360T:
More Than Just a Corporate Platform

Matt O'Hara, CEO for the Americas at 360T, talks to Galen Stops about the future of multibank trading platforms, building a business in developing markets and why 360T is more than just a platform for corporates.

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Galen Stops: When you joined 360T as CEO for the Americas earlier this year, was there anything about the business that surprised you?

Matt O'Hara: I think that before I joined 360T I had the naïve view that it is just a corporate platform, but it's far more than that. Corporates are just where the initial success came from.

On the buy side, as well as the corporate, we're making big strides forward in the real money space. On the sell side we support a large number of banks that are trading with other banks or hedge funds operating as market makers.

The largest banks in FX have typically invested tens, or in some cases even hundreds of millions, into the single bank portals, which are often their preferred distribution mechanism.

But on the next level down there are banks who chose not to invest heavily in providing their own single bank portal solutions, instead favouring investing in their internal rate engines and using a third party, such as 360T, as a distribution mechanism. They do this in order to reach the wide array of corporates and banks that we support in many different countries around the world.

Then we also have a white label business where we function as a technology provider, partnering with other firms to deliver a platform that they can then brand as their own and offer to their clients.

GS: Do you support any of the non-bank market makers that have been pushing into FX recently?

MO: We work with some non-bank liquidity providers who are on the platform providing additional liquidity to the market takers. We don't restrict who can trade with who, that's more managed by virtue of the fact that the platform operates on a bilateral dealer intermediated, relationship based, disclosed liquidity model and for that reason, counterparties on the platform need bilateral credit with each other. Of course, they can trade via a prime broker so that model is in place too.

GS: But do corporates actually want to trade with these types of firms?

MO: If you think about a multinational corporation, typically it maintains a basket of between five and 20 banks and will share business between those banks. This is because they have to demonstrate to regulators, auditors and compliance officers that they're sharing their business for fiduciary, pricing, compliance and cost reasons.

They also share their business because the banks extend credit and they have a wider relationship with them around loans, cash management and other services that banks can offer, which non-bank liquidity providers don't. So for that reason the large multinational corporations will generally work with the banks from a liquidity provision standpoint, because they want to support them and they recognise that they depend on the banks for reasons other than FX trading.

GS: Last look on trading platforms is a subject that's been generating a lot of debate over the past year, what's your view on the subject?

MO: We are not of the opinion that in a relationship-based dealing model the portal provider should set artificial last look limits. Our philosophy as a market neutral trading platform is to provide transparency to the price taker. With this information, they can take informed decisions about the liquidity providers they want to work with based on criteria such as average last look times, where the majority of trade executions are confirmed in a few milliseconds.

Market-takers on 360T have access to reporting tools that not only measure last look latency, which is important, but also the variation of latency on a granular trade-by-trade basis. It is not so important how long each market-maker takes to perform last look, although clearly less is better, but how consistent they are. Do they take longer on rejects for different currency pairs, at a certain time of day or during market events? We don't just provide complete data, but also the analytics to help our clients understand it in order to make informed decisions. As such, over recent months, 360T has invested in our data collection, mining and analytical capabilities.

In summary, when it comes to last look we have the right rules, checks and balances in place to ensure that last look is being used in the right way as a tool to facilitate a balanced trading paradigm and for no other reasons.

GS: Certain firms have been vocal in trying to start a price war in this space. Are the economics of operating an FX trading platform about to change?

MO: It's interesting what some of those providers are doing. Is that a sustainable model or is it a short-term strategy to acquire market share to monetise in the future?

There's a cost for doing business, there's a cost for credit, there's a cost for risk and on the credit facilitation side we saw something similar happen where it was a race to the bottom in terms of fees, but it wasn't economically sustainable and now they've had to recalibrate.

We've been very consistent with our economic model, it's a very pure and clean model, we don't look to impose substantial additional costs like fixed per-user subscription fees to be able to access liquidity through a desktop. Everyone understands what that business model is and they can price that into the way that they price their clients.

GS: Of course, the other big talking point at the moment is platform consolidation. You recently announced a deal with Deutsche Boerse, how will this impact your business?"

First of all, we are very excited to become part of the Deutsche Boerse group, especially as both organisations are very complementary and present significant synergies. 360T will be the flagship of the Deutsche Boerse global FX strategy, which is an impressive testimony to 360T's quality and potential. We will continue to follow our proven client centric and provider neutral approach to further ensure accessibility to all aspects of our pre-trade, trade and post-trade workflow capabilities. We also plan to offer a broad range of execution paradigms to all global client segments while ensuring the highest standards for compliance and regulation. In addition, we are uniquely positioned to support the evolving market landscape and new FX industry logic of trading with vertical integration to an exchange. We believe these combined capabilities will deliver tremendous value in terms of supporting all trading paradigms coupled with traditional OTC settlement methods in addition to clearing, culminating in the potential to revolutionise the global FX market place.

GS: More broadly, do you expect to see more consolidation of FX platforms in the future?

