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THE FINANCE HIVE LIVE

USA Global FX Meeting

Boston

May 2018

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About the day...

The Finance Hive's second USA Global FX meeting was held in the stunning city of Boston in May 2018.

Chaired by Marc Chandler, Political Economist and Global Head of Currency Strategy for Brown Brothers Harriman, this was an exclusive opportunity for the buy side to come together and discuss the pressing issues impacting today's FX market from future technologies and blockchain to the rising interest in peer-to-peer liquidity and of course the ongoing impact geo-politics will have on the market.

Our round table topics were:

Table 1: Market structure developments

Table 2: Different ways of accessing liquidity

Table 3: NDFs, swaps and forwards: Current state of play of regulation

Table 4: Achieving, demonstrating and evaluating best execution

Table 5: Russia & different EM destinations

Table 6: FX platform & electronic innovation

We are incredibly grateful to those who attended for their open and candid contributions and trust this summary acts as a helpful reminder of those discussions.

We look forward to seeing everyone in Boston next year.

With best wishes Noj, Sally and Julie.

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Thank you to our partners:



1

MARKET STRUCTURE DEVELOPMENTS

360T

Discussion Summary:

During the day's discussions, Finance Hive members were very interested in how to facilitate buy side to buy side trading (dark pool, mid-matching, auctions, etc.) and they all face similar pain points in getting large trades done, For example exposing too much market information and being reliant on voice/single bank algorithmic execution.

This reliance makes it more difficult to show best execution and produce standardized TCA.

In general, participants are comfortable and happy with single bank algos, and plan to use them more often on large trades. Furthermore banks are starting to offer "decision support" tools, simulating which of their algos would be best to use for the goal of the execution, which has proved incredibly helpful.

Of course the "futuraization" of FX will continue to grow, as liquidity and transparency make it easier to transact in that space.

In summary the attendees felt as if the market was too concentrated, with everyone on the same side of the trade, exacerbating "illiquid" moments (i.e. impact events) and that the "noise to signal" ratio was misaligned.

Therefore in that regard, many agreed they would "pay for" or prioritize firm liquidity; clearing would be quite interesting, especially for those participants who utilize PB relationships.



1

MARKET STRUCTURE DEVELOPMENTS

360T

Top 10 Takeaways:

1. Credit issues and central counter parties make buy side to buy side trading easier.
2. With the reduction in human trading and increased use of algos it makes it easier to get in and to get out.
3. Could there be an argument for standardising post trade TCA?
4. Buy side to buy side trading is a clear way forward; ideas for auction windows creating a dark pool, mid-point pool, certain points of the day on certain pairs.
5. What is your horizon to create a cleared central limit order book?
6. Will a global currency clearing system ever develop? How could it work in practice?
7. When will credit disintermediation really happen in FX allowing non-bank to non-bank trading?
8. With the wave of anti-globalisation and problems of FX liquidity - what is the outlook 2-5 years from now?
9. 2008 changed the market structure; banks stopped extending risks in emerging markets and it has never recovered.
10. One way to boost FX liquidity is to matching different liquidity pools with different maturity profiles / business incentives and objectives.

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The Hive experience was a great way to share ideas and issues amongst the buy side and stay aligned as we work collectively with the sell side and platforms to deliver best performance for our clients.

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2

DIFFERENT WAYS OF ACCESSING LIQUIDITY

Curex Group

Discussion Summary:

From the discussions today it became clear that the majority of FX executions (60-80%) on the buy side is still done by “voice”, meaning on the phone or via chat.

“Voice” is for many buy side clients still the fastest way to get rid of risk immediately, especially if they have larger amounts to execute. Obviously, those would be the trades where the buy side would benefit the most in terms of market impact and therefore executed rate.

Even though proving best execution with “voice” trades is flawed, clients trust TCA providers to solve this problem for them.

Meanwhile those who execute via algos already understand and appreciate the benefits of a no-last-look pool that does not expose their trades to HFTs.

In summary, the sell side and platforms will have to provide more data based research and use cases about the benefits of algo execution. This is a time of tremendous change for the buy side and without a doubt more algo executions will be made, but the sell side must provide more information to the buy side before the majority of FX executions are made by algos rather than ‘voice’.



2

DIFFERENT WAYS OF ACCESSING LIQUIDITY

Curex Group

Top 10 Takeaways:

1. Liquidity issues: too many providers and therefore it is increasingly hard to find the right quality.
2. Belief that less flow is being internalized than advertised.
3. Market participants want certainty of execution.
4. Relationships still important in trading even with the rise of ECNs.
5. Key is liquidity management.
6. There is an urgent need for a better and more formalised way to track and measure liquidity.
7. Is RFQ still a viable execution protocol?
8. The nature of the NEED for liquidity is changing.
9. If forced to trade through a certain bank, that bank's algo should give the client liquidity choices.
10. Liquidity in EMFX is challenged.

