THE FINANCE HIVE LIVE:
London Global FX
Your 5 minute Debrief

Hive

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It was fantastic to see you all at Kensington Roof Gardens. We hope you took away valuable learnings and contacts, whether from the panel discussion on the Global Code of Conduct, the round table discussions, your 1-2-1 meetings or the Big Brexit Debate with Kay Swinburne, MEP for Wales.

We'll publish the full post-meeting report shortly but in the meantime here is a summary to share with your team.

Wishing you a merry Christmas and we look forward to seeing you in 2018.

Best wishes
Julie, Noj & Sally

Meredith Beechey Osterholm, Sveriges Riksbank with David Clark, The Wholesale Markets Brokers' Association

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1. THE CHANGING FX ENVIRONMENT & HOW LIQUIDITY WILL EVOLVE

- Electronification: in the spot market for small transactional amounts the market is very efficient
- In large amounts there is an opportunity set: you either take it on yourself or you manage your liquidity externally through a platform to get the best out of it
- More transparent markets lead to more TCA; either internally or out-sourced
- The Forwards/Swaps market aren't yet electronic, despite tools being developed
- Much debate over the changing of execution protocols and how the buy side trader role has changed

3. BEST PLATFORM

- With the Global Code of Conduct in place there is a desire to deliver a platform that is over-prescriptive
- E.g. the requirement to trade orders in sequence as they arrive is in conflict with the desire from asset managers to net trades together
- Yet an over-prescriptive platform and compliance team pressure may force you to adhere to the sequencing rule, which could go against your client's interests
- Access to liquidity through credit was an issue; middle/ small sized asset managers want PB access to markets and there is nowhere they can do that as major PBs don't want to deal with middle/ smaller sized clients
- Future of the markets and blockchain discussion: interesting thought that a modern securities trading platform, beyond FX, could be a trojan horse into European markets for retail access i.e. you may not have to have a local presence if your platform does.

2. FX TRADING UNDER MiFID II

- Key word throughout is "transparency"
- However clear from the conversations that many believe MiFID II is destructive for the FX business
- However we have to commit and it will change the fabric of the FX community
- MiFID II is linked to all topics
- Minority of people feel they are ready for MiFID II in January 2018
- Come January 3 there will be a no action relief comment around many factors, nameley collateralisation
- The biggest hole is how will the regulator monitor and give us results on all the work achieved?
- MiFID II is not the answer – but what does that mean for MiFID III?!

4. ROLE OF EXCHANGES IN FX

- Agreement that exchanges do have a role to play in FX, more prominent in the future and will co exist with OTC
- Regulatory change - how this is impacting FX markets?
- There was a focus on increasing cost on supply side; mixed response as some see spreads going wide and PB fees going up and others see no impact at all
- Fatigue over MiFID II
- The role of exchanges going forward to offer firm liquidity in a regulated market place to get around some of the MiFID II requirements
- Increased focused on new products: monthly futures as a proxy for forwards and integration of the OTC and Exchange market place for the first time
- Crypto currencies: Futures on a Bitcoin index is being launched.

5. BEST EXECUTION

- Without proper TCA you cannot determine execution quality
- Differences to executing depending on the venues you choose: whether primary or secondary venues? Whether they are disclosed ECNs or RFQ?
- Best execution is not just about best price: other factors include venue, available pools, size and time of trade, currency pairs etc. hence you need a good TCA tool
- Distinction between primary and secondary platform was a big issue; primary market platforms and firm pricing as opposed to indicative pricing is worth considering in some market conditions
- Does more banks mean more liquidity? Adding a liquidity provider on to an existing venue doesn't necessarily provide you with better execution; perhaps look at different venues e.g. ECNs
- The growth of algos is part of evolution; a return to the single bank model using their liquidity and credit. What next? User defined algos. However not everyone is on the same evolutionary path

7. USING ALGOS UNDER REGULATORY REFORMS

- Do you build or buy algos? Hedge Funds are strongly for building algos
- Institutional space are using algos aggressively (80- 100% of business is being used by algos) and the key is that they have to understand what those algos are; they are forced by MiFID II to do this research for their clients
- TCA and homogeny of TCA is very important;
- The buy side want someone to look through the make up of all the bank algos to show them what they can do
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6. EXPLOITING NON BANK LIQUIDITY

- Half of attendees had not used non bank liquidity and were interested, but didn't know exactly what it was
- Minority of attendees had used non bank liquidity
- There are different models; not all non banks are doing the same thing
- The type of business depends on what you're looking for and what you need
- Non banks are in 'spot' and they are significant now but what are the challenges trading with non-banks going forward?
- 1. Credit; historically a non bank is accessible via a PB but there are new models e.g. using a bank's ISDA agreement to carve out credit 2. What about going beyond spot?
- Discussion around challenges and solutions to non banks launching forwards from a credit and financing stand point

8. POST TRADE TRANSPARENCY

- "Transparency is a universal good and we need more of it in post-trade". Absolutely not according to today's discussion!
- Majority of costs that concern people are hidden in parts of trading, other than price, which is what most people are focused on
- Mixed views on whether more transparency is needed; those trading large positions say if there was more transparency they would know they were in the market and so it would be more even
- However other people trust their prime broker – don't need anymore transparency
- Consensus that MIFID II is NOT the answer
- TCA got support but general view is that there is no one standard across the market
- There is concern that transparency comes at a massive cost; you get more accuracy on your price but your overall cost for your trade gets more expensive, is it a deal you want to do?
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7. USING ALGOS UNDER REGULATORY REFORMS (cont'd)

- Liquidity; one bad player in your pool ruins the whole algorithmic pattern, so clients are looking at their liquidity and the impact of adding players
- In conclusion algos are here to stay and gives the institutional community ability to give evidence which is what the regulators want to see
- There is a move towards more algos and the industry will continue to develop
- Important to remember FX algos can be simple and this should remain the case

L-R Vladimir Shapovalov, Central Bank of Russia, Christophe Beuve, European Central Bank, Meredith Beechey Osterholm, Sveriges Riksbank, David Clark, The Wholesale Markets Brokers' Association

9. MOSCOW: A FINANCIAL CENTRE

- Many were surprised that the Russian market is well regulated by the Central Bank and fully compliant.
- There is a strong economy: attendees felt excited about the monetary policy, and targets for the country- 4% inflation and 7% interest rates
- Important to clarify that the Central Bank is independent and people need to understand from the Central Bank what the real sanctions are from a practical perspective
- There are strong links from the Central Bank of Russia to other central banks and opening capital markets elsewhere in the world.
- Attracted to trade the underlying source liquidity; there is a deliverable FX to access.
- There is deep liquidity in Russia that trades on exchange through a CCP with a well regulated solid platform; the market has a good source of bank and non bank liquidity and 50% of liquidity comes from investments overseas

8. POST TRADE TRANSPARENCY (cont'd)

- The fields mandated by MiFID II in terms of transparency take focus off other things e.g. charges on borrow costs if trading short
- Conclusion; transparency should be driven by the client; use the principles required of those in the market to drive what information you need
- DLT: people have different understanding of what the basics of blockchain is and and what it can do in FX
- Many believers but no clarity for the buy side of what it can do and how it can be leveraged; great solution but what's the problem? So many will sit back and wait and see, so it's not the FX transparency solution at the moment

Kay Swinburne, MEP for Wales, interviewed by Anthony Belchambers, Financial Services Negotiating Forum Advisory Board