

FIX & FX Trading



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The FX trading technology marketplace is a quickly changing landscape. What once used to be the domain of the sell-side with their proprietary vendor derived cash trading applications, has now quickly evolved with numerous players actively involved in shaping the electronic FX trading landscape.

Unlike the most immediate past, it is now both software vendors and other types of financial institutions and intermediaries that are being very active in driving the FX trading space of the future.

FX market participants have clearly seen the emergence of alternative trading technologies over the last few years. They have also adapted their trading behaviour and embraced these new trading technologies. This has been particularly prevalent in the evolution from the Request for Quote (RFQ) trading behavior of a few years ago, to the one-click trading platforms offered by the banks, portals and ECNs and now through to the industry's current trading mechanism of trading via live streaming prices offered via APIs by the various liquidity providers in the FX market place.

From our experience at FlexTrade, we have seen the technology offered in the FX market place get better and better in a surprisingly very short period of time, and the improvements in transaction speeds have bordered on the spectacular. Not surprisingly, this has benefited both buy and sell-side organisations.

However, it is at this latest technological juncture where the biggest technology consolidation needs to occur for truly exponential benefits to be realized by both the buy and sell-side participants, particularly those that want to trade via live streaming prices offered via APIs. By this, I am referring to the lack of any common messaging protocol being utilized by the FX industry and how this is impacting further improvements, greater market efficiencies and growth.

Unlike the Equities trading landscape where the FIX messaging protocol is the industry wide accepted protocol, FX has yet to embrace a standardized messaging protocol. FIX has enabled the electronic trading of Equities to become what it is today; the de-facto messaging standard. It is essentially impossible to be a significant presence in the Equities space without using FIX.

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Whenever a standardized mechanism is adopted and widely used within an industry, it is at this stage that truly great leaps are made and efficiencies occur. This is exactly what occurred in the Equities space. Standardization in the form of a common messaging protocol like FIX, gave market participants trading Equities a level of freedom that transcended trading flexibility and also ensured that limited IT resources were being deployed and channelled efficiently into assisting the progression of technology, rather than defensively into having to manage outdated or difficult to deploy connectivity technology.

At FlexTrade, we have had a large number of FX market participants say to us, "We'd rather have our programmers write algorithms that can express our trading views than to have them continually write adaptors to integrate all our connectivity with our trading relationships."

It is to this end that we are now seeing a rapid push by liquidity providers in the FX market place releasing new API price feeds written in FIX. However, for FIX to be the standardized protocol in FX, there is still a lot of ground to cover. From FlexTrade's experience, FIX APIs still only represent approximately 15% of FX liquidity providers. This is despite the realization within the industry that FIX will eventually become the standard protocol, with numerous liquidity providers already starting the process of releasing new versions of their FIX APIs.

How can the adoption of FIX by FX participants quicken? At FlexTrade we think this will come via education.

We have often heard from our existing and prospective FX clients about their reluctance for change and their fear of any technology overhaul or technology spend being expensive. It is these buy-side clients that are the drivers in achieving the common language. As they realize that numerous efficiencies and synergies can be achieved, they will drive their sell-side relationships to achieve these standards. That being said, the efficiencies and synergies will also benefit the sell-side; who will also enjoy greater flexibility across their business groups and cost savings from adopting this standard protocol.

From the numerous conversations we have had with both the buy and sell-side participants in the FX marketplace, we believe that the efficiencies and synergies derived by adopting FIX will revolve around technology standardization benefits, multi-asset trading and risk control flexibility, consolidation of IT resources, flexibility to manage electronic trading relationships, and of course cost savings.

Standardization of technology benefits are best illustrated by highlighting the issue of managing multiple connections and varying technology. The buy-side doesn't want to manage connectivity and technology. They are in the business of trading. There are a number of technology firms that can shield clients from this technology burden during this state of flux. At FlexTrade, we realized that the fragmentation within the FX technology market, due to no common messaging protocol, was substantial and burdensome to trading participants, and as such, we wrote a number of adaptors to neutralize the differences in the FX trading APIs. It was not our core business, like other firms in our space, but clients turned to us to assist them in lessening the technology burden during this "transition" period. The buy-side realized that this fragmentation existed in this transition period to a truly common messaging protocol, and preferred to use the skills of specialists to handle the technology until a standard protocol could become set in place. To the buy-side however, they consider this fragmentation to be a bump in their road that will eventually be removed once a common standard is in place.

As buy-side firms are becoming more diversified in the asset classes they trade electronically, they are also experiencing technology hurdles in the form of further messaging protocols to integrate. Typically, participants that have moved from the Equities world where FIX has a level of familiarity and comfort for them, are now encountering a different technology playing field in FX. These hurdles are diverting their primary attention away from trading and

having them focus on how to manage more trading relationships via technology and how to use multiple trading tools. It is this inefficient use of their time that can be addressed by using a common messaging protocol like FIX. It is in this type of technological environment – a truly multi-asset messaging protocol - where real operational and trading synergies can be derived.

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FIX, in a multi-asset trading environment, offers the buy-side a direct conduit to their trading relationships and a consolidated medium of interacting with their trading relationships. The sell-side also can benefit from having FIX as their multi-asset messaging protocol, with particular benefits centered on providing their technology services to a greater client base. They can extend their connectivity to new clients rather than having their technology 'spend' manage their own proprietary protocol, thus achieving greater economies of scale for their technology costs. The sell-side can also gain internal operational synergies by having a common messaging protocol run across all their business groups. This common messaging protocol can aid in facilitating greater cooperation between these different business groups and also assist in cost reductions due to having a centralized approach to managing their messaging protocol.

The buy and sell-side can also both benefit greatly cost wise from FIX being implemented as the standard from a FX perspective and a multi-asset perspective. Deployment, management and ongoing maintenance costs can be better channeled into enhancing a common protocol and into developing a greater range of trading services not tied to technology.

Why is FIX expected to be so important in the electronic FX Trading arena? The answer revolves predominantly around the increasing push into all facets of trading that hinge on efficiency – whether that is operational efficiency, liquidity management improvement and most importantly the certainty of execution and execution efficiency.



FIX will become very important for both the buy and the sell-side in the FX trading landscape as we see greater penetration into new areas of electronic trading, such as algorithmic trading, and also with the move of new participants into the FX asset class. Algorithmic trading has been a relative staple of the Equity markets for the last few years and is now expanding and being applied to other asset classes that are liquid and where certainty of execution is prevalent.

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At FlexTrade we have seen a lot of financial entities aggressively moving into the FX trading landscape with the experiences they have garnered from other asset classes. It is this point that is particularly interesting, with midlevel and smaller financial entities now wanting to trade a lot more multi-asset. It is these firms that have cut their teeth from a technology standpoint and electronic trading standpoint in the Equities world, that are such a natural fit to transition into the electronic FX trading landscape. Having a common messaging protocol/technology across the asset classes will assist in an easier transition and also benefit the FX industry with further varied participants and varied flows. **FIX**

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