FX Aggregation:

leveraging frameworks for over-coming inefficient trade execution

by Nicholas Pratt

Yaacov Heidingsfeld

"We capture significant trading statistics so that traders can get the best price offers, keep in dialogue and be quoted appropriately. The better the information exchange, the better the relationship."

Relationships

Market conditions and a general return to more relationship-based trading has emphasised the need for more bespoke aggregation services that reflect a firm's many relationships, according to Yaacov Heidingsfeld, chief executive of Trader Tools. "Prior to the financial crisis, large prime brokers were giving away their services in order to get market share. It was all about order flow and it did not matter whether or not they made money. But now credit costs money again and banks are going back to traditional counterparty relationships." Consequently there is more emphasis on relationship-based pricing and less use of anonymous trading. "This has driven business back to firms like ours, that provide bespoke aggregation services," saysHeidingsfeld. "We capture significant trading statistics so that traders can get the best price offers from liquidity providers. This intelligence ensures that they always get the most liquidity at the best prices available. The better the information exchange, the better the relationship."
.

Although there is still some demand for aggregation-only services, the majority of the market is beginning to appreciate the benefits of a more joined-up approach to their trading activity and to implement more comprehensive service offerings from the likes of TraderTools, says Heidingsfeld. "We try and teach traders that if you do not look at the entire FX trading cycle and instead divide it up into separate, siloed processes, then you are giving up margin. A typical siloed aggregation service will capture all available liquidity and display it on a single screen. But to put liquidity back into the market, that same view of full depth liquidity is required. Generally the full depth view is never really exposed to the FX process beyond the traders' dealing screen. Instead we believe that this information needs to be available to a pricing engine, hedging algorithms and analysis tools. Using this kind of integrated solution is how you add margin."

Clients' budgets have widened even if they have not quite returned to the pre-crisis levels, says Heidingsfeld but the prosperity is enough for TraderTools to offer a full service based on transaction fees. "We are confident, and often prove to customers, that we can add enough value in each transaction to justify the cost. It is a question of creating a business model that can be profitable for both us and our customers." Vendors' profits could be helped by progress in solving some of the problems that have dogged electronic trading in FX and the provision of aggregation services, such as poor connectivity and incompatible messaging protocols.

Technology

And Heidingsfeld believes that technology is advancing and playing an important role. "The growing acceptance of FIX has helped and managing connections to all the different liquidity sources has been less of a problem over the last 12 to 18 months. And complex event processing (CEP) technology has become very important for data capture and analysis. The technology enables traders to run multiple processes and calculations in very short time frames and is now much more accessible to a wider range of participants. It is no longer just the high frequency traders (HFT) using CEP, there is a demand for standard CEP models right across the board in the FX workflow."