

# e-FOREX

transforming global foreign exchange markets

## SMART BUT NOT FAST

How technology is democratising FX

## TRANSACTION COST ANALYSIS

Measuring FX trade execution performance

## OVERCOMING FX LIQUIDITY CONSTRAINTS

Leaving it to the specialists

## FX ON EXCHANGES

New platforms, products and trading services

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COVER INTERVIEW

**ALAN. F. SCHWARZ**

CEO of FXSpotStream



Alan F. Schwarz

# FXSpotStream

## The zero-cost to taker utility operator

FXSpotStream a subsidiary of LiquidityMatch, is the bank owned consortium operating as a market utility which was formed in 2011. e-Forex talks to their Co-founder & CEO Alan F. Schwarz, about the company's continued rapid growth and product roadmap.

**Alan, it's been nearly two years since we last talked to you in some depth. Please can you remind us about how FXSpotStream's unique business model works?**

Our offering is unique in many respects. FXSpotStream is the only bank owned FX venue in the industry structured as a market utility. We significantly reduce the cost of execution for all participants - takers and makers - without altering the trading relationship or experience. We provide a zero cost trading environment for buy side participants and allow our Liquidity Providers (LPs) to transact directly with their clients at a lower cost than through other venues. This is because we do not charge any brokerage fees or commissions to either the client or LP and

charge LPs a non-brokerage/non-volume related fee - the more volume transacted by an LP the lower the effective rate to trade. In turn, clients pay nothing to use the Service and benefit from better pricing as

a result of the savings the LPs achieve by using FXSpotStream.

Since we launched our business over 5 years ago we have brought much needed innovation to the marketplace



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on both a transactional and technology level.

FXSpotStream's business model is unmatched and continues to lead the industry in offering a low/no cost, transparent venue for banks and clients to trade.

### What range of financial instruments can be traded on your platform and which banks have now joined FXSpotStream's price aggregation service as Liquidity Providers?

We started the streaming aggregation business in 2011 with just a spot FX API and 6 Liquidity Providers. In the last five years we have significantly expanded the streaming service and now support trading in spot FX, precious metals, FX forwards and swaps and multiple order types, and we have doubled the number of Liquidity Providers to 12. We launched an enhanced GUI in 2015 and in January launched NDF/NDS trading out of the NY site with our London and Tokyo sites to be added in a phased roll-out in Q2 of this year.

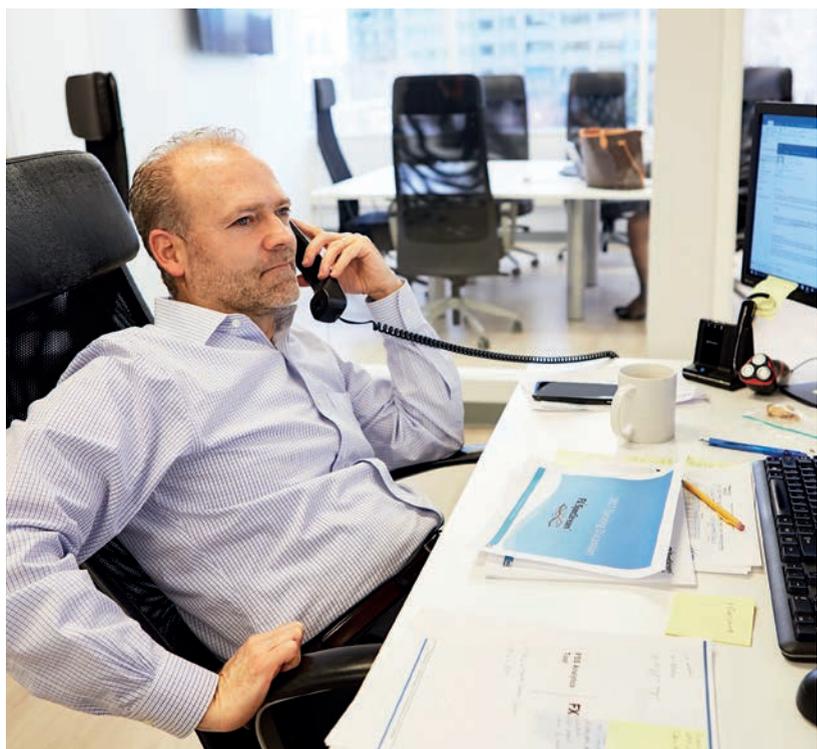
We have liquidity from 12 leading global banks – BofA Merrill Lynch, Bank of Tokyo-Mitsubishi UFJ, BNP Paribas, Citi, Commerzbank AG, Credit Suisse, Goldman Sachs, HSBC, J.P. Morgan, Morgan Stanley, Standard Chartered and UBS. We expect to add more LPs this year.

