



## Outside the box. New thinking in the development of electronic FX brokerage platforms

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*The emergence of more open platforms has led to a step change in the retail FX brokerage market. Nicholas Pratt examines the thinking behind the development of the latest electronic FX brokerage platforms.*

Retail FX traders are a growing community as are the numerous service providers that recognize a lucrative marketplace when they see one. Consequently there has been a noticeable increase in the sophistication of services available to retail FX traders, especially in terms of the electronic FX brokerage platforms.

### Democracy in the market

Technology, as ever, has been a great leveler and helped to democratize the FX market and reduce the gap between the institutional and retail sides of the market as well as the large, established service providers and the start-up developers. And one technology trend that has been instrumental in this process has been the emergence of more open platforms.

One of the vendors at the forefront of this trend has been Tradable, which describes itself as an app-based trading platform available to banks and brokers that enables users to design their own tools and services. "By using open platforms, developers are able to distribute their products and reach several brokers at once," says Jannick Malling, chief executive and co-founder of Tradable. "This has meant there are an increasing number of products that are developed by start-ups rather than big brokers or the in-house departments of big banks."

There is also a massive benefit from open platforms for the retail brokers says Malling. "They are able to benefit from innovation which they have not had to generate themselves. The traditional approach to new product development for the large brokers with their own in-house IT development teams has been relatively arduous, starting with the identification of a product need and a target client followed by the allocation of the required capital to build the platform and then

the time spent integrating it with third party systems. That entire innovation process becomes automated with open platforms. You can rely on a third party ecosystem to develop whatever tools you want for all of the different client groups that you have."

The impact of an automated innovation process is being felt now and is not simply a theory says Malling. "The movement started at our firm twelve months ago so it is still a new development but I think in 2014 it will enter a penetration state where it becomes a strategic differentiator because if you don't automate your innovation process and decrease your costs, then you will have to reach out to developers in a fragmented way and I don't think there is any way that any one individual can compete with the masses."

The first adopters of new technology are often the larger players in the market and this is no different in the case of Tradable. Its first major client was the Monex Group in Japan which launched Tradable to its 1,300,000 retail clients in May 2013 and Gain Capital which announced plans to launch Tradable in North America through its FOREX.com retail broker division back in September. By 2014 Malling expects third party open platforms to be more readily adopted by mainstream retail FX brokers.



Jannick Malling

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This should therefore mean a proliferation of many more smaller service providers and technology developers rather than a handful of established vendors that dominate the market, as is so often the case in financial services technology.

"It is one of the most difficult industries for a new firm to sell to because if you are not regulated, then you are not able to bring on board retail clients so you have to team up with a broker who can

then offer the technology through their license and that whole process is a barrier to entry. So now that barrier is effectively being removed, we expect to see a lot more new players in the market."

Open platforms have also been able to cater for the increasingly complex demands of multi-asset class brokers that are so prevalent in today's retail markets, says Malling. "The multi-asset class market is exactly what the open platforms are best suited to. Ten years ago, every trader, retail and professional, was happy with a system that had some charts and a stream of prices but that is no longer the case. There are different needs based on clients' experience levels, trading philosophy and preference. The best way to cater for that is with an open platform where you can pick and choose what functionality you need rather than trying to cram all possible functionality into one platform.

This is the way the smart phone or digital music industries developed and I expect the FX retail market to develop in the same way."



Jakub Zablocki

*"Cloud services and outsourcing are not hugely popular at the moment, but they will be increasingly popular because they reduce costs significantly."*

## Next generation trading

Another area of technology development in retail FX concerns the growth of so-called next generation trading capabilities - social, mobile and robotic trading. "When one looks at the development of mainstream technology, it started off with social networks, then it became increasingly mobile and now we have entered an app area. The next phase will involve big data. I think the trading industry has developed along the same lines. Social trading is quite well

established with people trading on Twitter and there are a number of well-established providers in this space."

Mobile trading is an interesting market that is becoming more established but the statistics suggest that both adoption and usage varies from broker to broker, says Malling. "A lot of providers have built mobile trading applications but adoption is only somewhere around 20%. And of that 20%, the vast majority are using them to check the market and only a minority (20%) are using them for trading. Even then they are using it for closing their positions rather than execution. So I think that suggests that mobile trading is not an alternative to desktop trading, it is merely an add-on for using on the move and no-one is going to be using their mobiles to write execution algorithms."

Increased speed and reduced latency have been aspirations for traders for some time and there is always room for further improvements, however most retail FX trading systems have been operating at a sub 100 or 200 millisecond level for some time now, says Malling. "A lot of effort was made some years ago to reduce the number of hops involved in the execution process with collocation and that brought down the level of latency quite dramatically to a point where it is generally acceptable to most retail traders. Beyond that it is a discussion as to what still constitutes a retail trader if their trading behavior requires latency below the 100 millisecond level."

In 2014 Tradable will be focusing on developing its cloud capabilities as Malling thinks this remotely, hosted, centralized and light infrastructure will be the model of the future for retail FX broker platforms. "It provides economies of scale and becomes cheaper for everyone involved and cheaper to cross-connect within a shared data center. It also provides a better service to the client so I don't see any reason not to move to this model. Along with the automation of the innovation process, it is a model that allows brokers to focus on their clients rather than IT development and administration."

"Brokers are facing a lot of increased costs through regulation and this is one area they can reduce their costs and still maintain a good service offering. A lot of brokers talk about the cost of client acquisition but there are also considerable costs in buying or developing the kind of technology solutions needed to service existing clients and engender loyalty," he says.



