By Heather McLean

Switzerland

Switzerland has for many years been a centre of financial excellence. Its long history as the bank of Europe has led to this small area with a population of only 7.5 million people becoming a focus for foreign exchange trading, and now electronic FX, in Europe. Although Switzerland is not a member of the European Union, many large corporations and asset managers based in Switzerland also have subsidiaries in other parts of Europe, which are subject to EU regulations and directives such as MiFID. As a result, the Swiss market tends to adopt best practices in line with the EU's harmonised approach to legislation.

Impact of non-EU status

Yet Joe Helbling, sales manager for Switzerland, Austria and Liechtenstein at 360T, states on the EU: "From my point of view the non-EU membership of Switzerland does not influence eFX trading here at all. The FX market is a global market and market participants from Switzerland have a long tradition of playing in this market, and also international players have an even longer history of selling into Switzerland. E-services are making this selling even easier."

Not being part of the EU has no major effect on eFX trading in Switzerland, agrees Charles-Henri Sabet, CEO at Synthesis Bank. He says Switzerland will remain the financial centre it has been for the last 50 years and people will always trade and invest with the renowned Swiss Banks. He comments: "We still have two of the largest investment banks here and we expect the same to be true of the online retail banks and brokers in time."

So as far as membership of the European Union is concerned, Switzerland seems to remain largely unaffected. The only area that the EU is having an effect on it is fiscal policy, an area where the EU is particularly pushy, and also the US that also wants to keep an eye on what is going on in Switzerland. "There is pressure from the EU to change fiscal policy in Switzerland," says Nick Bang, managing director at ACM. "And

there has been for many, many years. At some point, the Swiss will give in." However, the EU and FX are completely separate and unrelated subjects for the Swiss banking population.

Diverse structure of the country

However, to the people of Switzerland and for many of those working there, Switzerland as a single country does not exist. Switzerland is made up of 26 different kantons (regions), each of which operate individually in all aspects. For instance, when paying tax in Switzerland (variable according to your kanton) the largest proportion of what you pay does not go to the federal government, but to the local kanton, much like in the US. For companies dealing eFX, regulation is localised to the kanton in question.

This complexity of regulation and business dealings through kantons does not affect the growth of eFX, states Bang. "In Switzerland, people's level of understanding of FX trading is very high compared with an average of the rest of the world, I'd say. Trading is part of the culture."

"Demographically, when you look at the Swiss financial population, there are a lot of people trading stock and you have a lot of people that have an understanding of financial products, as after all financial services are really part of the culture in this country and have been for many years," Bang continues. "Locally speaking here, it's a good market, it's a healthy market, and it's an easy market because people understand financial products very well."

On the Swiss people themselves, a population that appears entirely geared for financial services, one interviewee states: "The Swiss generally are not in any sense entrepreneurial, not in any sense at all. Two things that the Swiss are extremely good at is they are excellent facilitators, that is, they can get things done, and the other thing they do very well is administer both things once they are done. So while on the face of

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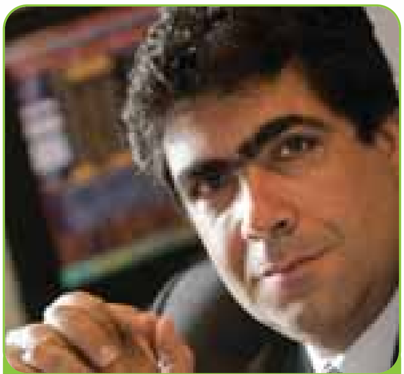

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things the Swiss may seem bland and boring, they must not be discounted because they have extraordinary talents. And one of the talents they have is knowing what their talents are, and knowing how important it is to maintain those."

Regulatory issues

Switzerland is a very attractive country for financial operations, largely due to a history of reliable services for customers worldwide. Alain Broyon, CEO at Dukascopy, states: "To prevent the abuse of this reputation, we accept as necessary the decision of the Swiss Federal Banking Commission concerning the new regulations limiting FX activities to the bank sector. Dukascopy is preparing itself to apply for a bank license. We are sure that this new regulation will bring a better stability for the Swiss forex industry."

