

## Exclusive: 360T Looks to Drag FX Swaps Trading into the 21st Century

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**As 360T prepares to go live with a new electronic marketplace for banks trading FX swaps, Galen Stops takes a look at the details behind the launch.**

“There’s been zero innovation in the FX swaps space for 20 years,” Simon Jones, chief growth officer at 360T, tells Profit & Loss. “So we decided last year that we were going to invest in a strategy to drag swaps into the 21st century.”

Jones is certainly correct in his assertion that the FX swaps market has significantly lagged behind spot in terms of the sophistication of the technology being utilised to trade these products.

Currently, major banks risk manage their swaps books much like they do their spot ones – they electronically show prices to clients and then, when a client trades, they change the prices being shown to their other clients accordingly. However, there’s nowhere for them to hedge these swaps so they basically create large buckets of risk and when that bucket gets too full it spills out to the voice desk, where a trader will use their discretion to execute.

“That’s a very basic mechanism in a world where everybody assumes that APIs run the entire spot market,” says Jones.

360T’s solution to this problem is to launch an electronic interbank FX swaps trading platform. Following the inception of this last year, the firm have produced a proof of concept with plans to release the APIs in late-April and have the fully fledged platform up and running in the summer.

The essential point of this platform, says Jones, is to offer FX swaps traders all the tools and functionality of a voice brokered trade with the look, feel and efficiency of electronic spot trading.

These tools include discretion, because the voice brokers use their discretion when they see an opportunity to create a match which is in the interests of their clients. It includes ice-berging so the traders don’t have to show all of their interest, they can show part of it, revealing more later. It allows for peg orders because they might want to be mid of the market and keep moving it around as conditions dictate, which a voice broker can do for them. The platform also needs to offer market data, including live prices, last traded, historical rates – a sort of numerical market commentary which again, the voice broker would normally provide.

With regards to the market data piece, Jones argues that one key differentiator that 360T can bring to the table is the Swaps Data Feed (SDF) that it launched in collaboration with Digitec in September 2018. There are now 17 banks streaming FX swaps into 360T’s platform that participate in this feed, which offers granularity across the curve from O/N out to two years in over 30 pairs. The SDF anonymises, aggregates and filters the pricing data being submitted, removing outliers and protecting valuable IP to create an average mid-price that is then made commercially available. Contributors to the feed pay nothing.

“This feed will form the basis of the mid-match of our new product. So you’ll be able to submit interest to buy or sell at that mid, semi-lit, which will be available to the consumer on the API or on the GUI, and



you'll be able to post visible bids and offers, just like you would on a spot FX platform," says Jones.

**Credit challenges**

But while the case for updating the technology around how FX swaps are traded might be a strong one, there are still some seemingly significant reasons why this product segment has seen comparatively little automation.

One of them is that no one has really cracked the credit piece for electronic FX swaps trading, to which Jones suggests that there are a number of reasons the right tools haven't been put in front of the banks.

"The basic building blocks for a credit solution are already there on these platforms because every time a client wants a price from six banks, some sort of credit check has to happen in order for that transaction to occur. So the tools are already there, we just have to get to a point where the banks think it's worth their time and effort to re-purpose those tools to do business with each other. And our strategy for doing this is giving the banks a couple of different options around credit. One of which is to allow banks to upload limits to our credit tool in real time so that we can identify at the point of transaction whether Bank 'A' can do a six-month trade with Bank 'B'. Yes, this does require the banks to make a move and start thinking of the best way to make that credit information available but the appetite is now there to explore these different ways. The challenge is heightened by the fact that not every institution handles this in the same way." he explains.

So getting banks to allocate resources for the necessary integration to their credit engines and their APIs is one potential challenge, but Jones once again points to the spot market and says that this is no different from the requirements there.

This credit issue perhaps begs the question of whether central clearing will be the ultimate solution for FX swaps, but Jones says that while, yes, as part of Deutsche Börse Group, 360T will offer the ability to clear FX swaps, he doesn't necessarily see the market moving that way overnight.

