Squawkbox

The weekly e-newsletter from Profit & Loss. Subscribe: **www.profit-loss.com**

Standard Chartered Joins FXSpotStream as a Liquidity Provider

FXSpotStream has announced that Standard Chartered is to become the 11th liquidity provider to its aggregation service.

Alan Schwarz, CEO of FXSpotStream

"We have been very satisfied as a client of FXSpotStream since the early days of the service going live, so it was natural for us to expand the relationship and join as a liquidity provider. FXSpotStream's no brokerage fee model offers us a less expensive, more efficient way to transact directly with our clients with the same flexibility we have over our direct connection. We look forward to offering our clients an alternative means to transact with Standard Chartered," says Chris Allington, head of FX at Standard Chartered.

Standard Chartered is expected to go live as a liquidity provider in early July and FXSpotStream CEO, Alan Schwarz, claims that having the bank as a liquidity provider will help to continue FXSpotStream's client base and trading volume expansion in the Asia-Pacific region, where it plans to open an office within the next year.

Since launching in April 2012, FXSpotStream has almost doubled the amount of banks providing liquidity to the service and expanded its product offering to include precious metals, forwards and swaps, as well as opened a new office in London.

The key to FXSpotStream's growth, according to Schwarz, is its unique business model, which he claims feeds into a broader need to reduce trading costs in FX.

"The whole fee structure of the FX market is changing. I think that it's a change that has been a long time coming and it means that costs and fees will come down for the end users," he says.

Schwarz argues that this change will have an impact on the entire FX industry and will inevitably lead to consolidation, with smaller players needing to address the cost of doing business based on reduced brokerage fees and larger players looking to develop economies of scale.

The most obvious example of this is BATS Global Markets, which, since acquiring Hotspot in March, has waived brokerage fees on precious metals and certain currency pairs in order to try and gain market share.

However, Schwarz claims that FXSpotStream's structure as a bank-owned utility makes it fundamentally different and provides a built in advantage over any potential competitors in a pricing war among them.

"No one has the same model as us and without this utility structure I don't think that anyone else can really follow what we've done in terms of significantly and permanently reducing the costs to all market participants. Others might try to get closer to our pricing by reducing their fees, but that's not their business model; it's a temporary adjustment to their fee structure.

"In contrast, our model is fundamentally designed to permanently make trading more economical as we don't charge the buy side anything and the liquidity providers pay a non-brokerage type fee which results in far lower costs the more volume that is transacted," he says.

"How permanent is Hotspot's fee holiday going to be? I don't know, but I think that once you lower fees it's very hard to increase them again unless there's a specific and unique value proposition that justifies the extra cost."

The question then becomes whether it's possible that prices could be forced so low that it becomes impossible to sustain the infrastructure needed to maintain the business?

"Of course, and you never want to sacrifice the reliability of the service offered," says Schwarz. "But for us there's still a huge amount of runway out there in terms of potential clients who are still paying more than they need to for these services, and our lower cost service that allows liquidity providers to offer better execution prices will continue to grow."