The Federal Banking Commission and the Swiss Regulatory Authorities are looking to consolidate foreign exchange trading within the country. Sabet comments that the Swiss Federal Banking Commission mentioned in its 2006 report that it was considering regulation of FX brokers in Switzerland. He adds: "Moreover, being outside of the MIFID jurisdiction creates both complication and opportunity for eFX trading in Switzerland, as does being outside the EU."

Yet Christopher Cruden, founder and head of Swiss-based eFX specialist firm, Insch Capital Management, says regulation is already an issue for those working in eFX in Switzerland. "Contrary to popular belief, where people tend to look at Switzerland as some kind of Caribbean offshore tax haven, Switzerland isn't like that at all. Switzerland is a very closely, well regulated environment. It is hard to get things done here because of the regulation, and that is as it should be."

Cruden explains further: "The entire future well being of Switzerland is so closely tied to financial services that the regulatory bodies here are really reluctant to do anything that may screw the game up. There are something like 11 financial regulatory organisations plus the Swiss Federal Banking Commission, and they are all vigilant, clued up, and very professional in what they do. You have to be very careful here, and that makes sense."

Major FX sell side players

Switzerland is very well covered from the perspective of almost all major FX banks and technology companies. Because of that, many FX e-commerce and e-trading solutions are already well established in the marketplace. As to be expected, the Swiss sell side is home to the giants of international banking, including UBS and Credit Suisse. The kantonal banks also have a strong presence amongst the corporate client base in Switzerland.

Switzerland very much follows the structure of the FX market in the US and rest of the G10, states Sabet. He claims that in Switzerland, the top ten global banks account for more than 50% of the total FX volume. The

Euromoney FX survey stated in April 2006 that the top five FX houses in the world were all European, outside of Citigroup. The European behemoths of Deutsche Bank and UBS accounted for more than 30% of total FX volume, according to the survey. Spot FX accounted for one third of the total daily FX volumes, with the interdealer market accounting for over 50% (456 million as per Celent 2007) claims Sabet.

Sabet comments: “It is estimated that electronic FX trading now accounts for more than 70% of daily volumes in Switzerland and retail or private Investor FX trading is around 10% of total volumes, which is expected to double over the next five years. Electronic trading is expected to account for 90% of all FX volume in Switzerland by the end of 2008.”

Synthesis Bank has seen FX volumes in Switzerland double over the last 12 months, says Sabet. He adds: “We have no reason to expect that growth will slow in the year ahead. We are now opening over 500 accounts a month which is again doubled from twelve months ago. At least half of those clients trade purely FX.”

Bang rates Swiss-born UBS as the top FX liquidity provider in Switzerland, followed by Citibank and then Deutsche Bank. "It's the usual suspects," he says. "I don't think it's changed that much over the last six years. About six years ago, these banks started looking at this space quite aggressively. They started looking at retail aggregators like ACM, and other companies, as potential clients and that could generate an interesting flow. They thought there was a lot of potential to build e-forex activities in this sector, definitely in regard to execution and liquidity provision and so on. And they've made a lot of money from that, particularly UBS."

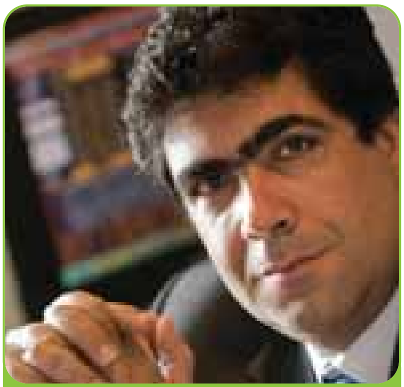
As UBS was one of the first banks to establish electronic trading on a broad scale in the markets, Switzerland has considerable experience with eFX. There is a strong penetration of single bank systems, says Helbling, and also an increasing market share of the multi bank systems such as 360T. “Our volumes in Switzerland have increased by a factor of 10 over the last 24 months,” he comments.

