

Risk, Research and Red Tape:

FX e-commerce caters for a changing demand-side

Order
Management

Pricing

STP



By Frances Maguire

Increasing regulation and a renewed focus on risk management, alongside a growing and more demanding buy-side has meant that FX e-commerce providers are enhancing and revamping their platforms. Frances Maguire explores how some of the leading players are looking to grow their market share.

Earlier this year, BNP Paribas launched a sophisticated new eFX platform, called BNP Paribas FX eTrader, which, according to Andrew Cohen, head of e-commerce strategic initiatives at BNP Paribas, has been met with a very positive reaction from clients. Volumes have already increased sharply in the first few months since launch.

The FX-only platform handles streaming spot, forward, FX swaps, sophisticated, simple and algorithmic orders. BNP Paribas FX eTrader replaces an older system, which was mainly used inside the bank. Before rolling out externally, BNP Paribas FX eTrader was initially deployed internally to more than 1,000 users, in 58 different locations, as a test-run to prove that it worked globally on an industrial scale, 24 hours a day.

Cohen says: "We thought that it was a very good test-bed – to get every single one of our internal marketers to use it, as well as our traders, options traders, internal clients, and subsidiaries, before we actually went to our external clients. When we were completely happy with it we started to roll it out externally to clients."

The decision to rebuild the platform came from a realisation that a large amount of client business is today concentrated around single dealer platforms and the bank needed a sophisticated one to compete effectively. Cohen says that BNP Paribas has big ambitions within the FX world and needed a very strong single-dealer offering to realise these ambitions.

Streaming prices

The majority of streaming prices for the single dealer platform are delivered over the intranet to the GUI, although a direct connection is also available. BNP Paribas also uses other distribution channels, such as a streaming API and multi bank platforms.

"BNP Paribas can connect to a client's own aggregator and stream prices via our API, or alternatively, we can stream prices to a multi bank platform. BNP Paribas

has been streaming prices to multi bank platforms for many years and have had a consistently high ranking on them” Cohen says.

BNP Paribas FX eTrader, the bank’s single-dealer platform, offers an execution order management system, within the front end, that gives clients the ability to leave orders and to manage their orders within that system, as well the ability to amend or cancel them. For those users, with standalone order management systems, with different depths of order management, BNP Paribas could connect to them via its API. Cohen adds that some of the newer, less common features, such as training stops, are proving popular in its single dealer platform.

BNP Paribas FX eTrader has given BNP Paribas an opportunity to build and offer much greater post-trade support. It offers three types of STP, via the major STP providers. Cohen says: “What we are hearing from clients is that they don’t want to do bespoke work with each bank. The general trend is that clients use one or two of the third party providers so we offer STP solutions via these platforms and handle the integration work for the customer.” Furthermore, FX e-Trader is being hooked up with BNP Paribas’s very well established cash management platform Connexis.

For Cohen, the biggest requirement users are demanding from providers is consistent pricing and service from a robust and reliable platform, alongside the functionality to do everything they want to do, from streaming spot, to FX Swaps in all the currency pairs they need to trade, and finally, visibility on all the trades, reporting and STP.

Stamos Fokianos, managing director and global head of FX eTrading at RBC Capital Markets, says that the bank is aggressively forging forward with some significant enhancements to its FX e-commerce offering and feels the time is right to invest further in its infrastructure, talent and overall client offering. “We are looking at every part of our business to find places where we can improve our service, enhance our offering and build on the success we have had to-date,” he says.

Some of the areas Fokianos plans to explore include enhanced pricing models, reducing some latency and improving risk management.

Currently, RBC’s e-Commerce application, FX Direct, includes an order book enabling customers to leave orders for execution by RBC and connect to portals, such as FXall, Currenex and Bloomberg Spot.



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Competition between top 10

Fokianos says the competition between the top 10 banks is fierce and it is driving a lot of innovation in the industry. “Remaining static, in terms of capabilities and improvement to client service, is a recipe for losing market share in this market. RBC wants to ensure we remain competitive in this market by building on our success and enhancing our offering on a global basis.”

“This really isn’t any major shift in our philosophy or change in direction at RBC. We are simply going where our clients and their increasingly sophisticated needs are taking us. We are expanding our capabilities, adding top talent and focusing on ways to enhance our service,” said Ed Monaghan, Global Head of FX at RBC.

