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COVER INTERVIEW
MEETING THE TEAM BEHIND 360TGTX MIDMATCH

LIQUIDITY · RISK MANAGEMENT · STP · E-COMMERCE

A far more efficient way to trade

Talking with the team behind 360TGTX MidMatch

The MidMatch platform is a fully automated FX swaps limit order book with a midrate matching capability targeted at the interbank trading community. e-Forex spoke with Gavin Wells, Head of Swaps Strategy, Robin Nicholas, Head of Swaps Product and Simon Jones, Chief Growth Officer at the firm to discover more about this innovative platform and in what ways it represents a natural progression in the continuing trend towards automation within the FX swaps market.

Gavin Wells, Robin Nicholas, and Simon Jones

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What major issues have been influencing and shaping the recent growth of the FX swaps market?

GW: FX swap volumes have been steadily growing, both outright and as a percentage of the FX market. In the last BIS survey issued in November of 2019 their share of FX had grown from 42% to 49% and accounted for just over $3,200,000,000,000 per day. Long considered a hedging instrument used to roll positions and spot risk, a little research shows that new market participants are using FX swaps to meet their funding needs, and some have cited this increased liquidity as mitigating the need for central bank swap lines. Looking at the latest central bank biannual volume data, collected in October of 2021 and released last January, it seems that this growth will continue, and it suggests that the next BIS survey at the end of this year could have swaps as more than 50% of the market, and close to $3.5 trillion a day. We see all this happening despite limited technology investment into the swaps market over the last twenty years, and believed it was time to address this.

Please can you tell us more about MidMatch and what it's designed to do?

GW: MidMatch was designed to bring technical innovation to the trading and credit processes of the FX swaps market. MidMatch creates a marketplace with the potential to exchange risk interest in a grey book, at a mid-derived from our award-winning Swaps Data Feed (SDF). This is coupled with an orderbook of visible bids and offers available to traders through our new GUI, and via an API that can facilitate auto-hedgers, aggregators and even algorithmic execution, as required. The addition of an automated credit model supports the auto-hedging and is now becoming an essential component for those looking to use algorithmic execution in swaps.

What key features and functionality does the platform offer and why is it so unique?

GW: MidMatch is the first swaps platform to blend GUI and API traders in one pool, where bids and offers can be placed at or around a reliable indicative rate. To enable this, it is also the first platform to offer a truly automated credit solution, bringing much needed credit efficiencies at a time when credit and its related capital are a focus for most.

To do this, MidMatch displays a streaming indicative mid-rate for all currency pairs, in all major tenors, where traders can place their interest at that rate in a grey pool – we felt it important to protect a trader's interest and thus show only that there is interest, not which side, nor in what amount.

Visible resting orders can then be placed around these mid interests where traders can see the full depth of book. Orders can be made sensitive to movements in spot, prices adjusted accordingly.

The notion of soft matching for credit, with its implicit risk and delays, is gone as we offer several automated credit solutions that safely enable trade confirmation in fractions of a second. Finally, as might be expected, we enable STP of confirmations through our own and all relevant market platforms. All of this comes in a highly flexible and intuitive HTML based platform, designed with feedback from a host of active traders today.

Who did you primarily have in mind when the platform was being designed and who are you targeting with it?

GW: We recognised that increasingly Market Makers are operating some

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form of electronic risk management but without the connectivity to seamlessly execute an automated hedge. We also saw that the tools and processes used by traders in other products and asset classes are not being made available to FX Swaps traders. Plus, we understood the need for a regulated venue.

MidMatch is part of our MTF, and the associated transparency that brings. With this in mind, we designed a GUI to empower today's traders and an API which will facilitate auto-hedging, enable market makers to submit their curves and change them as conditions vary, as well as giving providers the building blocks for the growing interest in algorithmic execution.