Regional players

While the likes of UBS and Credit Suisse Switzerland represent both local and strong global players in the Swiss market, regional banks such as Zürcher Kantonalbank also have a strong position in the country and play quite an active role with regards to the Swiss Franc. Helbling states: “The fact that Switzerland has its own currency gives the Swiss banks a core competency in that discipline, which has become a unique selling point for them.”

Corporates and other buy-side investors

Alternative investment managers, hedge fund managers, CTAs and private equity groups, are moving to Switzerland says Cruden. This means the buy side is rapidly expanding, he states. The money that is run out of Switzerland at



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the moment is disproportionate to the number of people that actually live in Switzerland, he says, as a lot of money is managed from Switzerland for parties throughout the world.

At Dukascopy, currently the Swiss FX marketplace buy side structure at the company consists of 23% corporations, 16% institutional investors, 49% fund managers or hedge funds and 12% private investors, according to Broyon.

Corporate Switzerland is structured with some very large international companies, a sizable number of mid size firms and a large number of small, but still sometime market leading corporations, according to 360T. "The bulk of them are interested in e-business solutions," says Helbling. "Potentially half of the mid and large companies are already using electronic tools to trade FX and other OTC products."

Helbling comments that corporate treasury in this country traditionally trade on bilateral platforms, tentatively moving away from using several single bank portals to using a multi bank and multi product platform to gain efficiency. Institutional investors are seeking liquidity and would like to support all traded products electronically, he continues.

360T says usage of e-services in Switzerland is growing in parallel with Western Europe. The company predicts that around 40% of corporations and institutional investors in Switzerland are using e-tools right now, and that within the next two to three years that usage will grow to between 75% and 80%.

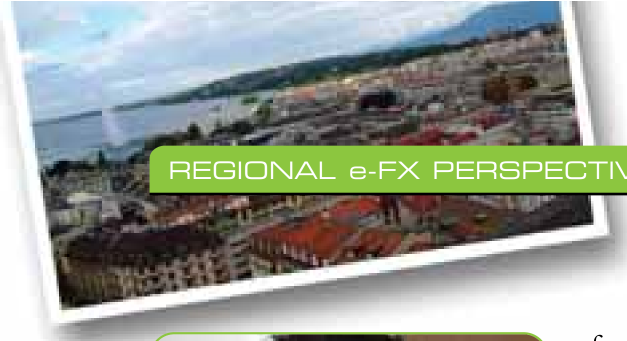
The bulk of FX trading in Switzerland today is electronic, agrees Richard Olsen, co-founder of Oanda. However, the Swiss institutional market continues to trade FX in the old way, over the phone, he states. Yet he says in execution, institutional traders have become much more professional, trying to get two to three quotes from different providers for the same stock.

Olsen says the Swiss hedge fund market consists of very professional, active traders. However, he adds that most of the hedge fund traders have similar trading strategies, following the same trends in the eFX space in a bid to make money.

Helbing adds: "The hedge fund community is well set, using available tools already, whereas the real money managers have started slowly but surely, to review and optimize workflows," he continues.

The structure of the Swiss buy side market is similar to other countries in Europe regarding corporations and institutional investors, says Keith Hill, senior director and head of sales for EMEA at FXall. He states that where it differs is in the growth of the hedge fund and commodity trading advisor (CTA) sector, plus the growing number of broker/dealers.

Hill comments: "Swiss customers have been very interested in connecting to FXall via APIs or FIX connectivity and this has been fuelled by the growth of the hedge fund and broker/dealer sector. Broker dealers are acting as credit intermediaries for smaller hedge



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funds as well as high net worth individuals. They also tend to be more advanced technologically and typically use multiple venues to source liquidity."

Yet the buy side market in Switzerland, apart from a few local hedge funds associated with banks offering FX, is not really that large according to Bang. He says the buy side in Switzerland is more about the retail customer, as large corporates use the major financial centres such as London, New York and on a smaller scale, Zürich followed by Geneva.

