

# EUROMONEY

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## **Spoilt for choice**



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Users of the foreign exchange markets have never had such access to the markets. Single- and multi-bank portals as well as the banks' own offerings have made trading FX easier and cheaper. But where should you go to deal and why?

**CH, Euromoney** What are the main developments that are driving the global foreign exchange markets today?

**MRobson, Reuters** The latest reports from Celent say that eFX is about 60% of interbank trading and about 40% of dealer to customer FX. By 2007, they predict that these figures will rise 90% and 70% respectively. The global banks have been the first to differentiate themselves, to improve service to customers, to take out costs and reduce some of the risks around trade capture and trade reporting. During the last couple of years the key themes have clearly been the establishment of multi-bank portals, such as FXall and Hotspot. There is the growing importance of FX prime brokerage. And there is the reduction in the price and complexity of technology that has broadened the appeal of eFX.

Initially the dealer portals – the single dealer platforms – were the Rolls-Royce product, afforded only by the biggest global customers. But as the price of the technology behind those portals has come down, Reuters and some of our competitors have moved to offering a hosted ASP model for provisions, so you need fewer staff who are trained to use this technology.

Also, in the inter-bank space the volume done on EBS and Reuters matching services has grown, and that's provided a more reliable price feed for engines to power the single- and multi-bank portals. We have also seen, in the last year and a half, the birth and rapid growth of prop trading from black boxes on the sell side, and that will continue to drive substantial growth.

**CH, Euromoney** Is that what you see

from your perspective at FXall and Hotspot FX?

**PW, FXall** Yes, and what's interesting is that different sectors of the market want different things from e-trading. The traditional users of foreign exchange were looking for work-flow improvements rather than price transparency and efficiency, which they had already achieved. And there is growth there because only a third to a half are on-line. At the same time, e-trading has empowered a whole new class of investors to actively participate in foreign exchange markets. And because of the speed with which investors can now execute trading ideas a whole new dimension of trading strategies became possible.

**CH, Euromoney** John, if we're looking at the platforms, how do you see the platforms differentiating themselves?

**JE, Hotspot FX** The platforms are fundamentally different. There are marketplace exchange structures like Hotspot and there are RFQ structures. These different structures have evolved to suit different market participants, different points of the trade and provide different features to different depths in the market.

Looking at trends, clearly the change in technology has had an impact. As you remove points of friction, as you introduce APIs and

FIX protocols, you can bring in short-term momentum models, statistical arbitrage models and very specific directional models that simply weren't viable before. That has been and will be the biggest driver of growth in our view.

**CH, Euromoney** Where do the banks fit in with this proliferation of different types of online platform?

**SF, Bank of America** Our job is to provide clients with a one-



**Robson, Reuters:**  
*"The volumes done on EBS and Reuters matching services has grown, providing a more reliable price feed for single- and multi-bank portals."*

stop shop for liquidity, prime brokerage, execution and research. We can also provide market colour, insight to where we think the market's going, how they can leverage technology and a range of pre- and post-trade services.

**EH, UBS** Exactly. UBS was pretty early in adopting electronic channels as part of our business strategy. We embraced the change that we saw coming and invested heavily in our own

single-dealer platform, and it's been a big success. We've also invested in plugging into various channels, such as FXall, and now Hotspot as well, and trying to source both our existing clients and their needs for execution over these various channels, as well as new clients that we don't talk to currently. But I think what we see going forward is another sea change in the FX market. There are a lot of competing offerings out there and banks can't just change investment strategies every time a new opportunity comes up. I think banks will make decisions about where to invest and what to plug into based on a realistic expectation of return on that investment and how it can benefit clients.

**CH, Euromoney** What about the investor perspective? How have you seen your eFX trading grow and what are the key issues as you see them?

**UL, AG Bisset** We decided to move to electronic trading as much as we can. As an overlay manager with large portfolios in basically three major currencies we end up having big trades on certain days when our model triggers and we need to trade without moving the market too much. In those cases it's good to talk to a dealer and have them spread it out on the market as much as they can. But for all the other smaller trades, we trade electronically. So we see very rapid growth for smaller trades in the more exotic currencies through electronic systems. It's more; it uses less staff and you still get some anonymity.