**Why has MidMatch arrived at such an opportune time for the FX swaps market?**

GW: The trend for more than a decade has been towards more transparency – of trade, of reporting, of execution. Four years ago this was most needed in price data and

through collaboration with the biggest market makers we brought the Swaps Data Feed to market which is now the only truly reliable product of its kind. Off the strength of that feed it was a logical step to develop an orderbook for risk exchange at a time when auto-risk management brought increased market access demands for hedging. Couple this with the need for banks to better distribute credit and you arrive at a very opportune time for change.
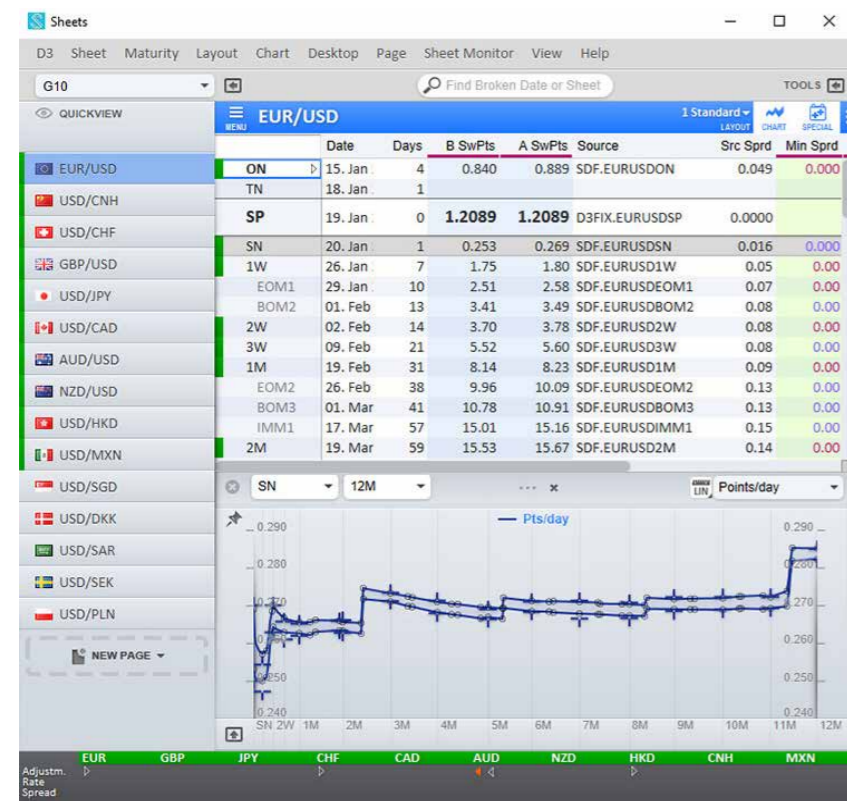
360T's Swaps Data Feed (SDF) allows members to submit interest to buy or sell in a grey mid- book, delivering real-time data across the curve from ON out to 2 years in over 25 currency pairs.
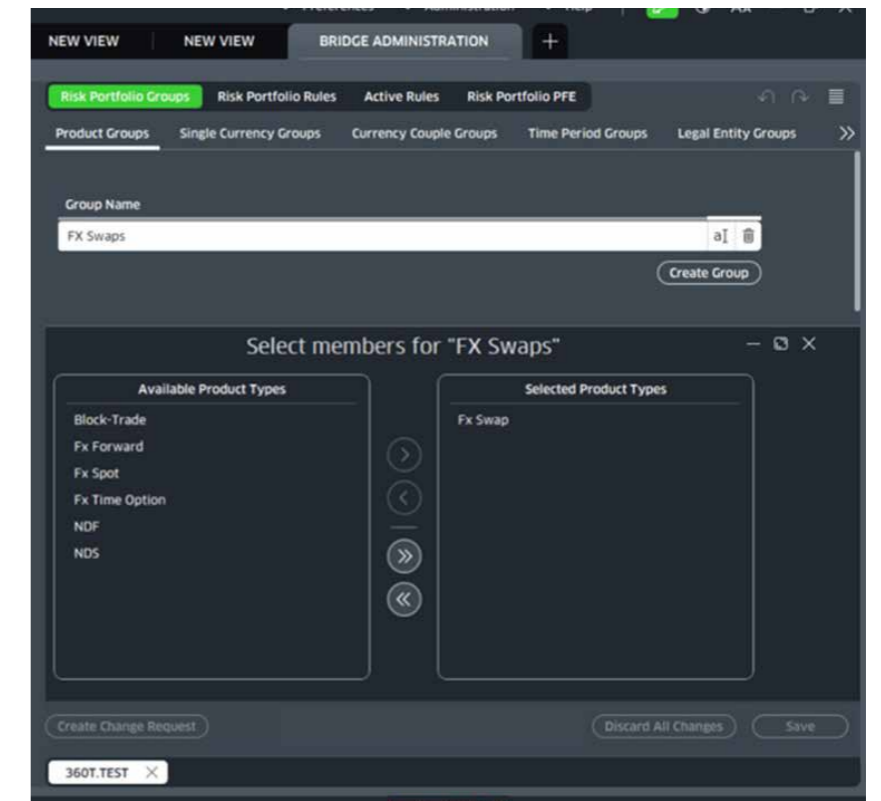
MidMatch solves the challenge of managing credit lines of FX swaps by operating bilateral automated credit models that remove the manual credit check