"I think the market still needs better understanding of the reasons to go from a system that works to a centrally cleared one." adds Jones.

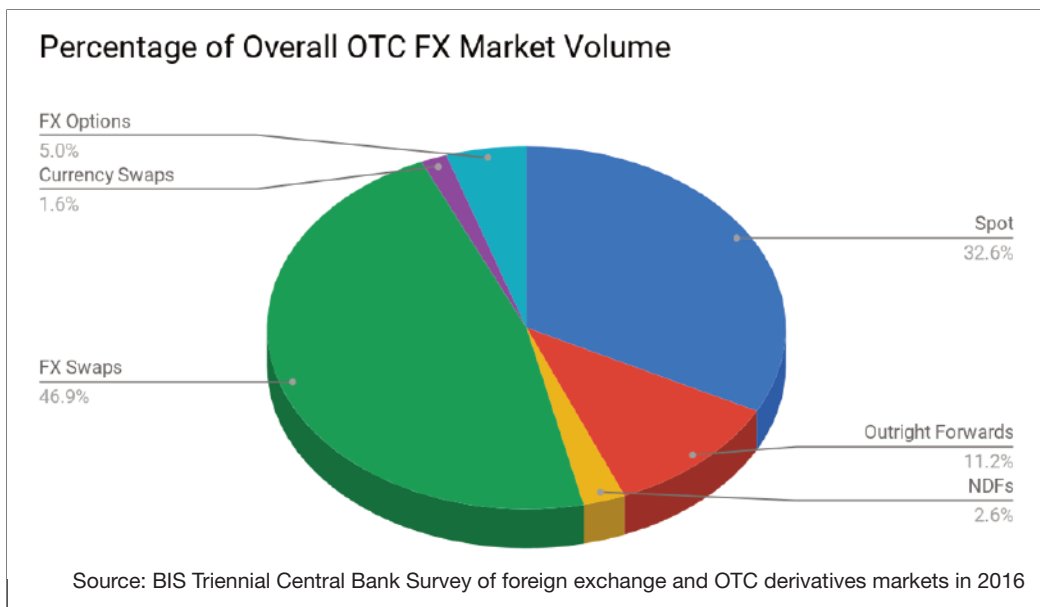
Another challenge will simply be dealer inertia. Profit & Loss managing editor, Colin Lambert, has noted in his opinion columns on numerous occasions that the voice brokers and their banking counterparts are quick to defend the status quo when it comes to FX swaps trading, and in general the major banks are such large institutions that affecting any significant change in how they operate takes time.

But clearly Jones thinks that the FX market have evolved to a point where people are ready to embrace this kind of change.

"I think the time has come whereby we now have a generation of people who run electronic businesses

that have seen how the spot market operates and are frustrated by the way of doings now on the swaps side," he says.

If Jones is correct in this assessment, and if 360T's electronic FX swaps offering is successful, the prize available is sizable. Whereas most OTC FX platforms have in recent years been targeting the NDF and FX options markets as the lowest hanging



fruit to push towards electronic trading, these only represent \$134 billion and \$254 billion, respectively, of the overall \$5.1 trillion per day FX market.

By contrast, FX swaps trading accounts for just shy of \$2.4 trillion of this market, with \$1.2 trillion of this trading occurring between dealers and about \$1 trillion being traded by voice and \$1.2 trillion traded electronically. Granted, coming from the Bank for International Settlements (BIS) 2016 OTC FX Triennial Survey, these figures might be a little out of date now, but there has been no indication that there have been any seismic shifts in the relative values of these figures in the intervening three years since the survey was conducted.

Thus, it becomes obvious that while grabbing even a sizable share of the NDF market would ultimately add very little in terms of volumes to the 360T platform, grabbing even a small slice of the FX swaps market could offer a significant boost.