**MRzeczynski, JWH** We've started to employ electronic trading, but it still hasn't met all of our needs. It's very good for doing non-information trades such as monthly portfolio adjustments. In this case, the portals are much more efficient than the telephone. But our motives for using these platforms are different from those of the dealers. The dealers want to cut transaction processing costs – the number of people involved in trading. And they want to eliminate the competitive threat of outsiders, such as a centralized system of trading. They do not want a centralized exchange that brings together all order flows because that could take away their competitive information advantage. Customers, on the other hand, want better execution services because, in a fragmented dealer market, there are search costs for the best price.

**Eley, Hotspot FX (centre):**

*"The platforms are fundamentally different and have evolved to suit different clients at different points in the trade."*



The issue can be viewed as one of technological innovation. The single-bank portals and request-for-quotes systems are just sustaining technology that to some degree maintains the fragmented dealer market. It doesn't fundamentally change the market. Banks are willing to subsidize the liquidity services of portals in order to get private information about dealer flow.

What we would

like to see is disruptive technologies that create a different and more centralized way of trading FX which consolidates order flow across the market.

**HT, American Century** Exactly. Price discovery ultimately needs a centralized exchange structure to make it work. What should happen has already happened in equity markets where price discovery used to be calling several banks to find the best possible price, and is now an electronic exchange environment where all market participants – customers and market-makers – play on a level playing field. However, there is something to be said for calling up a bank to get a quote, especially when you need instantaneous risk transfer – where you do need the other side to take down a large trade without tipping off the market. But this question of trying to choose the next market structure is a good one and I think the market-makers and customers and the various electronic platform providers are all thinking about it right now.

**MRzeczynski, JWH** I think your point actually drives home one of the problems in the FX market, the dealer asymmetric information problem. A dealer generally doesn't want to trade with people who have good private information or skill. Dealers would prefer to trade only with participants who need liquidity. They can then get the full bid/ask spread. If the trade does have information or is of a large size, dealers want to control that order flow, put the flow on their books and then sell the inventory at advantageous times.

**GH, GETCo** And it's interesting, given how the market is structured, to look at who is paying for that right for the banks to maintain that order flow. Essentially banks are putting out prices on single-bank platforms to garner that information. But who ultimately pays? Not the bank customer but the market as a whole as costs would be lower if those marginal transactions were being done on a central exchange, like a Hotspot or an FXall.

**MRzeczynski, JWH** Right, informed traders are subsidizing all the technological improvement. If a bank builds an electronic network and a request-for-quotes system, it really is not a disruptive technology. It's a sustaining technology with cross-subsidizing of the costs. The informed traders are subsidizing the liquidity trades. With this

## Participants

**John H Eley** is president and CEO of Hotspot FX, Inc. He is directly involved with developing applications of Hotspot FXi's exchange/ECN-structured marketplace, which provides buy-side traders with centralized price discovery, and fully transparent, executable, neutral, real-time multibank prices. These applications include full depth-of-market view, which enables investors to see all bids and offers in the market; to trade instantly and anonymously on live prices and enter bids and offers to better their execution price; and a suite of real-time and historical multibank market data, which enables institutions to analyze and benchmark their FX trade executions.



**Scott Freeman** is managing director, global head of electronic trading service, GFX, Bank of America and spearheads the firm's foreign exchange electronic trading initiatives. Prior to joining Bank of America in 2004, he was with Citigroup for six years, focusing on business development and new initiatives in e-FX.



**George Houlihan** is a member of Getco, LLC, in Chicago, an electronic market-making firm that specializes in equity, fixed income and foreign exchange trading. He has helped lead the development of Getco's fixed income and foreign exchange businesses. Previously, he



traded interest rate derivatives for NationsBank Capital Markets in New York and traded fixed income options and was a quantitative analyst for First Chicago.

**Ed Hulina** is managing director and head of FX distribution for the Americas at UBS. During his 14-year career at UBS in London, Chicago, and Stamford, CT, Ed has been responsible for FX prime brokerage, global marketing, e-commerce management, FX risk management advisory, and started his career as an FX options trader.



