier 2 banks, and NBFI 'prime of primes' ..."

Whilst 26 Degrees' Alexander continues this theme. "As a non-bank PB ourselves," he says, "a key advantage of 26 Degrees is our multi-asset solution which is delivered via a single facility."

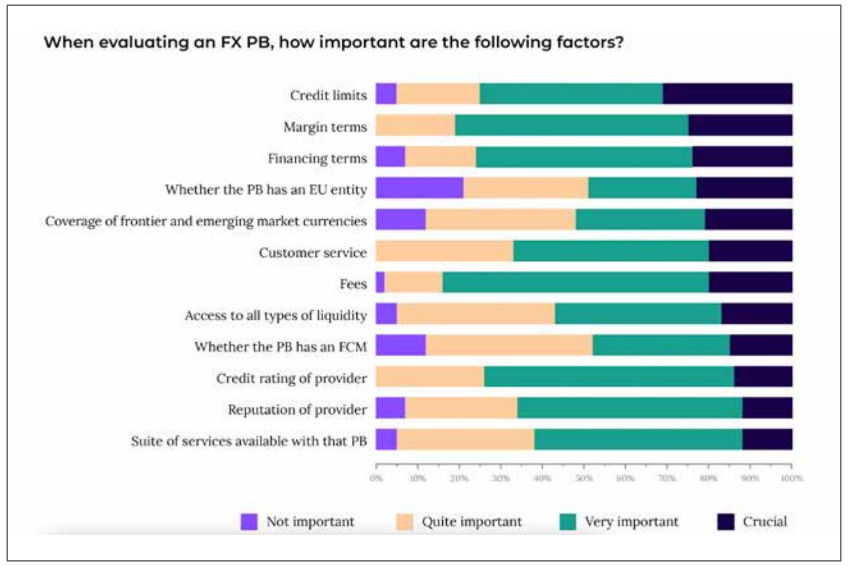
"Delivery of exchange and OTC pricing, execution, and clearing are combined with liquidity optimisation and TCA. The integrated nature of the offering is not generally available from investment bank PBs."

Alexander zooms out and offers insight into why bank PBs are not offering these products and services, "Global investment banks continue to feel the pressure of regulatory changes in FXPB, largely due to increasing capital requirements."

He says much of this is driven by the regulatory pressures brought about by Basel II and Basel III. Many buy-side firms as a result are now actively considering or pursuing a strategy of PB diversification.

"Many clients or former clients have become increasingly disenfranchised by the diminishing service levels and more costly access to liquidity and clearing services they face."

This disenfranchisement combined with technological advances has resulted in clients unwilling to tether themselves to a single PB. Instead, Alexander says, they're looking for



Source: Acuiti and Standard Chartered

The Rising Risk of FX Prime Brokerage Consolidation
How hedge funds are adapting to an ever more uncertain environment for FX PB

"The heightened scrutiny brought about by the FXGCC has encouraged liquidity providers to both generate and cancel far more quotes than was previously the case."

James Alexander

FXPB facilities that can interoperate seamlessly between primary and backup providers.

"Efficient give-up workflows, pre-trade margining with more accommodative terms, and integrated liquidity construction, optimisation, and reporting are all now considered 'must haves' in the multi-PB environment," he explains.

"Specifically on liquidity, ever more sophisticated quote filtration and curation are being demanded from trading systems. Consumers of liquidity, especially those who execute electronically using algo executions or AI models rely on a well-curated price to ensure that various trading models and execution systems are running as optimally as possible," he says.

Sector events like the exit of Credit Suisse as an LP in FX and precious metals have disrupted liquidity in spot markets. "Quote filtration logic needs to have the flexibility to address this heightened volatility," Alexander says, "even during low liquidity periods where a smaller cohort of liquidity providers may be actively pricing."

Saxo's Dewdney says agility and access are top customer demands, and his bank caters to these needs on priority. "Customers of traditional FXPB's manage technology arrangements themselves and notify their PB post trade," he says.

"At Saxo Bank, we perform a pre-trade credit check (several nanoseconds) and offer our partners a choice of managed liquidity pools, semi or fully-disclosed liquidity (including Customer2Customer), over a hosted technology stack."

Dewdney adds that Saxo offers execution transparency to fix message level, indicating which LPs were transacted with, at what rate, and with millisecond timestamps.

"We recognise that flexibility is also important to our partners, and this is why Saxo Bank's FXPB offers connectivity in multiple data centres, across a variety of vendor solutions and accepts cash and securities as collateral," he says.