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How do you see the FX swap market evolving further over the next few years and how will platforms like MidMatch help to play a role in this and create new opportunities for firms trading and leveraging these instruments?

GW: I've mentioned the lack of technology investment in swaps – and that is really what we see as the enabler for the new opportunities being created. New entrants to a market bring new requirements and new ideas, cross fertilising from the markets from which they came, for example:

The breath of our API, covering trading, credit, data and STP, makes MidMatch ideally suited to work with and enable the new middleware platforms coming to market to drive credit and thus capital efficiencies. Our automated credit processes enable ever more nuanced order and execution types. A platform mingling API and GUI interest, with real time credit brings FX Swaps into the algo space, creating better execution opportunities for many. I do not doubt we will identify further opportunities, and MidMatch is very well placed to provide these.
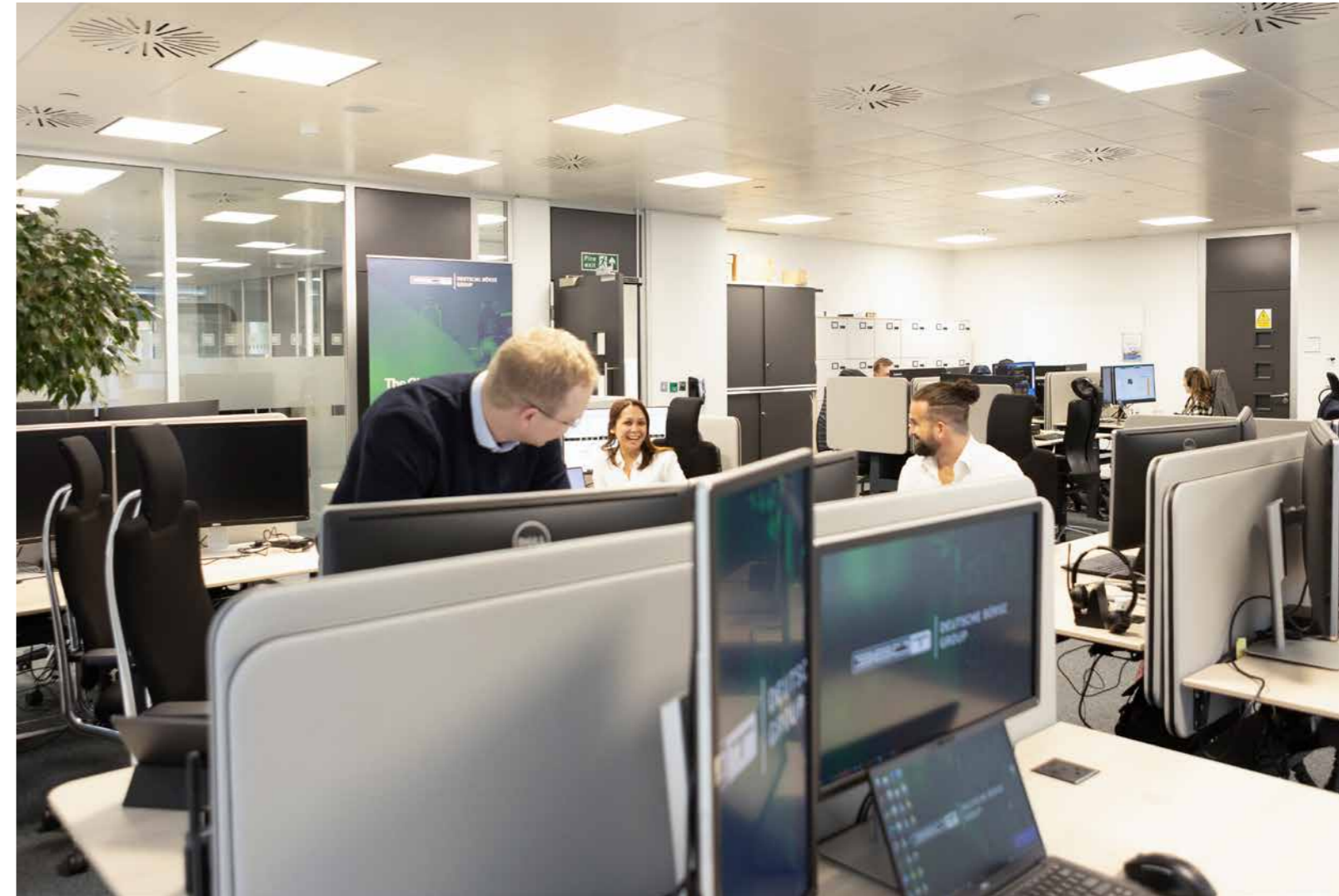
The indicative mid is provided by the award winning 360T Swap Data Feed (SDF). Please tell us more about the composition of that and what it involves.