**Ulf J Lindahl** is chief investment officer, A. G. Bisset & Company. Mr Lindahl joined A.G. Bisset & Company in 1981 and oversees the firm's currency overlay and currency alpha programs. He is a 1980 BA in Economics graduate of Stockholm School of Economics, Stockholm, Sweden.



**Mark Robson** is global head of treasury & fixed income services, Reuters. Mark Robson joined Reuters in 1985 after a few years trading in metals and foreign exchange with Billiton Metals in London. He led the product management for the build and introduction of Reuters Dealing 3000 electronic trading and matching platform and in 2001 took on responsibility for Reuters electronic treasury broking services and as part of this he established a joint venture



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subsidy, you lower the overall cost, so it's harder for outside non-bank entrants to set up a centralized exchange.

**GH, GETCo** And the first exchange that really comes up with a true, low-cost, credit intermediation model has the potential to be very successful and drive the banks out of what they've been doing.

**SB, Euromoney** Scott, do you want to go first?

**SF, Bank of America** We spend a lot of time thinking about these kinds of questions and we don't feel that the banks have a lot of control over these types of developments. The market goes where you guys take it.

**MRzeczynski, JWH** Really? Banks own EBS, which was set up to disrupt a Reuters inter-dealer system, and banks own FXall. The banks are the key drivers in the inter-dealer broker market which they control because they own the centralized system. They also control the credit process. There are incentives for banks to control the development of technology.

**EH, UBS** Yes, but Phil, how many investors are in FXall? Thirteen,

fifteen?

**PW, FXall** I wouldn't even look at it that way. If you look at the BIS survey data, about 10% of the flow goes through EBS and FXall combined, and in every area there are many other competitors. Clearly, there are customers who value the services that banks provide. There are also banks that value information flow and are willing to pay for it by providing liquidity to the market that's probably in excess of what they can capture on a bid/offer spread basis. But all of that benefits the buy side and actually benefits some of the sell side too, because any time somebody can lever their economic advantage and tighten the market, you get more liquidity and tighter spreads. Yes, customers can go to the CME, one of the most efficient credit intermediaries in the marketplace, but FX is only 5% of their business. There has got to be some reason why that isn't the place where all the trades are done. One answer is that different customer segments want different services. Some just want reliable execution; some are executing a very

with ICor Brokerage in 2002 to support Reuters' introduction of FX Options and interest rate swaps trading offers. In 2003, Mark became the Managing Director of Reuters Treasury Services franchise, which accounts for approximately £1 billion in revenue, adding responsibility for information and dealing products. In 2004, this was expanded further, adding responsibility for Reuters fixed income business and his current title is Global Head of Treasury and Fixed Income.

**Dr Mark S Rzepczynski** is the president and chief investment officer of JWH and a member of the JWH Investment Policy Committee. He is responsible for the day-to-day management of the firm. Before joining JWH in May 1998, he was vice president and director of taxable credit and quantitative research in the fixed income division of Fidelity Management and Research. He also was a portfolio manager and director of research for a fixed-income money management subsidiary of Prudential Insurance. He has also served as an economist for the Chicago Mercantile Exchange and a professor of finance at the University of Houston. Dr Rzepczynski currently serves on the Board of Directors of the Futures Industry Association.



**Howard Tai**, is currency & equity derivatives specialist, American Century Investment Management, and is currently responsible for both trading & formulating risk management strategies for the firm in foreign exchange, equity derivatives, and convertible securities.



He joined the firm in 1995 with primary responsibility in FX but in subsequent years had responsibility for trading Asian, European, and US equities. While stationed overseas for American Century in 2000-01, he was also a member of the Asia-Pacific Steering Committee for the FIX Protocol Limited ([www.fixprotocol.org](http://www.fixprotocol.org)), a global consortium promoting electronic interface of equities, fixed income instruments, derivatives, and foreign exchange between buy-side and sell-side member firms. Before joining ACIM, he worked on the sell side for nine years in various foreign exchange trading roles at several different firms, including Citibank and Chase Manhattan.



**Philip Weisberg** CFA, is CEO of FXall. He is the driving force behind FXall's entire business strategy, overseeing the development of effective technology solutions which exceed customer needs. He is also a member of the Bank of England Foreign Exchange Joint Standing

Committee. Prior to FXall, Phil ran global currency options for JPMorgan.