Olivier Virzi

*"It is difficult to say if high speed trading has led the path to faster technologies or if these technologies have made high speed trading possible."*

## Wider range of options

Perhaps the importance of open platforms in the retail FX brokerage market is best encapsulated by the recent decision of X Financial Solutions to change its trading name to that of its flagship product, X Open Hub - a decision that was in part made to emphasise the open nature of a platform available to banks, brokers and liquidity providers alike.

According to X Open Hub's Managing Director Jakub Zablocki, the emergence of more open platforms has been hugely beneficial to market participants in terms of giving them far more options when considering the purchase of a platform and far more regular developments in the functionality of these platforms. "In the past, the retail broker platform market was dominated by one player - MetaTrader - when the only technology development would be every three years when a new version of MetaTrader was released. Now with more open platforms and third party providers we are seeing new releases and developments every month."

But while more frequent and fertile development is a feature of the open platforms, robustness and availability are still prized properties for participants. X Open Hub interviewed over 300 retail brokers and traders and the most important property of a platform for them was its stability. "So it is important to provide all the multi-asset functionality, without sacrificing the overall stability of the platform," says Zablocki. "That is the challenge for vendors. You can add all of these new features, instruments and asset classes but if the platform crashes, then it is of little use."

Another challenge for platform developers, albeit one that is more opportune is to help retail brokers cater for the demands from more ambitious retail trades for sophisticated trading

capabilities while at the same time recognising their relatively limited budgets and resources. For example, Zablocki is seeing much more interest in automatic trading in the retail market and brokers are looking to add this capability but many of them do not have a lot of platforms available to them to build this capability.

"They do not all have access to a trading server. Social trading is also integral but it is only used in small volumes at the moment and isn't big enough to be a completely separate trading segment. I don't think retail traders are looking for it to be just an add-on, they want something more that allows them to trade their own liquidity. We will have to see how this develops in the future."

Retail traders are also becoming more demanding in terms of low latency, which is an issue for an increasing number of them, so there is a need for more co-location but most retail traders do not have the resources to set up their own co-located servers or trading engines, says Zablocki. "This is where cloud servers can play a role. Traders in both the retail and institutional space are becoming more familiar with and more confident in using cloud services. It is a case of taking it step by step. Cloud services and outsourcing are not hugely popular at the moment but they will become increasingly popular because they significantly reduce costs. And when you consider that retail traders are becoming more sophisticated and demanding lower latency and greater efficiency then brokers will have to turn to outsourcing providers that can offer 24 hour support so they do not have to spend the money on administration servers."

"The market has become extremely competitive and there is a need to offer retail traders a very stable infrastructure but also one with enough flexibility for new features to be added. Doing that on your own will be extremely expensive for brokers so they really should consider outsourcing and doing more in the cloud."



Frank Van Zegveld

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## The latency question

When it comes to assessing the steps taken by technology vendors to improve the speed and low latency capabilities of the trading platforms made available to retail brokers, the debate as to what came first - the technology or traders seeking the higher speeds - is a complex one, although it is abundantly clear how successful the technology has been in meeting the subsequent demands of the more sophisticated traders - even in the retail market.

"It is actually quite difficult to say if high speed trading has led the path to faster technologies or if these technologies have made high speed trading possible," says Olivier Virzi, chief executive of Olfa Trade. "What is certain though, is that networks and wiring technologies evolution have dramatically lowered execution time, almost annihilated it.

Distance is still a latency factor of course, but it can be quite easily dampened by choosing to work with platforms hosted in the right co-locations, as close as possible from the flow source such as the LD4, NY4 or TY3 in London, New York and Tokyo respectively - the three biggest centres for FX trading.

"The democratisation of cross connections between trading solutions and liquidity providers leaves no room for slowdown to exist anymore," says Virzi. "From a software point of view, frameworks allowing the use of distributed cache systems in order to avoid IO access, coupled with GPU access, allow for the most sophisticated and effective execution."

## Exercising caution

The arrival of open platforms that encourage third-party developers to build and deploy new trading applications has been the clearest trend in the evolution of the retail FX brokerage platform market. And while this has increased the amount of tools available to retail FX traders, they should exercise some caution in terms of how effective the relatively untested tools will be, says Frank van Zegveld, head of business development, Solid Trading.

"At first glance this seems to be a great development - higher speed of innovation cheap and easy access to new tools, supply and demand driven by end users. Unfortunately, this is absolutely no guarantee that the applications will be of a high standard. There will be a lot of poorly maintained applications or applications that actually contribute nothing. This can be compared to the trend seen on mobile devices: an explosion of easily accessible applications through stores or portals, of which only a very small percentage makes a significant impact."

Customers are also becoming more discerning and more demanding in terms of the speed of trading and the amount of latency incurred, says van Zegveld. "Nowadays, it's more or less required to have your trading platform operate without any signs of latency - the competition is fierce in this regard. This encompasses not only the actual matching engine, but also covers the entire (hardware) infrastructure. Therefore we have recently upgraded our complete landscape in the Equinix facilities in London (LD4) & New York (NY5) and recently launched our completely new FX trading platform. Superior performance, a robust, modular and highly extensible technology base: the Solid FX trading platform provides ultra-high-speed access to a vast pool of FX liquidity."

Van Zegveld agrees that clients are increasingly attracted to platforms with minimal infrastructure because of the low cost and simple implementation. "Now that margins in the FX industry are under pressure, nobody can warrant expensive and lengthy implementation processes anymore. In our opinion this lengthy process is also no longer necessary. Time to market is one of our crucial unique selling points. Being able to respond quickly and efficiently to client needs is not easy and requires a flexible platform architecture. With the advent of HTML5 and other new technologies, we have created a unique toolset which enables us to deliver new solutions quicker and more efficient than ever."