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The Finance Hive is unique in that meaningful ideas are freely shared peer to peer.

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NDFS, SWAPS & FORWARDS

GTX

Discussion Summary:

It is clear that there is a desire for greater aggregation and electronification of NDF markets in order to increase transparency. Of course challenges exist, but things are improving.

During the discussions there was no preference made for anonymous or disclosed trading, Hive members agreed that both are necessary. When considering voice and electronic offerings, both need to be integrated as both offer value.

Many members highlighted concerns about the following key areas:

- Concern about stable liquidity; one to five Liquidity Providers considered optimal.
- Concern about information leakage; highlighted a preference for RFS versus RFQ.

Interestingly there was a distinct desire for peer to peer liquidity, particularly for block trades (similar to equities) and other areas for further exploration include:

- Open to both on and off SEF/regulated platform trading.
- Broken and IMM dates required.

In summary, there was agreement that disparate regulatory frameworks are challenging and introduce uncertainty. There was widespread concern about regulatory arbitrage and despite the regulatory vision there was a distinct lack of transparency when it comes to forwards, swaps and NDFs.



3

NDFS, SWAPS & FORWARDS**GTX****Top 10 Takeaways:**

1. Hive members agreed that areas such as NDFs are perfectly ripe for further electrification.
2. The best example of non-bank liquidity providers making an impact into currency derivatives markets is in NDFs.
3. When trading an NDF, traders are demanding the same high level control and transparency that they enjoy with a G10 [currency].
4. The introduction of uncleared margin rules have boosted clearing of NDFs.
5. Regulators are still concerned that 'last look' opens the market up to slippage, information leaks and potential abuse; last look is still a key reason, why RFS is preferred model.
6. However RFQ does enable the buy side to be more transparent and show evidence they obtained the best price at the time.
7. One reason why RFQ may never go away is that when a buy-side is trading a security, it often wants to execute the currency at the same time and today's buy-side can automate the currency trade to occur simultaneously with the electronic securities trade.
8. Increase in algo trading is happening due to more regulations, need for 'Best Execution' and influx of non bank liquidity providers.
9. Significant interest in peer to peer trading which is increasing buy side liquidity and transparency.
10. The benchmark scandal continues to impact the FX market and the resulting regulation i.e. MiFID II can seem arbitrary when looking at forwards vs. NDFs and swaps.

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I thoroughly enjoyed the interactive format and not having to sit through hours of presentations!

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ACHIEVING, DEMONSTRATING & EVALUATING BEST EXECUTION

Currenex and FX Connect

Discussion Summary:

Best Execution needs to be approached as a process. For that process to be truly effective it needs to take a view beyond the FX execution hedging and funding requirement that is generated subsequent to the purchase or sale of a security by the investment manager, i.e. the potential impact of executing a security transaction at a specific point in the trading day needs to take into account the FX liquidity available at that time.

In addition, FX Best Execution needs to be enshrined as a 'continuous improvement process:' define the policy, evidence the policy and then refine the process based on analysis of subsequent transactions.

Furthermore, it is clear that, at present, there is significant variation in the adoption of best execution across the spectrum of participants in the FX market and across regions globally, there is variation in terms of the sophistication/ usefulness of tools such as TCA platforms that are available to support a participants best execution requirements as well variation in market participants understanding of the definition of best execution itself.

Recurring themes - tremendous variation across area of execution and understanding of what best ex actually is. Variation across asset classes and client types. Quality variations, evolution and implementation of best ex procedures. Also in geography. In Europe, regulation has driven execution in a stricter fashion. Importance of relationships in FX - brokers will be there when you need them and how you incorporate this into best execution.



4

ACHIEVING, DEMONSTRATING & EVALUATING BEST EXECUTION

Currenex and FX Connect

Top 10 Takeaways:

1. Variation across the region, asset classes and client types in terms of what best execution actually is.
2. In Europe, regulation has driven best execution in a stricter fashion than the rest of the world.
3. Relationships in FX cannot be undermined; your relationship with your broker is vital.
4. Many institutions are still struggling to capture cost of execution.
5. Everyone is experiencing difficulties in analysing best execution - looking for tools to standardise TCA for FX.
6. Best execution is important to the US buy side but largely common sense approach and difficult to prove.
7. Competitive venues particularly at <10-15mm.
8. Comprehensive data for evaluation is essential to demonstrate best execution; TCA is not fit for purpose.
9. Active vs passive needs - passive much easier to use TCA.
10. Ability to identify best execution by wider intent. Transactional swap. Lifecycle.