**This discussion was chaired by Simon Brady, managing director of Euromoney magazine, and Clive Horwood, editor of Euromoney.**

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big trade and they don't have the in-house expertise to do that; and some want to be market-makers in the FX market.

**MRobson, Reuters** One of the reasons for the difference in price between prime brokerage costs per dollar versus say the CME is that banks are assuming market risk that isn't fully priced into the prices quoted on their platforms. I think there's a way that the economics can be more fairly spread between buy side and sell side and still bring prices down overall at an industry level.

**SB, Euromoney** John, do you want to come in?

**JE, Hotspot FX** In our view, bank market-makers, bank prime brokers, client participants, all play an enormous and interdependent role in the marketplace. Prime brokers provide the credit infrastructure and post-trade processing. From our perspective, very importantly, they provide anonymity. Market-makers traditionally have provided liquidity in the market, now they're providing and consuming liquidity in the market. Clients have traditionally consumed liquidity, now they're

providing and consuming. So in our view what you're going to see is not some end-game, single, central marketplace.

**EH, UBS** Interestingly the one word I haven't heard yet is competition. And I would be hard pressed to find a market that is as fiercely competitive as the foreign exchange market, where banks are making tenths or less than a tenth of a basis point on trades. And bank earnings are being ploughed back into technology solutions that are ultimately benefiting the end users in the market, because of competition.

And we do ask ourselves about cost structure – should it be market-based, as it is now, or should it be brokerage-based, as it is over some of the ECNs or over an exchange? But the answer in our minds is that clients are different. The bank and broker dealer market is very different from the hedge fund and CTA market, very different from the corporate market, very different from the traditional asset managers such as Howard, as well as the retail high-net-worth individuals and intermediary market that's burgeoning. All these segments ask for

different models of execution, different models in terms of handling orders, different post-trade services, such as allocations and splits, different ways of confirming and settling and, in the case of prime brokerage, they want netting, matching and processing. It's interesting that we keep holding out the equity market as some sort of endgame or Holy Grail. I think the equity market looks at the FX market and says 'How can we be more like the FX market?'

**CH, Euromoney** One of the interesting things that comes out of these discussions is that there has been a fundamental change in the nature of what a customer is in foreign exchange. How are you all dealing with this?

**EH, UBS** You're right, the definition of who is a professional counterparty and who is a client is changing, and it's not always clear. Some banks can be very strong market-makers in certain currencies or time-zones, and in other time-zones or products they're a client. So we need to distinguish between that, but we do provide client-oriented services

**Weisberg, FXall:**

*"All of us here whether bank or platform exist to connect the buy side to the sell side with good technology"*



to banks – CLS, prime brokerage, research, liquidity in different products such as options and exotic options. In that bank segment we're doing more than nine out of 10 tickets over either our channel or over various e-channels. Other client segments have a lower e-ratio.

**SF, Bank of America** Yes. There are certainly some clients who want to be market-makers and we would approach them differently. But we also treat other clients differently too depending on whether they want prime brokerage or algorithmic execution or the back-end processing.

**PW, FXall** We are a little different. We make no distinction between who is a market-maker and who is a market-taker, other than that market-makers need to have the machinery to provide prices and they need to have the ability to deal with other people on the network who want to trade with them. So I think there are client-driven and non-client-driven platforms. Also we believe successful platforms will use technology that is agnostic on future market structure.

**JE, Hotspot FX** We are not agnostic. We obviously think the ECN structure is attractive for FX. Someone comes on Hotspot, not because they view currency as a procurement exercise, but because they view currency as a source of alpha and because they believe that controlling

their execution risk will result in either reduced cost or increased alpha for their firm. So in the last two years there's been a shift in which banks have gone to being, generally speaking, market-makers, to defining themselves much more rigorously as market-makers in some areas and market-takers in others.

So on our platform, in certain currency pairs and certain time zones, we can see participants changing their behaviour and creating an ever-shifting mix of providing and consuming liquidity.

**CH, Euromoney** What about ease of use? This proliferation of platforms doesn't seem to help end-users actually find prices and deal quickly.