**You started last year with MoM ADV up 52% in January and in February ADV was up 5% versus January and increased 57% YoY. Client numbers also increased significantly, up 27% on the same period as the previous year. These were dramatic numbers so how did you get on in 2016?**

FXSpotStream continues to go from strength-to-strength and is clearly filling a need in the market as we again experienced outstanding growth in our trading volumes in 2016. November 2016 was a record trading month with:

- A record daily high of USD49b on November 9th
- Record ADV in November of USD22.3b
- Record Overall volume in November of USD490,498b

We finished 2016 on a very strong note with a 27% increase in volume in 2016 vs 2015 and a record USD4.7 trillion traded, up USD1 trillion from 2015. Client numbers also increased significantly with a 45% YOY increase compared to Dec 2015.



### As CEO of FXSpotStream what do your day to day responsibilities usually involve and focus around?

Every day is quite varied, but my number one priority is making sure everything is functioning 100% and that we are responding in real-time to the needs of our clients and banks. The first thing I do when I come online is to check the health of our service, look at our support inbox and catch up on what happened in Asia and the opening of the London trading session. I receive all the emails that come into and go out of our support box as does every person in our company. This means

many, many emails, but from the day the company was formed we have created a very strong customer service oriented culture and that continues to be a critical component of our success.

The rest of the day I spend a great deal of time closely communicating with our streaming and matching support, technology and sales staff in our US, London and Tokyo offices. I will deal with technical matters, new functionality and product roll outs, speak to our banks, meet new and existing clients, work with our vendor partners and speak to our Board members. I am very visible and very involved

in all aspects of our business as I am a firm believer that a CEO needs to lead by example.

**Good people are the lifeblood of consortium-owned and technology based firms. Who are the key individuals in your business operations, technology and on-boarding teams and how are they helping to service the banks and clients that use the firm's offerings?**

You are correct, and our team of dedicated individuals are critical to our success. At our headquarters in New Jersey, in addition to myself, we have Eric Zweidinger who runs our

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matching business and Matthew Berson, SVP, Product and Operations for our streaming business. Brittany Callaghan focuses on Sales, and Marc Sini, Dan Smith and Matt Young are part of our global Client Services, Support and On boarding team. Tara Maw, our CFO, and Betty Tam, Controller & Director of Administration, support all of our financial and administrative functions from our US office. Our London office, which we opened close to 2 years ago, is headed by Antony Brocksom,

SVP, Sales and New Business, EMEA. Antony previously headed FXPB at Barclays for EMEA. Reporting to Antony are Evelina Rosenstein and Rory Barnes, both in Sales. Evelina was previously part of the eFX Sales team at BAML. Gruff Bryan and Alex Skoludek are in our London based Client Services, Support and On boarding team. Campbell (Cam) Cleland runs our Tokyo office, which we

established last summer, and he heads APAC Sales and New Business. Like Antony, Cam came from Barclays where he headed FXPB in Asia before joining us. Jangwon Choi in sales and Keishi Goto, Client Services, help Cam support our APAC clients in Japan, Australia, Singapore and Hong Kong.

Over 5 years after we started the company, I am proud to head such a dedicated, smart and

hard-working group of people who have made FXSpotStream the success it is today.

**Last year we saw some global events such as Brexit and the US presidential election that had the potential to disrupt the FX market. How did the FXSpotStream service perform during these?**

Our focus on high quality technology and class leading

client service ensured FXSpotStream performed without incident during those 2 events and our banks priced clients continuously without any issues. We were busier than usual with the Service supporting more trades during the 24-hour US election trading session than at any other point during the Service's history – a 34.62% increase on our previous trade record. We experienced no technical issues during what was an unusually volatile period.



US team at Jersey City headquarters

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**Why is APAC a region of particular importance for FXSpotStream and how have you been expanding your operations there?**

Trading volume continues to increase in Japan, albeit at a slower rate than in years past. Growth is also being seen in places like Indonesia and China as local traders seek to compensate for poor returns in local equity markets by hedging FX exposure in overseas equity markets, and using FX as an asset class in its own right. As the infrastructure continues to improve in many Asian countries more and more trading is moving to electronic channels.

