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## **LAST LOOK**

Does new guidance from the GFXC go far enough?

## **SINGLE DEALER PLATFORMS**

Where are we heading?

## **FX RISK MANAGEMENT**

Assessing the benefits of outsourcing

## **PRIME OF PRIME BROKERAGE**

What's propelling change in the FX market?

## **WHITE LABELLING MT5**

How service offerings are evolving

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COVER INTERVIEW

## **ANDREW RALICH**

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### October 2021

This month we examine the recent guidance paper released by the GFXC that focuses on last look. The FX Global Code already sets out principles of good practice for last look and also provides illustrative examples. The intention is for the new guidance paper to provide further clarity to market participants about the appropriate usage of the practice. The guidance paper reinforces Principle 17 of the Code by emphasising that last look be applied in a fair and predictable manner, and that the process is intended to be used for the price and validity checks only, and for no other purpose. Whether the new guidance goes far enough in dealing with all the issues of concern raised by various market participants is debatable but by acknowledging the deficiencies in the last look process and working to try and address these the GFXC has undoubtedly taken a positive step in the right direction. Anything that brings more clarity about market microstructure is surely to be welcomed.

Our Special Report in this edition explores the fast evolving FX Prime of Prime brokerage market and the various factors that are at play here. The range of PoP solutions is broader than ever before and there is an increasing focus on multi-asset capability. PoPs are not for everyone and there are pitfalls in using their services, but they do play a role in helping to make the market safer and more robust by diffusing risk and of course they provide important services for those trading firms that can't access the Tier 1 prime brokers due to balance sheet or other commercial constraints. The PoP market seems to have been largely resilient during the recent COVID-19 pandemic with many providers thriving as a result of higher transactional volumes resulting from the increased volatility. So it will be interesting to see if this upsurge in trading and business activity is maintained as the PoP industry positions itself to capitalise on the growing interest in the online trading of many new asset classes and instruments that is currently taking place all around the world.

A final word about next year where we will be publishing e-Forex bi-monthly (six editions). This is because we are producing more Handbooks and Special Supplements that will deliver more in-depth commentary and analysis that will complement the magazine.

As usual we hope you will enjoy reading this edition.  
**Charles Jago** Editor

**Susan Rennie**  
Susan.rennie@sjbmedia.net  
Managing Editor

**Charles Jago**  
charles.jago@e-forex.net  
Editor (FX & Derivatives)

**Charles Harris**  
Charles.harris@sjbmedia.net  
Advertising Manager

**Ben Ezra**  
Ben.ezra@sjbmedia.net  
Retail FX Consultant

**Michael Best**  
Michael.best@sjbmedia.net  
Subscriptions Manager

**David Fielder**  
David.fielder@sjbmedia.net  
Digital Events

**Ingrid Weel**  
mail@ingridweel.com  
Photography

**John Jeeves**  
john@kjwebsites.co.uk  
Web Manager

**SJB Media International Ltd**  
Suite 153, 3 Edgar Buildings, George Street,  
Bath, BA1 2FJ United Kingdom  
Tel: +44 (0) 1736 74 01 30 (Switchboard)  
Tel: +44 (0) 1736 74 11 44 (e-Forex editorial & sales)  
Fax: +44 (0)1208 82 18 03

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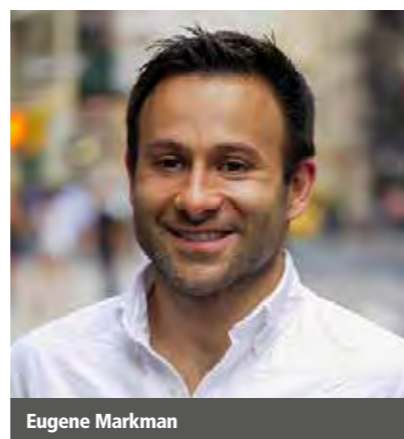
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## MarketFactory partners with Tradefeedr

MarketFactory, part of ION Markets, a leading global provider of trading, analytics, and risk management solutions for capital markets, has announced a new partnership with Tradefeedr, the independent FX data and analytics provider. The Tradefeedr data and analytics platform is now fully integrated within MarketFactory, enabling clients to review their trading markouts, impacts, and spreads directly with liquidity providers, using a common platform and shared data sets. Tradefeedr's data analytics solution will be available as an add-on to new and existing customers using the MarketFactory service. Tradefeedr has created a common,

truly independent FX trading database allowing market participants across the sell-side, buy-side, regional banks, hedge funds, brokers, and central banks to connect, analyze their trading data, and collaborate. In June 2021, Tradefeedr launched its FX data analytics platform with more than 15 leading sell-side and 20 major buy-side firms onboarding and another 20 in the pipeline. "MarketFactory's partnership with Tradefeedr will broaden our offering to clients, providing shared data sets through one unified platform. The combination of MarketFactory's end-to-end connectivity and Tradefeedr's unified, analysis-ready data is a

compelling proposition in a market where real-time data-driven decision-making is key," commented Eugene Markman, MarketFactory Chief Executive Officer.



Eugene Markman

## FXSpotStream deploys new low-latency architecture

FXSpotStream (FSS) has announced the deployment of a new low-latency architecture. The new architecture, which will be deployed globally, will deliver substantial improvements to the Service's market data processing times. The project is already underway in the New York site and will involve a full overhaul of the existing infrastructure in place for FSS' liquidity providers and clients. Once in production starting Q4 with a phased roll out in New York followed by London and Tokyo in Q1 of next year, market data processing times under all market conditions are targeted to not exceed a maximum of 250 microseconds. Additionally, the new architecture will provide scalability to allow the Service to maintain the same performance levels as FSS continues to grow.

FXSpotStream Co-Founder and CEO, Alan Schwarz commented, "We have grown tremendously since our

launch in 2011 becoming the 3rd largest FX Service by volume with an ADV this year at USD48.5billion. At the same time, we have placed great importance on the speed and quality of our market data distribution. Our aim is to provide our clients plus liquidity providers the best-in-class infrastructure and prioritize the performance and reliability of the Service in the same way as our deep product offering. Ensuring that our clients receive pricing and can send orders in a timely manner is of critical importance. We have set a baseline targeting that clients' market data latency in all market conditions, including during peak periods, will not exceed 250 microseconds. As a result, we will see times that are much faster than this target, but we are setting a maximum time to provide a level of consistency in performance during periods of high market volatility. As we look forward to the next



Alan Schwarz

decade, we remain very bullish about our business. We recently launched over our API support for all of our banks' Algos and supported Allocations functionality. In just 2 months since we went live with our Algo offering we have already supported USD3.2billion of client Algo orders. Work to add a GUI to support Algos and Allocations is underway and is expected to be live by late Q1 2022."

 Institutional

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## Pico launches ultra-low latency venue connectivity

Pico, a leading provider of mission critical technology, data and analytic services for the financial markets community, continues to advance its globally comprehensive technology solutions with the introduction of ultra-low latency venue connectivity. Pico's ultra-low latency solution supports clients with latency-sensitive trading strategies requiring highly accurate views of the market and faster execution times. Utilizing high-performance Layer 1 switching technology, Pico can now achieve one-way market data latency of 5-87ns and round-trip latency of 140ns for order entry (an 80 percent reduction from standard Layer 3 access). This new Layer 1 offering is

supported by Pico's global engineering expertise and instrumented with its best-in-class Corvil Analytics assuring operational performance, transparency, and visibility. Corvil's real-time analytics continuously monitors Layer 1 switch transit latency, with immediate alerts generated if nanosecond thresholds are violated, providing maximum operational transparency for latency-sensitive trading. End-of-day reports on details including message rates, microbursts, and gap detection give clients important service assurance visibility. "Layer 1 access is an important component for many trading strategies and Pico's advances in optimizing exchange connectivity latency set a new benchmark which gives clients



Roland Hamann

the ability to gain a significant competitive edge," said Roland Hamann, Chief Technology Officer & Head of APAC at Pico. Layer 1 connectivity is available across venues in North America, Europe and Asia-Pacific (APAC), with Pico's global service delivery team providing the required support for this turnkey solution to ensure rapid time to market.

## CMC Markets upgrades technology suite with Quod's FX platform

CMC Markets Connect has announced an upgrade of its technology stack to facilitate SpotFX pricing. By leveraging Quod Financial's FX Market Making expertise and its AI/ML-powered algorithms, latency across existing infrastructures has been reduced, shaving valuable microseconds off transaction times. CMC's trading engine optimises price feed management and is delivered in a single feed for clients. The solution provides consistent competitive pricing and improves liquidity offering for clients, with access to 63+ Spot FX pairs and precious metals. At the core

of its technology resides the extensive application of Quod's shared memory communication for low latency trading, inflight data manipulation and AI/ML-powered decision making. The technical



Richard Elston

integration between Quod's quoting servers and CMC's trading engine optimises price feed management, powering CMC's ability to act as a liquidity maker. Richard Elston, Group Head of Institutional at CMC Markets, said: "When outsourcing technology, we always look to partner with best-in-class providers for each project. Quod offered an excellent fit for our new SpotFX product, by enabling us to outsource the most commoditised elements of our price discovery process to them. Most notably, their Smart Order Routing (SOR) technologies have helped drive

## Eurotrader Group launches institutional arm

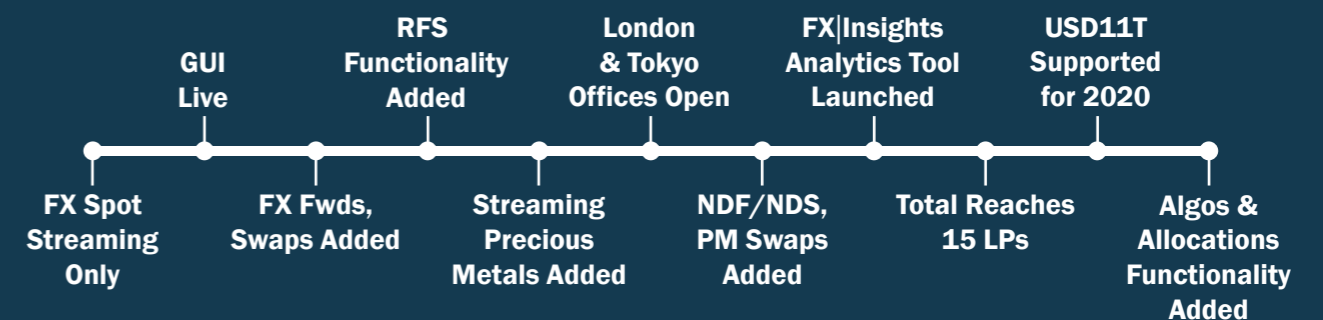
Eurotrader Group has announced the launch of Eurocapital, an institutional offering that is also the Group's debut into multi-asset liquidity provision. Bolstered by superior technology, Eurocapital's offering

is also complemented by ultra-low latency and uninterrupted trading flow, ensuring maximum efficiency and fast execution. Commenting on the launch, Matthew Kent, Director Institutional Sales, said: "Our foray into institutional

and professional services marks a very exciting time for Eurotrader Group. This new endeavour is a direct response to evolving market needs, which largely centre around the demand for increased flexibility and individualised solutions."

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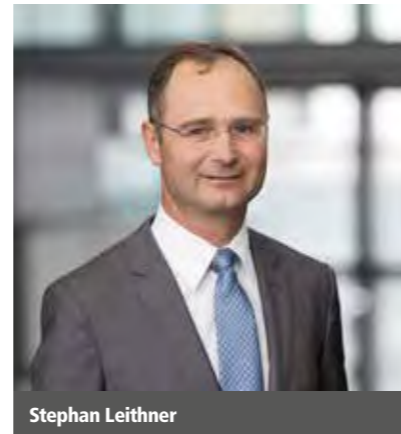
FXSpotStream is a bank owned consortium operating as a market utility, providing the infrastructure that facilitates a multibank API and GUI to route trades from clients to LPs. FXSpotStream provides a multibank FX streaming Service supporting trading in FX Spot, Forwards, Swaps, NDF/NDS and Precious Metals Spot and Swaps. Clients access a GUI or single API from co-location sites in New York, London and Tokyo and can communicate with all LPs connected to the FSS Service. Clients can also access the entire Algo Suite of the FSS LPs, and assign pre- and/or post-trade allocations to their orders. FXSpotStream does not charge brokerage fees to its clients or LPs for its streaming offering. Algo fees from an LP are solely determined by the LP.

## Deutsche Börse launches next-generation digital post-trade platform

Global market infrastructure provider Deutsche Börse plans to launch a regulatory compliant, fully digital post-trade platform called D7, anchored in the recently introduced German digital securities law framework. The new cloud-backed and DLT-ready D7 platform will enable market participants to digitise their financial products with continuing access to both existing central and distributed infrastructures and markets. The D7 platform paves way for same-day-issuance and paperless, automated straight-through processing for the entire value chain of issuance, custody, settlement, payment and asset servicing for digital securities. As of mid-2022, over 80 per cent of German securities will be digitisable via D7, fostering digitisation of the German and European financial markets. D7 will

complement the Group's established "7 Market Technology" infrastructure portfolio. For this transformational step forward in realising a digital future for securities markets, Deutsche Börse has joined forces with several leading global and German financial institutions to create a market-ready digital infrastructure, including BNP Paribas, Citi, DekaBank, Deutsche Bank, dwpbank, DZ Bank, Goldman Sachs, Raiffeisen Bank International and Vontobel. The D7 platform is being developed in collaboration with long-term strategic technology partners Digital Asset and Microsoft, as well as R3 and VMware. Stephan Leithner, member of the Executive Board of Deutsche Börse, responsible for Pre- & Post-Trading, says: "With D7, we're providing the financial community with

a next generation digital securities post-trade platform to unlock the potential of truly digital and decentralised finance. It's time not only to digitise single processes; it's time to reinvent post-trading altogether for a stronger, more sustainable and digital future of securities markets."



Stephan Leithner

## BNY Mellon expands Custody FX offering

BNY Mellon is expanding its Custody FX offering, adding new trading capabilities and pivoting from a primarily custody-focused service model into a transparent open architecture that can be leveraged by a variety of client types for their rules-based, end-to-end transaction needs. Clients in the banks FX trading programs can now customize how they trade currencies through BNY Mellon, among other new improvements introduced to the firm's Custody FX programs to increase transparency and provide more flexibility for participants. Among the new capabilities, FX trading program clients can now achieve improved Large Order Execution via access to algorithmic execution methods for orders over a certain size. The incorporation of these new capabilities into the program will

enable users to design elements of their standing orders as well as deliver further enhancements including:

- Improved Transparency – Upgraded trade micro-timestamping facilitates enhanced transaction cost analysis (TCA) for clients, providing visibility into how their instructions are being fulfilled and executed.
- Expanded Portfolio Customization – Clients have more customizable rules-based options to tailor their FX strategies.
- Upgraded Asia Execution Capabilities – enhanced offering across APAC markets, including adding expanded benchmark execution giving clients more transparency while broadening the client coverage team throughout the region.



Jason Vitale

"These enhancements are the result of listening to our clients who told us loud and clear that they want to be more empowered to customize their FX trading program parameters, trade in larger sizes, enjoy consistent pricing and attain full visibility into how their instructions are being carried out," says Jason Vitale, Global Head of FX at BNY Mellon. "These improvements place clients firmly in control."

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# Does new Last Look guidance go far enough to allay FX Market concerns?

Last Look is a hotly debated topic in the institutional FX world. Have the GFXC's latest recommendations gone far enough to mitigate risks? Vivek Shankar investigates.



Vivek Shankar

The Global Foreign Exchange Committee (GFXC) has always ensured that the institutional FX markets function smoothly to provide market participants fair and transparent opportunities. The FX markets work on a system of self-governance, and from time to time, market participants need clarifications regarding processes. To this end, the GFXC's Global FX Code serves as a framework that functions as the single reference for participant behavior in the institutional markets.

The committee instituted a review of the Code and following feedback from stakeholders, published a guidance paper on the Last Look period. Last Look is a much-discussed and controversial topic in the FX world. The guidance paper seeks to address the issues market participants face and ensure a fair execution process.

Phil Weisberg, EVP Strategic Planning and Partnerships at oneZero, explains that opaqueness surrounding order fill times could lead to suboptimal liquidity functions. The new recommendations from the GFXC together with analytics that are now available help to shed light on this matter for both LCs and LPs.

"Traditionally, it's difficult for customers to visualize the fill times on their orders and differentiate how much of that was due to the latency of their ecommerce, aggregation or portal, and how much was due solely to the LP," he explains.

The behavior of LPs during the Last Look period and the impact on prices LCs (Liquidity Consumers) receive is one of the major issues the GFXC has sought to address. The question all market participants are asking is: Does the new guidance go far enough to mitigate them?

## CHANGES TO GUIDELINES

Last Look has traditionally been a problematic area in the FX world thanks to the LP's ability to reject trade requests that might adversely affect its profitability. Principle 17 of the GFXC's Code explicitly disallows using the Last Look period for information gathering purposes.

Despite this, Last Look guidelines are subjective and needed clarification.

In its guidance paper, the GFXC makes three recommendations. The first recommendation calls for LPs to ensure a fair and effective Last Look process by minimizing the period of uncertainty while the LP checks their trade request.

The GFXC states that "LPs should apply the price and validity check without delay and promptly make their decision to accept or reject a trade" (underlining in the original). Any additional delay to what is required to complete a price check is considered contrary to this guidance. Also, LPs should not use any confidential information provided by the LC for reasons other than the purpose specified. Crucially, the GFXC also specifies that the word "Clients" refers to all counterparties, whether anonymous or named.

The second recommendation calls for enhanced ex-ante disclosures. As a part of these disclosures, LPs must disclose whether their price check process is applied symmetrically or asymmetrically. LPs should also disclose the length of their Last Look window to the LC. Any liquidity sourced by the LP through "cover and deal" arrangements must also be disclosed.

The final recommendation calls for LPs to regularly disclose information that allows LCs to evaluate the handling

"Traditionally, it's difficult for customers to visualize the fill times on their orders and differentiate how much of that was due to the latency of their ecommerce, aggregation or portal, and how much was due solely to the LP,"



Phil Weisberg

of order requests. LPs should record trade rejection information and disclose rejection reasons at a high level.

While the intent behind these recommendations is clear, how effective are they in eliminating concerns about the Last Look period?

## LACK OF SPECIFICITY

While the first recommendation clearly states that additional holding times beyond what's required to conduct a price check is contrary to Principle 17, its effectiveness boils down to its interpretation by LPs and their lawyers.

In a press release, GFXC Chair Guy DeBelle noted that "Liquidity consumers should ask questions of their liquidity provider's last look process, and evaluate whether to trade with liquidity providers that are using last look."

To ensure greater transparency, the GFXC recommends increased internal controls and managerial oversight. However, these controls were present previously, and it's debatable how much of a change this is. If the LP doesn't believe that asymmetric

holding times and latency buffering are unfair practices, increased oversight doesn't solve any issues.