**EH, UBS** The market is networked so you do not get a dramatically different price on one channel or another. So in the simplest sense, the old model still works; you still can have a relationship with a single bank, that bank is providing transparent prices and you can check them against a variety of sources.

**GH, GETCo** I think it's interesting in all the current models that there's

an equal cost to either add liquidity or withdraw liquidity. We need to get to a model in which market-makers get paid when they add liquidity to the system rather than paying brokerage and parties withdrawing liquidity pay a higher cost to subsidize both the exchange and the liquidity provider. Then liquidity will be priced correctly.

**UL, AG Bisset** For us costs are one thing but mechanics are just as important. Reuters is our data provider, so we see where the market is. But we trade through FXall because they have access to more banks that meet our clients' needs, because many of our clients have credit lines with specific banks or specific custody banks, and they require us to do the deals through those banks. FXall allows us to cover most of the clients that way and that was a determining factor in who we chose.

**MRzeczynski, JWH** Price and liquidity are important but they are being commoditized.

Pre- and post-trade processing are what really differentiates banks. In fact, banks are actually providing three services: liquidity, credit intermediation and the post- and pre-trade services which are making them become more like technology companies. Better processing services will actually create more liquidity, create more volume and allow more entrants into the market. If it's easier to process a trade, if it's easier to go out and execute more complex orders, well then more people are going to do it. Volume and liquidity increases. The market widens.

**EH, UBS** Mark brings up a good point, that this isn't just about liquidity. I think in a lot of these client-oriented surveys, like the *Euromoney* survey, you'll see that liquidity is not the number one reason clients choose a bank.

**MRzeczynski, JWH** Yes. You have to look at your total trade experience, from the time before you get to the trade until after you clear out at the end of the day. Who can provide a better trading experience for the complete execution of an order? The trade execution is only one part of the whole trade process and the innovations in processing have been very significant.

**UL, AG Bisset** We really value the pre-trade service because setting up all the trades in advance and then pushing a button to execute saves a

lot of time and manpower and significantly reduces clerical errors.

**SB, Euromoney** So investors seem generally very happy with developments on the e-FX front?

**MRzeczynski, JWH** I think that the developments have been tremendously positive and that banks have been extremely responsive to what clients want within the existing structure of decentralization. While the environment is changing and is becoming more centralized, the question is whether the systems have gone far enough.

**SB, Euromoney** Is there a downside? One that has been suggested is the so-called liquidity mirage.

**EH, UBS** I think this is potentially real. There are a lot of banks making prices and there's ultimately only so much end-user volume to support those prices. So, yes, I think there is a risk of a liquidity mirage in some respects if there is a proliferation of platforms and people providing prices and representing more liquidity at any given time than is actually there. But I go back to something that Phil said. It is all networked, so at the end of the day these prices will have to be in line.

**GH, GETCo** Yes, but there's a risk that banks might simply be posting those prices because they want to gain information from the response to them for other aspects of their trading.

**EH, UBS** I don't think banks show prices for any other reason than it's expected. Clients need you to show a certain size, otherwise they wouldn't come to you. If every bank was only five up, where would you get a 50 lot off or a 100 lot off? You at some level have to represent more than you can do at any given time and then take on some risk to get out of that trade.

**MRobson, Reuters** I think that there has been a change, over the last five years. There used to be unwritten laws that you would quote each other reciprocally in size as a dealer, but that's disappeared and fewer people are prepared to make real markets. So to that extent there is a developing liquidity crunch.

**SF, Bank of America** I agree with that though I don't think there's less liquidity on the inter-bank side. I think at some points banks are just under-pricing the liquidity they put out to clients. We spend more time worrying about if we're putting out 200, 300 million at any one second to a whole range of clients, how do we manage that? Is that the right amount of liquidity to be putting out at that price? We question that. And I think a lot of banks are and I think those who have mispriced their liquidity have recoiled from the space.