Client expectations are posing some of the biggest challenges to FXPB's growth

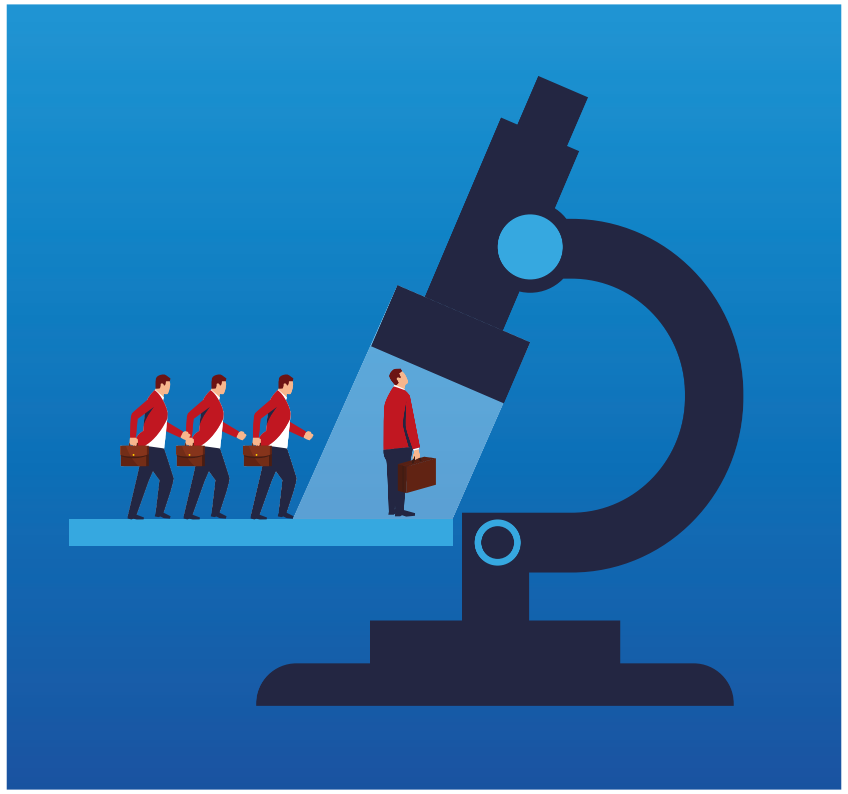
PB CONSOLIDATION RISKS AND CHOOSING A BROKER

While non-traditional PBs continue to rise, market participants remain focused on the elephant in the room. Namely, the consolidation of the FXPB sector and the risks emerging from it.

Ayres states that Tier 1 PBs' shift in behaviour has its roots well in the past. "The shift stems back to the global financial crisis and was accelerated further by the Swiss Bank removing the Franc/Euro peg," he says, "yet the market remains efficient and functioning to meet the needs of participants."

"Arguably the biggest risk comes from a regulatory perspective," he continues. "The G20's Financial Stability Board recently commented that it was working to ensure NBLPs were resilient and that's to be applauded. As this cohort accounts for an ever increasing volume of capital, it's only prudent that robust risk protocols are in place for the benefit of all."

Dewdney offers some perspective here. "The consolidation is really amongst the traditional FXPB's," he says. "Outside of that group, there are several options available to clients and I can't imagine a world in which they cannot access credit and liquidity somewhere, albeit the counterparty type and expected workflows may differ."



Evaluating an FXPB has always been a critical task

Alexander strikes a more cautious note. "The consolidation in the FXPB sector is material and is going to continue in our opinion," he says. "Access to credit is becoming harder, margin requirements are increasing and NOP limits are generally becoming more conservative."

He notes that many buy-side firms and broker-dealers are feeling constrained. Most of them are unfamiliar with the role that a non-bank PB can play as part of the solution.

"Integrated liquidity management and more accommodative margin terms (applied on a pre-trade basis for prudent risk management), are two material benefits," he says. "As is the margin benefit that can come from multi-asset diversification within a single portfolio."

He adds that the biggest commercial impact will be increased facility minimums, not necessarily higher clearing fees. Non-bank FXPBs offer a significant advantage here since facility minimums are far lower with these providers.

"Many non-bank PBs support three and four-way give-ups to various Tier 1 prime broker venues ensuring there is no loss of netting or collateral efficiency when dealing with more than one counterparty," he explains.

Given this general unfamiliarity with the non-bank FXPB world, how would he recommend firms evaluate potential partners? "Low latency price formation in OTC products is very much a base requirement," Alexander says. "With more processing of quotes and orders comes more load and a highly resilient/redundant set-up has never been more critical."

"The level of effort and investment that is applied to ensuring maximum resiliency continues to rise. As an example, for the ingestion of market data, 26 Degrees deploys multiple data vendors, each cross-connected in multiple locations providing hot-hot backup capacity to all clients across our server network in NY4, LD4, and TY3," explains Alexander.