Critically, the first recommendation doesn't address selective trade processing by LPs and offering different Last Look periods to different clients. Such behavior points to the avoidance of losing trades (adverse selection), which is against the GFXC's Code.

To better understand adverse selection, it's crucial to note that Last Look (as it's currently practiced) is a combination of two practices. The first is the LP's right to accept or reject a trade request, a legitimate process to ensure LPs manage credit risk.

The second practice, called Additional Hold Time or AHT, is debatable. It involves holding client requests for a certain period before applying a price check and accepting or rejecting the trade request. This practice explicitly contradicts Principle 17 since there's no reason to hold an order unless it's for information gathering purposes.

LPs justify AHT using a standard set of statements. Smaller LPs argue that it's tough for smaller banks to price as fast as large players. However, a study conducted by XTX Markets last year noted that regional banks such as Santander, Credit Agricole, and Westpac do not apply AHT.

Latency is also an issue cited by LPs, especially orders received from clients in different parts of the globe. However, global banks such as JP Morgan and HSBC deal with latency by applying a tolerance limit to prices and do not use AHT.

The recommendations now require LPs to disclose maximum and minimum Last Look times, which aids LCs. Crucially, the GFXC's DeBelle recently confirmed that no AHTs should be used in spot FX transactions. "LPs should apply the price and validity check without delay. Anything else that prolongs the last look window is contrary to the intent of the Code" he said. "Liquidity providers adhering to these principles and providing transparency about their practices should help to give their clients greater clarity about the process."

While a hugely positive change, it remains to be seen how market participants, specifically LPs, respond to these recommendations and put them into practice.

## ASYMMETRIC HOLD TIMES

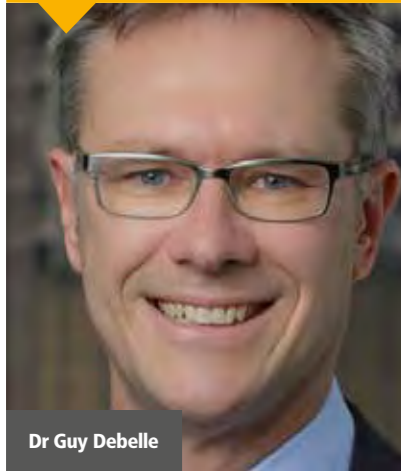
The debate between symmetric and asymmetric price checks is a long-standing one. The GFXC's second recommendation calls for disclosures, especially if the LP uses asymmetric hold times. While requiring the disclosure is a great move, there is concern that by allowing LPs to merely disclose this practice, asymmetric hold times are being legitimized.

Asymmetric price treatment has few supporters outside of LPs. With this practice, LPs reject any order that results in adverse selection and only fill orders when the market has moved in the LPs favor. Essentially, asymmetry exists solely for the LPs benefit, and clients lose whatever the LP gains.

Another issue is that many LPs use asymmetric logic as the default setting for all clients instead of offering them the choice to opt-in. They justify this practice by explaining that long AHT windows maximize client fills. However, the opposite is true. XTX Markets discovered that price

## Does new Last Look guidance go far enough to allay FX Market concerns?

“Liquidity consumers should ask questions of their liquidity provider’s last look process, and evaluate whether to trade with liquidity providers that are using last look.”



Dr Guy Debelle

movements post trade requests are not random and uniformly move against the client’s interests. This means LCs experience costly slippage even when receiving symmetric pricing logic. Thus, the longer the AHT is, the worse off the client is.

The good news is that the GFXC explicitly recognizes that the choice of pricing logic adds complexity to client workflows. Disclosures regarding the background of asymmetric logic will help LCs understand the circumstances in which it is used. These disclosures will help sophisticated LCs evaluate the effectiveness of their price execution.

oneZero’s Weisberg believes this will impact LCs’ workflows. “This

information will be helpful if the LC and LP have a relationship and are able to find suitable tradeoffs which lead to better outcomes for both sides.”

### BETTER TRADE ANALYSIS

The GFXC’s third recommendation acknowledges problems with the Last Look process that currently exist. It explicitly states that LPs should disclose trade execution information, including rejection reasons, that allow LCs to evaluate the quality of execution they’re receiving.

Helpfully, the GFXC also highlights examples of processes that might indicate an LP neglecting Principle 17. The Last Look guidance paper notes that “High rejection rates with an unusually long or unpredictable last look window,” or “A consistently strong market reaction that occurs when dealing with a specific LP,” and high trade rejection rates might indicate a less than efficient LP.

It’s tough to attribute trade rejection to a single reason, but a combination of these occurrences, and in reasonable frequency, suggests that LCs ought to consider alternative

execution means. “The longer it takes for an LC to definitively know if they are filled, the more time there is for market volatility to move the market away from them, which could result in a less optimal fill in the event of a rejection” explains Weisberg.

He also points out the utility of better trade analysis for LCs. “The market impact an LC sees post execution may matter if the LC has only traded part of their risk with the LP, because subsequent prices would move against them if the LP they chose hedges in a way that creates abnormally high market impact.”

For a long time, LCs have struggled to make sense of their execution data. Enhanced disclosures will make it easier for an LC to determine the best execution methods via sophisticated trade analysis.

### SMALL, BUT RIGHT STEPS

The GFXC’s recommendations have met with less than enthusiastic reviews amongst stakeholders. However, they’re undoubtedly a step in the right direction. By acknowledging the deficiencies in the last look process and working to develop processes that address both LCs’ and LPs’ concerns, the GFXC has had to walk a fine line.

The GFXC’s Code is an ever-evolving document, and there’s no doubt that the future will bring more changes that market participants wish to see.

As Weisberg points out, “Educating clients about the market microstructure is always positive and will likely lead to better outcomes for both LCs and LPs. Ultimately win-win situations can be created if the LC and LP collaborate on the formation of a liquidity function, enabling the smoothest possible risk transfer which is consistent with the LC’s execution preferences.”



The debate between symmetric and asymmetric price checks is a long-standing one

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# Single Dealer Platforms - Where are we heading?

By David Woolcock, Director, Business Consulting at Eurobase Banking Solutions



David Woolcock

The modern era of FX trading is widely recognised as beginning with FX Connect, launched by State Street in 1996 to replace voice trading with customers - The first single dealer platform (SDP). FX Connect made FX trading more efficient and considerably reduced operational risk. The launch of FX Connect heralded an unprecedented period of change in the FX market, notably the advent of multi-dealer platforms (MDP), which started with the launch of Currenex in 1999. FX Connect became an MBP in 2000, and these two pioneers are now part of the State Street stable.

Pioneers attracted by disruption and opportunity changed the dealer-client landscape dramatically, driving electronic trading market share from 2% in 1993 to 20% by 2001. The FX market continued to grow significantly between 2000 and 2010 (see table below) in terms of volume and participants. The proliferation of electronic trading platforms led to new types of brokerages and the rise in retail participation.

This rapid development prompted the major banks to respond to the new

competition by creating FXall, which became the major MDP at the time. Some early adopters followed the State Street example to develop SDPs such as Dresdner Piranha in 1999, UBS FX Trader in 2000, Barclays BARX in 2001 and Deutsche Bank's Autobahn (following on from the 1996 platform for US treasuries) in 2002. Goldman Sachs launched their platform in 2003, and Citi followed in 2006.

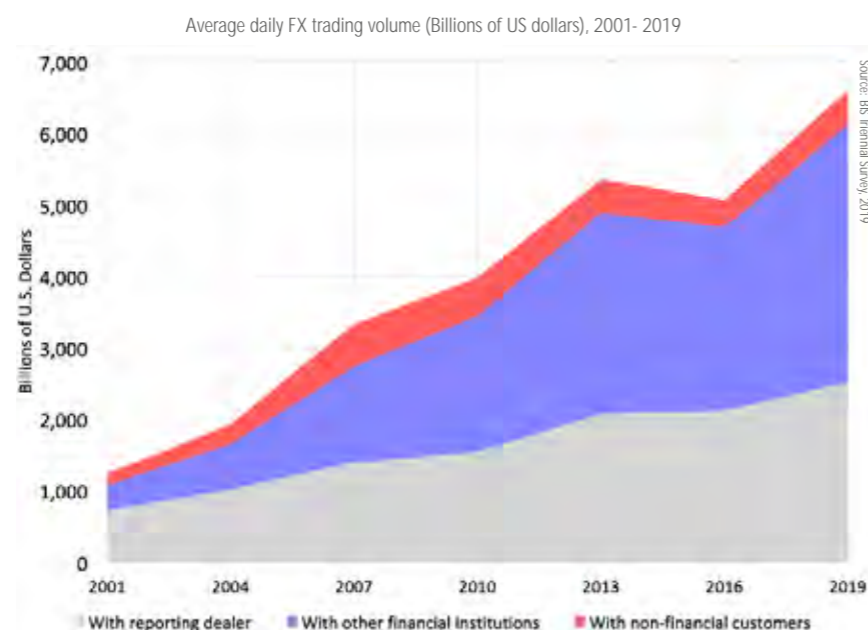
This significant investment in electronic trading heralded a couple of decades of growth in FX markets as measured by the authoritative BIS survey.

## KING OF THE CASTLE

The advent of MDPs gave the buy-side unprecedented access to aggregated liquidity. It was a general belief that buy-side customers would achieve greater efficiency by getting simultaneous quotes from multiple dealers in competition with each

other. Asset managers found that they could achieve efficiencies from the ability to electronically trade block-trades with post-trade automated allocations. Additional benefits were realised when the MDP was connected to their portfolio management system (PMS) for straight-through processing (STP). Corporates also saw the advantages of moving away from voice trading, which required getting several banks on the phone at the same time to discover the best price.

When the early SDPs launched, they proved to be much more popular than most commentators expected, surprising even the banks themselves. The end users voted with their feet, and this revealed that aggregation of quotes from multiple banks was not the primary factor when deciding how to execute electronically. The Bank of England Semi-Annual FX Turnover Survey in 2009 showed that 25% of turnover was going through SDPs,



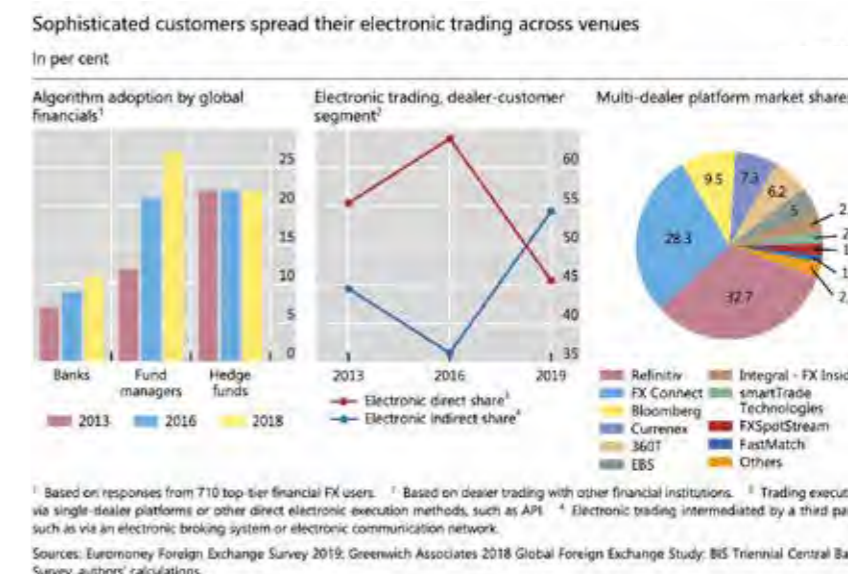
about twice the volume of the MDPs. By the 2020s, all this has ultimately led to FX execution's highly fragmented and complex landscape.

## THE CURRENT STATE OF PLAY. A REVERSAL OF FORTUNES.

The 2019 Triennial Survey prompted a paper from the BIS entitled "FX Trade Execution: complex and highly fragmented". The opening paragraph stated – "The 2019 Triennial Survey shows that trade execution has undergone rapid change, with more diverse participants, new technologies and increasing complexity. Electronification advanced the fastest in dealer-to-customer trading.

Dealers and customers navigated a highly fragmented market by leveraging technology to trade across electronic venues. Aspects of FX intermediation tilted more towards non-banks as new market-makers, albeit brokered by top dealers. Bank dealers continued to attract large flows to their own proprietary liquidity pools. Consequently, even though the market grew bigger as a whole, the share of trading activity 'visible' to the broader market declined."

As volumes increased, the share of the interbank market declined by 7% between 2016 and 2019. This phenomenon has been caused by the more significant liquidity providers warehousing risk until an offsetting customer flow defeases it. This internalisation has fundamentally changed the FX landscape and prompted interbank platforms to extend their reach to counteract the declining volumes. On the other hand, dealer-to-customer markets has continued to boom, with 75% of spot FX now transacted electronically, and SDPs have continued to develop boosted by NDFs and emerging market trading in particular.



The only fly in the ointment for SDPs is the latest figures showing a fightback by the MDPs. This reversal may have been prompted by more attention to best execution, along with the growth of anonymous dealing. Also, recent developments such as the advent of the FX Global Code (see below - ) may have had an influence. The graph below, 'Electronic trading, dealer-customer segment<sup>2</sup>' from the BIS paper, illustrates the extent of the reversal of fortunes for the SDPs. (BIS data illustration: To differentiate between the MDPs and SDPs, the terms electronic direct and indirect share are used.)

## RULES OF THE ROAD.

The FX Global Code (FXGC) released in August 2018, and subsequently updated in 2021, has had an influence on the shape and development of SDPs. One area where this has manifested originated in the early part of the new millennium when the electronic market introduced a concept known as "last look".

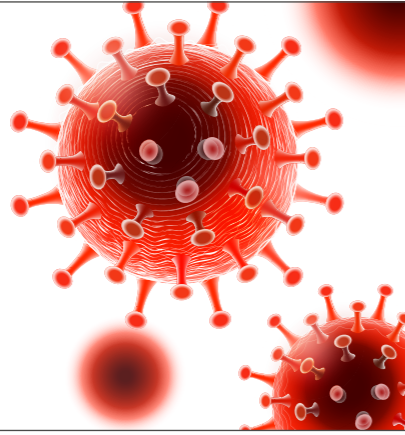
Last look is a risk mechanism that allows a market participant who has received a trade request a final opportunity to check credit, price and validity without delay before accepting the trade. It can also prevent 'stale'

trades from being accepted if message or system integrity is unstable or excess latency has been introduced into the trading process.

This controversial feature of electronic trading has resulted in legal cases, much debate, and clear divides over its acceptability. This may have prompted some customers to revert to MDPs which can give neutral statistics about the customer's last look hold times by multiple liquidity providers and allow for business to be directed to those that have lower hold times and fewer rejected trades. However, equally, the GFXC has called for more granular and uniform disclosure. If liquidity providers can agree on matters, such as reject "rejection codes" and definitions, customers will be able to easily compare SDP's use of last look, and we could see business drift back in their direction.

As noted in the outcomes of the three-year review, the GFXC states – "Disclosure Cover Sheet and Templates for Algo Due Diligence and Transaction Cost Analysis The Disclosure Cover Sheet, the Algo Due Diligence Template and the TCA Data Template have been developed as a way of improving the accessibility and clarity of existing disclosures and

**COVID-19 may spur SDP's technological development**



can support Market Participants in meeting the range of disclosure and transparency principles within the Code. They will be made available on the GFXC website and their use is voluntary. Market Participants will be able to post their Disclosure Cover Sheet alongside their Statement of Commitment on Participating Public Registers, further supporting accessibility of disclosure.”

**AREAS OF GROWTH FOR SDPs**

It is possible that market fragmentation is beginning to slow as recent shocks to the market have shown the value of direct relationships, and SDPs are responding to this in earnest. Many are offering Algo execution for sophisticated customers along with market-neutral Total Cost Analysis (TCA). Algos are allowing customers to accept more market risk for the trade-off of less market impact for larger orders. SDPs score very well in this regard by offering proprietary algos that are discreetly handled and executed via multiple liquidity pools, and the bank's own internalised liquidity. Coupled with the above guidance from the GFXC, we may well see increased confidence returning in SDPs.

We are also beginning to see the gradual emergence of true cross-asset platforms rather than various platforms cobbled together via one access point. This development is starting to pave the way for FX

execution to be more seamlessly embedded with other workflows and open the door to other offerings embedded into the cross-asset platform. With the increased electronification of NDFs and emerging currencies, this bodes well for the future SDP.

**POST-COVID – A NEW BEGINNING?**

The effect of the pandemic has been a mixed bag for many involved in the FX market. The increase in volatility has been seen as a boost to trading activities. On the other hand, with banks splitting personnel between the office, disaster recovery sites and working from home, issues have arisen that will spur SDP's technological development. Automation has been critical, and strategically deploying an unified trading and sales platform has demonstrated the value of an SDP both internally and externally.

Equally, we are seeing the ever-increasing electronification of emerging markets, and in some quarters, the dominance of a handful of large liquidity providers is seen as a systemic risk when these major liquidity providers become the primary liquidity pool. We can expect that encouragement will be given for local banks in these emerging markets to offer better pricing and deeper liquidity in their local currencies rather than their international competitors

dominating. Initiatives such as that by the Bank of Jamaica to encourage a local electronic market is a good example. As they stated in their May 2020 press release – “Bank of Jamaica's (BOJ's) ongoing reform of the foreign exchange (FX) market is poised to take another significant step. The long-awaited electronic FX Trading Platform (FXTF) is almost here. The platform will facilitate real time electronic FX trading and observation of trades between all authorised FX traders - namely Deposit Taking Institutions (DTI's), and cambios for the USD/JMD currency pair.” “The signing of the BIS FX Global Code adds credibility and holds those dealers to a global standard of integrity, efficiency and good customer service. The FXTF is expected to further upgrade the FX market by adding even greater layers of efficiency and transparency.”

**THE FUTURE**

From now on, we can expect SDPs to build on new, improved pre-execution and post-trade expertise alongside more banks deploying this important bank-to-customer functionality, and cloud deployment may well open up a world of opportunity in providing “as a service” features. Indeed, the 2022 BIS survey will make fascinating reading as to how these trends are developing. We may well even see a return to utility-style models with groups of regional banks or a collection of saving banks banding together to enable cost-effective developments to compete with those with larger budgets. We could even see some of these built on a central dealer structure to streamline customer access to deeper liquidity. Meanwhile, those banks relying on white-label solutions may well see that a differentiated offering that is cloud-deployed is more elegant and helps preserve them as the last mile in their customers' access to the market.

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# To optimize FX trading, move to a modular future

The foreign exchange (FX) space today is undergoing a rapid evolution. Thanks to growing electronification, greater investment in technology and analytics and industry-wide momentum toward multi-asset trading, it has never been more important to update, adapt and customise systems and workflows and ultimately create intellectual property for these markets – yet many market participants struggle to do so.