**MRzeczynski, JWH** I would make the opposite point to the mirage. Liquidity is better now than it was at any point in the FX market, because before, in a more fragmented market you had the hot potato problem. A dealer would get hit with order flow and, because of its inventory risk, it would call and trade with all of the other dealers in the market, which creates a huge amount of inter-dealer business done simply to shuffle the book back and forth and gain information about what other people are thinking. Now, we've got better inter-dealer execution, EBS as well as other portals that make it cheaper for clients to trade and take the other side of inventory. So even if total trading volume goes down, liquidity has gone up.

**JE, Hotspot FX** We don't want there to be artificial liquidity. We want to create a market structure that accurately reflects where market-makers and clients meet and that prices liquidity and credit intermediation. Clearly much has changed in our market, whether it's direct dealer-to-dealer-telephone dealing, whether it's the fact that there are all these new channels for market-makers to lay positions off with clients, whether it's client-to-client matching. But at the end of the day I believe that banks do not put out more liquidity than is there: they provide liquidity to their clients in ways that suit them and their business and which make them money.

**CH, Euromoney** There are other ways in which technology is changing the business. For example, online data and analytics are allowing clients to look at trading ideas much more quickly now – is that pushing up volumes?

**EH, UBS** Certainly data is being captured much more robustly than ever and you can distribute it to clients much more easily. I remember

**Hulina, UBS (right):**  
"It's not just execution that's being changed at eFX, but also analytical research and decision-making support"



five years ago it would take an hour to download risk reversal data from our database and then put it in a spreadsheet format usable by a hedge fund. Now that's right there, all you have to do is run a report online. So, yes, it's not just execution that's being changed by e-FX, but also analytical research and decision-making support.

**SB, Euromoney** Slightly playing devil's advocate, in most other markets it seems that investors have decided that the research that banks provide is becoming less necessary.

**EH, UBS** I don't think customers are asking us for answers, they're asking how we arrived at an answer? They want to be shown the underlying data that drives our view and they want it delivered in real-time. So, for example, "Oh, it's interesting that you look at that particular volatility curve to make that decision. Well give us that curve so then we can plug in our own parameters to make our own decisions."

**MRzeczynski, JWH** Banks and portals – market design if you like – can provide us with other information that we find valuable that is not exactly fundamental research or data. FX forecasters can explain only about 10% to 15% of the variation in FX. But a whole branch of research has come to the conclusion that the micro structure of markets matter, and particularly in the FX market, flow information is

a really important driver of the market. So we find it valuable to get the information that we create from our transactions. Though not centralized, what flow information banks are providing has tremendous value.

**UL, AG Bisset** Yes. Because a lot of people in the FX market are hedgers, whether they're overlay managers or they hedge exposures, direction is the critical information, and for that purpose flow is very very important. If you know the flow is against you, that's important. If you know it's with you, then you deal in a different manner.

**SB, Euromoney** How does that affect the way you choose providers?

**MRzeczynski, JWH** Well if people will give me better prices to get my flow of information, then that would affect my choice. If people won't provide good price for large orders, then I might want to be more careful about how I execute and use a very dispersed approach, to split orders.

**UL, AG Bisset** That's what we do. We make sure that nobody sees exactly what we do.

**MRzeczynski, JWH** Right, in other words you hide your behaviour from the dealers. There is nothing good or bad about that, it's just the competitive nature of the market. Other more information-less traders, like hedgers or corporates, would like to see a call market with matching buyers and sellers at specific times. Clients who are less information-driven would like a different structure or market design.

**HT, American Century** We choose our counterparties from the broker-dealer side very selectively. We only select those we really think are one-stop shops able to provide the full range of services through all the cash and derivative products. On top of that, we have a minimum technology threshold: they have to be FIX-protocol compliant. This is to promote STP which reduces errors and allows us to control the flow of data between ourselves and our liquidity providers in the most efficient way. Once those minimum criteria are met, then we look for additional benefits a market-making bank can provide: flow information, risk-management advisory, customized research and so on.

**SB, Euromoney** Everything the investors say makes them sound incredibly demanding and difficult to make money out of. What's the point of dealing with a group of customers like that?

**EH, UBS** It's a good question and some banks have chosen not to deal with certain types of customers for that very reason. If you've a business model based on flow and market share to recover fixed costs, you will seek out certain client segments and you will service them in a way that matches their requirements over-providing services to them. So you will put resources on corporates in a different way than you will put resources on

CTAs, for example. But yes, customers are asking for a lot these days, so you need to be able to invest wisely in the services that you're offering them so that you provide exactly what they are asking for.