Fokianos says RBC’s new platform will feature an expansion of the products available and improved efficiency in processing. Fokianos believes there are a sizeable number of clients who desire to connect to the bank directly, placing orders through their order management or treasury management system. RBC is also working on upgrades to their FIX API to make processing more seamless throughout the lifecycle of the trade to reduce errors and missing confirmations, especially for those corporates not using Swift.

According to Fokianos, a number the enhancements will benefit real money managers with complex



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needs and corporate customers that want to instruct payments. “We feel the key to adding value is providing robust, client driven, analytical information.”

He says: “In this competitive FX market, desktop space is at a premium. If you wish to be relevant to your clients your offering has to add a lot of value. Providing efficient transaction processing, access to a breadth of products and robust information capabilities are of value, and interest to today’s sophisticated client.”

RBC will launch its new capabilities in a phased approach, providing it to key clients looking for specific functionality. “As we add functionality, we will roll the system out to a wider group of clients as it applies to their specific needs.”

While there is much uncertainty about the future regulatory treatment of OTC derivatives, and within that between FX swaps, forwards and options, Fokianos says that if every trade, that has a forward maturity, has to be reported to the regulators, a very big investment will be needed, in terms of management information systems.

“We are hoping that there will be some rational debate around this. While options can be seen as a speculative instrument but in my book, options are not there for leverage they are there for hedging,” he says.

Price differentiation

Fergal Walsh, Co-Head of FX eTrading at Citi says that when the bank was building the backbone for its Velocity platform and FIX distribution infrastructure, it reviewed the generation and distribution of streaming prices and, with an eye on the future, honed in on scale, liquidity and price differentiation in an effort to meet the diversified needs of clients on Velocity and to differentiate its pricing to its clients on multi-bank distribution channels.

He says: “We’ve invested in a truly scalable and flexible infrastructure – from price generation and distribution engines to matching, acceptance and risk management systems. We could be accused of over-engineering – a bit like building a fallout shelter in the latter half of the last century – you’re pretty sure or hoping you’ll never need it, but nice to know it’s there if all goes pear shaped. In the nuclear markets of May 6th - this flexibility and scale allowed us to stay in the game, meeting clients needs throughout the turmoil and market making right through the volatility spike.” Developing the complete array of order types that clients may choose to trade with on an e-commerce platform is complex and time consuming work, yet vital to remaining competitive. From traditional FX orders that are routed to a trading engine or a desk, through to algorithmic orders running from



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some of the most advanced models available, Citi is extending the distribution of these capabilities to as many destinations as a client may choose to execute from. Walsh says: "While streaming risk pricing is the core product of any market-making bank, the range of available order functionality is going to be a key point of differentiation in future. The FIX Standard continues to simplify the task of distributing these capabilities to a broad array of destinations."

CitiFX has invested a significant amount of effort into this aspect of its electronic product suite over recent years. For some organisations, having access to real-time risk metrics, alerts, effective exposure and cash flow reporting is as important as the provision of competitive liquidity. The CitiFX Click platform is our real-time reporting suite that covers these requirements and more. It is very customisable and gives clients the ability to review P&L, trades & positions at group and portfolio level within a couple of swift 'clicks' on the interface.

Research and analytics

James Dalton who runs the CitiFX Intelligent Orders team says that Citi's approach to the distribution of research material and advisory product is evolving rapidly; the relatively static portals of yesteryear no longer cut it in an environment where media consumption patterns are evolving at breakneck speed, alongside the technology available to browse it, and Citi is currently working on several initiatives, designed to break down the traditional model. Says Dalton: "Allowing our customers to analyse hedges held with other counterparties across multiple entities, enables them to make informed decisions based on their total FX and risk portfolio. When it comes to daily trading and cash management, clients are able to perform automated consolidation of exposures across a global network, with hourly executions providing full STP automation. Citi's global network also allows clients to deal directly in onshore currencies from a head office level, with the same seamless execution and settlement as the rest of the CitiFX product suite."

According to Dalton, breadth of product is a key strength of the CitiFX e-commerce platform. Many asset managers that execute FX for passive businesses also manage active portfolios. Their post-trade processes need to be robust and consistent across all flows.

