



F O C U S

First rate

Building FX business through intelligent pricing technology

To build or maintain a successful foreign exchange business, banks need two things – first-class service and a state-of-the-art rate engine. The advance of buy-side technology, together with increasingly complex foreign exchange requirements, has created a highly sophisticated institutional customer base that demands fast, competitive and consistent pricing across a wide range of currency pairs.



Carl Martin, Group Technical Director at Eurobase International

Hedge funds and other active traders, who typically trade at high frequency using powerful algorithmic trading models, have been particularly instrumental in driving demand for faster,

more accurate streaming prices. The growing popularity of multibank portals, where speed and quality of pricing can make the difference between winning or losing business, have also highlighted the importance of effective pricing technology.

During 2005, the most successful banks were those who have invested in enhanced rate engines to meet customer demands. On the other hand, many providers are still using the same pricing engines as they were in the late 1990s – before the explosion of FX trading by hedge funds and the mainstream adoption of multibank portals. These institutions are now realizing that, in order to remain competitive and take advantage of new opportunities, they need to raise their game.

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Fortunately, there are now many tools and services on the market that can help banks to upgrade their pricing capabilities quickly and cost-effectively.

The cornerstones of good pricing – speed, quality and service

How can banks ensure that they deliver competitive pricing? At Eurobase, we believe that there are three elements to a good price – speed, quality and service.



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< algorithmic trading >
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North American Sales:
+1 516 627 8993
sales@flextrade.com

European Sales:
+44 (0)20 7796 3002
sales_eu@flextrade.com

www.flextrade.com

FLEXTRADE *Trade your best.*

"It is important to select a rate engine that can work in concert with other pricing solutions to deliver a richer experience to clients."

While it is up to the bank or portal to deliver high quality service, speed and quality can both be achieved by selecting the right rate engine.

Speed

Over the last few years, the bar for speed of execution has been raised time and time again. Two years ago the best engines were claiming sub-second response times; one year ago the average response time was 400 milliseconds. Today Eurobase's price engine is producing response times between six and, for the most complex instruments, 60 milliseconds.

Speed of execution depends on a number of factors. High-speed connectivity between the bank's internal rate engine and its trading venues – both proprietary dealing interfaces and multibank portals such as FXall – is crucial. This can be ensured through a connectivity solution like Eurobase's Siena XML Gateway. Credit checking is another area that can slow up the trade process if a credit system does not work in real time.

Quality

On many multibank platforms the range of prices is extremely narrow, so many clients will deal on the first good price they get back. For this reason, the ability to respond quickly to client requests with a competitive market price is key. A good price engine will be able to accept multiple price feeds in order to generate accurate, executable rates for trading in various amounts for output to multiple applications.

Enhancing pricing through manual tools

It is important to select a rate engine that can work in concert with other pricing solutions to deliver a richer experience to clients. A good example is Eurobase's Siena rate engine, which can be used alongside FXall's suite of pricing tools, Treasury Center. The rate engine is used for auto-quoting while, for more complex transactions or clients that require a more personalized service, the bank can use Treasury Center to deliver a customized rate for every transaction.



The latest generation of pricing tools delivers all these benefits without sacrificing speed of execution. On Treasury Center, for example, traders can use the streaming rate feed from their pricing engine as a base, users can intervene manually to create a customized streaming rate for any trade, skewing or spreading the price according to trade size, client type or market conditions. Deals are completed much more quickly than over a traditional manual request-for-quote system.

Operating effectively in the global foreign exchange business increasingly depends on the ability to be able to stream prices for clients across a wide range of regions, time zones and currency pairs.

Tools like Treasury Center offer banks a simple way to make prices in currency pairs, times or trade sizes that they would not usually trade – outsourcing the liquidity function on a selective, deal-by-deal prices. Using Treasury Center, banks can cover client trades by executing with another provider, before passing the price on to the customer.

Conclusion

Banks now have a wide range of services at their disposal to help them deliver fast, competitive prices while better controlling their levels of risk. Advances in rate engine technology, and the development of sophisticated manual pricing tools, have levelled the playing field, enabling banks of all sizes to reach a diverse range of customers and compete on equal terms for their business.

With the right rate engine, pricing tool and trading venue, every provider can deliver the levels of speed, quality and service they need to build and maintain a successful foreign exchange business.

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