Bang explains: "Generally speaking, Switzerland, Geneva, and Zurich in particular are some of the largest centres in the world for wealth management and private banking. But the buy side in Switzerland generally speaking tends to be more private customers than corporates really. Switzerland is not a huge centre for corporates as buy side, wanting to buy products from the different banks. This does exist, but Switzerland is not one of the major centres for that. Switzerland is more about private banking, and wealth management, in line with its history in these areas."

Retail FX sector

Over the last couple of years FX has become a highly popular asset class for the retail sector in Switzerland, as it has around the world, and has also contributed to the growth of the FX market in total. "The awareness of FX as a separate asset class has grown the community of potential retail investors, especially in the last years," Helbing says. "Banks have started to build up specialised advisory teams, so the customer bases of broker/dealer organisations and specialised suppliers like Saxo Bank are growing substantially."

Bang says that ACM has made significant inroads into the Swiss retail buy side market in terms of retail customers. In this area, ACM has seen huge growth. Retail has changed completely in Switzerland and according to Bang, if you look five to seven years back, the retail market in this country was completely different to today, and the same comparison works globally. Today you have extreme growth in the FX market, with one and a half to two million private traders working globally in Bang's estimation, compared to a few years ago, he states, when there were very few private players dealing FX.

On the retail market, Olsen states it is highly electronic, and uses similar strategies to some of the hedge funds, but retail traders in Switzerland make one common mistake comparative to more professional traders, he warns. The retail traders are continuously over exposed, he says, over estimating their ability to get the correct market movements.

White labelling

Over the last couple of years ACM has seen substantial interest from parties enquiring about white labelling of the companys' product, which is being sold into the institutional side of the market. "Our white label offering is again addressed at the retail customer. Other white label products in the market from the likes of Deutsche Bank are addressed to dealing desks

and the like. A lot of our customers in the retail and corporate sector are also of course interested in API's because they have their own systems and their own black boxes in the back-end that connect to an API, so they can also trade off that. That's an area that has been growing quite significantly for us and for which there is growing demand."

White labelling in Switzerland is clearly becoming commoditised with every major player offering a similar package. As a result, many brokers are realising that there is no value in developing and supporting their own platform when banks can do it all for them, at a significantly lower cost.

The end user client is well aware of the technology available to them, says Sabet, and brokers wish to focus on sales and service rather than expend time and energy on developing technology that may not match the readily available, automatically updated solutions already in the marketplace.

Sabet comments: “White labelling is here to stay. It will become more competitive but providers like us welcome the challenge of meeting the complex and professional requirements of our direct clients, partners and their clients.”

From Prime Brokerage to STP

Prime brokerage is still the key driver on institutional FX in Switzerland, with smaller funds and private investors also increasingly looking at algorithmic trading, says Sabet. Algorithmic trading in FX is still in the early stages of growth according to Synthesis Bank; however there is a growing adoption of algorithmic techniques, Sabet notes. For the sell side banks that provide FX liquidity, the use of algorithms to help complement human spot traders is becoming popular for improved productivity and profitability, he says.

Ed Pla, global head of FX prime services at UBS, agrees that STP is becoming a more important factor in eFX in the region. He explains: “The Swiss FX market is, given its history, very broadly positioned. Automation and process efficiency was and is key given the high costs of trading otherwise. Throughout the various client segments companies here have been open to implementing a variety of STP and risk reduction initiatives.”

In addition to pure e-trading for FX, which has been running with momentum for several years now, clients are increasingly focused on mitigating their settlement risk and gaining operational efficiencies, explains Pla. Because of this trend, he says prime brokerage is becoming a more common topic interest across client segments.

“In addition clients are showing increasing interest in API-based trading and STP services,” Pla adds. “Next to the direct API connections and FX prime brokerage we can see that direct links into established treasury systems can also help facilitate STP and risk reduction. In Switzerland, as in other geographic locations, we see clients gravitating toward a multi-channel execution framework. While we see interest in some multi bank execution venues, our API-based liquidity services and our FX trader portal continue to generate growing trading volumes.”