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The Finance Hive is the place to engage and connect with the influences affecting the FX Market.

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5

RUSSIA & DIFFERENT EM DESTINATIONS

Moscow Exchange

Discussion Summary:

EM vs US Dollar: Of course people should continue to invest in EM, despite concerns over imposed sanctions, EM are both accessible and liquid. It was clear many held misconceptions as to what those sanctions actually are and mean.

There were many discussions around which currency pairs attendees had great experience of and how these can be traded. It was also interesting that people are starting to look at tail risk of auctions and intervention in the market as increasingly important.

Finally, if you plan to trade EM, it is essential that you have a quality PB; you must look at the type of interventions, and understand why they are happening so you can really judge the actual impact on your strategies.



5

RUSSIA & DIFFERENT EM DESTINATIONS

Moscow Exchange

Top 10 Takeaways:

1. Will rules get easier in emerging markets for capital flows?
2. Will EM ever be more global than local for liquidity?
3. RUB/CNH liquidity improving and more importantly access to that liquidity is improving.
4. Still restrictions on liquidity due to open market hours.
5. Custodial agreements enforce NDF RUB but some fail on delivery.
6. Still high reliance on voice trading for spot in EM.
7. Geopolitical risk concerns when market saturated.
8. Macro effect (secondary) USD bullish switch to USD from EM.
9. Sanctions will continue to play in economy providing tactical opportunities and systemic risks; cooling off Russian risk sanctions not tail risk anymore.
10. Opportunities in Russia still open through exchanges and clearing.

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A great meeting with lots of opportunities to learn about different angles of contemporary FX trading.

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FX PLATFORM & ELECTRONIC INNOVATION**NEX Markets****Discussion Summary:**

The discussions focused on investigating FX Platform innovation; what are the key criteria asset managers should look for which would place them right where the market need is today?

There were 10 major themes highlighted by Finance Hive members during the discussions:

1. Different types of flow and how to bring a diverse market together.
2. Separation of liquidity from credit at the core.
3. Algos - What is the true market impact of algos?
4. The role of CLOBS including NDF's - Strong interest and questions from many participants.
5. Counterparty risk management and automation demands.
6. The need for flexibility, choice, yet the many challenges around choosing a platform that fits this fully.
7. Flexibility yes, but also some form of customization and rigidity in their process. Always looking for ways to access multiple forms of liquidity via one access point.
8. Post trade - FIX allocation spec needed, but still primitive in FX
9. TCA - Needs to be easy to access, consistent, flexible and customizable.
10. Data - Need reliable data: peer universe problem.

In comparison to conversations in 2017, this year in Boston the buy side clearly want innovation! They are looking for change and looking to change to new platforms. Whilst it used to be true that asset managers on the whole resisted change, especially fast-paced change, the conversations today centred on people wanting different ways of accessing markets and different tools in order to do this.

There was a clear difference between cleared market and asset managers who have difficulty separating credit from trading process. Whilst there remains a long way to go before we have good solutions for the bilateral market there was much discussion focused on FX futures, NDF algos, the need for innovation in the futures markets themselves (especially in the realm of cross margining) and lastly finding peer to peer solutions.



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FX PLATFORM & ELECTRONIC INNOVATION

NEX Markets

Top 10 Takeaways:

1. Platform needs vary depending on manager and investor structure; platforms are useful for TCA purposes.
2. Clearing is perceived as increasingly important to liquidity
3. Bespoke solutions still dominate how to resolve complex settlement issues.
4. Simplify using OTC and how to investigate costs and ease of use.
5. Post trade is a big pain point across buy side that does not yet have a solution.
6. Consider using an aggregator to pull indirect feeds from brokers.
7. Platform consolidation and standard execution.
8. Liquidity is an issue for all – access to quality liquidity is key.
9. TCA is one key topic creating a strong business opportunity.
10. What about pre-trade data and ex-ante view on liquidity?
11. Can we pave the way to solve credit intermediate issue in order to find new liquidity?

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The Finance Hive presents a unique format which really works. it fosters participation and deep conversations about current and relevant causes.

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Future Hive Live Meetings...

We are thrilled to be holding a further three Global FX meetings in 2018; as in Boston, these are exclusively for senior buy side leaders to discuss current challenges, future trends and the impact of regulation, market structure changes, liquidity issues and technology on the FX market.

Singapore

5 September 2018



Stockholm

7 November 2018



London

6 December 2018



If you would like to find out more about any of these Finance Hive Live meetings please email : julie@thehive-network.com or visit www.thehive-network.com to register. We'd love to hear from you.