**SB, Euromoney** Just to return to the platforms. It is self-serving to say that you should all exist and that you're all providing different levels of choice for different customer segments. But really, are there too many platforms?

**JE, Hotspot FX** I don't have a strong view on whether there's too many or too few. I think that at any given time there will be new ones coming on and old ones disappearing because they've been unsuccessful. But I agree with Ed and Scott earlier: the "Let's participate in all of them and see what happens" approach will not continue. If you're on the buy side, you will use a platform or platforms if you like a particular market structure, or because there's a certain amount of liquidity or because there's some feature you like pre-trade, post-trade, mid-trade or whatever. You won't just connect to all of them. Likewise the banks. But I do think that this is a growing and developing market and that means, for those banks and platforms able to adapt, there is plenty of scope for increased business.

**GH, GETCo** I think one definite trend is that the RFQ platforms are moving more towards the exchange model. You're certainly not seeing the true exchange models deciding to go the RFQ route, so that perhaps indicates how consolidation may happen.

**PW, FXall** I think there is room for a number of different approaches. None of this is just about liquidity or price, as has been said here earlier. All of us exist to connect the buy side and the sell side with good technology, and with technology that is going to be agnostic as to how the market is going to evolve over time. When we first started, we concentrated with our market-makers on developing liquidity functions, providing statistics so that they could raise their service levels, so that they could understand what it took to succeed. In addition, now, to enable people to start generating alpha, there are pre- and post-trade issues that need to be solved.

A lot of our clients are managing pools of money on behalf of multiple investors and none of those investors has identical requirements. So they're managing a portfolio of different orders and rules. If they decide to go overweight in Europe, actually figuring out which one of



**Lindahl, AG Bisset:**  
*"Currency as an alpha generator is growing very rapidly and, given the turnover in those portfolios, the potential for volume growth in this area is enormous"*

those accounts can do that, with whom, and then how to settle that is a pretty complex process. We have invested a lot in our Settlement Center product to enable people to do things like that, so that they can do third-party trades away from their custodian and lower their execution costs, and so that they could settle every one of 3,000 accounts that they're dealing with.

In terms of integrating with the buy side,

we are a fan of standardization, but we are also realistic: we know we have to support our clients' choices. So, although we do support the FIX standardization and co-head the FIX foreign exchange committee, few corporates are using FIX. If you want to get their orders to them you need to deal with their STP vendors.

So I think there is a continuing role for the portals in resolving these issues, and delivering FX trading technology that supports every client segment. We think 85% of our infrastructure is shared across the different client segments, and it's that last 15% that's customized. The platforms that will stay in the marketplace are the ones that are making money and are going to invest in the future. And the bar is very, very high for new entrants.

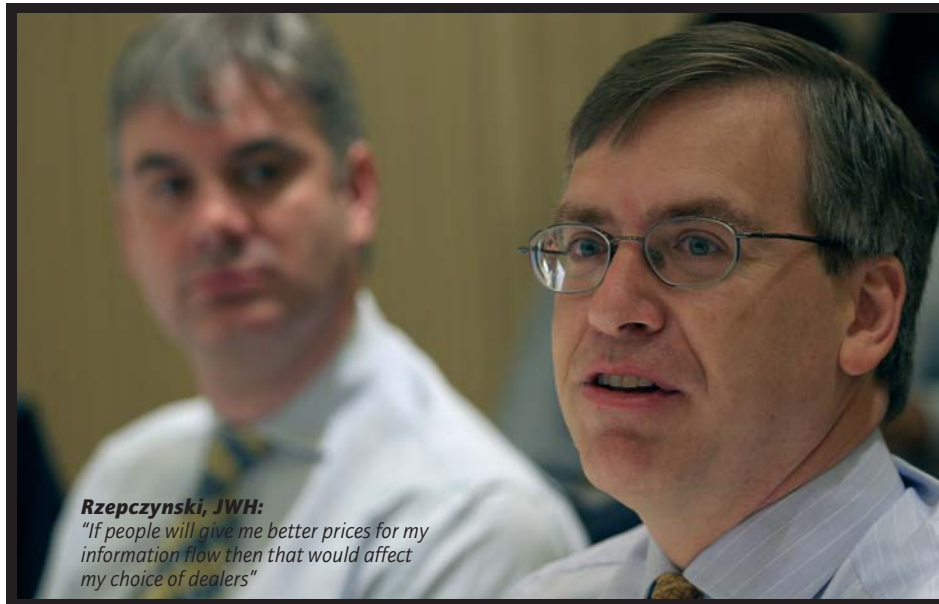
**SB, Euromoney** To conclude, what key trends do you see for the next 12 to 24 months?

