

FX-MM



EDITOR'S
INTERVIEW

TRADING | TREASURY | TECHNOLOGY

ISSUE
06

SEPT
2017

Your trusted partner at the heart of the financial services industry

Get the full picture: fx-mm.com

Full disclosure

FXSpotStream's
Alan Schwarz on the
increased demand
for transparency in
the FX market



> Open for business

Alan Schwarz, CEO FXSpotStream, tells *FX-MM* editor Peter Garnham how an original approach and an increased demand for transparency is driving growth at the world's premier disclosed FX trading venue.

THE continued rise in volumes across FXSpotStream's trading service is partly the result of its unique business model, according to Schwarz.

"We have become the leading service when it comes to disclosed liquidity, and it really is the result of our model," he says.

FXSpotStream charges price-taking clients nothing to trade on its service, whether that is in terms of commissions, hosting or data fees, he explains. Furthermore, Schwarz says, FXSpotStream remains the only trading service offering disclosed FX and precious metals trading that does not charge a per transaction fee to its bank liquidity providers.

"Our banks pay a quarterly fee that is unrelated to volume. That means the more volume they transact with us, the less their effective rate per trade is, and ultimately that translates into better pricing for the end client," he says.

"So we remain fundamentally very different to any other service out there that supports disclosed FX and precious metals trading."

Supporting the client

In addition, Schwarz adds, FXSpotStream offers an extremely stable trading environment, and prides itself on the level of support it provides its clients and liquidity providers.

"One of the things we are known for is a very high level of support," he says.

"Often, as companies grow and become more successful and entrenched, one of the things that starts to degrade is the support they offer. Those companies that tend to do well, in any business, are known for their excellent levels of support where the client always comes first."

At the same time, rising volumes can also be attributed to the addition of new products, according to Schwarz. Five-and-a-half years ago, FXSpotStream started out with a spot FX API. Now it has a GUI, offers spot precious metals, forwards and swaps, and in January this year rolled out non-deliverable forwards and non-deliverable swaps. FXSpotStream has also added several order types – most recently, limit orders – on to its system.

Furthermore, FXSpotStream has added liquidity providers on to its trading service. Having launched with six bank liquidity providers in 2011, it now has 12 on its service and plans to add a thirteenth in the near future.

That is not to say that Schwarz believes in adding liquidity providers to the service for their own sake.

"We will continue to add liquidity providers that we believe our clients want. We are not like other services that think they need 25 liquidity providers," he says.

"We don't believe our clients want 25 liquidity providers. We believe they want the right liquidity providers, the right liquidity, the right experience, the right relationship and they want an environment that is stable and allows them to transact when they need to." >



“ Often, as companies grow and become more successful and entrenched, one of the things that starts to degrade is the support they offer. Those companies that tend to do well, in any business, are known for their excellent levels of support where the client always comes first **”**

A healthy pipeline

Schwarz says the healthy pipeline of new price-takers connecting to the service is also boosting volumes. As he explains, when FXSpotStream was set up over five years ago, it was focused on the FX margin broker business in Tokyo.

“There was a clear need, a clear demand and a clear opportunity in Tokyo, and we seized it,” he says.

While FXSpotStream is still servicing the largest margin brokers in Tokyo – and it remains a very healthy and important part of the business, Schwarz says – clients from Hong Kong, Singapore and Australia are now connecting to the service in Asia Pacific. Similarly, in Europe, the service has expanded beyond London to take in clients from France, Italy, Scandinavia and Russia, while in the Americas the service has expanded beyond the US to take in clients from Canada and Mexico.

“Now we intend to grow within those financial centres and expand outside of them, and we have a healthy pipeline of new clients,” he says.

“We can say it looks healthy, or we can just look at the numbers, and the best measure of that is trading volumes.”

Speaking volumes

Indeed, in June FXSpotStream recorded \$20.3 billion in average daily volumes. This represented its highest since November 2016 when the volatility surrounding the US election saw activity surge across the FX market sending average daily volume on the service to a record \$22.3 billion – with activity peaking on the US election day itself with \$49 billion traded in a single day. The fact that

in June 2017 overall volumes for the month were just 10 billion less than in June 2016 – when FX activity spiked during Brexit – is further indication of the health of the service, according to Schwarz. It implies, he says, that growth is organic, not just relying on market moving events.