Most of the vendors who sell to this market do not provide adequate solutions. On one side, monolithic providers have created a fixed set of functionality and configuration, with recent consolidation only serving to further reduce diversity on offer. On the other hand, there are a handful of vendors that focus on FX, developing best of breed of a very specialised component that must fit into a larger, flexible infrastructure. Then there are the banks that choose to eschew third-party solutions entirely and build their own in-house systems, creating high costs and ongoing maintenance pressure.

These tactics represent the industry's efforts to identify the best path forward in a shifting landscape, but in reality, there is no one-size-fits-all model. FX trading platforms should be a unique fit for each client, leveraging component-based and modular design to create flexibility, support the creation and management of IP and maximize the impact of each tool. This article will explore how Itiviti, a Broadridge Business, solves for pain points in FX markets – but first, let's explore why these challenges have become so acute in recent years.

## ELECTRONIFICATION AND SOPHISTICATION EQUAL COMPLEXITY

There are many trends that have fueled complexity in FX markets, but perhaps the most significant is that they are undergoing "equitization" – that is, developing a level of sophistication that historically was seen only in the equities space.

"The FX spot market in particular is becoming more quantitative and systematic, with a rapid proliferation of algorithmic means of execution. In addition, the OTC nature of FX markets has led to growing fragmentation, fueling further complexity," said Olivier Werenne, FX Sales Manager at Itiviti, a Broadridge Business.

This equitization also affects the vendor space. FX market participants are diverse – some are focused on pricing overall positions, while others emphasize credit and distribution. This wide range of hyper-specific needs has created a cacophony of niche vendors who may have a best-in-class solution



Olivier Werenne

**"The FX spot market in particular is becoming more quantitative and systematic, with a rapid proliferation of algorithmic means of execution..."**

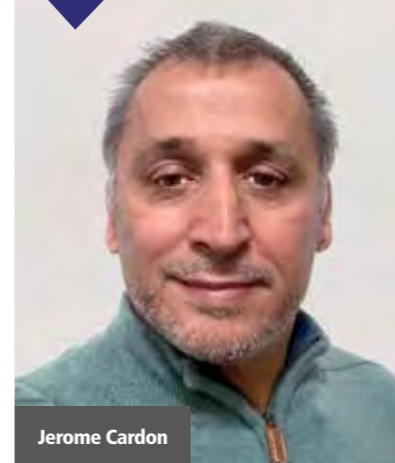
for a particular aspect of trading, such as pricing or distribution, but are ill-equipped to support their clients over the entire workflow.

Of course, legacy behemoths contrast sharply with these vendors. Monolithic providers may offer a greater breadth of functionality, but the variability required of an FX solution leads to their downfall. The fact that a participant's franchise focus, be it currency pairs or new products such as NDFs or swaps, can shift at any time necessitates systems that can adapt with minimal disruption. Similarly, as best-of-class data sources shift or execution venue capabilities increase, they must be able to seamlessly integrate and offer improvements to remain competitive.

Large banks trying to white-label their internal solution combine the shortcomings of monolithic systems with the wider issue of conflict of interest, as these organisations may at any moment move away from non-core activities, including serving as their own software vendors and service providers.

Beyond equitization, the growing demand for multi-asset trading solutions is another important trend affecting FX markets. All market participants are more conscious of trading flow value, so if there is an avenue to monetize this part of their franchise, they are eager to take it. A multi-asset approach also positions these firms for the future, as such a solution supports organisations expanding to new assets.

**"When firms decide to replace their technology provider for FX, they will naturally attempt to identify vendors that can deliver efficiencies in other asset classes as well..."**



Jerome Cardon

## A COMPREHENSIVE SOLUTION

In many cases, these trends reflect a greater overall opportunity in FX markets, but taking advantage of this opportunity requires an optimal approach, far beyond what legacy vendors can provide or market participants can build in-house. Itiviti is the only provider that can deliver the flexible, effective solutions the industry requires, creating an adaptive electronic trading platform for FX and beyond.

This is a product of Itiviti's open software architecture, which leverages a modular design. By building systems comprised of independent, loosely coupled components, clients gain significant freedom to adopt new strategies, integrate the precise functionality that will generate value for them and avoid wasting internal teams' focus on platform maintenance.

For example, organisations can focus on implementing their specific execution KPIs, including risk factors, and inject these into a Smart Order Routing solution, effectively implementing their own algo wheel. Because these modules can be deployed for multiple tools across the organization, time to market is accelerated and potential for customization increases. They also

enable incremental upgrades, so firms can seamlessly react to new market forces and incorporate new tools without breaking the entire system. In addition to enabling more robust and flexible functionality, Itiviti's technology can easily scale as clients grow their businesses and expand to new locations. As a global solutions provider to over 2,000 financial institutions across the globe, Itiviti has a long track record of supporting its clients' evolutions and meeting their needs no matter how they evolve. A component-based approach is key to this. Development and testing time are greatly minimized – as long as there is a growth plan in place, Itiviti can accommodate it.

This flexibility applies not only to the functionality that clients need, but also the markets they want to be in – Itiviti provides solutions that are truly agnostic in terms of asset class. The ability to access information and perform mission-critical tasks for all asset classes via a single platform and provider unlocks powerful efficiencies and dramatically reduces costs, helping market participants navigate the shift to multi-asset trading with ease and efficiency. This is true for firms looking to enter FX markets for the first time, as well as those that want to integrate an existing FX desk more closely with the larger organization.

## ABOUT ITIVITI, A BROADRIDGE BUSINESS

Itiviti provides nearly 2,000 financial institutions worldwide with flexible, cross-asset trading solutions that cover the full trade lifecycle. Through its commitment to technology innovation, relentless pursuit of workflow efficiency and an entrepreneurial culture, Itiviti is disrupting the industry with highly scalable solutions that deliver unprecedented cost savings for clients. Itiviti was acquired by Broadridge Financial Solutions, Inc. (NYSE: BR), a global Fintech leader and part of the S&P 500® Index, in May 2021.

Itiviti's strong use case in FX markets is part of its overall mission to support its clients through as many capital markets workflows as possible. The firm's app-based Tbricks solution has delivered low latency, high throughput and extreme scalability for years, and recently the firm has invested considerable resources in providing such solutions for its clients' growing needs in the FX space. Now, after being acquired by Broadridge in May 2021, Itiviti has the support and backing of another trusted fintech player, further improving its position to transform these markets.

"When firms decide to replace their technology provider for FX, they will naturally attempt to identify vendors that can deliver efficiencies in other asset classes as well," said Jerome Cardon, FX Product Manager at Itiviti, a Broadridge Business. "Itiviti's longtime leadership in the equities space, combined with our highly flexible, modular architecture and now with the extended reach and enhanced capabilities that have come as a result of our acquisition by Broadridge, make us the logical choice." With greater flexibility, scale and cross-asset capabilities, firms can more easily chart their own course to the tools they need. In a world where longstanding providers are either too rigid or too limited, building in-house is a costly burden and banks' white-label solutions have grave business risks. Itiviti enables the comprehensiveness and oversight of the former and the control and bespoke functionality of the latter, making it the ideal solution for FX.

# Competition, talent and technology What's propelling change in the FX Prime of Prime Brokerage market?

By Nicholas Pratt



Nicholas Pratt

Over the past year, competition has been increasing across the global FX Prime of Prime (PoP) market, driven largely by PoPs looking to expand market share and position themselves to benefit from the recent growth among retail trading venues. The Covid-19 pandemic has seen a sharp rise in retail trading volumes with traders able to spend more time focusing on the markets.

At the same time, says James Alexander, CCO at Invast Global, a multi-asset PoP, the retail brokers that serve the retail audience have been slashing visible trade costs. As a result, volumes executed through online trading venues has increased sharply over the last 18 months - benefiting the brokers that serve this audience and increasing demand for credit from the PoPs that serve a large proportion of the retail venues.

"This demand for credit is a big driver of the competition we are seeing amongst PoPs, with some struggling to serve the ever-growing needs of their clients," says Alexander.

## SIGNIFICANT COMPETITION

While there is significant competition amongst PoPs, there is also a stratification within the sector, says Alexander. This phenomenon involves larger, more established PoPs,

stepping into a more 'prime broker' like role, with smaller PoP operations then fulfilling the needs of smaller, niche customers. "Invast Global is benefiting from the stratification among PoPs, enjoying a strong balance sheet and access to multiple Tier 1 Prime broker relationships," says Alexander. "Today, prime brokers - particularly in the light of the Archegos hedge fund demise - are rightly being selective with their choice of counterparties. They are however seeing an increasingly rewarding engagement with larger PoPs whose businesses continue to expand and through whom they can access volumes they may wish to contract with directly."

Currently, the range of PoP solutions is broader than ever before, and this has been a big driver of the aforementioned stratification. In particular, there is an increasing focus on multi-asset capability, says Alexander. "Many PoPs have traditionally been focused only on FX and have such built relationships and client solutions that cater to this asset class only. Over the last 18 months, an evolving appetite has been observed



James Alexander

"It has been a very positive year for the PoP segment and as we move into a landscape where interest rates rise above zero globally, heightened volatility should continue to be a positive driver for PoPs,"

amongst retail trading venues for access to equities and futures and their over-the-counter (OTC) equivalents. As a result, PoPs are now required to deliver a genuinely multi-asset solution to those same retail venues. This diversification of offering is important not only to meet the demand of retail trading venues, but to further diversify counterparty risk with the prime brokers that serve the PoPs themselves," says Alexander.

While there is strong demand for truly multi-asset solutions and accommodative credit solutions, increasingly, retail venues are also looking for detailed access to pre and post trade data and analysis, says Alexander. "This has heightened the need for transparent and detailed total cost-of-trade analysis. Providing clients readily actionable insights into the impact of their trading or hedging has become a new frontier in PoP service competition."

It is here that the stratification of the PoP market becomes most stark, says Alexander. "Many PoPs are not as focused or aligned with their clients in wanting to provide such detailed analysis. Invast Global is of the belief that a PoPs services involves a partnership, more than simply a pass-through venue for linking liquidity and providing credit. A PoP should be actively focused on minimising the cost of trading and hedging for the venues they serve by leveraging the best pricing and execution and combining this with detailed transaction costs analysis (TCA) and broader contextual advice on liquidity and flow optimisation."

## Competition, talent and technology - What's propelling change in the FX Prime of Prime Brokerage market?

A PoP should play an active role in serving customers' exchange data needs and fulfil a 'vendor of record' role to numerous equities and futures exchanges, alongside tailored OTC pricing for FX & Metals," says Alexander. "Many PoPs have rapidly become the largest redistributors of exchange data globally."

A number of PoPs have also looked to make improvements across their liquidity and risk management operations. "To improve liquidity management, the more technology-focused PoPs have increasingly been automating liquidity management workflows," says Alexander. "Such processes dynamically adjust liquidity in response to changing customer flow profiles. This is proving to be particularly important for managing bank and non-bank liquidity providers and a breakthrough for PoPs that often cater for a wide range of flow profiles within a single infrastructure stack. The changing of liquidity mix in response to client flow profiles has traditionally been done after the fact and is often subject to time lag. With

new technology becoming available to the PoP sector, there has been a concerted push towards real time responsiveness to customer order flow, which best aligns the liquidity mix to the client flow profile."

Meanwhile, Natalia Hunik, Chief Revenue Officer at Advanced Markets Group notes an increase in liquidity recycling. "I would not say that there has been a dramatic increase in the FX PoP space. I think that what we have been observing is more related to liquidity recycling in the industry, where Tier2 brokers are exchanging liquidity amongst themselves, a trend ultimately driven by a lack of access to Tier1 Prime Brokerage and a desire to better monetize their retail flow. 2021 has been different than 2020 with clients increasingly looking for access to multiple asset classes, and all via a single API pipe", she says. "So Prime of Primes are challenged with providing the same quality of execution, pricing and institutional access for multiple access classes, which means handling more load, both transactional and pricing."

### DIFFUSING RISK

One development in the evolution of the PoPs sector is that they are in many ways making the market safer and more robust by helping to diffuse risk. "PoPs fulfil a vital role in the dispersion of counter-party risk at the Prime Broker venues that actively serve the FX market, while also ensuring appropriate access to credit that is increasingly being demanded by the retail venues served by PoPs," says Alexander. "Without the PoP layer, there would almost certainly be a split amongst retail trading venues and smaller hedge funds into two segments, those large and sophisticated entities that can access a tier 1 prime broker, and those who cannot."

"For those who can, they often find themselves underserved. Access to bespoke liquidity, execution technologies, reporting and credit, can be sub-optimal. For those that can't access the Tier 1 PBs due to balance sheet or commercial constraints, PoPs represent an important source of credit that allows them to manage their own flows and exposures in a more appropriate manner. For the PoPs, this aggregation of smaller clients represents a diversified counterparty risk to the PoP and also ensures that they can be a meaningful partner to their prime broking relationships," says Alexander.

"The top tier PoPs go one step further in mitigating risk via adhering to principles of best practice. One example of this is sourcing liquidity only from FX GCC signatories, whereby the counterparties are more open about and committed to best practices across pricing and execution. Forming relationships with these counterparties has very practical risk mitigating effects for all stakeholders, be they client, PoP, liquidity provider (LP) or prime broker," says Alexander.

As stated, the pandemic has seen the PoP market grow exponentially, not just in FX but across many asset



The PoP market has proved to be largely resilient during the recent Covid-19 pandemic



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## Competition, talent and technology - What's propelling change in the FX Prime of Prime Brokerage market?

"The best PoP solutions replicate tier one prime brokerage relationships with pure direct market access and the ability to clear their clients' trades"



Justin Boulton

the markets for many years. Overall, it has been a very positive year for the PoP segment and as we move into a landscape where interest rates rise above zero globally, heightened volatility should continue to be a positive driver for PoPs," he adds.

Nevertheless, there are some potential future threats facing the market. For example, ongoing regulatory change is one thing that is closely monitored by PoPs, says Alexander.

"As regulators globally enhance their oversight and regulation of trading venues, this will both evolve and refine the global trading landscape. PoPs with strong balance sheets, that represent stable counterparties will be well placed to benefit from this."

There is also a question around PoPs ongoing appetite to provide credit to certain segments of the market, says Alexander. "The Credit Suisse/ Archegos example is no doubt still

classes. "Broadly, PoP providers have performed exceptionally well over the last 18 months due in large part, to the heightened volatility that has driven up volumes within retail trading venues," says Alexander. "The occurrence of WTI Oil going negative in Q1 2020 is an example of how risk management processes among PoPs have withstood some of the most challenging circumstances seen in

a valid and relevant conversation amongst all Tier 1 prime brokers when it comes to counterparty assessment, with risk teams at Tier 1 Prime brokers consistently reviewing the ongoing viability of relationships based upon risk / reward metrics. Again, this speaks to the stratification and the diverse outcomes for various PoPs. The best PoPs will have access to increasing amounts of credit and those that fall below the agreed commercial or risk thresholds will find themselves challenged in accessing the same credit from Tier 1 prime brokers."

Future opportunity lies in the application of increasingly sophisticated technologies that will allow PoPs to better manage credit across their own customer bases as well as prime brokers, says Alexander. "Enhancements in technology on the clearing side will allow PoPs to utilise available NOPs more efficiently, better manage risk and maintain strong commercial outcomes for both PoP and prime broker. With multi asset services being offered by PoPs, there is a far broader opportunity for collateral optimisation amongst their client base than has been previously available under FX only PoP solutions," he states. "The net effect of this is to both diversify the risk of any single counterparty to the PoP and also allow for a more efficient use of capital by the PoP across their prime broking network."

Natalia Hunik also points out the safeguards that Prime of Primes can provide and the confidence that trading firms get from using them to help overcome liquidity constraints during difficult trading conditions. "True Prime of Primes provide somewhat of a safeguard, preventing the market from over-exposing. We provide the industry with access to multi-asset institutional pricing, and execution, at the times when it needs

it most. Many market players find out about liquidity limitations only at the liquidity crunch event where their single source of liquidity pulls the pricing. Using a Prime of Prime solution gives access to primary FX liquidity (banks, money centers, hedge funds, institutional market makers and others) and the confidence that you will always have a functioning execution outlet when markets get volatile", she says.

### BETTER TECHNOLOGY

Another reason that the global FX PoP market has increased significantly recently is that tier one prime brokers are being selective in terms of the institutions they work with, says Justin Boulton, head of FX prime broking at FXCM. "They want multi-asset clients, not just those with spot FX needs. Following the recent Archegos collapse, they have also tightened existing lending terms and in some cases, terminated access for small to middle sized non-banking financial institutions to minimise the credit risk they were exposed to. This means there are more institutions

with significant volume looking for alternatives to tier one prime brokers."

This is not necessarily a new development. A more selective approach from prime brokers towards their clientele was what created the PoP market in the first place. However, says Boulton, new and better technology means that these firms can continue to receive the same quality of service from PoPs with no material impact on their trading. "This makes PoP, when done properly, a more attractive offering to a broader client base," says Boulton.

Clients are looking for a quick, professional and proactive service with as much access to institutional venues and counterparties as possible, says Boulton. "The best PoP solutions replicate tier one prime brokerage relationships by offering just this, with pure direct market access and the ability to clear their clients' trades. They also offer reliable and proven technology, such as robust pre- and post-trade technology with transaction cost analysis, aggregation and distribution where required."

Risk management is also a critical consideration for the leading PoPs, says Boulton. "FXCM has always had a very robust risk management emphasis. We have always insisted on a pre-trade credit check on all of our clients which not only protects our business, but also allows our clients to trade across 30 venues and counterparties under a single net open position (NOP) with no credit

'log-jams'. We also offer an extremely quick and frictionless onboarding process, completing know your customer (KYC) and all other checks within a matter of weeks, rather than the six to nine months it can take to get on-boarded by a tier one prime broker," says Boulton.

Boulton also agrees that the PoP market has proved to be largely resilient during the recent Covid-19 pandemic and this has ultimately helped to attract more clients. "The Covid-19 pandemic, especially during the extreme volatility at the start of the pandemic, was a very robust stress test of our systems, including pre-trade and back-office processes and client services. We passed this very serious test and actually executed record volumes and numbers of trades across all 30+ venues we offer with no major issues."

While Hunik says that, "Most Prime of Prime providers thrived during the Covid-19 pandemic due to the increased transactional volume that resulted from increased volatility."

In terms of future threats and opportunities for the FX PoP market, these centre on the growing demand for more asset classes but also the lack of volatility, says Boulton. "As tier ones continue to tighten their terms and terminate relationships with smaller clients, the market for PoPs which offer a similar service grows. There are also opportunities to be had in other FX products such as non-deliverable forwards (NDFs) and swaps, as well as other asset classes as demand grows and technology develops. The current threat, not just to PoPs but all FX participants, is the extreme lack of volatility and movement in the FX market. However, as history shows, the FX market doesn't stay calm forever."



Credit is a big driver of competition amongst PoPs



Natalia Hunik

"I think that what we have been observing is more related to liquidity recycling in the industry, where Tier2 brokers are exchanging liquidity amongst themselves, a trend ultimately driven by a lack of access to Tier1 Prime Brokerage and a desire to better monetize their retail flow."