Benchmark execution has its place alongside aggressive risk pricing, depending on the nature of the underlying business. The provision of algorithmic



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order types is also crucial for those orders where stealth and transparency are paramount, which is something Citi provides via the Intelligent Orders Suite. As the interpretation of best execution tends to vary between clients, Dalton says Citi needs to be able to match up product to their expectations accordingly. He adds that Citi is closely tracking the alternative business processes required to handle this kind of sweeping regulatory and compliance change in the market. He says: "Thankfully we've already made changes to our infra-structure and product suite that does not require much more than fine tuning for us to cope with any incremental reporting or margining requirements."

Since the Morgan Direct platform was launched 18 months ago by JP Morgan, it has supported real-time streaming executable prices 24 hours a day, 5 days a week, for up to US\$100m notional value for G7 currency pairs. JP Morgan also provides streaming pricing for NDF currency pairs. Eddie Wen, global head of e-commerce for FX and Rates at JP Morgan, says: "Most of our transactions that occur on electronic platforms today are done on streaming prices. Users run an application, see the live two-way prices and click on the price and the deal is done. Users can enter a notional amount, and the price reflects the liquidity available."

According to Wen, streaming prices have now replaced RFQ as the business norm in execution. For the more

complex instruments, in options, a combination of streaming prices and RFQ is still used. “For the fixed tenors and rates, there are streaming rates that are constantly ticking and updating, and when they choose a deal it will automatically request for a dealable price for that very specific strike, auto-priced and execute, so it is a hybrid between streaming and RFQ.”

Order Management

One of the areas of greatest focus at JP Morgan is order management. The bank is putting a lot of emphasis on giving clients the ability to work orders on an electronic platform. He says: “This includes the basic functionality, like being able to electronically accept and manage standard take-profit and stop-loss orders over MorganDirect, as well as providing an API so that orders can flow directly from our clients’ trading systems into ours.”

JP Morgan is also enhancing the number of order types supported on the platform. Besides standard take-profit and stop-loss orders, a product called AlgoX supports a suite of algorithmic order types, such as TWAP+ and Sliceberg. These specialized order types are designed to satisfy clients’ specific execution needs. “For example, a very large order can be worked over a long period of time, either hours or days, and have the risk dissipated gradually in smaller pieces,” he adds.

Wen says that liquidity is an issue in the current volatile markets and it is putting pressure on execution spreads for large orders. As a result JP Morgan is encouraging customers to use orders as a means of execution as this reduces the amount of price impact on the trade, improves spreads, as well as allowing users to disguise the order flow a lot better.

Post trade initiatives

On the post-trade side, JP Morgan has Morcom, a post-trade online portal that consolidates voice and electronic trades across multiple assets into a single portal. He adds: “Clients want a full back office solution. We also have developed many post-trade features so clients can roll their trades, allocate splits, aggregate trades, and provide settlement instructions. Now that this is done directly with electronic tools it eliminates much of the manual labour and errors in post-trade services.”

While much of the initial focus has been on online execution, Wen says the operational workflow of a transaction is very important to some clients, and



Eddie Wen

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likely to become even more critical, especially in the light of current regulatory discussions about post-trade repositories and reporting.

Wen also believes that the greatest drivers towards electronic trading are price transparency, clear audit trail with time stamping, and timely provision of information. It is these benefits, and the ability to show best execution, he says, that will continue drive more electronic execution.

“With what is coming out of many regulatory discussions, it is clear that the regulators are looking for greater transparency in the marketplace and the electronic solutions are best suited to provide some of that transparency,” he says.

UBS’s FXTrader Plus platform has one-click executable streams in all major currencies, precious metals and NDFs. Where market liquidity does not normally support streaming (e.g. most NDFs or very large ticket sizes) the application automatically offers an RFQ. Simon Wilson-Taylor, managing director, global head of FICC eCommerce, at UBS says: “Our executable streams provide access to UBS’s core FX liquidity, as well as blended market liquidity and allows clients to place bids and offers into the system.”

While UBS does not offer an order management solution, its e-commerce integration specialists work closely with customers to advise and integrate to the right commercial and bespoke solutions for their needs.

Fully integrated STP

Wilson-Taylor says that UBS has long set a very high standard for pre and post-trade services, and is really one of the only banks to offer fully integrated STP as part of its range of e-commerce services. The FXTrader Plus platform includes access to its industry leading FXWeb product for research and trading ideas, and to FXBuzz for current events and market colour, while its Keylink platform provides comprehensive cash management services, including trading and STP.