RN: That's right, our mid is derived from our Swap Data Feed, importantly it is independent from the order book in its composition. We have built up a pool of independent data reflecting the real market, it is composed of raw prices, i.e., prior to any sales skew or client margining, from over 20 contributing banks, including Tier 1 and super-regional specialists. The streams are anonymised, filtered and aggregated allowing us to publish a constantly streaming indicative mid-price where participants can leave their interest to trade at the prevailing mid-rate once offsetting interest is available.

How does the limit order book actually work?

RN: MidMatch is an MTF marketplace that combines a traditional order book, offering firm liquidity for instant execution, with a grey pool for risk exchange using the mid of our award-winning Swap Data Feed. Orders across the platform are executed on a first in, first out basis.

The interest posted at the SDF mid-rate is communicated to all participants; however, the size and direction of the interest is not revealed. When two off-setting interests match, provided the participants have a relationship and

To support the continued growth of the FX swap market, 360T offers MidMatch to blend GUI and API traders in one pool, where bids and offers can be placed at or around a reliable indicative rate

We recognised that increasingly Market Makers are operating some form of electronic risk management but without the connectivity to seamlessly execute an automated hedge

the automated credit check is passed, then a trade is executed.

Through the GUI traders can observe the market in real time, including a visible depth of book and liquidity in the grey mid-book. Any members who connect via the MidMatch API can choose to receive this information electronically. We have also seen some clients integrating MidMatch into their own internal aggregators as a single point of liquidity for their traders. MidMatch benefits from the rich data available from the Swap Data Feed and offers 80 tenors, including standard dates, forward forwards such as the month end, quarterly, and IMM rolls, and start-of and month-end dates in G10, and other actively traded local currencies.

The management of credit limits has been a major challenge in the automation of FX swaps. In what ways does MidMatch with its bi-lateral automated credit model assist your clients to overcome this hurdle and help to deliver more credit and processing efficiencies?

RN: The transacting of FX swaps has long relied upon the manual checking of available credit limits by both parties at the point of trade. Not only is this an inefficient process that can delay the execution of the trade, but it can also add operational risk as individuals are required to look at support systems and interpret this information. We felt passionately that it was essential for the credit process to be automated, how else could a trading API interact on the platform? Members can connect via the MidMatch API and leverage the Credit Check component, allowing potential trades to be instantly credit checked on a client's own proprietary credit engine. Alternatively, 360T provides a sophisticated risk management tool where members can build rules and set limits based on a selection of recognised risk exposure calculation methodologies.

What clear and quantifiable economic benefits for traditional participants does MidMatch also offer in this marketplace?

RN: There are three main themes to the economic argument for MidMatch. Firstly, providing the opportunity to de-risk at a mid-price has been favoured by FX swap

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traders for a long time but has only been available through voice brokers; MidMatch provides this visible, clear economic benefit not previously available via a platform. The automation of FX swaps via the trading component within our API has also excited traders. Electronification of the short dates enables people to focus on more valuable tasks further down the curve. And finally, by automating the credit process, we are ensuring certainty of execution, and by cutting

out the processes associated with manual credit checking efficiencies can be realised.

How would you summarise other key trading workflow benefits that the platform can provide?