## Competition, talent and technology - What's propelling change in the FX Prime of Prime Brokerage market?

### A LUCRATIVE MARKET

Part of the reason that so many new players are entering the PoP market is because of the attractive economics and the prospect of financial reward, says Mohammad Isbeer, global head of brokerage at prime broker Equiti Group. "A lot of new players are entering the market because PoP offers a significant return on capital and a stable revenue stream. The market did well during Covid and that has also attracted more newcomers – it has been a lucrative and reliable market and that has helped companies raise capital and secure backing to enter the market," says Isbeer.

The PoP sector originally grew to fill a gap in the market that resulted from prime brokers becoming more circumspect about their counterparties. In that original model, the PoP was a broker with access to tier 1 capital that was able to offer access to other tier 1 banks. But, as the PoP market has grown, so has the definition of what makes a PoP, says Isbeer. "We are now seeing PoPs and their clients coming from tier 2 banks and brokers," he says. This is not a major concern in terms of risk management and creditworthiness,

says Isbeer, provided that there is transparency. "These new PoPs are filling a genuine gap in the market," he says.

The demands placed upon PoPs have not fundamentally changed, says Isbeer, however there is now a much greater emphasis on providing a bespoke service. "The first thing is the provision of capital. That is the essence of the B2B market and the primary reason that a broker comes to a PoP- they don't have enough capital so the first step is to expand their balance sheet. Clients are looking for quality of spreads and execution. But customisation is key. There is no more one-size-fits-all. The flow from retail brokers is changing and is often too big to be handled by other retail brokers. But as a PoP you need to be able to customise your liquidity management to handle its size and variety," says Isbeer.

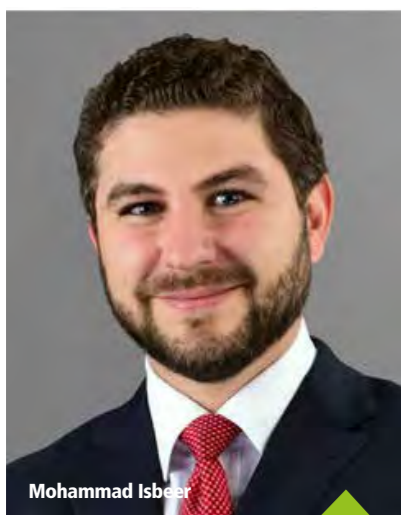
Isbeer says that a PoP needs between 15-20 different liquidity pools to provide adequate customisation and to cater for a growing number of asset classes. "It is not just FX anymore but CFDs, cryptocurrencies, fractional shares. Crypto is a big trend in retail market at the moment and retail brokers want to cater for that but we are still in the early stages and there is a gap in the market there that needs to be filled. It is a major opportunity."

Another development among the leading PoPs has been the provision of risk management tools such as auto-hedging, says Isbeer. "Traditional brokers run a business book and internalise it, so PoPs have spent money on payment and order flow by adopting

risk management tools that internalise that flow before passing it back to the street. It is about using auto-hedging tools rather than 'b-booking'. It was led by the large hedge funds but has become a more widely adopted practice now because the tools and expertise are more accessible."

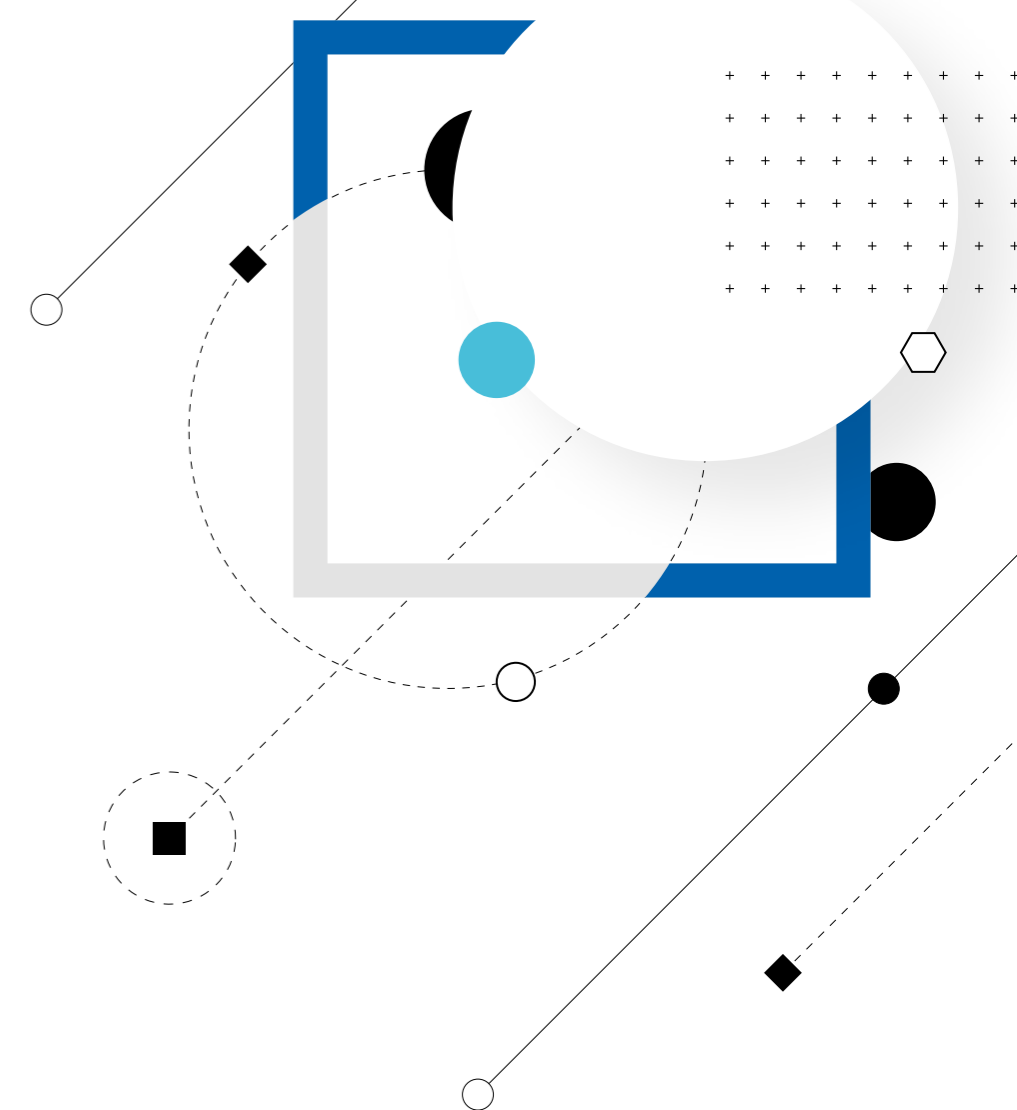
By offering this service to brokers that do not have the resources to do it themselves, PoPs are helping to improve risk management in the market, says Isbeer. "It is the reason the PoP market was created, to make the market safer. A PoP may not be as secure as the PB market but it filled a gap that made it possible for retail brokers to make a profit without having to assume as much risk." This ability to make the market safer was demonstrated during the early stages of the Covid-19 pandemic which increased volatility all over the world and created more volume for retail brokers. But as those brokers reached the limits of their capacity, it created much more demand for PoPs as well as primes and prime brokers, says Isbeer. This in turn resulted in hedge funds looking at the market and investing in order to back the PoPs. And Isbeer is confident that the interest in the PoP market will endure once the pandemic recedes.

"The wave of volatility from Covid may have ended but we have not seen the volume or the investment fall away," he says. "There is maybe not the same level of growth but we are seeing interest in new asset classes like crypto create new sources of volume. During the lockdown there was more education about crypto and new digital asset classes and instruments. I think we are only at the beginning of this trend. Online trading is everywhere now and the PoP industry was well positioned to capitalise on this trend through the Covid crisis and beyond."



Mohammad Isbeer

"A lot of new players are entering the market because PoP offers a significant return on capital and a stable revenue stream."



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# Why interoperability is proving critical for post-trade Digital Market infrastructures

By Alex Knight, Global Head of Sales and EMEA at Baton Systems



## WHAT IS INTEROPERABILITY?

The Post-trade world is embarking on a period of significant change, with the development of new solutions that will radically reduce complexity, increase security and drive efficiency. But for these innovations to work, they must integrate with the legacy systems operated by individual banks. Interoperability with existing systems is proving to be a major facilitator in enabling forward-thinking banks to innovate now.

## WHY IS IT IMPORTANT?

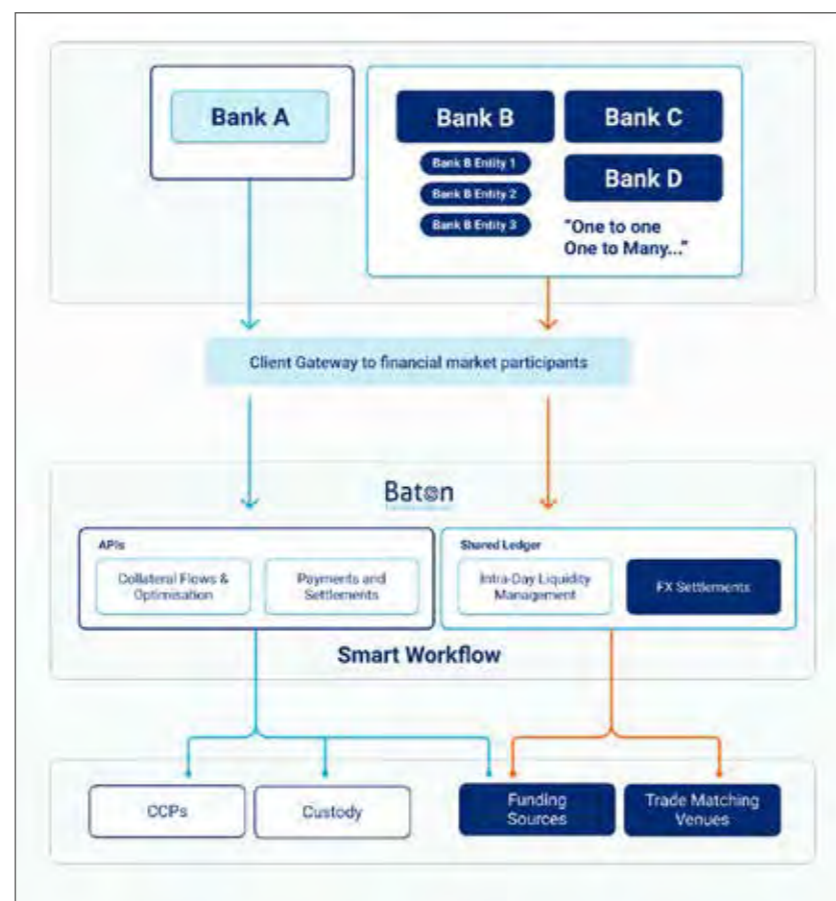
One-size-fits-all simply doesn't work. Banks operate multiple complex systems, built-up over decades and they're here to stay. There's also certain things a bank does that are intentionally proprietary and non-standard – the management of risk and liquidity to name just a couple. Banks derive much of their competitive advantage from these areas and they'll always maintain a point of difference, but they still want to realise the opportunities of innovation.

Looking to the future, and the bank of 2030, is key to understanding why interoperability is becoming so important. Multiple developments are afoot, including the range of assets a bank will settle - this is going to change markedly and in only a few years will likely include Central Bank Digital Currencies, Stable coins, Digital Security tokens, and Crypto Assets alongside Fiat currencies and Securities. This diverse set of assets will create significant challenges for banks as their infrastructure will need to be able to process across this broad spectrum.

To support these changes there's an increasing realisation that embracing cloud-based SaaS (Software as a Service) offerings and adopting digital market infrastructures throughout the trade lifecycle will be critical. Technical teams are under pressure to make this shift – but new technologies will need to deliver interoperability, reliability and extensibility.

## WHAT IS BATON SYSTEM'S APPROACH?

Baton's interoperable rules-based distributed ledger solution is the back-



Securely deployed through the cloud using a single tenant architecture, Core-FX integrates seamlessly with existing systems and processes

bone of Core-FX, which empowers banks to quickly and safely settle FX trades across all currencies and the participants to achieve settlement finality. When designing Core-FX we initially considered blockchain, but Blockchain's design principles mean that it works best when everything is on the chain vs breaking away to access other systems.

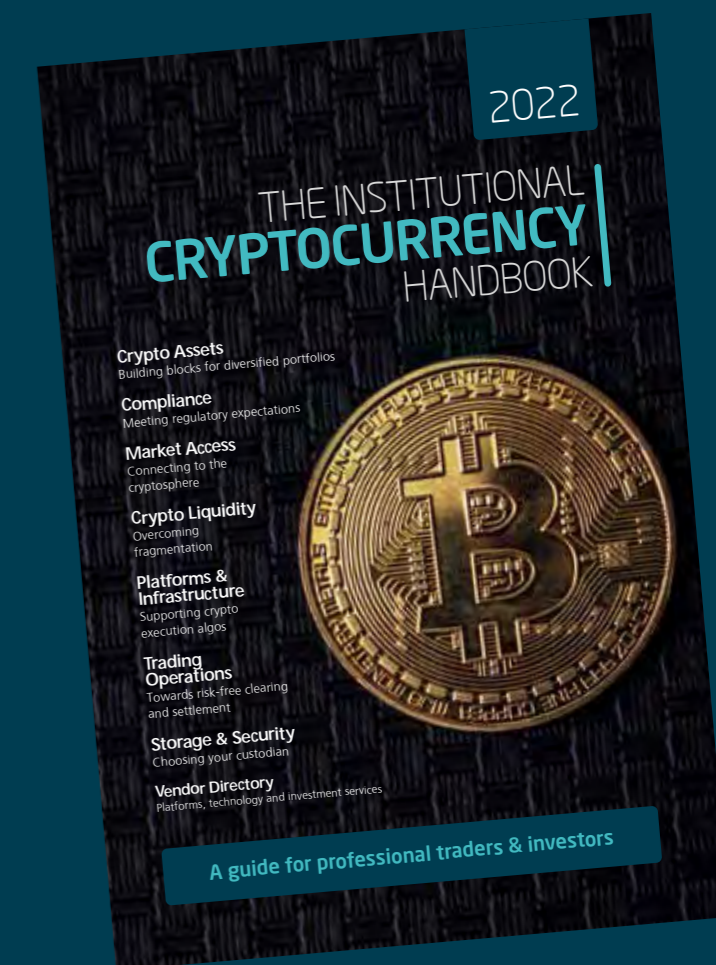
Core-FX enables banks to harness a digital market infrastructure without needing to replace existing systems. It seamlessly integrates with core ledgers, payment gateways and messaging systems using secure access protocols, adapters and APIs. To achieve this, we realised early on there were three core elements to interoperability: data, workflows and security:

**Data:** we knew efficient data translation and scalability would be key. So we built a platform able to access data via push, pull or streaming modes and then normalise and understand data received in multiple formats. So we can access and translate data simply and seamlessly for any bank, optimising cost and speed. Furthermore, our serverless queuing technology and use of auto-scaling ensures we can scale up or down as required.

**Workflows:** there will always be functions a bank won't outsource, liquidity management, for example, this will be custom and proprietary for each bank. So workflows operating in distributed ledgers need to interoperate with multiple bank entry points. We designed Baton's smart workflows to go outside the distributed ledger when required, interact with existing systems, capture necessary information, then continue progressing with the next step.

**Security:** we harness SAML (Security Assertion Markup Language) to integrate with other systems and enable those systems to maintain their identity – so the banks manage their own identities and users; we use role-based access control with different levels of permissions, aligned with and operated through internal systems; and we operate a 'single tenant' approach, where we isolate each customer into a different AWS account.

At Baton we're redefining post-trade, revolutionising the entire front-to-back process by introducing digital infrastructures from trade matching through to settlement. Our approach to interoperability is central to achieving this and enabling firms to experience post-trade as it should be: fully connected, friction-free, flexible and transparent.



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# Outsourcing Risk Management:

## Assessing the benefits for a critical component of the FX Workflow

SaaS business models have changed the way banks look at their businesses. Is institutional FX risk management a candidate for disruption too? Vivek Shankar explores the issues.

Technology is changing the way businesses function and is shifting attitudes with it. While technological impact has made itself rather obvious in consumer finance, even institutional finance has been rapidly remodeling itself around changing consumer attitudes.

Deloitte's "Bank of 2030: Transform Boldly" highlights the need for banks to reorient themselves around emerging technology, embrace operational agility, and leverage the power of analytics to drive their businesses further. When put together, all of these initiatives help banks place their customers at the center of their business strategies.

Can such an approach work in the institutional FX world? Managed services businesses have long touted the benefits of adopting cloud-

based technology to augment FX risk management workflows. However, is a move to the cloud a winning proposition for institutions?

Vikas Srivastava, Chief Revenue Officer at cloud-based financial technology provider Integral Development Corp. thinks so. "The benefits of cloud computing for FX risk management workflows are many, but the principal advantage to users is the ability to access cutting-edge technology that is quick to deploy and evolve, at an affordable price."



"The benefits of cloud computing for FX risk management workflows are many, but the principal advantage to users is the ability to access cutting-edge technology that is quick to deploy and evolve, at an affordable price."

A look at the current state of the cloud and its benefits for firms offers an interesting perspective.

### RAPID TECHNOLOGICAL ADVANCES

Traditionally, institutions have preferred building data centers and hosting them on-premise due to security concerns. After all, the risk of exposing order flow was significant, and it was easier to house a technology team that could address infrastructure and security concerns. However, this setup brought problems with it.

"For most banks, credit management, price-making, internalization, and hedging customer flow were still manual rather than automated tasks," says Srivastava. "Often, by the time this technology was built, it became out of date given the rapidly evolving nature of the markets."

Technology has made rapid strides, and institutional attitudes have been changing. A survey conducted by FX Markets and Integral discovered that 41% of respondents expected to house FX trading workflows on a hybrid model of cloud and on-premise technology. A further 28% expected their workflows to be entirely cloud-based within five years.

Cloud infrastructure these days allows institutions to host their data on public or private clouds, communicate that data to other applications seamlessly, and archive it. Add to this the security-centric focus that cloud services providers include in their offerings, and the benefits become obvious.



Vikas Srivastava

Ludovic Blanquet, Chief Product and Strategic Planning Officer at smartTrade Technologies, concurs with Srivastava. "The technological bridges between the liquidity sourcing and the banks' SDPs are now well established and secured," he says. "They operate with the appropriate latency, are reliable and interoperable with the banks' existing infrastructure."

Cost-effectiveness is the biggest benefit of moving to the cloud. FX market environments change constantly, and banks need rapid adjustments in their risk management workflows. Such conditions call for a nimble technology stack, and the cloud is a perfect fit. Thanks to fast deployment features and easily updated components, institutions can integrate, scale, and configure their applications with low risk.