Marcel Kellerhals, group treasurer at Panalpina, a sea and air freight business based in Switzerland, is a customer of 360T and is also focused on increasing STP through eFX solutions. The company trades FX using spots, forwards, swaps, and other vanilla options, plus money market deposits. Panalpina has been using eFX tools for over four years.

Kellerhals comments: “They [eFX tools] are key to us. We will not trade with banks that do not offer e-tools. We use the tools for putting bank prices and quotes into competition, STP and fast execution.”

Another customer of 360T, Quaesta Capital, a Swiss FX overlay management company, uses e-trading to get the most it can out of the FX markets. CEO, Martin Wiedmann, states: “Nowadays, e-trading is the only efficient way to access the depth and liquidity of the FX markets. Transparency and electronic work flows are, beside performance of course, key to our business. We have chosen to trade FX on a multi bank portal as we see that as the most efficient way to fulfil these key needs and still meet MiFID requirements. To satisfy our needs we use 360T's TEX portal.”

FX Portals

Multi-bank platforms in Switzerland started off with the likes of Currenex, FXall, and EBS that is now owned by ICAP. "Those are the pointy end of the Christmas tree," comments Cruden. "But now even a little company like ourselves can offer its own platform with spreads that aren't at the EBS level, but damn sight better by a long, long way than any retail investor or institutional investor could have consistently achieved even five years ago."

As a multibank portal, the growth rate of Dukascopy's SWFX Swiss FX marketplace is 10% per month, says Broyon. He states the most popular eFX service among clients is algorithmic trading, based on an automatic trading strategy on its Jforex API.

For Dukascopy, the main instrument for growth is the FIX API. "We have a big demand for the FIX API, which permits the fund managers and banks to trade using automated strategies. The role of Dukascopy Swiss FX marketplace is to establish a culture of the FX marketplace in Switzerland, raising industry quality standards, focusing on liquidity, transparent execution, integrity and security," notes Broyon.

FXall's Hill states: "Broker/dealers are continuing to use high speed APIs to connect to multiple sources of liquidity, whether this is on a disclosed basis on platforms such as FXall's QuickFill, or anonymous on ECNs such as FXall's new high speed Accelor platform. There is huge growth potential in this market."

Hill comments on FXall's role as a technology company in delivering FX e-trading solutions. "There is huge growth potential in this market, but only platforms with diverse trading models that cater to all needs will truly reap the benefits of that growth."

The future of e-FX

When the triennial BIS FX survey appears later this year, Synthesis Bank expects huge growth from the last survey, which was carried out in 2004. That survey showed that global daily volumes of FX were estimated at around $2 trillion per day. This year some commentators are already suggesting that average daily volumes are as high as four trillion per day, says Sabet, whilst research firm Celent estimated last January that volumes were currently around three trillion.

FXall also sees impending expansion on the horizon for the Swiss eFX market, states Hill. He explains: "We see a lot of potential for future growth in the Swiss FX market. Technology-based platforms, both single bank and multi bank, have gone through first generation development but there is huge scope for growth, with Switzerland remaining an extremely technologically advanced and sophisticated market."

Regarding the growth potential of eFX in Switzerland, Broyon comments: "The sky is the limit, as Switzerland is one of the most attractive places in the world for hedge funds and private investors. Currently, as a Swiss FX marketplace, we are far away from growth limitations."

Pla agrees that the future of eFX in Switzerland involves a lot of room for growth. "Given the financial centres within Switzerland and their local specialities and frameworks, we believe that the Swiss FX market still has potential to grow. From our experience we also see that Switzerland remains an attractive location for fund management companies and financial intermediaries. Given the recent market volatility and the fact that more and more clients are starting to trade FX as an asset class, we believe that FX, and as a result FX e-commerce, will remain an important growth area."

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