We have done a great job capturing market share in the APAC region, including in Tokyo

and Sydney and the opportunity in APAC for us remains significant. As mentioned previously, we opened a Tokyo office mid-way through 2016 which is headed by Cam.

In addition to his most recent role heading FXPB at Barclays Asia, Cam previously served as Chief Foreign Currency Dealer for over 3 years and is fluent in Japanese. We now also have Jangwon, who comes from the margin broker space and is also fluent in Japanese and Korean, and Keishi also fluent in Japanese. With a growing team of seasoned professionals in our Tokyo office we will look to continue to grow our footprint in the Asia Pacific region.

**Who is responsible for designing and planning your**

**product roadmap and what steps have you been taking to add to your existing range of products and services?**

Matthew Berson, SVP, Product and Operations is responsible for the product roadmap, with constant input from our global sales team, Liquidity Providers and clients to help understand what their needs are and plan for future developments.

In 2016 we added new order types and developed our NDF/NDS capability which went into production in our NYC colo site in January and we will then expand the offering in Europe and Asia. We are also working on an analytics suite for our clients and banks which we expect to roll out in Q2/Q3 and we plan to start publishing



Global Sales Teams meeting in London in January

some of our market data, of course anonymously and in an aggregated manner.

**How important is leveraging the functionality and tools of your technology partners in helping you to improve the service that FXSpotStream provides to its clients?**

Offering our clients the best solutions available is always key. We are vendor agnostic and if our clients require additional functionality then working with one of our partner vendors to deliver that solution makes sense for all sides.

FXSpotStream has partnered with a number of FX technology, software, post-trade and infrastructure providers throughout the industry that

support clients in all major financial centres. With a diverse group of providers connected to and integrated with FXSpotStream clients can easily access the liquidity available from any of our 12 global Liquidity Providing banks. This makes the on-boarding process and use of our Service much easier for many clients.

**Why did you decide to start publishing monthly supported volumes and share this information with the market?**

In late 2015 it was clear that we had become a meaningful participant in the FX market and decided a few months later that it was a good time for us to share our volumes with the industry. Providing volume data

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adds a level of transparency to the Service we offer and demonstrates the success of our unique model.

We are extremely pleased with how fast the business has grown and we share our success with the many clients, banks and technology partners that have supported us over the years.

**Why do you think increasing numbers of FX market participants are now looking to exchange risk in a fully disclosed bilateral manner and do you think ultimately that anonymous trading venues will disappear?**

Our client base is seeking transparency in its trading relationships so we are providing the service they demand.



Matthew Berson is SVP, Product and Operations

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Clients and LPs want to know who their counterparty is for several reasons. One is market impact; clients and LPs are mindful of the timing and impact of trades. The other is credit availability. With the banks responding to a harsher regulatory regime and fewer Prime Brokers providing credit, clients are warier about who their counterparties are and want the assurance that bi-lateral trading provides. We have seen a trend in this direction ever since the SNB event in January 2015.

We don't think that anonymous trading venues will disappear – there's a time and place for participants to trade anonymously. However, we continue to see a growth in disclosed trading and our YoY