There are many ways in which UBS support clients requirements with customised e-FX solutions to cater for their auditing and best execution requirements, ranging from MiFID-compliant, multi-asset class, trading services in Europe, to time-stamped and benchmarked execution services, to comprehensive post-trade reporting and analysis.

John Miesner, managing director and global head of sales, Hotspot FX says that as the first institutional FX ECN, Hotspot FX has always delivered real-time executable streaming prices. “We deliver our data in one of two ways. Either through our FIX market



John Miesner

“We deliver our data in one of two ways. Either through our FIX market data protocol, which provides 50 millisecond updates of our market or, through our ITCH market data protocol, which provides streaming updates for every event that occurs in our market,”

data protocol, which provides 50 millisecond updates of our market or, through our ITCH market data protocol, which provides streaming updates for every event that occurs in our market,” he says.

Hotspot offers a traditional GUI, as well as access via Knight Direct, Knight’s multi-asset order management system to trade equities, options, futures and foreign exchange, via a single application. Knight Direct also provides users with access to a suite of algorithms and strategies in equities, options and FX. Additionally, users can access the platform through leading third party platform providers, or directly via Fix or Java APIs.

Three Tier Credit model

Miesner says: “We continuously work with our prime broker banks, post trade providers, and software vendors to optimise STP, trade reporting and settlement solutions. In addition, we are always searching to improve our technology and product offering for post trade solutions. For example, we just introduced our ‘Three Tier Credit’ module, where secondary prime brokers can more efficiently manage their client relationships within their prime brokerage structure. We are also upgrading our trade feeds with our prime broker banks, which will allow faster processing times as well as improving flexibility in trade data transmission. He also adds that as an



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electronic execution platform, every transaction has a log file that can illustrate best execution, time of execution, time of entry into the market, number of matching counterparties. In short, all the data that a regulatory body would require upon audit, would be available on behalf of a client that is required to provide such information, and is available upon request.

At FXall real-time executable streaming prices is supported through its QuickTrade offering which provides traders with a state-of-the-art request for stream service from over 70 liquidity providers. Clients use one front-end to access over 500 currency pairs, and even the largest transactions can be executed in seconds with the tightest prices on offer from FXall's providers.

Phil Weisberg, CEO of FXall, says: "We also have an active trading product, Bank Stream, which delivers continuous, multiple rate streams with instant execution, deep liquidity and sophisticated order types. Many clients use our GUI front-end to leverage the power of their relationships, but some also use our API and market data."

FXall's advanced portfolio trading tool, Portfolio OMS, streamlines foreign exchange workflow for asset managers and corporations alike. It reduces the effort required to execute an entire portfolio of trades across multiple allocations, currencies and forward dates.

Settlement Center

Settlement Center is FXall's automated post-trade service, which provides clients with a robust, secure and efficient solution for managing complex settlement instructions that can be implemented on a stand-alone basis or fully integrated into a complete end-to-end execution and settlement workflow solution. Clients achieve a high degree of control over their operational processes for all trades executed, whether on FXall's platform or elsewhere.

According to Weisberg: "Our ongoing commitment to system enhancements assures clients that our platform is capable of executing even the most highly structured settlement instructions and ensures that they will be prepared to handle any new regulatory requirements that may arise in the future. By linking the buy-side to the sell-side, we are able to reduce the confirmation cycle dramatically, from as long as ten days down to a couple of hours or even less."

Enhancements to the Settlement Center include



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custodial notifications, a settlement instruction database, split payments, netting and automation of prime brokerage give-ups. As an execution platform, FXall also offers transaction cost analysis tools developed in conjunction with ITG, as well as Execution Quality Analysis reports to provide insight for clients around the best trading method to meet their specific objectives.

Trade data reporting

Weisberg says that advanced control and compliance capabilities are embedded in FXall's platform, helping clients meet internal and external rules and fiduciary standards. Trade details are automatically captured and reported at every stage of the deal lifecycle, providing an unbroken audit trail and providing a basis for comprehensive analysis and evaluation of trades. FXall offers comprehensive reporting capabilities that can be tailored to client needs, and are among the first to offer sophisticated analytical tools, such as execution quality analysis reports, that provide insight around trading methods to support fiduciary compliance, improved performance and best execution.

"We continue to invest in our Settlement Center platform to provide the most efficient post-trade process and support for CLS settlement as we believe the focus on this for transparency and trade data reporting will become increasingly critical in the future," says Weisberg.