

Bridging OTC and Listed FX in Sell-Side Execution: How Automation Drives Market Integration

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European FX markets are experiencing a shift towards a hybrid market structure between OTC and listed FX Futures. The Uncleared Margin Rules (UMR) increased costs of OTC derivatives exposures for firms, while the Standardized Approach for Counterparty Credit Risk (SA-CCR) changed capital costs for banks active in FX derivatives markets.

These reforms have made listed FX Futures more attractive as a capital-efficient alternative. Additionally, reinforcing this shift is automation in sell-side execution, which connects liquidity pools and enables seamless client trading across markets.

FX Futures trading in particular leads the digital transformation in the exchange space. While exchange-traded Futures through Central Limit Order Books (CLOBs) have long been



highly electronic, bilaterally-traded Futures between counterparties remained manual across asset classes. Not so anymore. Banks are now partnering with exchanges to automate bilaterally-traded FX Futures and enhance their liquidity provision to clients.

This has resulted in a range of highly automated listed FX services, integrating OTC FX innovations into listed workflows. This integration empowers clients with greater choice and seamless execution across diverse liquidity pools.

As a result, they can now anticipate streamlined workflows and automation when trading FX Futures as major FX banks have established highly automated execution services for bilaterally-traded FX Futures.

These low touch and no touch services can broadly be categorised into three groups.

1. AUTOMATED BLOCK TRADING FACILITIES

Block trades in FX Futures enable outright risk transfer, similar to FX Forwards, but as fully cleared instruments. Although Eurex does not specify a minimum threshold, block trades have become essential for buy-side participants who execute larger trades.

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A key workflow that banks are developing is the automated execution of block trades. This model ensures a highly automated client experience with little-to-no manual intervention. Clients can send requests and receive quotes electronically, while banks' pricing is fully automated, and trades are booked on the exchange instantly once they are agreed.

This process mirrors electronic Request for Quote (RFQ) workflows in OTC markets, with the key difference being that clients receive a fully cleared Futures position. Automated block trading facilities are essential for OTC FX participants exploring FX Clearing, as they often expect the same level of electronification when accessing FX Futures. Not to mention these automated RFQ workflows pave the way for introducing streaming prices going forward.

2. ELECTRONIC EFPs

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The second group of low-touch models under development by the sell-side are electronic EFPs.



The second group of low-touch models under development by the sell-side are electronic Exchange for Physicals (EFPs). An EFP is a two-legged transaction, involving an OTC leg (such as an FX Spot position) in one direction and an FX Future in the other direction, similar to a Swap. EFPs are priced like FX Swaps, reflecting the basis between the two legs.

Similar to block trades, EFPs are getting swept up by the wave of automation. The entire execution process, from price inquiry to price formation and trade booking, is transitioning from manual and voice-based to fully electronic and automated workflows. This echoes the practices of OTC FX Swaps markets in FX Futures instruments.

Common use cases for this service include converting an existing OTC position into a Future. For example, clients with a Spot position who prefer to hold a Future can use the automated EFP to sell the Spot and buy the Future simultaneously.

Another use case for EFPs is a hedging workflow where a client plans to purchase a foreign asset and hedge the currency exposure simultaneously. By using an EFP, the client can buy the foreign currency on the Spot leg to fund the asset purchase and sell the foreign currency on the Futures leg as a currency hedge.

3. ALGORITHMIC EFPs

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The third model that banks are establishing for clients are algo EFPs in which banks integrate their algorithmic FX execution offerings with EFP workflows.

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Clients use their banks' algorithms to build an FX Spot position, which is later converted into FX Futures by entering an EFP. This approach offers the dual benefit of accessing OTC liquidity while obtaining cleared Futures instruments, enhancing operational and capital efficiency.

From the client's perspective, they are executing in Spot markets using the algo, but they receive the Future. The beauty lies in the fully integrated workflow that enables the bank to do the conversion automatically. With the EFP acting as connector between the two markets, the client has access to OTC liquidity



in the Spot markets, but they receive the cleared Futures. As a result, they get the best of both worlds through a state-of-the-art execution workflow.

THE MOVE TO MULTI-BANK PLATFORMS

The benefits of these new sell-side automated execution capabilities are enhanced by the growth of multi-bank platforms, such as 360T, which play a key role in the rise of automated pricing and trade execution.

If they prefer, clients can still interact via single-bank platforms or send trades through APIs integrated with execution and order management systems, where banks can receive trades directly out of the clients' order management system without the need to go through a single-bank GUI. On the other hand, multi-bank platforms foster competition by enabling clients to send RFQs to multiple banks. This not only encourages better pricing but also aligns with TCA requirements.

Also, for clients used to interacting with a single bank platform on a point-and-click basis, it reduces the number of GUIs they have on screen as they can go via one multi-bank platform.

This is why we see a significant opportunity for multi-bank platforms in this automated

environment. In fact, some banks have now chosen to start the implementation of their execution automation within a multi-bank platform from day 1 as it increases the efficiency of their implementation.

FUTURE AUTOMATION

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The hybrid FX model represents a key characteristic in the digitisation of FX markets. Automation across both listed FX and OTC workflows blurs the lines between bilateral and exchange-traded and cleared services. By automating transactions, banks are enhancing market accessibility and driving efficiency.

The bridging of OTC and listed markets is not only reshaping FX but also setting a precedent for innovation across other asset classes. Various banks plan to expand their new FX Futures services to the Fixed Income and Equity spaces.

The direction of travel is clear. Automation is bringing the look and feel of the OTC markets,



and all the recent advances in automation, to the bilateral Futures markets.

Listed, exchange-traded markets are the most automated in the world, but FX participants are utilising and enhancing the bilateral Futures segment that has been traditionally underdeveloped. In turn, this increased automation in FX is driving futurisation and opening the market to more participants.

Link List

- > [360T EFPs](#)
- > [FX Futures & Clearing - 360T](#)
- > [Eurex](#)

