

Developments in FX Prime Brokerage

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FXPB Growth

- FXPB provides separation of execution party and settlement party
- Recent growth driven by;
 - FX eCommerce
 - Anonymity on ECNs
 - New entrants, non traditional users high volume program trading



Direct Market Access



- FXPB provides clients with access not only to Banks but to multiple liquidity venues
- Clients continue to access bank liquidity via API
- FXPB provides anonymity on ECNs by substituting client name for FXPB name
- Algorithmic capability in demand
- Mifid a factor



Issues for FXPB and FX Operations

- Volumes
 - Program trading results in very high volumes of low notional ticket sizes
 - Implications for operational capacity and potential systemic operating risk
- Costs
 - Program trading models include cost of execution
 - Margins are thin so costs are a critical factor to clients
 - Banks have traditional high friction ticket costs
 - Ticket costs unsustainable



Looking ahead

- Reducing ticket volumes
 - Pre operations netting solutions
 - Cost reduction creates real competitive edge
- Clearing model development
 - Does the CME provide an alternative?
 - Can banks compete?