"Going through a single vendor hosted solution reduces the need to procure technology, software and associated manpower," says Blanquet. "It is all mutualised by the vendor who is constantly developing the level of services and expertise of the team." Additionally, he points out that a

cloud vendor will typically provide continuous delivery offering to their customers, ensuring an always up to date and enhanced version of the solution.

Cloud technology also allows banks better integration between pricing and risk management workflows. Institutions can build intelligent feedback loops between these functions these days using managed services.

For instance, banks can skew their pricing according to their risk appetite and adjust their strategies upon meeting P&L targets. These features allow banks to automate workflows between pricing, credit, and risk management. Traders can customize their risk management strategies, whether they wish to implement time-based, event-based, passive or active hedging, or algorithmic order management.

Internalizing order flow to mitigate high hedging costs in the market is also easy when opting for a managed service provider. These features will appeal especially to banks and retail brokers. Cloud-based service providers offer dealers high levels of flexibility by allowing them to customize their warehousing models. They can automate their workflows or manually manage risk, with the option to switch back and forth in real-time.

Finally, one of the biggest benefits that a cloud services provider can offer is the ability to dig deeply into transaction data. The FX market is full of valuable data, and analytics can power better decisions. In the past, banks would have had to rely on building proprietary analytics software.

However, these days off-the-shelf software allows them to plug their data pipelines into these platforms

## Outsourcing Risk Management: Assessing the benefits for a critical component of the FX Workflow

and immediately view trends and TCA models on their data. These sophisticated platforms help banks build better risk management strategies that react to real-time data in the market. Thus, banks can now zoom in on tick level data and receive a holistic view of their risk management models.

These benefits offer FX dealing institutions an easy way to modernize their businesses with no disruption to services. Despite these benefits, there are some issues banks must consider before going down the cloud route.

### KEY ISSUES TO CONSIDER

"There are a host of critical considerations in picking the best SaaS providers in FX," explains Srivastava. "These relate to both qualitative evaluations, associated with experience, customer service and flexibility of technology, and quantifiable traits, such as costs and time to market."

One of the biggest risks institutions have to mitigate is cybersecurity. A good managed services provider must have security processes in place in line with compliance requirements. By



Ludovic Blanquet

"Technology advancements in recent years have made it possible to automate risk management with the same level of functionality that the top banks developed in-house"

leveraging third party expertise, banks can gain technical advantages without sacrificing control. smartTrade's Blanquet highlights the importance of verifying infrastructure ownership.

"Banks should ensure that the Vendor is not relying on a network of 3rd party sub-contractors service. Far too many vendors claim to offer a SaaS experience when they rely on 3rd party hosting providers making support and continuous delivery challenging, if not impossible." In addition, he notes that SOC2 is an absolute minimum requirement complemented by the right to audit the vendor's third party independent penetration and cyber security tests.

Traditionally, outsourcing services have required clients to sacrifice some control over business processes, but this isn't the case with a good managed services provider. Service providers manage data connectivity and make sure that a dealing desk is receiving all the information it needs to manage risk. They don't manipulate or control the data itself.

In essence, a good risk management services provider must be an extension of the trading desk's infrastructure. They must help firms build better trading strategies by giving them the tools to react to changing conditions faster. These days, volatility events are a common occurrence, and during such times the flexibility a managed services provider offers can be invaluable.

As Blanquet puts it, "Can the solution sustain volatility surges and/or outages without slowing down and/or stopping altogether? Does the vendor

have a support team ready to help and answer all your questions in a timely manner? Is the solution itself always on (or almost!) backed by appropriate BCP and DR capabilities?"

The ability to preserve trading connectivity, whether it's finding liquidity partners or maintaining data flow, through any means necessary is a critical requirement. A good managed services provider evaluates all possible use cases to connect a bank to its counterparties. Whether by voice, RFQ, or a central limit order book, the more avenues a service provider offers, the easier it becomes for banks to deal with adverse market conditions.

Every managed services provider offers a liquidity community to its clients, thanks to better connectivity. Some institutions might reevaluate their risk models because of this. For instance, fund management firms have to source large pools of liquidity to protect investor funds and preserve the effectiveness of their strategies.

A DIY approach will cost the firm significant resources and time, which increases the risk on their books. By outsourcing services, these firms can reevaluate their position in the markets thanks to greater liquidity access. Evaluating this liquidity community that a services provider brings is crucial.

The primary service a managed services provider offers is data flow. While real-time data is important, access to in-depth historical data is critical since it allows desks to build accurate benchmarks. Reacting to liquidity events and stressed market conditions becomes easier as a result.

The bottom line is that a managed services supplier must be service-oriented and accommodate an

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### Outsourcing Risk Management: Assessing the benefits for a critical component of the FX Workflow

institution's regulatory and compliance requirements. They must be prepared for the long haul technologically since the markets are changing quickly. Banks must review service level agreements (SLAs) to enforce liability, resilience, and security in the services they receive.

"Being a trusted partner is a frequently overused term," opines Srivastava. "However, keeping customers' best interests at heart and helping them achieve the best outcomes come from taking the long view with them, assuming that they will be serving customers for several years, if not decades. That trust comes from genuinely listening to actual problems and finding the right solutions."

Each firm's connectivity requirements will differ depending on their trading strategies and banks must take the time to discuss and validate the kind of service they need before engaging a service provider.

#### TAILORED SOLUTIONS

Managed services providers differentiate themselves by offering clients the ability to customize the solutions they need. For instance, risk

management requirements differ for the buy and sell side. The sell side needs greater focus on regulatory requirements, client demands, and keeping pace with product changes. Of course, the size of a firm also determines the depth of focus on these areas.

The buy side might focus more on achieving the best execution which means gaining access to different types of liquidity, whether through bank relationships or non-bank market makers. Their risk management systems will also need to fit seamlessly within their order lifecycle and OMS platforms. Traders at these firms might want to upload multiple orders at once and view the risk consequences on their books in real-time.

"Risk management in the current market is all about micro focus, being able to customize down to the smallest level as well as managing risk on the aggregate level," explains Srivastava. "A good cloud provider allows you to do that with the correct configuration of your systems."

Service providers offer a range of solutions, aside from broad services

like a public, private, or hybrid cloud. No matter the client's requirement or size, the cloud offers firms the best way of scaling solutions to their needs due to its flexible nature.

#### CONSTANT INNOVATION

The SaaS business model has disrupted the way businesses look at their technology platforms, and risk management is no different. Firms that adopt the cloud tend to innovate faster and develop flexibility in their operations.

"Look for solutions that have been designed with a cloud-first mindset," says Blanquet, "rather than those legacy ones that have been adapted to the cloud. It is the key to maximising the benefits of such migration."

While outsourcing every aspect of FX order flow to the cloud isn't the best solution yet, there's no doubt that the benefits of hosting risk management processes on a third party platform are immense. From tailored solutions to advanced data analytics, managed services providers offer a suite of solutions that benefit institutions of all sizes.

While the kind of services offered to institutions will change, the cloud is here to stay, and its influence is growing in institutional FX. Srivastava believes that a complete move to the cloud is inevitable.

"Technology advancements in recent years have made it possible to automate risk management with the same level of functionality that the top banks developed in-house" says Blanquet. "Thanks to institutions realizing that cloud technology has better overall functionality, is much faster to market, and significantly lower in cost, the cloud is set to leapfrog other technology solutions."



One of the biggest risks institutions have to mitigate is cybersecurity

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**oneZero has a long track record delivering innovative technology solutions in the FX space. We are now hearing a lot about the company's focus on the institutional sell side, so please tell us about this.**

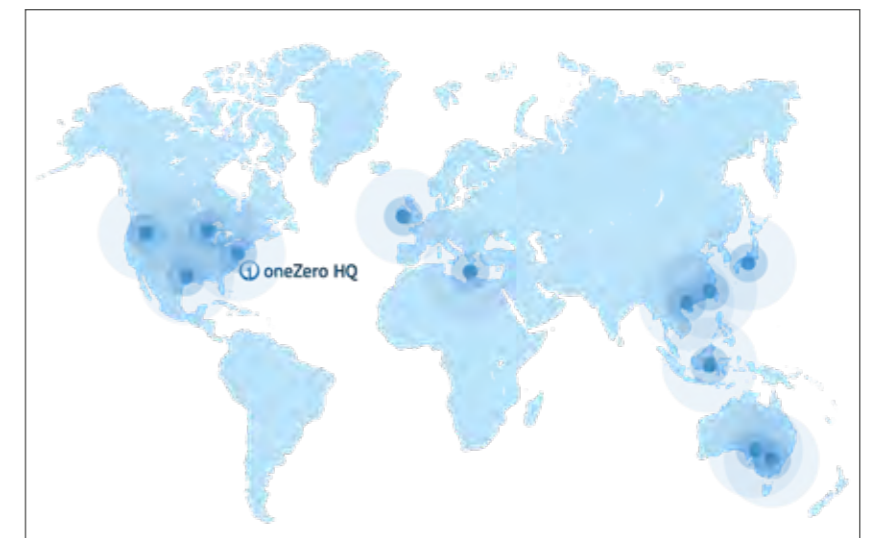
**Andrew:** I'm proud of the strides we've been making in the institutional space. oneZero has always been focused on delivering new and exciting technology solutions. Over the past few years we have had some experienced professionals join the organization with a serious track record in the institutional market, including Phil Weisberg as Executive Vice President of Strategic Planning and Partnerships, Fraser McHardy as Chief Financial Officer, Jamie Rose as Director of Relationship Management UK and Western Europe, Stuart Brock as Head of Institutional Sales UK and Continental Europe, Marc Reider as Director of Hub Product Management, as well as adding significant institutional expertise to our board members, including David Quinlan, previously an Executive Managing Director at Eze Software. Adding this market experience has expanded our ability to understand the challenges that exist in the institutional market and how our solutions can solve them.

Our mission – which we see as in addition to the work we've been doing for years – is evolving our fundamental technology platform in ways that are relevant for the institutional market, including trading with high throughput, a strong focus on risk management and a greater understanding of the complex workflows present for institutional audiences.

**What aspects of oneZero's legacy business have driven institutional adoption?**

**Andrew:** We've spent the last decade developing a comprehensive solution that's trusted and used by the world's leading brokers and some of the largest growth stories in regional markets. We continue to refine and adapt, bringing advanced technology that allows clients to source and customize their management of order flow. In doing so, we have recognized opportunities in expanding our workflow from a primarily API driven technology to one that solves problems specific to participants throughout the FX vertical.

**Phil:** My primary role has been working with the team to develop a specific version of oneZero's Hub



oneZero's increasing global presence

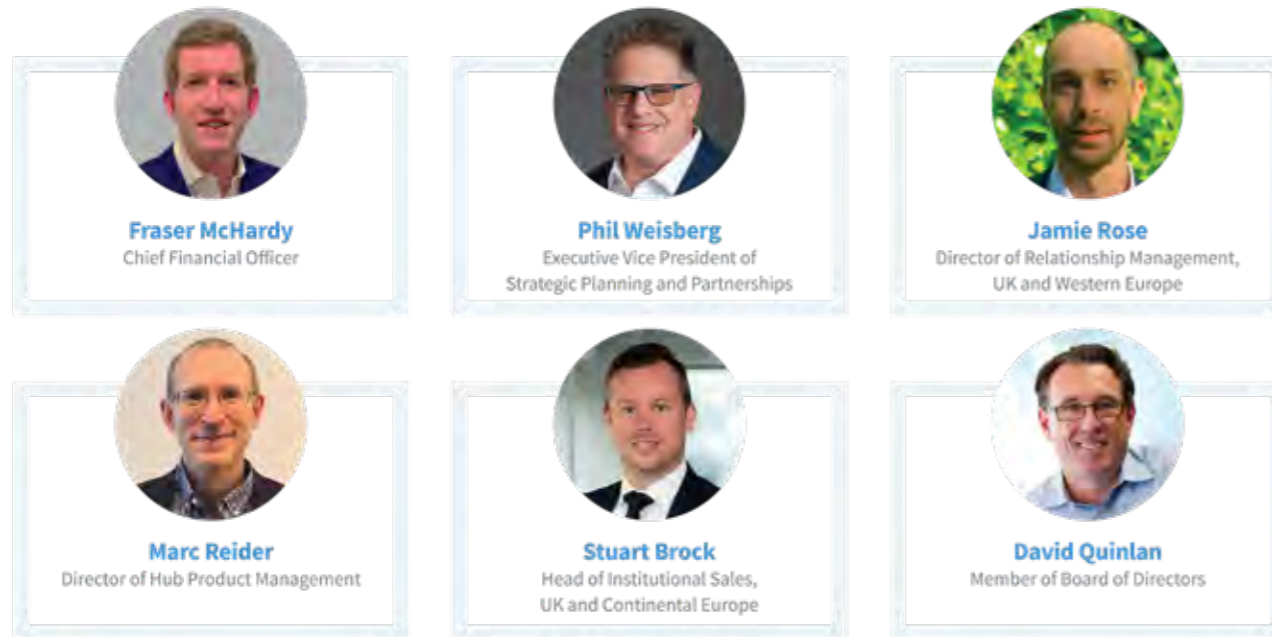
# oneZero

## Making huge strides in the institutional space

oneZero is a leading innovator in multi-asset class trading technology. Its liquidity-neutral solutions have enabled brokers, prime brokerages and banks to thrive in global financial markets for over a decade through reliable connectivity, infrastructure, market access and analytics. e-Forex spoke to Andrew Ralich, CEO and Co-Founder of the firm, and Phil Weisberg, EVP of Strategic Planning and Partnerships, to find out more about the company's recent success in entering the institutional market after a history of dominating the retail brokerage market.

Andrew Ralich

oneZero - Making huge strides in the institutional space



Over the past few years we have had some very experienced professionals join our firm

product designed for institutional audiences - the Institutional Hub - facilitating trading services to institutional brokers, prime of prime providers and banks.

As Andrew noted, a big part of this has been looking at the human workflows that are at the heart of an Institutional operation.

**What attracts clients to oneZero's Institutional Hub? What makes it different?**

**Phil:** Unlike a marketplace or venue, oneZero is a market-neutral technology provider that puts you in full control of how your risk and orders are managed. We offer award-winning modular trading technology solutions for price formation, distribution, risk management and quantitative trading analytics. We believe a fully customized approach to liquidity is paramount. oneZero allows clients to source, transform, blend and price liquidity, distribute customized liquidity streams according to individual client segmentation and execution. The result is more control for brokers, who can then understand and react to the

needs of their individual customers. Our solution combines the Institutional Hub with the EcoSystem for market access and Data Source for business intelligence.

**Andrew:** We come at this from an opposite angle to other FX solution providers for the institutional market. While they are adding automation into systems, our solution has always been automated and that has allowed us to uphold the huge quantities of trades that go through the system. Now we're taking that scale and overlaying higher-order capabilities in terms of FX derivative support, manual trading workflows and data-driven analytics. The end result has been a product that is proving to be very attractive in the institutional space, especially with sell side market participants who are struggling to scale on their legacy solution.

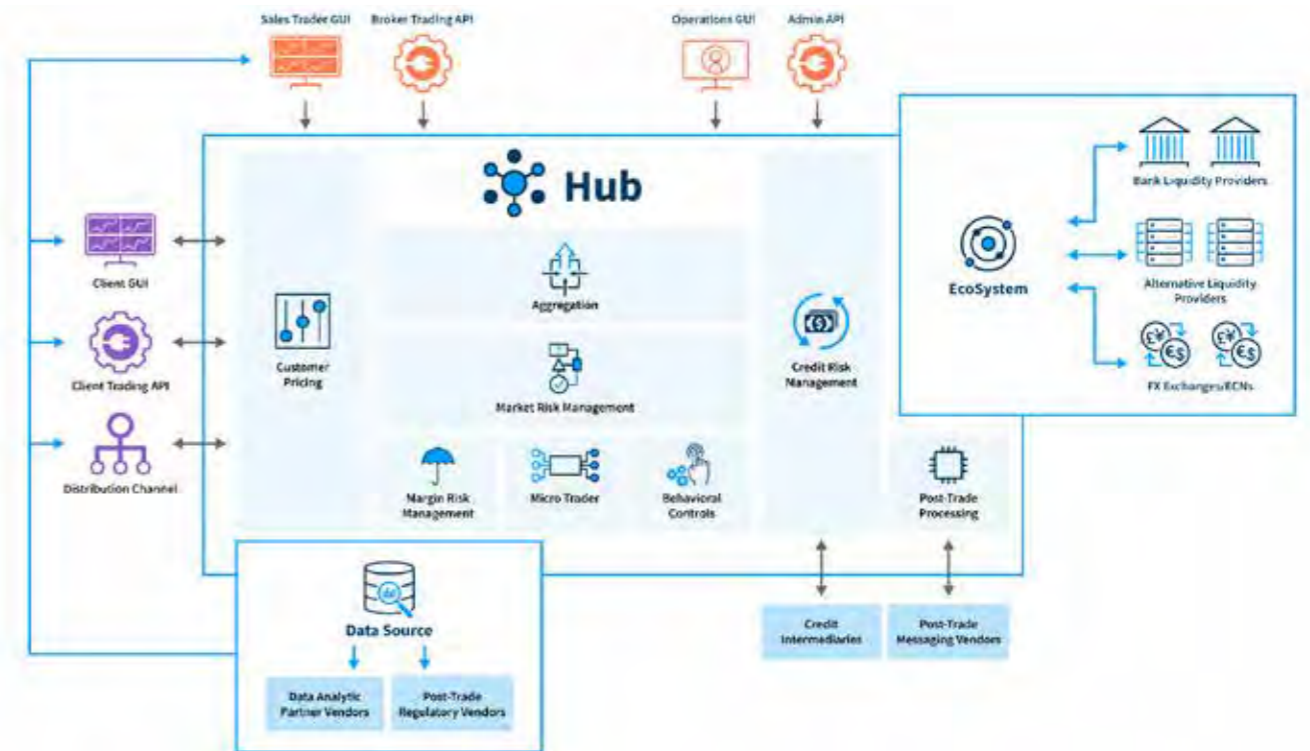
Beyond the technology itself, oneZero has always been known for its rich support function, which includes operational, follow-the-sun 24/5.5 coverage that really sets us apart from others and enables us to be true partners with the business, facilitating tens of millions of trades and billions

of quote messages every day. We're taking that same approach to how we're building out and servicing the institutional market as well.

**What within oneZero is helping drive the pace of institutional adoption?**

**Andrew:** It's all about the team. We're now more than 130 professionals based in offices across four continents. For the first time in our history, a large proportion of the team comes directly from roles within the markets we are serving.