“In June we were the only FX cash venue to have double digit volume increases month on month. Our growth trajectory shows a nice progression that is the result of adding clients and adding products, as opposed to having unusual spikes,” says Schwarz. “Unless there is a reason for those volume spikes, they probably do not reflect a measured, methodical approach to the growth of a business, which is how we have always conducted ourselves.”

That is not to say that FXSpotStream is not geared to handle the spikes in volume that surround events such as the US election and Brexit, or for that matter crucial central bank decisions, or important economic data releases.

“We saw a significant increase in activity during the US election and Brexit and we like to make sure the service sees a volume increase during such market events, because if we don't that is not a good sign,” says Schwarz.

“But we are certainly happy when there isn't an exceptional trading event and our market share grows and our volumes grow. We like to shine when there is everyday business being transacted, because that shows that the service as a whole is becoming more engrained in people's businesses. When there isn't an event and a venue grows, that is a good sign.”

Full trading disclosure

FXSpotStream is also benefiting from the move from anonymous towards disclosed FX trading across the market, which, says Schwarz, has been evident in the wake of the turmoil triggered by the Swiss National Bank (SNB) when it abolished the peg in EURCHF, causing huge price swings and sending some market participants into liquidation. That shift has partly been driven by credit and counterparty risk, with market participants wanting to make sure they know who is on the other side of a trade. It also comes at a time when there is an increasing interest in transaction cost analysis (TCA) in the industry, with traders wishing to ensure that market impact, which is a significant issue for all market participants, can be lessened.

“I don't think anonymous trading venues are going to disappear; there is a time and place for them, but our volume growth is a testament to the increased demand for disclosed trading in the wake of the SNB event,” says Schwarz.

“In addition, because of the increased interest in TCA and market fragmentation, market participants want to analyse not just the hard costs of doing business, but the soft ones in terms of what happens



to the price when they trade in terms of market impact. I think TCA is only going to increase in importance to market participants and trading on a lit, disclosed, venue like ours feeds into that trend.

Indeed, in the fourth quarter FXSpotStream is set to launch an analytics package that will allow clients to view on a real-time basis information about the life-cycle of their trades, and get some best execution and market impact metrics.

"One of the reasons we set up the service, in addition to reducing costs and creating efficiency, was to increase transparency in the market," says Schwarz. "We continue to live by that and our new analytics package is part and parcel of that."

Special relationship

For Schwarz, the growth of FXSpotStream is based fundamentally on relationships and the support it gives its clients. Technology, he says, is a given; after all, no amount of support is going to help if the technology does not work. But while the firm continues to invest in technology and maintain the stability of its service, that in itself is not going to win the day and ensure the ongoing success of the company.

"That is because technology, by its nature, breaks from time to time, and when it does clients need to be able to talk to somebody who can fix the problem," he says.

Indeed, FXSpotStream has support staff on hand 24/5 in all three relevant time zones in order to deal with any problems that may arise.

"As we grow as a company, the level of support and service we offer will continue to be of the same high standard," says Schwarz.


He says he looks at the experience that he would like to have when he calls somebody that services him personally, whether it be a credit card company, bank or a grocer.

"If I call somebody and I have a question, I want somebody to take care of it. It's natural. And when they do, I will go back and you will form a relationship. Our business is no different," says Schwarz.

"Yes, there is technology involved in everything, but ask yourself the question: where do you go back to time and again? And it's fundamentally about the relationship – whether you like the person you deal with, whether they take care of you or make you feel special. No amount of technology is ever going to replace that."

Schwarz believes FXSpotStream has the right formula for continued growth.

"We need to continue to add liquidity providers, where it makes sense, we need to expand the product base, where it makes sense, and increase functionality, where it makes sense. From my perspective we haven't scratched the surface in terms of volume. There is a lot more volume out there that we plan to support," he says.

"We don't make statements that we want to take over the world – we don't use that kind of language. Our ambition is the same as it was when we started the business: we want to provide a lower cost, more transparent, better service to the market. And hopefully add value to the whole market." 

For further information: www.fxspotstream.com



ABOVE: Alan Schwarz and Matthew Berson, SVP, Product and Operations at FXSpotStream

“There is technology involved in everything, but ask yourself the question: where do you go back to time and again? And it's fundamentally about the relationship – whether you like the person you deal with, whether they take care of you or make you feel special. No amount of technology is ever going to replace that.”