RN: We have tried to think not only about the execution itself but also about the associated workflows. Our MidMatch API has four components, I've spoken about the Trading and Credit components already, but in

addition there is a Market Data feed of executable and non-executable pricing, important when you consider the sheer number of combinations of currency pairs and tenors available. We also complete the suite with an STP connection. Members can connect to any combination of the four components providing flexibility for technology planning.

Having created improved workflows for FX swap execution, it was equally important to build in essential controls. For traders, alongside notional and price-collar controls, participants can add limits to orders providing protection from adverse movements at mid; the adjustment of swaps pricing based on spot movement; and the ability to define minimum clip sizes. And for compliance, we have developed advanced kill switch functionality and detailed market surveillance reporting is available electronically.

How can your clients access MidMatch?

RN: MidMatch is built in HTML and accessed via a web browser. Participants can connect quickly to our GUI with no development requirements or can choose to add one or more of the API components leading to full trading connectivity.

Simon, what response and feedback have you had so far to MidMatch?

SJ: Overwhelmingly positive. FX Swaps are so late to the e-game that it is easy for traders, business managers and, risk officers to look at how markets developed in other FX Products and other Asset Classes and have a view as to what the road ahead looks like. Traders see the advantages of better order types, less scope for errors or miscommunications and the
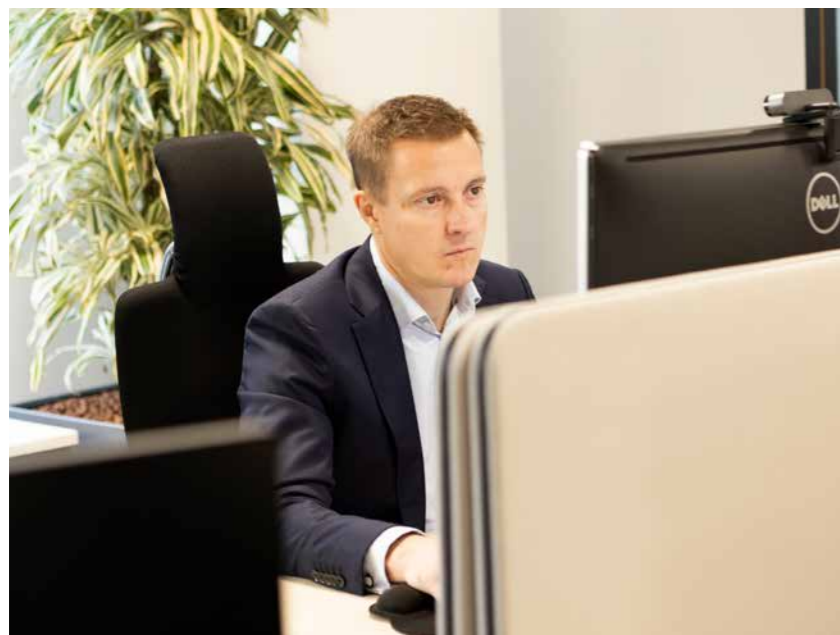
Full automation, all the way out the curve is a realistic goal for vanilla FX Swaps over the next few years
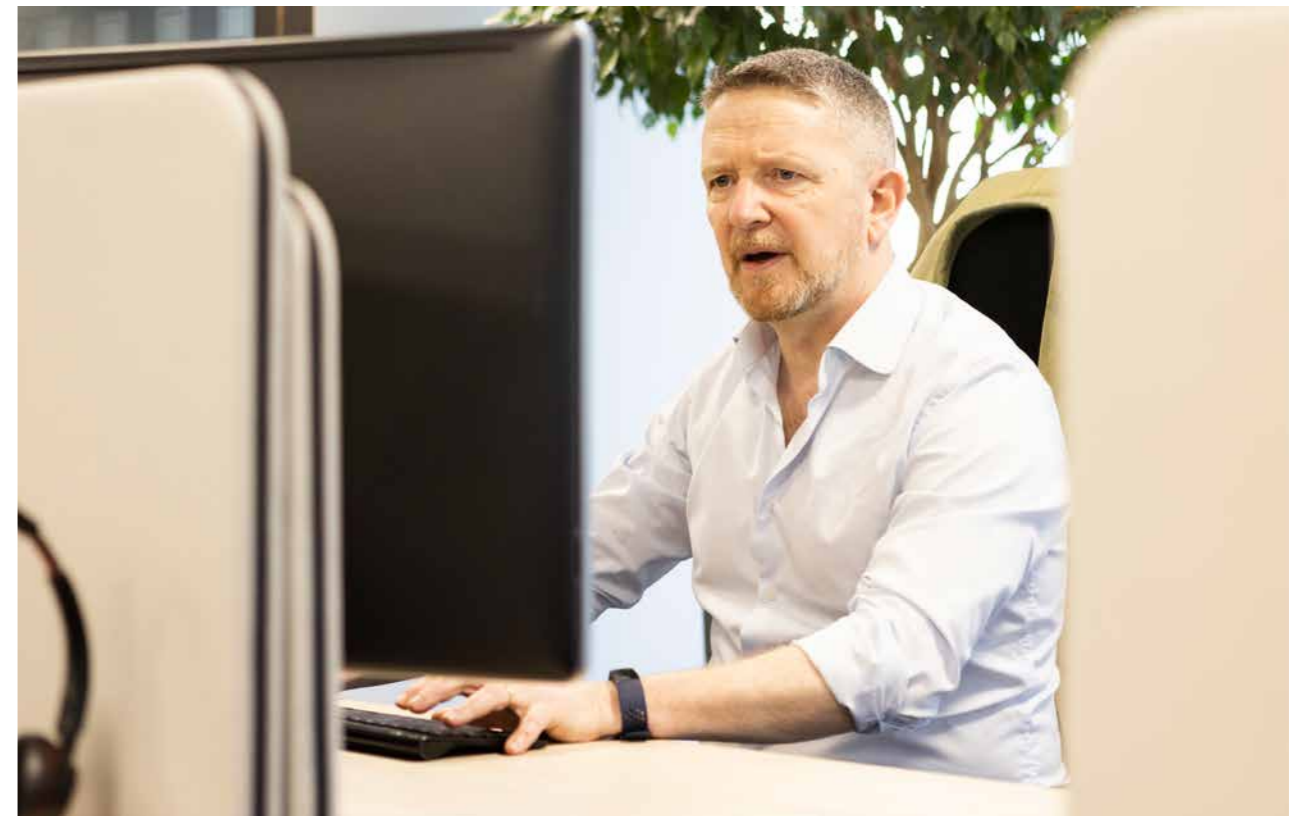
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opportunity to automate some very manual parts of their job. For Business and Risk leaders, the reduction of operational inefficiencies, the increased transparency of the process from an internal audit and surveillance perspective and the opportunity to apply much needed changes to archaic credit mechanisms is extremely appealing.

