



Building trust

Alan Schwarz, CEO, FXSpotStream, tells FX-MM why disclosed FX trading venues are becoming increasingly popular as market participants seek to improve pricing and certainty of execution in times of market stress.



Alan Schwarz
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What is behind the shift towards disclosed versus anonymous FX trading venues?

Since the shock caused by the Swiss National Bank removing the floor in EURCHF in 2015 we have seen an increase in market participants wanting to trade on a disclosed basis with each other, and that has continued through the uncertainty caused by

Brexit and the US election.

Partly that has been driven by credit, with market participants wanting to make sure they know who is on the other side of the trade, and also it ensures that market impact, which is a significant issue for all market participants, can be lessened.

Equally, disclosed trading allows for the development of the best possible relationship with your counterparty, both from a price maker's and a price taker's perspective. It allows for pricing to meet the price taker's expectations and allows for the flow a price maker is seeing to meet its expectations.

I don't envisage seeing the end of anonymous trading venues – there is a time and a place for it – but we have definitely seen a shift towards disclosed trading. In my opinion, market participants need to make sure that within their trading toolkit, they have access to a disclosed trading venue built in. And that disclosed trading alternative should have access to their key liquidity providers with which they would like to trade.

What are the advantages of disclosed trading?

What is helpful about a disclosed trading venue is pricing. In our experience, when market participants know each other – when the price taker knows the price maker and vice versa – and they want to grow that relationship, pricing will improve.

That is something that as a price taker you want to have available. Trading on a disclosed basis allows you to form a relationship that improves your pricing and certainty of execution.

Does that mean there are advantages in disclosed trading in times of market stress?

The advantages of disclosed trading in times of market stress is that if as a price taker you have a relationship and you know what a price maker plans to do, you have more certainty that when you need to trade, a counterparty will be available on the other side of your trade, whereas with an anonymous venue, by its very nature, liquidity may or may not be there.

Granted, it is possible that during times of stress a price maker might not react as expected, but what we have seen in the market after the Swiss National Bank event is increased communication between market participants. I think that is part of the reason why the reaction to Brexit and the US election was fairly orderly. Increased communication between price makers and price takers meant that each knew what the other was planning to do. That is the beauty of disclosed trading: that you have the ability to communicate with your counterparty pre-, during and post-trade.

Of course, there are times when anonymous trading is beneficial when market participants do not want to reveal their activity to others, but if as a price taker you are in a bind and need to get out of a position, a price maker with who you have relationship is more likely to help you out.

I think there is significant value in having a relationship during normal times so that your pricing is improved, and during times of stress so that your certainty of execution is improved.

How do price makers benefit from disclosed trading?

If they have a counterparty that is placing orders with them, exchanging genuine risk, and is not trying to move the market, and is viewed as having a give-and-take relationship, then that is a good relationship for a price maker. Trading is not about always gaining an advantage on every single trade; it is about a relationship.

That is not to say that bad behaviour cannot occur on a disclosed venue, but it can be mitigated. After all, relationships in which one side is continually winning don't generally last that long.

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