MO: I think that inevitably there will be. I actually think that some of the business models that are out there will just fall away. I don't believe that some of the more recent market participants will survive, because it's tough to build liquidity and critical mass when there are so many other options out there.

I think that the key to being successful is to be diversified. One of the reasons why FX is such an interesting asset class is because you have so many different market participants and they all have slightly different needs and requirements. The way that an asset manager or a corporate trades and what they need compared to what a spot desk in a bank needs, is quite different.

We've got manual users that are using our spot, forward, swaps, NDF, options and money market multibank platform; users accessing our pricing within their own aggregator or via our API; and our white label business. In contrast, you've got some platforms that are quite niche and they're going after markets where there have been incumbents in the space for a very long time with quite sticky platforms.

You might also see some consolidation in developing markets. Where you have local – especially non-convertible – currencies, you'll have a local interbank platform and so potentially we might in the future see partnerships or consolidation in that space.

GS: How active is 360T within developing markets?

MO: 360T has an established presence in a number of developing markets such as Turkey, South Africa, the Middle East, developing Asia and Latin America. This is one of the areas where we've been very successful in providing a platform to local banks to aggregate offshore liquidity in international currencies where they're not a specialist.

So instead of using single bank portals, they're using 360T to trade international currencies with a basket of banks that might be located in Canada, the US or Europe that specialise in certain currencies. But they'll also use our platform locally to be able to distribute pricing out to their local clients. We have a white label version of the platform so that they can white label the platform out to their local clients branded as their own.

This obviously means that they can provide pricing to local clients that want to trade on a multibank basis, but as an example, if a client in Brazil wants a price in a currency that the local bank isn't specialised in, then the platform automatically goes out to one of the banks that they have a relationship with and asks for a price, which is then returned to the local Brazilian bank who can lock in some spread and pass it on to the local corporate who initiated that price request, so that there's onshore settlement. This enables the Brazilian bank to be not just a provider of local currency liquidity, but also a full service provider in all currencies, which is something that they haven't been able to do historically.

GS: But in this model, it is the international bank that warehouses the risk, correct?

MO: The local bank can choose. If the local corporate wanted pricing in the Brazilian real, they can price it themselves and manage the risk, because they will likely have a lot of local, organic flow and they'll be running a Brazilian book.

But in a non-Brazilian currency they'll just offset it immediately with another international bank, so that this second bank gets the position and runs that as part of their book while the local Brazilian bank should lock in some spread. This enables the local Brazilian bank to manage risk in a way that best suits their model.

GS: Has regulatory uncertainty around cross-border rules and NDF trading made it harder to push into developing FX markets?

MO: What's interesting in Latin America is that a local bank there can trade in the offshore NDF market, which isn't necessarily the case in certain Asian countries, for example.

For this reason, some of the large Latin American banks that specialise in those currencies and the offshore NDF market are looking to become global providers of NDF liquidity, because they're not subject to US regulations.

Obviously if they're providing this liquidity to a US entity or person, then they would become subject to the US rules, but these banks are increasingly looking to become a tier one provider of NDF liquidity to firms in Canada, Europe or Asia. That's an interesting dynamic and one of the unintended consequences of the US regulations.

GS: Do you see this market moving onto exchange as a result of regulations requiring NDFs to clear, if they're ever implemented? Or will it become a kind of hybrid model where it remains OTC, but clear?

MO: I think that it will be the latter, a hybrid OTC cleared model. And I think you'll see a shift of liquidity from some of the single bank platforms towards multibank channels if NDFs are mandated for clearing and have to be traded on SEFs. It's a potential growth opportunity for us, but unfortunately there's no clear indication of when clearing is going to be mandated.

GS: In terms of client demand, are you seeing changes with regards to what corporates want from a platform and how they trade FX?

MO: The corporates are getting much more astute when it comes to how they trade in the market place, optimising the efficiency of their global treasury operations to save cost and mitigate risk. Onshore markets in developing economies are an example of this: they're often trading in a fairly antiquated way, because they didn't realise there's another option.

These firms are very keen around TCA because, at the end of the day, the corporate treasurers are accountable to the CFOs and the board and so they obviously want to make sure that they're getting best execution while mitigating operational risk and optimising the way that they're managing their FX currency exposures.

GS: Do single bank platforms still have a future in the modern FX market place?

MO: In my mind, the future of single bank portals with focus other than catering to local and regional clients is somewhat questionable. On the single bank portal side it used to be a race to innovate and differentiate your platform by creating the most functionally rich trading experience beyond spot, forwards and swaps. The banks therefore focused on introducing OTC derivatives, NDFs and options, surrounding the trading experience with other components of the trading lifecycle such as news, research and data.

But I think that there's going to be a slowdown in innovation around these platforms and in fact, I think that you're already seeing that. The single bank portal model won't go away, but it will be reduced in size in favour of the multibank model due to the changing regulatory landscape.

In developing markets I think that it will be different, there will be a time lag in the technological development of these markets. Some of them are just starting to trade electronically, then they'll get onto single bank platforms and then finally clients will decide that they don't want to support six different single bank portals when they can just connect to one multibank platform.