What lessons can we learn about the way the FX spot market was electronified that can be applied to what is happening with FX swaps?

SJ: I am not sure it is a like-for-like comparison. Spot is straightforward, it is almost limitless and is relatively efficient for trading purposes. Swaps are a more complex product, used for a variety of reasons, where considerations about funding and curve irregularities are much larger risks in the trader's mind. These factors make platform development very different to what we have done before. For example, a key early requirement was the need to

offer one sided pricing to certain counterparties. Banks know that there are occasions where they are open to trade but only on a de-risking basis with certain counterparties – normal practice in Swaps, largely unheard of in Spot. So, we added this function in early. A lot of these considerations, taken in over two years of consultation, were embedded into MidMatch from the beginning.

Do you expect FX swaps market structure to remain a key theme and topic of discussion for the industry over the next few years and how much more automation of swap execution is possible?

SJ: Full automation, all the way out the curve is a realistic goal for vanilla FX Swaps over the next few years. Broken dates are priced by Market Makers to Takers today electronically and risk books are managed by traders through trading liquid points on the curve – that isn't changing. We believe the connection

between pricing and hedging will become a lot tighter and Traders will be in greater control of their risk as a result.

360T now offers an almost unrivalled suite of electronic trading solutions for FX market participants. In addition to FX swaps where else will you be focusing your efforts this year to grow the footprint of the business and its product offering even further?

SJ: The last few years have been about build. Building MidMatch and Hypersonic – the new backbone of Spot at 360T, Streaming NDFs have been added to the suite and we continue to invest heavily in new products and services for our users and due to regular new technology releases our Execution Management System (EMS) has become even more functionally enhanced. Our core offering just goes from strength to strength, helped by industry consolidation, greater need to be regulated and higher transparency requirements.

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