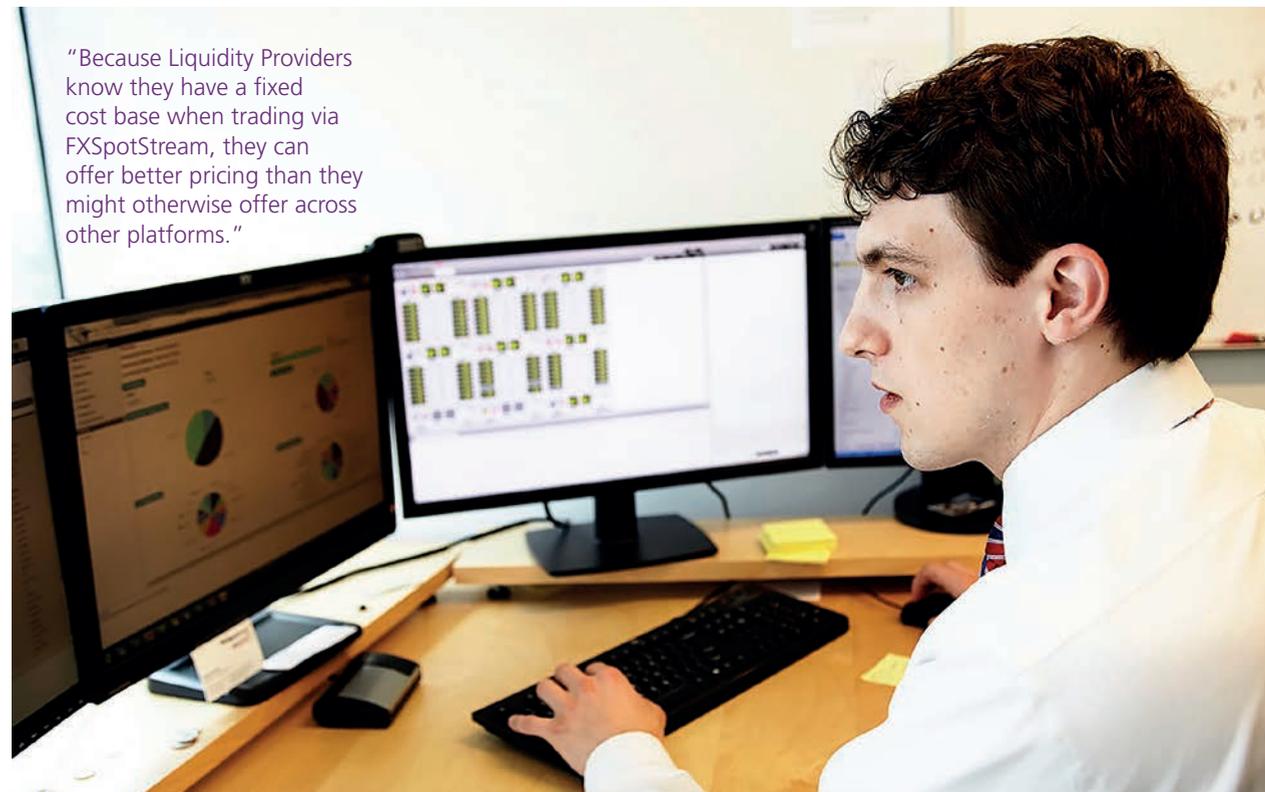
increase in volumes support that trend.

**FXSpotStream has joined the Foreign Exchange Professionals Association (FXPA) as an Associate Member to support its goals of ensuring a sound, transparent and competitive marketplace. In what ways do you think the FX market has changed for the better over the past few years and how far has it still to go before those goals have been achieved?**

One significant change to the market is how the participants have seen the impact of transaction costs on profitability.

As a result, there is a much greater awareness of the cost

“Because Liquidity Providers know they have a fixed cost base when trading via FXSpotStream, they can offer better pricing than they might otherwise offer across other platforms.”



of trading FX and the various incremental costs of each step in the process. This is one of the key drivers for our success - why would you pay more to a third party provider or have your LP pay more resulting in worse pricing when you can eliminate those costs by using FXSpotStream and still receive a better technical product and service? This has led to the reduction and even elimination of some of those costs resulting in a more transparent trading environment. However, we feel there is still a long way to go and we will continue to drive this forward.

**FX Market participants are now paying much more attention to the fees that they are paying to venues and are demanding more transparency on the cost of trading. How important is that likely to be in facilitating your future business expansion?**

Very important. Our mandate at the inception of the business was to provide the market with a better, less expensive, more efficient and transparent venue for banks and clients to transact with each other in a fully disclosed bilateral manner. We

do this by eliminating the cost of execution for price takers and significantly reduce the cost for makers.

FXSpotStream is also winning business by offering clients access to 12 global FX banks of their choice via a single connection. This allows clients to significantly reduce line and maintenance costs for maintaining multiple APIs resulting in substantial savings and a faster time to market. Because Liquidity Providers know they have a fixed cost base when trading via FXSpotStream, they can

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offer better pricing than they might otherwise offer across other platforms. So both counterparties are in a win-win relationship when trading via FXSpotStream.

**FXSpotStream has been a story of extraordinary growth since it launched in 2011. What do you see as the main challenges facing the firm over the next few years and how will you be seeking to address these and build upon your success still further?**

We need to continue to innovate, expand our offering and always, always provide top level client support. We are no longer a “start-up,” but we still behave like one in the speed with which we deliver new products and functionality and how we remain flexible in addressing the needs of our clients and banks. As a business grows and expands, it naturally becomes more difficult to “move on a dime” as the impact of what you do is potentially greater and you have a larger audience to take feedback from.

However, part of maintaining the “start-up” mentality is cultural and having the desire to continue to grow and evolve to meet the needs of the market. Plus, we fully understand that there's no substitute for hard work and every day we are grateful for the opportunity our banks and clients give us to service their business needs.