**EH, UBS** In the last three years we've seen tremendous growth in volumes: there's been a lot of focus on the FX market, both as an asset class and with the recognition that currency risk must be managed. In addition, new technology has made it easier to trade, has made more complex volume-intensive strategies viable and has attracted new entrants into the market. So an obvious risk over the next three years is consolidation. There are a dozen platforms competing for business as well as all the banks that claim to be liquidity providers – can that continue? Currency markets might trend sideways, drawing attention to other asset classes. In a consolidating or falling market there will be tremendous challenges.

I also think we will see a lot of change in terms of pre-trade and post-trade. Those processes are still fairly manual and they are costly both to the end users and the FX market. As technology is applied to those areas we'll see big changes. That will be a change as up till now we have all been focusing on the point of execution and most of the efficiencies have been already squeezed out there.

**UL, AG Bisset** Of course some things will not change. The way prices move has not changed today versus 20 years ago, it's still a "bell-shaped" distribution, whether you look at daily, hourly weekly, quarterly or monthly prices. And that is what our model exploits. I think it's quite remarkable to see that this has been the case when everything else in the world has changed around it.

**MRobson, Reuters** From Reuters' perspective, we've hugely increased interest on the sell side in algorithmic black box type trading, and as we connect those customers up the increase in volumes is phenomenal. And I see a pent-up demand for it that could run for several years to come. And I'm certainly optimistic that by better connecting the sell-side sources of flow through our linkage with the CME, that



liquidity will beget liquidity.

**UL, AG Bisset** I agree. Volumes in the currency overlay business have grown from nothing in 1988 to about \$200 billion managed by about 20 specialist firms. Currency as an alpha generator is growing far more rapidly and has an annual turnover of 30 to 40 times a year. So just there the potential for volume growth is enormous.

**GH, GETCo** I also think that the next couple of years will be marked by openness. EBS is opening up to non-banks and it's the same with Reuters; you're seeing much deeper products at the Merc and growth in volume there; and the advent of widespread automated trading has also meant that volume are not so concentrated among 12 banks. As for platforms, there'll be three or four and they'll be active competitors with Reuters and EBS.

**HT, American Century** Ed mentioned that things would change if the currency market became range-bound. In that case, traditional money managers would focus more and more on getting best price through best execution practices.

Where the underlying asset only provides you with a limited return, the point of execution becomes more and more a focus, and that would mean more and more electronic execution. It's what we saw in other asset classes and it will happen in FX.

**EH, UBS** And it would also throw a spotlight on operational risk – another key driver of cost. So the post-trade and processing side of the business, because that's where much of the risk lies, rather than the point of execution, is where people will be focusing.

**SF, Bank of America** I have a question. Do you see that clients want to take on the execution risk?

**HT, American Century** That depends on the client. But yes, technology changes will push the client towards a self-service, electronic exchange model versus the traditional quote-driven model in order to search for liquidity and for price discovery.

**MRzeczynski, JWH** We can summarize by saying that the last three years was really a customer grab phase from the dealers in the electronic market. The next three years will be the customer hug phase by dealers. In the growth and development phase, you need as many customers as possible to lower average cost. In the consolidation phase when volume starts to top out, you've got to hug your customer better by offering all those other services aside from liquidity and execution.

But I also think that anyone who says the role of the banks is diminishing because of the platforms or because of customers trading directly is wrong. You can't have a successful system if you don't have banks providing liquidity as well as credit intermediation and the prime broker function.