**Phil:** Another driving force in adoption and attractiveness of oneZero in the institutional market has proven to be the pace of the market itself. As primary venues are increasing their tick rates, and mechanisms like the Code of Conduct are putting further scrutiny on last look and hold times, the pressure is on technology providers to perform against an ever increasing rate of quotes and trades. oneZero has already risen to that challenge and that is proving to be a great opportunity for us to continue to expand our functionality. Our roots in high order volume



Development of our Institutional Hub involved looking closely at the human workflows that are at the heart of an Institutional operation

markets allow us to help our clients adapt to these increasingly fast moving market structures. We are known for our performance, reliability and technology innovation, all of which is critical as our clients see more pressure on their systems.

**What are the differences in liquidity challenges across audiences served by oneZero?**

**Andrew:** The more sophisticated the market participant, the more they are aware of the nuanced assumptions around how certain types of liquidity can be used. We've done a lot of work recently to incorporate concepts such as full amount feeds into our platform to help clients make good decisions not only who they route flow to, but what type of stream they are dealing with.

**Phil:** Examples of what Andrew talks about include the ability for LPs to provide different streams that better match the characteristics of each type of liquidity consumer

that our Institutional Hub clients serve so clients with more difficult flow to risk manage can be priced accordingly. In addition, our clients have the ability to completely

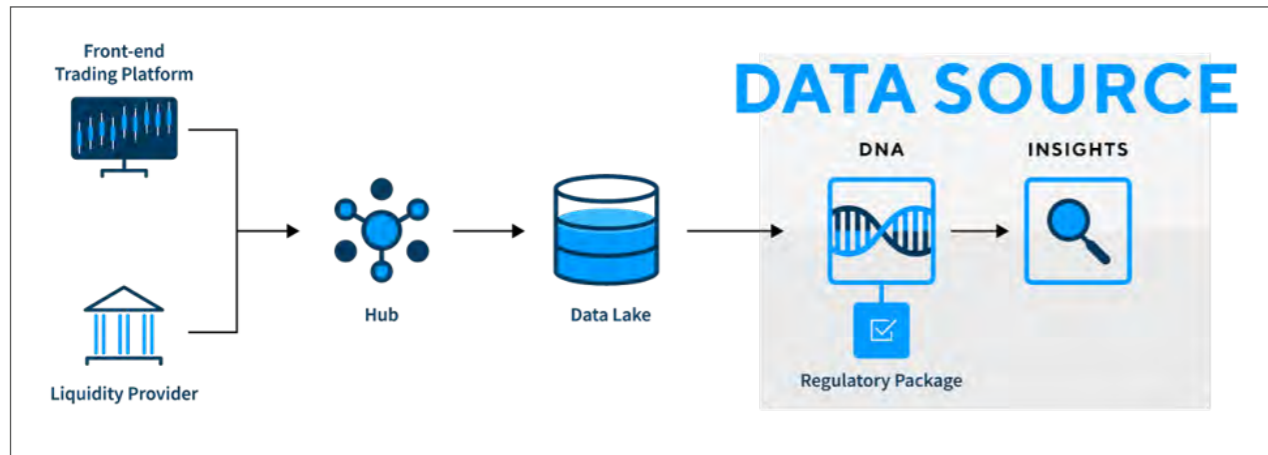
decouple their pricing function from their hedging function, which makes LPs more comfortable to provide skew safe feeds which may show their market axes without risking



Phil Weisberg is our EVP of Strategic Planning and Partnerships



oneZero - Making huge strides in the institutional space



Data Source is our next-generation cloud-based business intelligence toolkit

information leakage that could disadvantage the LP.

**Building on the concept of optimizing client and stream interactions in a data driven fashion, what sort of analytics do clients find to be the most useful in the institutional space?**

**Phil:** Clients are excited by the ability to employ the insights from metrics back into their trading strategies, which is something that our Data Source product does in an automated fashion. Our system seamlessly blends advanced analytics with changes to system settings, the one feeds the other.

**Andrew:** Another thing that our institutional clients find particularly useful are our recently launched analytics that help clients calculate the estimated economic impact of trades rejected in a last look protocol. This enables clients to better understand the relationship between the type of flow they send to LPs, quoted spreads and the impact of last look rejections when constructing their pricing and hedging strategies.

**How do you measure the traction you've gotten in the institutional space – how do you know you are making a difference?**

**Andrew:** We've gone – in a relatively short period of time – from an idea to development to meaningful client adoption. We have a captive and growing audience in the institutional space, as well as expanding our existing relationships in this market. In addition, we are delighted to have started winning industry awards in the institutional space, including TradingTech Insight Awards USA 2021 award for Best Trading Solution for Foreign Exchange (FX) Markets selected by our industry peers for our superior offering for institutional brokers and banks.

**What's next for oneZero for institutional customers? Will analytics continue to be an area of focus?**

**Andrew:** oneZero has long been ahead of the curve in what I've termed the "democratization of large scale real-time data analytics". Three or four years ago we built foundational technology in this area, and now we are building on that in our cloud-based Data Source product. We've focused on partnerships and developing analytics that help all of our clients.

One major area of focus – which Phil mentioned – is the ability to drive real-time decisions based on the data. We're working on the functionality to feed pricing, trading,

stream and pool construction information into a real-time decision making engine.

**Phil:** We have also made an investment in implementing an instrument model throughout our product, including in our pricing and risk management capabilities so we can create pricing, risk management and hedging strategies that are unique to the instrument types. We are looking forward to piloting those features for NDFs with our clients this year and will extend those to include other FX derivatives in 2022.

**What are the next steps in terms of collaboration between market participants in analytics?**

**Andrew:** It's all about data stewardship. We are building a network of regulatory vendors, data analytics partner vendors and other third party vendors that are trusted and validated by oneZero. What we provide is the assurance that the quote and trade data is presented in a consistent, accessible format.



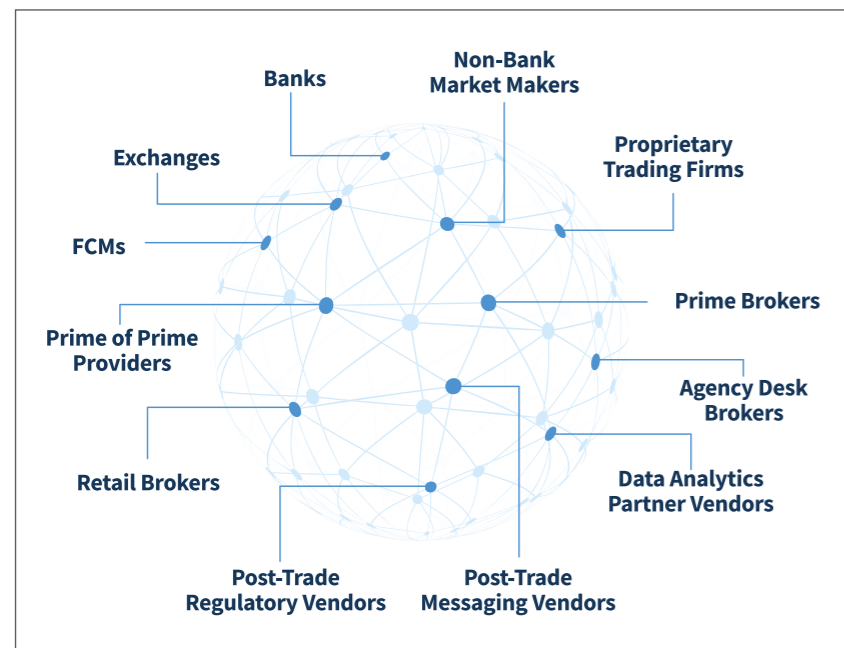
The framework we have put in place has a permissioning structure that allows clients to turn on access to whomever, from the accepted list, they like.

We act as the neutral data steward for third parties, ensuring the whole EcoSystem maintains industry levels of security and confidentiality around this information. That's critical as

we will continue to add to our list of trusted partners.

**Entering institutional markets must have been quite a shift for your team. How has this affected company culture?**

**Andrew:** It has been an exciting time for the team and I am immensely proud of our combined efforts.



We are building a network of regulatory vendors, data analytics partner vendors and other third party vendors that are trusted and validated by oneZero



But the award that I'm most proud of us winning is the Best Place to Work award



Throughout this period of rapid growth of the team, which has coincided with the global pandemic, we have worked hard to maintain an inclusive and warm culture. Throughout lockdowns globally, we have held various virtual competitions and social events. Actually, the award that I'm most proud of us winning is the Best Place to Work award.

**Phil:** Given the company had already mastered integrating contributions from teams across multiple continents, it didn't skip a beat during the pandemic. To some extent, in fact, the pandemic increased everyone's ability to collaborate as the concept of a "head office" disappeared which made it important to ensure all geographies had the right tools

and processes in place to collaborate in real time. oneZero was fortunate to have extended tools which had been extensively used in development and operations for many years like Slack, Salesforce and Atlassian to foster collaboration across the entire organization. For more information about oneZero's offerings, please email [info@onezero.com](mailto:info@onezero.com).



**"We come at this from an opposite angle to other FX solution providers for the institutional market. While they are adding automation into systems, our solution has always been automated and that has allowed us to uphold the huge quantities of trades that go through the system"**

EXPERT OPINION

# Exploring the dynamics of a successful e-FX franchise

By Ludovic Blanquet, Chief Product and Strategic Planning Officer at smartTrade Technologies



Ludovic Blanquet

Prior to the global COVID-19 pandemic, many banks, under pressure to reduce cost-income ratios were still in the process of shifting from a universal banking model to a niche market approach by focusing on flow. The pandemic accelerated the electronification of trading, motivating many of their clients to experiment and use more sophisticated trading workflows. Banks found that they needed to react rapidly to these developments. Those Banks which, pre-pandemic, were already well advanced in digitising their client relationships now find themselves in an enviable competitive position.

There are several factors to take into consideration for banks committed to delivering an exceptional experience to corporate and institutional clients. In this article we will look at these factors

and explore how the right technology partner can help them to win and retain business.

### NO TWO CLIENTS ARE THE SAME

First it is important for banks to understand the varied needs of their client base: the requirements and expectations of an institutional buy side firm will be different from those of a large corporate and different again from those of a SME (small medium enterprise). The latter group requires convenience above all and will seek solutions from fintech providers should banks be unable to focus on user experience, for example by embedding trading capabilities into their mobile or browser-based applications.

By contrast, buy side and non-bank financial institutions have typically invested heavily in technology in recent years with FX becoming more important to them as an asset class because of the savings that can be achieved post-trade. Today many of these clients require FIX integration, algo trading, efficient Request for Quote (RFQ) and aggressive streamed rates. It is essential that banks are able to handle the specific requirements of this client segment around allocations and confirmations, as well as advanced trading strategies.

Larger corporates tend to lean towards multi-dealer portals (MDPs), which

represent a significant cost for banks. To lure these clients back to their single-dealer platforms (SDPs), banks need to offer advanced workflow, supported by appropriate credit and risk models.

### A QUESTION OF PRICE

While banks need to understand the importance of user experience to their clients, central to attracting and retaining business is the ability to provide them with the best price, no matter what the type of transaction or the market conditions. In order to do this, and to retain and build their e-FX franchises, there are a number of things banks need to take into account.

When pricing clients, banks must first consider their own costs, which are usually complex and difficult to allocate accurately. It may be that a bank's FX business is a loss leader which allows them to win business elsewhere. Even if this isn't the case, it can sometimes be difficult to distinguish between capital expenditure (Capex) and operational expenditure (Opex) costs and to allocate expenditure accurately across front, middle and back office. Other costs which need to be accounted for are staffing, x-value adjustment (XVA) and, importantly, distribution - as outlined above, the cost of a MBP can be as high as 10\$/M whereas the GUI or API channel of a SDP will give rise to a much lower, fixed cost.

Having analysed their own costs, banks should ensure that they are pricing the right bands of liquidity for their client segments as well as whether they are pricing to the right channels and venues. Other factors to consider are the clients' own preferred charging structures (i.e. as a pips or percentage rate, or split out as post-trade commission) and the pricing policies of other providers in the market.

As the market changes, banks need to re-evaluate their pricing choices regularly, looking at whether client preferences or their own costs have changed and whether increased margins can be justified. The ability for a bank to make real-time margin adjustments based on variables such as client trading history, patterns and overall profitability can give it an edge when competing for business.

### TECHNOLOGY: THE KEY COMPONENTS

It is clear that accurate pricing is reliant on the availability of data. This is an increasingly important requirement for banks aiming to profitably operate an e-FX franchise. It allows them to generate reports from which they can analyse and improve pricing and trading performance for their segmented client base. It has therefore become essential for banks to deploy a trading platform with a solid analytical framework or the functionality to extract data to a good third-party platform.

Today's FX trading world is one of uncertainties and renewed market volatility. Banks no longer have the luxury of a long development cycle, and client onboarding needs to be a simple and pain-free process. Similarly, with the industry focused on increased automation, a bank which can integrate FX trading into its more traditional solutions such as



Today's FX trading world is one of uncertainties and renewed market volatility

lending, payments and cash/treasury management will find itself at an advantage, not only with its clients but also in terms of internal costs. At the heart of a successful, client-centred e-FX solution is the workflow orchestrator. This needs to be open enough (through an API) to allow a bank to plug in its pricing, business logic and existing systems to tailor workflows to each client segment – ideally with no, or very little, coding required. The focus of a buy-side trader will be on pre- and post-trade allocation and advanced trading strategies such as algorithmic execution,

whereas a corporate treasurer is likely to require access to flexi-forwards, extensions, fixing orders and single-spot portfolios (SSPs). There is evidence that banks offering these transaction types to corporate clients are benefiting from repeat business and overall flows. A reminder that the ability to differentiate client journeys by segment is without doubt an essential driver of value.

Equally important to an end-to-end e-FX solution is a unified order management system (OMS) which combines electronic and voice trading.



As the use of algos among buy side firms widens, their demand for reliable and comprehensive sets of analytics is increasing too

## Exploring the dynamics of a successful e-FX franchise

Not only does this simplify the technology stack, but it represents a response to the demand from some clients for voice trading whilst helping those same clients become more confident with a self-service digitised solution.

The market volatility of recent months, whilst generating sustained demands from corporate and institutional clients, has given rise to renewed concerns from banks about the effective management of their own risk. A platform with advanced risk management capabilities will empower banks to adjust their core pricing and associated management processes in line with their appetite for risk, and thus will allow them to better service their clients.

### THE DEMAND FOR ALGOS

The contribution of every technology component to a profitable e-FX franchise cannot be considered in detail here, but it would be remiss of us not to mention algos. We have already touched briefly upon the fact that advanced trading strategies and algos are specific requirements of institutional clients, and the increasing importance of algos to this client segment is well documented.

Overall, the rise of algo use in FX has grown over the years for spot trading and has now extended to FX derivatives such as non-deliverable forwards (NDFs). Use of algos is now commonplace among larger buy side firms, which are increasingly using them in order to achieve best execution. Being able to access these sophisticated execution strategies is attractive to institutional FX market participants since it allows them to save costs, minimise the impact on the market of large trades by placing them across multiple liquidity venues whilst improving transparency and the efficiency of their operational processes.

As the use of algos among buy side firms widens, their demand for reliable and comprehensive sets of analytics is increasing too. Clients are now seeking a deeper understanding of algos and are looking for information on how they will perform based on historical performance and on which algo strategies are most appropriate for their execution needs. With the increasing regulatory focus on best execution, pre-trade, as well as post-trade, analytics have become important to firms making decisions about algo selection.

To meet the expectations of clients using algos, banks need a platform which can analyse performance data across multiple liquidity providers and trading venues and provide evidence of compliance as well as reporting requirements. A solution which can store and analyse big data is invaluable to banks seeking to offer clients a superior service. Big data is smart data

when it allows users to inspect trading performance, analyse client or trader behaviour and usage, survey market abuse and manage liquidity provider relationships.

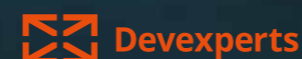
### CHOOSING THE RIGHT TECHNOLOGY PARTNER

It is clear, then, that to run a successful e-FX franchise, an understanding of each client segment's expectations and trading behaviours is paramount. It follows from this that, from a technology point of view, one size does not fit all. In order to adapt to the rapidly changing requirements of various client segments, banks need to adopt a technology stack with a broad range of functionality. But rich functionality, whilst of vital importance, is not enough by itself. Banks need to choose a technology partner agile enough to future-proof their businesses by continuously responding to client challenges within the changing trading landscape.

At smartTrade Technologies we are responding to the trend for increased investment in electronic trading and in Software as a Service (SaaS) solutions as banks seek to maximise profits, win and retain new client business and improve their trading infrastructures. smartTrade Technologies' award-winning LiquidityFX solution has expanded beyond its connection to 130+ liquidity providers and encompasses risk management, algorithmic execution, dynamic client margining and at-scale distribution. LiquidityFX is a fully hosted SaaS solution offering a transparent, fixed cost service to cover the full front-office workflow. smartAnalytics, our Data analysis solution, allows the creation of historical or real-time dashboards and reports to interact more effectively with LPs' and clients or integrates with third-party external systems. smartTrade's deep domain experience in FX has allowed us to develop a strong track record of working with banks to enhance and streamline their e-FX franchise businesses. Our products and services allow us not only to deliver what buy side clients require now but also to react and respond to changing client needs, regulatory requirements and market conditions. By choosing smartTrade's resilient and robust technology for their e-FX franchise, banks can be confident that their business is in good hands. This frees them up to focus on retaining and winning business and on building the hard-earned trust of their client base. To find out how smartTrade technologies can help your e-FX franchise to thrive, contact us at [smart-trade.net/contact](https://smart-trade.net/contact).



# Retain existing clients: rewards & in-platform benefits



DXtrade is a SaaS trading platform for FX & CFD brokers ready to be deployed in a very short time. Learn more on [dx.trade](https://dx.trade)



# What does CMC's cloud transformation tell us about the future of FX?

CMC Markets is always looking to invest in and adopt new technologies which will help improve the market leading service it delivers to customers. By having technology at the heart of its business, the company has built a reputation for consistent pricing and rapid order execution, attributes that remain a key differentiator in the CMC proposition. In order to continue realising that ambition, 12 months ago CMC Markets embarked on an organisation wide digital transformation programme which saw the company move to a cloud-first strategy. We spoke to Tom Faulkner, Head of IT Production at CMC Markets to understand more about just how wide reaching this transformation was, both in terms of accelerating product delivery to clients and also what it meant from an operational perspective.

**Q: In short, what was the goal of this transformation?**

**TF:** The transformation was the result of an internal business review, looking to see how we could roll out

new products in a shorter timeframe and in turn deliver better customer service.

Historically we have managed and run our own servers and applications in house, both at headquarters and

also at our disaster recovery sites, but there was a realisation that this consumed a lot of internal resource just to keep everything running. By leveraging cloud-based services and infrastructure, we can remove a lot of commoditised work from our tech team today, whilst also positioning the business well for the future.

