FOREIGN EXCHANGE IS A KEY PROFIT AREA FOR OUR CLIENTS WHERE AUTOMATION AND INNOVATION ARE NOW A "MUST"

The FX market volume – the market where currencies are traded – exceeds 5tn dollars a day, making it the biggest and most liquid financial market globally. The FX catalogue include cash products (spot, forward, swap, ndf) and derivatives (options, structured products).

The FX market is the backbone of international trade and global investing: on the one hand, it allows the sustainability of import and export whereas, on the other, forex is an asset class that allows to take benefit from international diversification both to buy and sell foreign assets and securities or currencies directly. Forex rates also form the basis for performance evaluation and risk management as they are used for hedging purposes against currency fluctuations to manage risk or used to speculate assuming risk betting on earning a return.

Currencies are traded electronically and bilaterally over the counter: a must for a dealer is to be always connected globally to identify "where the market is". The lack of transparency and the massive volumes of transactions that describe the FX markets entitled the development of specific mechanism to identify the rate to apply: a sort of benchmark called "fix" that is a single rate that reflects the value of one currency relative to others at a particular point in time, typically created from a snapshot of actual trades (unlike Libor that relies on estimated rates).

A recent regulatory spotlight on alleged market rigging has accelerated a longstanding move to automated trading platforms: word wide regulators and organizations are working on proposals for changing financial benchmarks as well as data providers. Banks, fearing a move towards exchanges as it would further reduce margins and the value of costly investments into their own trading platforms, are stepping up to move away from traditional voice trading that are at the center of the probes. Those concerns are reinforced by the fact that the Regulatory bodies are aiming to introduce transparency mechanisms, timely confirmation of deals, pre/post trade disclosures to clients and clearing obligations with the scope of forcefully making over the market operations subject to control.

As for the fix income and commodities products in the late 1990s, the change from voice to electronic in FX will be driven from a buy side reform: the adoption of transparent algorithms and the access to different size order, simply show a better alternative to traditional channels. In addition the electronic platforms enable a real global dimension to the FX business (resolving simple barriers like time zone constraints) allowing players to grant access to all emergent markets and meeting retail investor's appetite.

Across all products, electronic trading volume moved from single-digits in the early 2000s to 74 per cent last year (according to Greenwich Associates, a research company), but about 35 per cent of volume in the global $2tn a day spot fx market – where currencies directly change hands and traders take risks as market makers – is still done over the phone (according to Bank for International Settlements data): the rise of machine-driven fx business is open.

Our experience on FX programme at one of our largest clients. Since 2011, one of our largest clients launched a wide program including initiatives to develop capabilities and technological assets on FX, enabling itself to expand its positions in currency trading, including:

- adoption of an electronic trading service dedicated to financial institution and large corporate through Bloomberg, FX all and 360t multi dealers platforms;
- development of a pricing engine for cash products;
- strengthen pricing modelling to extend derivatives offer;
- development of a an integrated IT architecture to automate for instance sales to trader workflow, credit lines capacity controls, client data management.

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Particular attention has been given to small/mid corporate and retail clients, developing a specific electronic platform integrated with the payment current services offered: the aim is to create synergies with all new potential FX transactions arising from products like structured export finance, trade export finance and cash pooling and to leverage its consolidated skills and competences on securities brokerage platforms (Market Hub).

This is the vision our client has on electronic assets:

- an investment to meet new customer and increase market share, with specific target on retail customers;

- a "must have" to serve financial institutions for which a multi dealer platform is considered as a baseline service;

- an advantage to concentrate all fx group needs;

- an opportunity to let desk sales concentrate on more profitable business (such as hedging or structured products). As a continuous result, our client outstands most competitors in the 2013 poll launched by Risk Magazine: ranked third in four categories, placed in second position overall on currencies derivatives.

There is a clear picture described in the strategic business plan of our client: forex asset class has been recognized among the main profitable business for the next three years and the Group's investment bank has been appointed as director to develop services and product to distribute a Group level. Be Consulting has been confirmed as partner to support this new challenge.

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