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FX under one umbrella – the Kölzer plan

Carlo Kölzer, 360T's chief and Deutsche Börse's head of FX, tells FX Week about his plans for the venue. By Eva Szalay

Carlo Kölzer has come a long way from staying in the world's worst hotels. But even as he recalls with a shudder the moment he discovered the bed in his hotel room was still warm from the previous occupant, he says he has been very lucky.

"People forget the dotcom bubble burst in 2000. We were born in July 2000, and we were probably one of the last companies that squeaked through to get venture capital before it burst. After us, the door shut," Kölzer reminisces.

Starting with Lufthansa as its first client, Kölzer founded 360T with founding partner Mathew Kuppe, correctly identifying that corporates needed to get access to more pricing options than their primary relationship banks could offer. Against the background of a crumbling dotcom economy, the company grew alongside competitor FXall, battling for dominance in the corporate arena.

FXall was sold to Thomson Reuters in 2012 for \$625 million. Three years later, in July 2015, Kölzer followed suit and engineered the sale of 360T to Deutsche Börse for the equivalent of €725 million, or roughly \$796 million.

"When I founded the company, I was thinking of making FX a better place – more transparent," he says. "And it was the right idea! At the time my thoughts were anywhere but an exit. For the first five years it was just about keeping the company alive. I have stayed in the worst hotels in the world."

Expansion mode

Having struggled through the initial few years, the platform carved out a steady growth trajectory, riding the waves of the increasingly electronic currency markets. In 2013, Kölzer told FX Week he had no plans to sell the venue, with the company having secured a majority investment from private equity group Summit Partners in 2012.

But, on January 15, 2015, everything changed in FX. The infamous Swiss National Bank (SNB) moment altered the credit intermediation landscape in a few moments, and with that, the outlook for trading venues also shifted.

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"We saw a shift in the credit mitigation structure. In the past, most of the credit intermediation was done bilaterally and most hedge funds used prime brokers. The cleared over-the-counter business didn't exist, and the cleared and listed segment on CME was only 2.5% of the overall market," Kölzer says.

"But we saw with the SNB pulling its

floor that PB metrics are changing and fees are rising, and there was also the introduction of CVA charges. So the PB world and bilateral credit became more expensive, and we thought clearing might become a viable alternative," he adds.

Aside from the credit space, the technology offering platforms such as 360T essentially provide their clients with has also become increasingly commoditised. What was cutting edge in 2000 was no longer unique in 2015.

Realising that competing in the highly commoditised platform space was not going to be enough, 360T set out to increase its efforts on workflow in a bid to attract financial institutions and asset managers, as well as its core corporate client base.

The company dubbed its workflow, integration and analytics offerings FX 2.0, investing heavily in the project.

"On the one hand, we said the platform is a commodity and operationally invested in FX 2.0. Strategically, we said we don't believe in being a small company, and that's why we went out to look for a bigger partner/owner, so that we can scale globally, and get bigger with a credible brand and background that has the reputation to make that happen," Kölzer says.

Over the past two and a half years, Kölzer has hired several spot FX specialists. 360T also launched a central limit order book liquidity pool and is working

on a cleared OTC solution with Eurex, which is due to go live in July.

On May 30, the company also announced the acquisition of the ECN business of GTX for a sum of \$100 million. The deal will significantly grow 360T's reach of financial institutions, while it has also seen some recent successes in asset management, signing UK-based manager M&G earlier this year as a client.

"When it comes to growth in new customer segments, our push goes into the asset management space and active trading community. This is the next customer base expansion after we worked for 15 years very closely with the corporates and market-taker banks," Kölzer says.

Aside from the GTX deal, the platform's share of the institutional pie has also grown since the Deutsche Börse acquisition. While institutional clients accounted for 5–8% of revenues in 2015, today they represent around 15–20% of revenues. This is more than double the growth, Kölzer notes, as the platform has also seen a healthy underlying growth.

Spot FX volumes also surged in the period, doubling to \$15 billion of average daily volumes from around \$7.5 billion two and a half years ago. Meanwhile, revenues have continued to grow, along with ADV. In the first quarter of 2018, 360T generated €17.6 million of revenues, up 7% compared with the previous year.

Average daily volumes across contract types also ticked higher to stand at €62.8 billion, up from €59.3 billion in the first three months of 2017.

Under one umbrella

Having decided to grow the business from a commoditised platform offering into a provider of workflow and analytics as well as trading, Kölzer's bet on scaling by becoming part of a larger organisation seems to be bearing fruit.

In April 2017, the platform launched an ECN offering to provide an undisclosed liquidity pool to its clients, adding another execution style to its OTC FX offering. In mid-May this year, 360T went live with a central limit order book pool, which provides anonymous liquidity on a no-last-look basis.



360T's Carlo Kölzer: "If you're an entrepreneur just doing things for the money, you will fail"

And as a result of more than two years of working together with Eurex, the venue will launch a cleared OTC spot offering in July, with further plans to go live with FX futures in June. The raft of launches comes as Kölzer sees his vision from 2015 being realised: a convergence of listed and OTC offerings under one roof.

"We started 2.5 years ago, jointly with Eurex and Deutsche Börse, to build a clearing offering for FX OTC spot, forwards swaps and cross-currency swaps. This will, most likely, pending approval, go live in early July, with Eurex being the clearing house," Kölzer says.

The listed offering, on top of cleared OTC products, will comprise FX futures and rolling spot futures.

"We are launching FX futures, including rolling spot futures as a 100% spot equivalent. Unlike CME futures which go to the IMM dates, we don't have that basis with this rolling spot future," Kölzer says.

The group is also launching exchange for physicals to provide a link between futures and OTC products that clients can trade with Deutsche Börse.

"By the end of the year we should be in a place where you can trade every product, spot futures, non-deliverable forwards, etc in different trading styles, including RFQ, RFS, ECN anonymous, executable streams, etc, plus credit mitigation via OTC clearing," he says.

"This is the final picture," Kölzer adds.

Rolling in liquidity

360T's growth can be charted along three major vectors: geographical reach, customer segment growth and product expansion. The diversification of client segments is well on its way with the addition of asset managers and financial institutions.

Products are being rolled out in a steady stream. In terms of geographical focus, Latin America stands out as a particularly strong performer, Kölzer says, with 360T going from "zero to quite a bit".

Asia – Japan and India in particular – also stands out in terms of growth.

"Our growth areas are the Asia-Pacific and Americas regions. In Europe, we have a much higher penetration already, which is why these areas are the outstanding growth areas for us, particularly South and Latin America," Kölzer notes.

And for Kölzer? What possible growth areas are there, after the successful sale of his nearly 18-year-old baby, 360T? Whatever the future may hold, for now Kölzer has no plans to retire and enjoy the fruits of his efforts full-time. Instead, a full-time role as head of FX at Deutsche Börse and some business mentoring for fun.

"I had to reinvent myself several times. To be a CEO of three guys and to be the CEO of a €725 million company are completely different. And now I have to re-invent myself again to be part of a bigger organisation," Kölzer says.

"I'm an idealist, I want to move things. If you're an entrepreneur just doing things for the money, you will fail. There has to be a goal and then the money comes with it, rather than the other way around. We did make FX a better place – we brought transparency, adopted the (FX Global) Code, and we always tried to do the right thing," he adds. ■

Eva Szalay