**Q: What does this mean to your customers?**

**TF:** A change like this can appear on the face of it to be relatively minor, but this process has delivered two key benefits. By utilising cloud infrastructure and services our tech teams can focus more on innovation and reducing the time to market for new products. At the same time, the cloud technologies enable all new releases and changes to be done as a fully automated, end-to-end process. That means no downtime, improved testing and no impact to the client experience while maintaining a robust performance for our platform at all times.



Tom Faulkner



CMC Markets has invested over £100million in its technology to date

So, whether the change process is triggered by customer feedback, an internal business decision or is even the result of a wider, market-facing issue, clients and the business alike get to see the improvements in a shorter timescale.

**Q: Surely server developments happen all the time?**

**TF:** Whilst this is nothing out of the ordinary, it's important to note that this wasn't what the industry sometimes terms as a lift and shift migration. Instead it saw the company building a series of new and re-platformed or refactored services. These have been designed in such a way as to take full advantage of the technical advances possible with a cloud native architecture.

In other words, the improvements here go far beyond just the soft side of the customer experience, but have also delivered an overhaul of the operational, security and compliance processes, along with the supporting infrastructure. Two vital aspects -

security and compliance - now sit at the core of the automated process; meaning that every change is reviewed not just functionally but also against the rigorous security and compliance standards that we and our partners demand. By taking this truly proactive approach we can resolve any potential problems long before they could impact our production services.

And by doing all of this in partnership with a world leader in cloud computing services, it has delivered that goal of faster product innovation with more interactive customer feedback. It also means that CMC can now redeploy resource from managing commodity services and infrastructure to building new product offerings and innovations.

**Q: We hear a lot about the cloud - is this the future of forex?**

**TF:** The forex market today is dominated by the global network of datacentres for order matching and execution, but there's certainly plenty of talk that the cloud has the scope

to play a more significant role when it comes to price dissemination. Many in the industry are already looking at the benefits new counterparties could see in terms of lower setup costs, ease of integration and the ability to sidestep the requirements of global datacentres if the full potential of the cloud can be realised.

Ultimately, this migration underlines how the landscape in financial markets - and especially FX - is in a constant state of evolution. At CMC Markets, harnessing these opportunities as they arise has been very much at the heart of the business since it was first founded and over £100million has been invested in our technology to date.

I think it's fair to say that the mantra remains that wherever innovation presents an opportunity, we'll look to adapt and take advantage of that. The cloud-first strategy allows us to benefit from agility, scalability and speed of delivery - three vital components in the delivery of any tech-based service, especially those in financial markets.

# Proximity Cloud: The latest cloud product evolution specifically designed for finance markets

PRODUCT LAUNCH

To coincide with their End of Year results 2021, CEO Gordon McArthur and his team at Beeks launched their latest product evolution, Proximity Cloud. Beeks Group has been a leading managed cloud computing, connectivity and analytics provider in global capital markets and financial services since 2011. During that time they have honed their infrastructure provision and software development approach in direct response to their customers' needs and requirements. Beeks' mission is to deliver ultra-low latency compute power, ensure maximum security and optimise performance in the exceedingly fast-moving capital markets sector. Proximity Cloud is a pre-configured trading environment platform dedicated to the demands of capital trading markets and financial institutions.

## UNIQUELY TAILORED FOR FINANCIAL MARKETS

While managed cloud service providers offer generic cloud computing solutions, Proximity Cloud has grown out of the knowledge, expertise and experience of exclusively supporting financial trading companies. "We've got a long and unique history of delivering

on-demand compute in financial services," says McArthur. "We know the pain points our customers encounter, and Proximity Cloud is our most comprehensive offering to date. We aim to eliminate some of the risks and a lot of the costs that come with in-house infrastructure solutions and to make it a lot easier to get value to the business."

## PRE-BUILT SOLUTION

Proximity Cloud is a low latency private cloud product pre-built into a physical cabinet and delivered to site in a stand-alone rack.

It comprises the whole range of functionality to be expected from Beeks Private Cloud, including resource management automation, full stack and trading analytics, packet capture, latency monitoring,

high precision time services and support for MultiCast and UniCast datasets. The problems that Proximity Cloud helps to solve are far-reaching and include everything from security risk to opportunity blocks, measuring performance analytics and reducing local supply chain issues.

"Up until now Beeks has provided a private cloud product with a level of shared network infrastructure hosted in the Beeks' domain," explains McArthur. "Although we were having great meetings with banks and the bigger financial institutions who love our message and our agility, we kept bumping our head against the issue of internal controls using shared networks."

The shared infrastructure platform caused problems with security, data access and data sovereignty. While these may not be so significant in the generic cloud, they are show-stoppers

in the financial sector. Replacing shared infrastructure through a dedicated, client-owned environment was key.

## LOCATION FLEXIBILITY

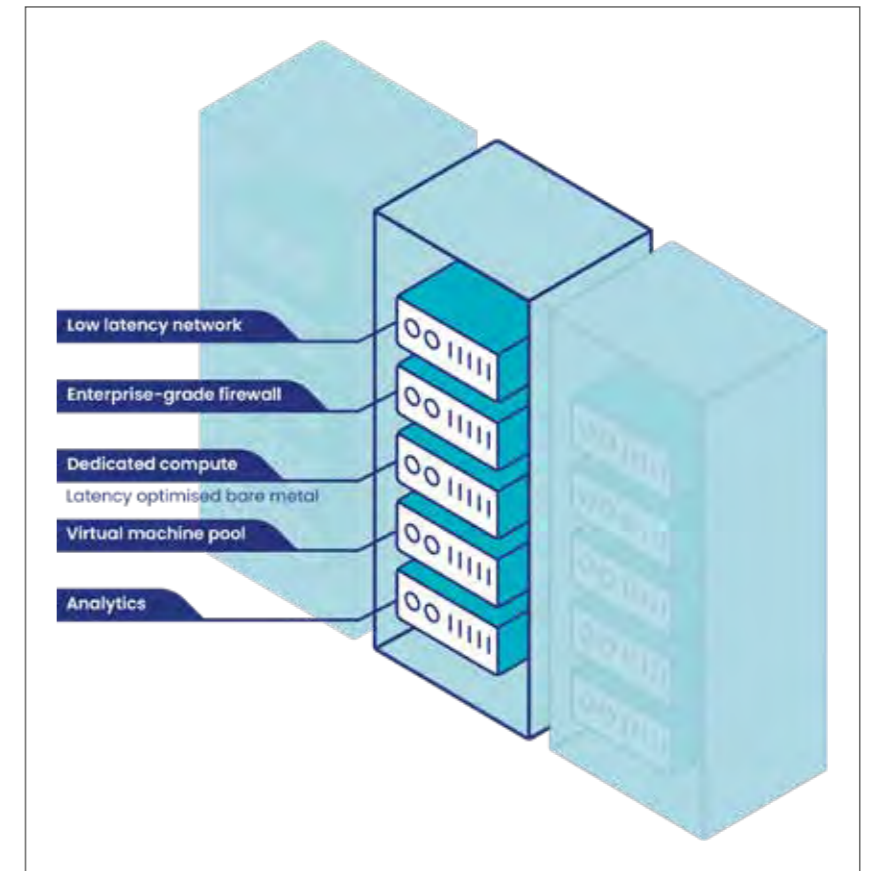
Not only do financial organisations wish to deploy quickly in new trading regions globally, they also have their own data centres where they wish to have control of their infrastructure.

Commenting on the flexibility of Proximity Cloud, Head of Sales for Beeks Group, Alan Samuel says: "Our other products to date have been prescriptive in terms of location. Our customers have had to engage with Beeks Cloud within our own footprint in our global locations. Proximity Cloud enables us to deliver the product in any location."

Proximity Cloud doesn't have to locate in LD4 or NY4, customers can have it in their own building in London, New York, Singapore or literally anywhere in the world they require it to be.

## INTEGRATION

Things can change in the financial sector very quickly and financial markets need optimised systems that



The value of Proximity Cloud over alternative cloud providers lies in its integration of security, connectivity, low latency and analytics

flex under load and market demand. Proximity Cloud allows customers to adapt and scale up or down without having to fork out a substantial amount in CAPEX.

Financial businesses who have attempted their own infrastructure builds know only too well the pain of integrating low latency, virtual compute with analytics and execution engines. So many banks and brokers have invested a great deal of time and money on platforms that never got off the ground. Not only that, it's likely that successful implementations would be compromised on some area of security or performance monitoring.

The value of Proximity Cloud over

alternative cloud providers lies in its integration of security, connectivity, low latency and analytics. This means that trading organisations can focus on what they do best instead of spending lots of man hours piecing things together before they can give any value to the business.

Furthermore, Proximity Cloud integrates quickly with public cloud for a hybrid solution, enabling financial teams to select where workloads are processed.

"One of the biggest logistical nightmares for our customers is having to buy component parts remotely for the 10 or 20 locations around the world where they need to have computing infrastructure," says McArthur.

Beeks solves this problem by taking responsibility for the sourcing, support and component replacement through their regional supply chain



Gordon McArthur

"We know the pain points our customers encounter, and Proximity Cloud is our most comprehensive offering to date."



Alan Samuel

"The overall costs of Proximity Cloud is significantly cheaper than using existing cloud service providers when you consider things like ingress and egress charges.."

Proximity Cloud: The latest cloud product evolution specifically designed for finance markets



Software development now forms 25% of Beeks' engineering base

hubs and Service Level Agreements. Their customers can leave all the logistics to Beeks and take delivery of a fully pre-configured, pre-cabled Proximity Cloud cabinet.

**ENGINEERING SUPPORT**

Security protocols and performance analytics are the most important thing for IT to think about. There are so many layers involved, including processes, procedures, certifications, specific software and hardware as well as manpower. Organisations need a dedicated security team monitoring 24/7 against cyber-attacks, Denial of Service and any incidents and events on the periphery of the network. Also of utmost importance are best-in-class performance monitoring tools and

expertise, which can be difficult to achieve in-house.

Having the ability to monitor connectivity, third party networks, bandwidth utilisation and micro-bursts of network activity ensure that trades are made at the expected calibre and any third party liabilities can be swiftly pin-pointed.

Trouble-shooting and issue resolution can be extremely time consuming and costly without collating accurate recordings and evidence. This needs expert resourcing and focus to enhance trading confidence in the platform.

Otherwise engineers have to carry out a deep-dive into the servers and still don't necessarily identify the right

information. There are often mistakes and risks to security with holes left open. However, with comprehensive real-time monitoring and alerting of latency and trade flow, as well as the ability to query historical trades with full packet capture, Proximity Cloud resolves this engineering issue.

The analytics piece alone is what big organisations have spent millions trying to get right.

**COMMERCIAL BENEFIT**

Beeks's monthly subscription model means that organisations can get up and running with a comparatively low OPEX spend, rather than the huge CAPEX investment associated with traditional solution development and implementation contracts.

"We've always known how to get the technology off the ground cost effectively," comments McArthur. "Proximity Cloud is the latest addition offering immediate value."

Converting CAPEX spend to OPEX is a significant enabler in financial institutions' technical expansion and transforms both Total Cost of Ownership and Return on Investment. Engineering costs can be enormous in a traditional environment. But these are mitigated by the built-in analytics included in Proximity Cloud.

In terms of alternative suppliers there is no real competitor in the space that includes all the sector-specific functionality of Proximity Cloud.

Alan Samuel comments: "In a nutshell, competitor solutions aren't designed for the specific requirements of capital markets and finance and cost significantly more than the price of Proximity Cloud. The overall costs of Proximity Cloud is significantly cheaper than using existing cloud service providers when you consider things like ingress and egress charges – and night and day compared to the cost of developing it in-house."

**EVOLUTION OF PROXIMITY CLOUD**

Emphasising the maturity of the product's core functionality, McArthur says: "All the components within Proximity Cloud are tried and tested over the last decade. We are one of the only firms in the world with dedicated expertise in building, networking and automating private virtual machines and analytics for the financial markets."

In that sense Proximity Cloud is not a new product. It's an iteration of all the components Beeks have spent the last ten years building and

automating, all brought together in a plug-and-play package. What is new is the software layer that brings all the components together and enables point and click management through a brand-new user interface.

Software development now forms 25% of Beeks' engineering base and is growing year on year as the automation and orchestration layer becomes more sophisticated - they're already planning the next 2 phases of Proximity Cloud.

**WHAT PEOPLE ARE SAYING**

"It's very encouraging – and quite unusual – that we already had a couple of pre-launch expressions of interest in Proximity Cloud from a range of financial organisations, including a small technology firm and one of the largest stock exchanges in the world," says McArthur.

"Almost everyone we've spoken to has given us very positive feedback – so there's definitely something in this product and we are excited to see how it is received."

**BEEKS PROXIMITY CLOUD PRODUCT FEATURES**

- Only fully managed, pre-configured physical trading environment that is fully optimised for guaranteed low latency trading conditions
- Specifically designed for connectivity rich environments using components from all low latency vendors, including optimised switching and analytics
- Ideal solution for financial enterprises looking for the ultimate secure and scalable low latency environment
- Support for multicast and unicast
- High precision time stamping included in specific sites
- Can be rolled out anywhere around the world into your own site or hosted by Beeks Financial Cloud capability
- On premise workloads capable of connecting to all the hyperscalers - you select the workloads you want on private and public cloud
- Can integrate quickly to public cloud for hybrid solution
- No shared infrastructure therefore no data security risks as everything is dedicated to you in a completely client-owned environment
- Delivered fully populated with PDUs and pre cabled
- Fully installed so no further hardware procurement required
- Backed by one of the largest cloud providers in financial services, it supports multicast data, and PTP time stamping in full regulatory approved environments

# Financial Extranets: Creating a multi-cloud ecosystem

By David Brown, Chief Commercial Officer, IPC



David Brown

In the global FX marketplace, no firm is an island unto itself. In fact, that's the very reason that trading firms are referred to as market participants – because every trading firm is a participant in the global marketplace. Every market participant has a place in the greater market structure, which is itself an interdependent network. Asset and fund managers depend on brokers and market makers for access to liquidity. Brokers and market makers in turn depend on the existence of trading venues and platforms to source liquidity. Market activity is underpinned by data, which is consolidated and supplied by market data vendors. It's a community, in which every member plays a unique and vital role.

It's well understood that the phenomena of automation,

globalization and fragmentation are vastly altering today's FX markets. Over the last 10 years, we have witnessed a revolution within the FX trading community, one in which firms of all sizes are actively involved in trading a wide range of FX instruments at a variety of execution venues all around the globe. The idea of a 24 hour-a-day marketplace is no longer a fantasy, but a reality, creating unparalleled opportunities.

With these new opportunities come new challenges. How can firms expand their presence into emerging or frontier markets, or new asset classes or services, without investing massive amounts of up-front capital into communications infrastructures? For FX trading firms that have a global footprint, the complexity of global networks also requires communications resilience and redundancy. Connectivity failure kills markets.

Furthermore, the universal imperatives of transparency and fragmentation make it nearly impossible for small- and medium-sized players in the industry to sustain full-scale connectivity programs on their own. Likewise, larger players need to balance their own desire for control with the realities of rising infrastructure costs and complicated global communications networks.

## CONNECTIVITY FOR A FRAGMENTED MARKET

FX is a highly liquid asset class - and the one most frequently traded globally, with average daily turnover exceeding \$5 trillion. A considerable proportion of this daily turnover arises from the increasingly significant high-frequency trading taking place in the deepest and most liquid parts of the FX market, such as the spot FX markets for the major currency pairs (including US Dollar, Euro, Pound Sterling, Japanese Yen and Swiss Franc). The emergence of smaller banks and retail investors trading in this market has also contributed to the high daily turnover.

The rise in electronic execution, high-frequency trading and algorithmic trading has led to more and more trading taking place on electronic broking platforms, multi-bank trading systems and single-bank trading systems. This has resulted in FX markets experiencing considerable fragmentation of liquidity in recent years, and associated connectivity challenges for market participants. As a result, FX trading firms are increasingly leveraging ready-made FX ecosystems to rapidly access liquidity venues and trade lifecycle services. The right type of network and connectivity platform enables FX trading firms to differentiate themselves from their competitors,

capture alpha and gain strategic advantage in the marketplace under a range of market conditions.

## ACCESSING INNOVATION IN A CHANGING MARKETPLACE

Following the 2008 financial crisis, as trading patterns have evolved and non-equity trading has matured and become increasingly electrified, financial extranets have grown in importance across FX markets. As trading firms integrate frontier technologies into their trading applications, extranets are now far more than conduits to market



Financial Extranets: Creating a multi-cloud ecosystem



Connectivity failure kills markets

connectivity – although this is at heart their basic and most vital function. They also act as a facilitator for new technologies, fulfilling a pent-up demand among FX trading firms for services that can navigate an increasingly interconnected and complex marketplace. These ecosystems provide a more secure ‘walled garden’ for FX trading and offer participants a depth and variety of liquidity sources that can be particularly beneficial in stressed market conditions – such as those experienced over the past year and half, as a result of the global Covid-19 pandemic. And as the capacity of financial extranets to offer a wide breadth of FX trading tools and low-latency services increases, their place in the FX trading landscape will arguably become only more significant.

The fast-moving nature of global FX markets makes it essential for FX firms pursuing sophisticated trading strategies to be able to obtain access to new market data and connect to new pools of liquidity. An increasing number of fintech providers are entering the FX marketplace, offering interesting and exciting products and services. For example, recent years have seen the emergence of very

niche FX data feeds which trading participants are keen to access. These providers also offer novel and innovative solutions to the challenges posed by ever more stringent and demanding regulatory compliance requirements. A financial extranet that offers connectivity and access to a range of service providers can not only help individual trading firms achieve their goals, but also act as a medium for innovation to enter the FX market.

**EXTRANETS IN THE TIME OF COVID-19**

Large, networked communities - such as those created by financial extranets - enable greater resilience. Imagine, if you will, a not-unrealistic scenario in which an emergent virus is sweeping the globe. Some of your traders are at home under quarantine. Others, reluctant to use public transport, have opted for your DR site instead. Your counterparties are all experiencing the same issues. Pricing is not reliable, spreads are widening and it’s unclear where the liquidity really lies. You need to continue servicing clients, making prices, accessing liquidity and managing risk. For firms that are highly dependent on a small group of venues and counterparties for market access, this spells disaster.

But for those with access to a vast, diverse community, this is an opportunity to shine, to demonstrate real differentiation from competitors.

Given their diversity, FX trading firms vary greatly in their size and in the sophistication of their infrastructure and operations. While there is certainly no one-size-fits-all approach, the resilience challenges faced by FX firms have a great deal of commonality: trading from a home-working environment, the ability to continue servicing clients in a secure and compliant manner, and the ability to continue accessing markets and liquidity.

**A NEW APPROACH TO BUSINESS RESILIENCE**

It’s not an understatement to say that the FX industry has had to fundamentally rethink its definition of, and approach to, business continuity planning (BCP) and disaster recovery (DR), over the course of the last year. It has become clear that we’ve now shifted to a new paradigm in business continuity and disaster recovery, one in which merely having a business continuity plan and a DR site in itself is insufficient. Firms must now think more generally about resilience and consider the new technologies and services that they may need in order to support different forms of organizational resilience.

