

Viewpoint



Asset Managers: Creating a Strategic Response to FX Structural Change

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In 2003 I was invited to a meeting with a large global asset manager to discuss an electronic trading solution for their FX business. In that meeting I shared with them how they could achieve

Straight-Through-Processing (STP), reduce risk in their operation workflow while also creating a more transparent audit trail compared to their manual phone based trading process. There was no question that this was a 'slam-dunk'. In my mind (and of course in the mind of my bosses) this was a done deal!

The 'slam-dunk' turned into a nightmare with the following words from the asset manager "I could do that, but it would mean getting rid of two people so I don't want to do it". This comment still rings in my ears today. Confused was the word, I would use to describe how I felt. Did they not understand that we could help them with their process, had they not absorbed all the buzz phrases of the day that I had used including 'reduction in errors' and 'digitising the conversation you are having on the phone'?

Fast forward two years and that same asset manager called me and said "I just got a head count reduction and need to maintain capacity, let's talk". With this phone call it became apparent that they had not misunderstood our value proposition at all but they were aware that their business was going to face challenges in the future. They now had new headwinds, and the capacity of their business to remain efficient was now severely challenged. Not only was



the business thinking at a much higher level about the practical implications of technology they were now anticipating and preparing for the market changes that as a business, they would be required to comply with.

In 2016 the landscape is perhaps even more challenging. The buy side faces a whole new set of challenges and regulatory change on the back of recent FX scandals and questionable behaviour by market participants. It is natural to look to technology for answers in cases where change has been forced upon a process that is not optimal.

As a self-confessed history nerd, I always look towards repeatable patterns in behaviour to answer the question of what is next. When I think about the evolution of FX I look at other asset classes such as the equities space and its impact on our market. High Frequency Trading (HFT), the use of algorithms, internalised dark pools and Transaction Cost Analysis (TCA) are all now common terms associated with FX.

So what does the future hold for FX with change being forced on us? Again, in keeping with the trends in the equity space I frequently hear execution leaders talk about rules-based execution. A strong example of this is a freeing up of valuable resources by auto executing easy to manage orders into the market, whilst concentrating efforts on complex or large trades that benefit from greater oversight. They talk about rules-based optimisation of crossing (or netting) and how data can be turned into information that supports trading decisions and helps provide indicators that assist with achieving more predictable outcomes or the validation of an organisation's execution method.

In the conversations I have with FX leaders the same topics emerging as the buy side formulates their strategies to not only meet the challenges of today but tomorrow. They are thinking about not only these immediate needs but also market structural changes, that is, the very real possibility that bilateral execution will not go away but will transform into a hybrid market. They are thinking about their overall strategy and partners to enable them to not only meet these demands but prepare their organisations for change.

As all buy side participants, including my asset manager client from Hong Kong, prepare for the next raft of change and challenges the question being asked is, "what is our strategic response" and who is the right un-conflicted partner or partners for our organisation now and into the future to help us navigate the gathering storm".