Aggregation is here to stay, say technology providers

Aggregation technology is the best way to manage the increasingly fragmented foreign exchange trading landscape, and banks need to have such tools at their disposal if they don’t have adequate in-house technology, according to speakers at the FX Week Europe conference in London.

Citing a survey of second- and third-tier banks carried out by his sales team, Hormoz Amir Faryar, senior sales manager at Abu Dhabi-based brokerage ADS Securities, said the vast majority of firms are looking to aggregation to manage the challenges posed by the multitude of trading venues.

“Everyone more or less is heading towards aggregation tools – I’m sure that could change, but that’s where we’re heading at the moment. Aggregation isn’t done yet; there is still a lot going on in that field. There have been more startups in this area recently and the reason they are there is because there is a market for it,” said Faryar.

Despite the proliferation of trading platforms in recent years, and the multitude of channels through which FX can now be traded, David Mercer, chief executive of LMAX Exchange, predicted spot FX would move entirely to an exchange-based model over the next 10 years.

“Spot FX trades 50 times the volume of the New York Stock Exchange every day – we don’t need dark pools; we don’t need this opaque over-the-counter marketplace; liquidity providers don’t need last look. Surely a level playing field, with the ability for everyone to access that level playing field on an open order book, like they’ve done in every other asset class, is the way forward? Fight it all you like, and create dark pools in the short term, but platforms you see now will be exchange-based in a decade,” said Mercer.

Other panellists were sceptical of Mercer’s prediction. “Banks are getting much more efficient at market-making to different client segments, so they’ll tend to put in separate liquidity streams where they may get much tighter spreads than you’d get on an exchange. So we’re seeing not just fragmentation in terms of venues, but fragmentation in terms of liquidity streams to established liquidity providers, and that’s where aggregation is key. Although I like the exchange model, the reality is that there’s just more fragmentation going on,” said Peter Atkinson, head of FX product management at SmartTrade Technologies.

Meanwhile, Yaacov Heidingsfeld, chief executive of liquidity management technology provider TraderTools, argued there would continue to be demand for both transparent and opaque trading venues, also known as dark and lit liquidity pools.

“I do believe there is demand in the marketplace for both lit and dark pools, and to the extent liquidity redistributors are able to provide the liquidity providers with a look into the kind of business they’re doing, they’re going to get improved pricing and be able to compete more effectively for their customers,” said Heidingsfeld. © Joel Clark