Today’s business resilience paradigm is, in our view, a more holistic one. It considers not only the technological and infrastructural aspects of disaster recovery and business resilience, but also the wider questions of market resilience and access to liquidity. Historically, business continuity was all about being able to failover successfully to back-up systems, shift operations to secondary DR sites, and continue accessing the market

as normal (albeit with other market participants in the same situation). Now, it’s about ensuring that the contingency measures in place provide robustness and flexibility to cope with whatever type of event is next thrown our way.

What does this mean for FX trading firms? We’re seeing activity that indicates firms are starting to reassess their trading strategies and how to source liquidity. Our clients are beginning to consider how they can increase their resilience when it comes to liquidity, by bringing on new exchanges from different jurisdictions, and expanding their liquidity footprints. It’s not just about exchanges and venues, but also single-dealer platforms, and direct access to brokers and market makers where possible – diversification is key to building that liquidity footprint and the resilience that it brings.

It can take weeks or even months to complete legal and technology on-boarding to a venue or liquidity provider, so having that connectivity in place upfront is important. Access to market data is also vital – in periods of great uncertainty, when markets are volatile and liquidity is drying up, it’s absolutely essential for FX trading firms to understand where the liquidity is and then to have the means to access it.

For firms that are highly dependent on a small group of venues and counterparties for market access, this spells disaster. But for those with access to a large, diverse community through a robust and resilient extranet provider, this is an opportunity to demonstrate real differentiation from competitors. It’s a very different way of thinking about business continuity planning – but one which we firmly believe will enable firms to go beyond mere



Extranets can act as a facilitator for new technologies, fulfilling a pent-up demand among FX trading firms for services that can navigate an increasingly interconnected and complex marketplace

survival and to thrive in whatever conditions they find themselves in.

**CHOOSING THE IDEAL EXTRANET PARTNER**

So, then, what are the factors that might influence an FX trading firm’s choice of suitable extranet provider with which to partner? The ideal financial extranet provider’s role is primarily that of a facilitator, providing the necessary infrastructure, hosting and connectivity for FX trading firms to pursue strategies across global FX markets.

The best providers try to make their service as accessible, simple and cost-effective as possible, with low lead times to make new and additional services available as quickly as possible. They also provide a high standard of support for client on-boarding, and throughout the client experience. This may entail additional support at times of exceptional market activity or change.

Service level agreements must be high-quality and transparent. At a minimum, FX trading firms should look for guaranteed 100% uptime with no single point of failure and

scrutinize the small print around levels of availability, failover capacity and latency buffers. As we’ve mentioned, it’s also incredibly important to have a diverse network, and a provider who understands their market participants and looks ahead to the future, ensuring that they are growing the ecosystem to support future business models, technology paradigms and trading patterns.

In our view, access to a successful ecosystem in the form of a financial extranet– one that offers its participants connectivity to an already built, diverse and global financial ecosystem – is key, not only for gaining and maintaining a competitive advantage and growing as a business, but also to building greater market resilience. This community should include a wide variety of counterparties for FX price discovery, liquidity and execution, such as broker/dealers, inter-dealer brokers, exchanges, other trading venues, dark pools, hedge funds, pension and mutual funds, institutional investors, trade lifecycle services and market data providers. In other words, the information that firms need to find liquidity, and the ability to access it.

# How can brokers strengthen their risk management policy with a liquidity bridge?

By Albina Zhdanova, COO at Tools for Brokers



Albina Zhdanova

Trading and investing are both extremely tech-driven activities. Nowadays, various software solutions offer support for the process and ensure satisfactory results. Such deep integration with technology represents endless benefits to the brokers, allowing them to spend less time on tasks thanks to automation, process larger volumes without hiring a big team, run comprehensive reports in a matter of minutes, and many more. The software solutions can also serve as a risk management tool.

If we think about it, every infrastructure component plays its role in keeping the risks under control. However, the liquidity bridge has a more significant impact as one of the key elements of the environment. It can protect brokers from all types of risks, ranging from the most obvious, such as technological and regulatory, to reputational and economical. In today's article, we will share some of the ways that a liquidity bridge, as a core solution of any brokerage, can minimise or mitigate the threats that a business is facing.

## LIQUIDITY BRIDGE VERSUS BROKER RISKS

Let's look into the various aspects of liquidity bridge solutions and how they affect the levels of risk that brokers face within different risk types.

### Architecture of the Liquidity bridge

A proper bridge solution is stable and powerful. It does what it says on the box and performs in accordance with the latest industry standards. The way it is achieved is often through architecture and the logic of the software. In today's environment, most bridges promise the same set of features and benefits, and it is really down to how the software is built that makes the difference. A thought-through technology helps

brokers fight technological risks, such as outages, overloading, slowed performance, and glitches. Even small-scale brokers deal with loads of data going back and forth in milliseconds, and it is often up to the bridge to ensure the speed and performance is suitable for today's requirements.

### Functionality of the Liquidity Bridge

The built-in functionality of the bridge can address multiple risk categories, such as:

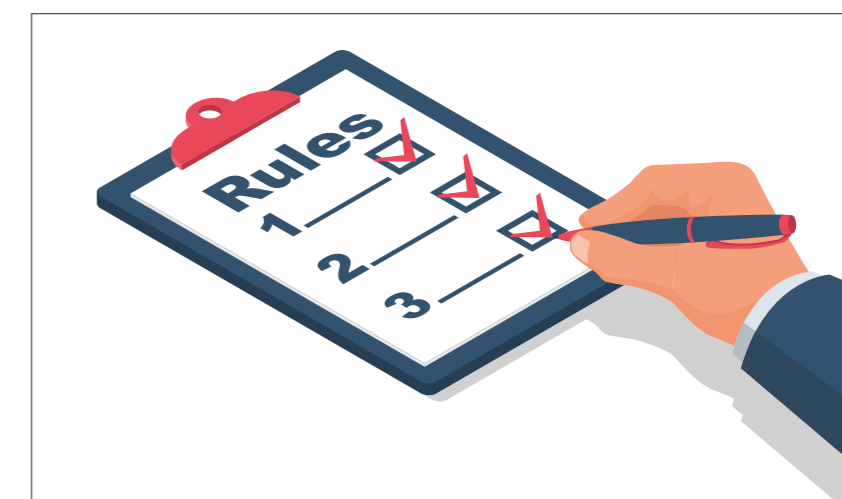
- **Regulatory risks**

Brokers are required to report to regulators. The extent and complexity of reporting differ based on where the broker is registered. However, some basic reporting is necessary for all brokers to stay compliant. The reporting process can become tricky and costly, especially if there are no reporting capabilities available via the bridge directly or if extracting the data from the system is a complex process. So, in terms of regulatory risks, a liquidity bridge can reduce them by making data structuring and exporting easy. And by providing at least basic reporting as a built-in functionality, it allows brokers to run reports at any point in time without having

to hire consultants or reserving half of the day to do that. In addition to simplifying the reporting, the bridge reduces regulatory risks with its stable, predictable performance. There are many rules protecting traders that brokers must follow, and a smart technology that doesn't fail or cause delays helps avoid violating those rules.

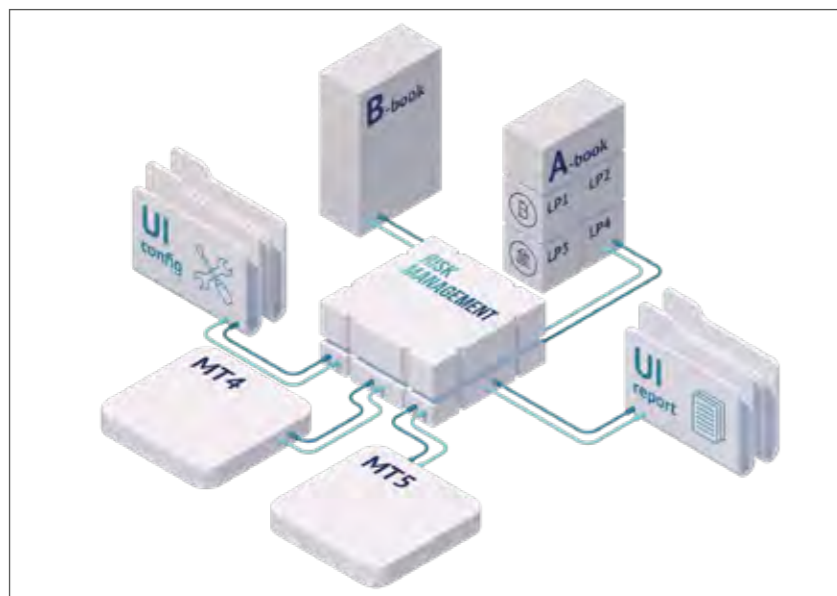
- **Technological risks**

The strong performance of the bridge supports a positive trader experience. Delays and glitches, even rare ones, can result in missed opportunities for traders and create a negative image for the broker. So again, we are going back to how the solution is built and configured. Some products will have additional 'insurance' tools, such as, for example, Backup LP functionality with Trade Processor, a liquidity bridge by Tools for Brokers. Backup LP enables automatic switching to a secondary Liquidity Provider (LP) should the primary one go down. Once the primary LP is back up and running, the system reverts to it. As a result, brokers avoid a disruption caused by reasons they have no control over. To determine if the bridge meets brokers' demands, it is always good to run thorough tests in high-stress environments



There are many rules protecting traders that brokers must follow, and a smart technology that doesn't fail or cause delays helps avoid violating those rules.

How can brokers strengthen their risk management policy with a liquidity bridge?



Tools for Brokers Trade Processor scheme

to see how the software performs under pressure. One of the risks that we often forget about is the risk of missed opportunities. A good software solution is flexible, scalable, and supportive of the broker's growth. An example of how a bridge solution manages the risk of missed opportunities through technology is the availability of APIs that enable the integration of third-party tools. While technology providers nowadays strive to cover all needs and requirements of brokers, the reality is that often independent third-party tools can complement and add to the broker's experience. And when new plugins and applications come out, it can take technology providers months to release similar solutions (that is, if they decide to go ahead and develop it altogether). So naturally, partnering with a bridging solution that allows for integrations will reduce the risk of missed opportunities.

The next point that we would like to make might sound contradictory to the one about API integration. However, they work together and not against each other. And this

next point is that a Liquidity Bridge with an ecosystem of solutions to support it has the potential to reduce technological risks for brokers.

What is an ecosystem of solutions?

It is a group of products that are fully integrated and compatible with the Liquidity Bridge and cover supplemental needs of brokers. For example, it can be a money management solution or a monitoring and reporting product. Having such solutions readily available means that brokers can extend their services to traders and improve internal operations in a short period of time.

This will help ensure they are not missing out on clients and opportunities. They will be able to be confident that additional software pieces will work smoothly within the existing infrastructure without causing conflicts and crashes as might happen with external solutions. With an ecosystem in place, brokers can be more spontaneous while keeping their risks low.

• **Reputational risks**

One of the not-so-obvious risk management factors is the pool of Liquidity Providers that the bridge

is connected to. Choice of LPs is another part of the trading chain that will directly impact a trader's experience with the broker. Ideally, bridging software will have access to a selection of LPs to ensure that orders will be executed and there is enough availability to process even the large orders.

• **Economic risks**

Economic risks affect both brokers and traders. A Liquidity Bridge should be equipped with tools to mitigate all of them.

**ORDER EXECUTION SYSTEM**

The order execution system within the bridge can greatly influence the levels of order-associated risks. The main risk with order processing is failing to get the best pricing possible for the trader.

When best pricing is provided, traders earn with their transactions and are stimulated to trade even more. Brokers, in turn, get to enjoy higher volumes.

There are several aspects that go into risk management through the order execution process:

1. A bridging solution that offers multiple order execution modes gives brokers the flexibility to find the best pricing and have a custom approach to different clients.
2. Having a pool of LPs further supports the flexibility of the process and ensures each order can be executed.
3. When traders place large orders, they are often more challenging to execute with satisfactory pricing. A Liquidity Bridge can support brokers by providing technology that addresses that risk. In Trade Processor, a Continuous Execution



When brainstorming for a risk management strategy, brokers should firstly focus on their general business health

feature essentially splits large orders into smaller ones and executes them over time. As a result, the trader receives better pricing than if the large order was simply executed all at once.

4. Some of the risks, e.g., exposure and swap costs, are avoided by implementing automation.

A bridging solution that offers multiple order execution modes gives brokers the flexibility to find the best pricing and have a custom approach to different clients.

Internal reporting, if available, represents another way of combating the economic risks that brokers experience. Internal reports are not required to be submitted to regulators and, therefore, are often put on the back burner. Reviewing reports regularly can have a drastic effect on the brokerage's performance. Some of the things that internal

reports can do for brokers:

1. Help spot trends early (both positive and negative).
2. Have a deeper understanding of traders' typical strategies and behaviour patterns.
3. Track in real-time how a brokerage is doing financially.
4. Analyse the progress against quarterly and annual goals.
5. Spot inefficiencies in business processes.

**FINAL THOUGHTS**

While technology plays a significant role in risk management for brokers, there is only so much it can do. When brainstorming for a risk management strategy, brokers should firstly focus on their general business health. There is no single formula to how

this should be done; however, a good starting point would be to:

- Simplify, automate, and streamline all business processes.
- Invest in the right people who share your values and work ethic.
- Venture out into new markets.
- Take a risk and introduce new services for your clients.
- Keep an eye on the trends and changes in the industry.
- Keep up with the competition (but in a healthy way).

And finally, the most important tip for brokers looking to strengthen their risk resilience is never to stop improving, and treat it as a game rather than a crisis.

# MT5 White Label - It is time to get in the game

By Jeff Wilkins, Managing Director, IS Risk Analytics (ISRA)



Jeff Wilkins

Over the years, the white label model has improved drastically and the calibre of firms seeking a white label solution is undoubtedly higher than ever before.

One of the primary reasons for the increase in client quality is that regulatory pressures around the globe are pushing out less serious firms. In addition, the rise in costs of a white

label solution has deterred those who were not fully committed to starting up or growing a trading organisation in this way.

From what we are seeing at IS Risk Analytics (ISRA), where we have a global client base of high quality white label clients, firms are increasingly coming to us with a strong business plan and a clear understanding of what they want. They would rather that ISRA manages their platform and back end operations, freeing up their time to focus on client relationships and growing their client base.

When it comes to white labels, there has been another big change, particularly over the last year. MT5 has become increasingly popular and is really making waves in our industry. Most established brokers now have an MT5 offering and significant business is being transacted on the MT5 platform.

There are a number of advantages to MT5, and after a slow route to adoption, it is rapidly becoming the white label platform of choice. Two key reasons for this are:

- Platform Design: MT5 is a far more robust platform than MT4. It allows for more flexibility in product offerings and works better with third party applications. Although back-end connectivity with other applications is not easily visible to end clients, the breadth of the product offering definitely is, and is a draw to many traders.
- EA Development: One of the key drivers of volume on MT4 has historically been Expert Advisors, which are written in MQL4. MQL4 is not compatible with MT5, so the Expert Advisor flow has been “sticky” and remained primarily in MT4. Programmers have begun to focus more on developing the MQL5 language specifically for MT5, and therefore EA volume and overall volumes have increased dramatically in MT5.

## HOW TO SELECT A WHITE LABEL PROVIDER

When white labelling any platform, including MT5, it is incredibly important for a broker to understand the quality of the white label provider. The biggest factor a broker needs to consider when selecting a white label provider is the level of support included with the white label offering. A white label client needs access to 24/7 support and to be able to speak



MT5 is rapidly becoming the white label platform of choice

Source: MetaQuotes software

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INSTITUTION  
LOOKING TO ACCESS  
MULTI-ASSET  
LIQUIDITY TO HEDGE  
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**MT5 White Label – It is time to get in the game**

to a team member to discuss and resolve issues as and when they arise.

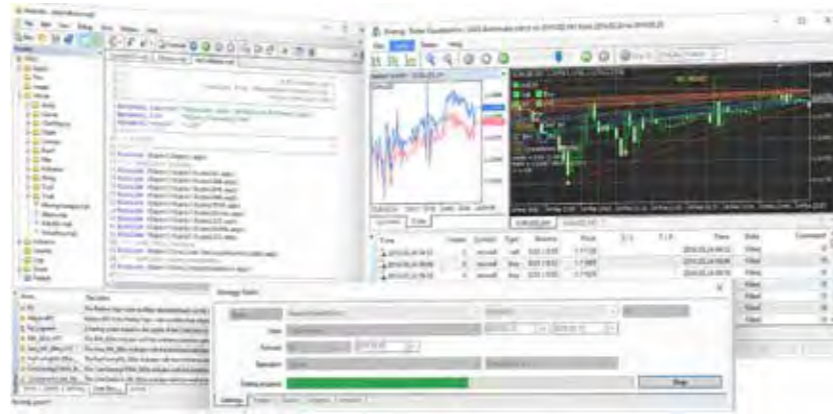
When it comes to selecting a platform, brokers need to understand the customisability of the asset offering to ensure that it is suitable for their current and future needs.

In addition, it is important for brokers to gain an understanding of the following five areas:

- Disaster recovery procedures
- DDOS mitigation
- Location of the server and access servers
- Availability of cross connects
- Hardware specifications of the trading server

**MT5 – AN ENHANCED TRADING EXPERIENCE**

Having a robust and secure white label provider is a competitive advantage



The MetaTrader 5 platform provides a specialized MQL5 development environment for algorithmic trading  
Source: MetaQuotes software

and frankly is absolutely necessary. Clients are becoming increasingly sophisticated when it comes to both trading and choosing who they will trade with. While both MT4 and MT5 brokers have always endeavoured to provide the highest level of support possible to their clients, MT5 simply offers more tools to a broker seeking to maximise their clients' trading experience.

Additional support is always required for traders on MT5 solely because it is a more complex platform than MT4. Traders accustomed to MT4's

streamlined simplicity can at times be intimidated by MT5. It is the broker's responsibility to educate the client on the functionality of MT5 and perhaps, more importantly, make sure the trader understands how the new functionality increases their chances of being a successful trader.

MT5 has a leg up on MT4 because it gives brokers more tools to fortify relationships with clients than are available in MT4. These include product diversity, depth of market visibility, additional pending order types and additional chart timeframes, to name but a few. A white label broker never knows what factors will be most important to a potential client, but MT5's architecture makes it far more likely that the broker will be able to offer the trading experience a client is looking for and therefore the odds of onboarding a client are significantly increased.

While the core offerings for most brokers are similar between MT4 and MT5, MT5 allows brokers to offer a far more extensive basket of products. MT5 was designed from the outset to be a multi-asset trading platform and handles non-forex instruments much better than MT4. This is where there will be a divergence. Brokers on MT5 will be able to offer a portfolio of products that would simply not be possible in MT4.



The biggest factor a broker needs to consider when selecting a white label provider is the level of support included with the white label offering

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