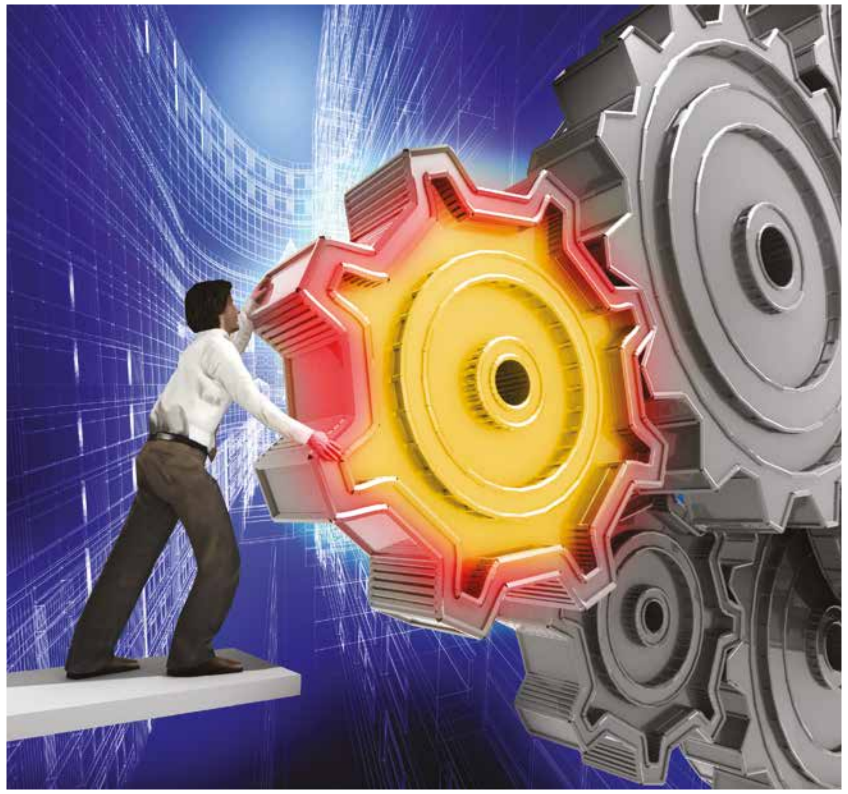
"In turn, each of these pricing/trading servers is backed-up hot-hot with real-time replication from full spec servers in a separate data centre."

Ayres also strikes a note of caution. "The pace of innovation in Prime Brokerage has left the door open to some rogue operators who are doing little more than recycling liquidity from multiple existing pools," he says. "That's problematic when it comes to mitigating market impact or avoiding contention especially in fast moving, less liquid currencies."

He says looking beyond headlines and ensuring awareness of price construction beyond the underlying market and keeping an eye on transaction cost analysis are essential. "Ultimately this remains a highly commoditised space," he says, "so the ability to work profitably will always lie with a counterparty's ability to bring something unique to the table, rather than simply repackaging what is already out there."

StoneX's Melia adds, "With the right partner, clients can avoid the significant costs of managing multiple PBs and liquidity providers, as well as the necessity of employing FX Operatives to manage their exposure and curate liquidity."

"The savings for clients can be significant," he continues. "Clients don't need to constantly analyse the FX market to identify trends in technology and liquidity – this service is provided by a capable prime broker."



Automation in Prime Brokerage is set to increase

Melia says scrutinising the service provider's balance sheet, regulatory framework, reputation, global footprint, and multi-asset capabilities is critical.

Dewdney notes that evaluating an FXPB has always been a critical task. "The focus should be to 'do it once and do it right'," he says. "This should not be underestimated for smaller firms whose limited headcounts wear many different hats simultaneously."

"Performing the required DD/KYC/ AML to onboard and thereafter integrate new processes, API's, EoD files, user accesses, and test the different flows is a lengthy process."

How can clients go about evaluating all of this though? "I would urge clients to scrutinise the technology, business processes, available products, regulatory status, and credit profile," he says.

"I would also suggest considering the roadmap and checking if that prime broker can cater to your growth trajectory. It's also worth understanding what the client service looks and feels like – where are they based, what are their coverage hours, etc."

Dewdney adds that these assessments should be viewed from a value perspective, not just costs. "If a single counterparty solution for multi-asset trading and custody improves operational performance, it will be worth more in the long run than a convoluted arrangement of slightly cheaper alternatives," he says.

HOW WILL FXPB EVOLVE?

Given the volume of changes FXPB has experienced over the past few years, market participants can expect even more changes and Tier 1 consolidation to occur. From an APAC perspective, Alexander believes the reduction in US settlement cycles is a positive step forward.

"More broadly, this reduction in settlement risk should see pressure on margin requirements ease. As a non-bank PB, we can offer our clients synthetic, non-deliverable spot FX where positions are auto-rolled daily, meaning our clients can hold spot FX and Metals positions indefinitely with daily Credits or Debits posted in lieu of swap rates," he says.

Ayres pinpoints one key issue he believes will shape the path of FXPB. "The ability to track, in an accurate and timely manner, the fast evolving shape of credit and concentration risk," he says. "This is exacerbated by market fragmentations as the global weight between US, Asia, and now MENA shifts."

"Being able to work with some of the specialist technology vendors in the market that are addressing this area is going to be critical for primes as they scale their businesses globally," he states.

Dewdney thinks automation is set to increase, given the pace of technological development. "A key area where we see this happening is for liquidity management and flow segmentation," he says. "Understanding trading behaviours in real-time will allow brokers to better understand their clients, and help their clients understand their own business even better."

Melia says the number of non-bank PBs is set to increase. And that this increase is unlikely to harm the quality of services on offer. "The market has long been dominated by banks, but we're seeing a significant increase in the number of non-bank financial institutions with strong balance sheets and high-quality liquidity servicing this sector far more effectively than the traditional prime brokers," he says.

Change is constant in the FXPB world. However, clearly, not every change is bad news.

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