

Interview with a senior manager #12

SPEAKER1 00:04 OK. OK, so. Right. So, I think it's on so first off, just background, so could you describe your sort of work history, the types of organizations you work for? You know what your general experiences in the and the investment industry.

SPEAKER2 00:33 Yeah. So, I have experience working for market data vendors, stock exchange and brokerage firms within the brokerage firms. Mainly, they have been tortured pretty much everything so except for the one we worked together where equities were not really something that they did touch and the other firms I worked for, they did touch equities, they did touch bonds.

SPEAKER1 01:17 And what type of firm are you working for now? What kind of markets is active on?

SPEAKER2 01:24 Basically, it is active on all commodities and energy markets, affects fixed income and equities.

SPEAKER1 01:36 And what is your role in the firm?

SPEAKER2 01:40 So, I'm head of financial crime and MLRO and I also lead the team that does the onboarding of clients and does the firm

SPEAKER1 01:54 or its clients, does it use systems that deploy any algorithms?

SPEAKER2 02:02 A, yes. So basically, we will be providing direct market access is in various ISVs so there are the usual suspects of Fidessa, TT, CQG. And that is on what it is, they have market access and the returns of all the routine systems that we believe we use from work.

SPEAKER1 02:39 What kind of I mean, to your knowledge, what kind of algorithmic functionality would be in those systems? I mean, what types of sorts of, I suppose, order types?

SPEAKER2 02:52 Yeah. So, yes, you have iceberg stuff plus. And I know that some of them run their own programs so that there are some clients that actually. Do have their own security or their own ISP, and within them, they do have their own programs, which basically would trigger order based on certain algorithms that they might have generated internally. It normally would not be high frequency trading algorithms, but it would be aphorisms that might be following certain trends in the market or that might be following the news. And in reaction to those trigger orders for certain types of products.

SPEAKER1 03:52 And what would we what would you what types of clients typically use? The first day, the service services and secondly, those types of systems in particular

SPEAKER2 04:07 in terms of out of place, will have a very wide variety of clients. We have commodities hedgers, which normally tend to be firms that produce or consume certain types of commodities based, grain based, metal-based energy. So, we have, for example, a certain amount of shipping companies that are basically

good, depending on what they are shipping. They will be hedging on the commodities, and they might be also hedging on the energy side. And as well, we have high net worth individuals as some of them have a profile in trading. So that means that they tend to be ex traders that have either set up investment, especially special investment vehicles, or in some cases as individuals, and they will be trading in. And those ones are the ones that are the most likely to use this type of our own developed strategies that triggered all this.

- SPEAKER1 05:37 In terms of, you know, when you when you're talking about people who develop their own strategies, algorithms, yeah. Do you have any involvement in the sort of oversight process of that during sort of maybe onboarding of the customers? Is that something that you probe? Look at, you know, check out?
- SPEAKER2 05:59 No, no. Unfortunately, it's something that is not in my current company is something that the compliance is not looking at the tell. We they do a monitoring system, see what those systems are triggered, in some cases, it generates an Amber Alert and then they will inquire about the alerts. And there is one day that will realize that those tools are being used. And if, let's say this, that there is a pattern of repeated alerts, then they will investigate further and ask questions as to when and how the systems work and whether they trigger. And the transactions and the reasoning behind.
- SPEAKER1 07:02 But sending out something like the FIA as an example sort of questionnaire, which contains all of the, you know, asks about the various strategies and things that you're not doing in your current so
- SPEAKER2 07:15 that there is a questionnaire. But the question is, is more based on basic questions about how what systems of control was to have in place and these more basic questions. They don't go into the detail of the algorithm because they don't even ask the question to the clients about do you have algorithms, or have you developed appropriate?
- SPEAKER1 07:44 And. Why do you think that it is that is that something which is that a conscious decision or is it is it what is the root of the....
- SPEAKER2 07:58 I believe that this lack of understanding of the regulations and what is required from the regulations, um, from what I understood, because I arrived there in January 2020. Well, if it was to be implemented, I think one month before going, I live basically they hired a consultancy firm and asked the consultancy firm to just do the minimum requirements that were needed for me fit in terms of policies and looking at different things. I think this point was that the consultancy firm touched at the time. Now, as time evolves, although it has been a significant amount of time and there are issues that are coming up, and then in some cases those issues might be triggered by regulators, not the FCA, but foreign regulators, European ones that might be coming up with questions. And that on a reactive basis, basically would trigger senior management to hire a consultant to look at different aspects. Depending on the questions that are received, the

consultant will highlight certain failings and then there will be a project that will be put in place to try to solve those failings. But one of the downsides that we have is that the technology and its old legacy systems that would need updating for the time being are not a priority. And when I say need updating, I'm talking about legacy systems that haven't been supported from for the past six, seven years. So, if there is a bug, there is no one within the company can fix it. Exactly. So, or if data gets lost,

SPEAKER2 10:31 no

SPEAKER2 10:31 one can fix that neither. So, it is tricky on one side, it is tricky for the I.T. people, which in some cases they have to work towards to do reporting and they have to rely heavily rely on. Partly on the legacy systems, partly on a spreadsheet and something that's very manual and that makes things very difficult.

SPEAKER1 11:05 Why do you think there's been a lag in maybe upgrading and bring us into line with the requirements?

SPEAKER2 11:18 I think that there are there are several elements that so there is one element, which is a tricky one, which is the fact that the entities like this one where I'm working now are highly dependent on decisions coming from outside the UK and from a regulatory environment that are completely different from the UK. One in this particular case, it is the US. So, any decisions that relate to get a new I.D. or to get new suppliers are made at group level. And they are made by people who are not necessarily in financial services because we are part of a very large physical commodities firm, he would say and

SPEAKER2 12:28 basically

SPEAKER2 12:31 will say we are close to 50 thousand employees, but financial services represent barely 4000 employees. So, and the decisions yet, because it is such a big organization, they do have a very robust, I would say, due diligence processes to get approval to get new I.T. systems or to get new suppliers. But those are due diligence processes are mainly based on the knowledge that the commodities, the physical commodities people have, which is completely different, this fact from financial services. So, if we were talking, for example, about engines for form for a flour mill, they are very knowledgeable about these kind of things

SPEAKER2 13:37 or

SPEAKER2 13:38 I don't know, entities for rates of all things and machines for their silos with a grain silo or chemical analyser, these kinds of things. I'm pretty sure they're very strong and they're under and they're a leading company in the world on that on those fields. But I don't think that we grasp what is needed. And senior management in the U.K. are highly dependent on the decisions that are made in the US, and I do not believe I have the strength. To try to challenge. Those decisions, so.

SPEAKER1	14:38	In terms of that sort of level of sophistication of any algorithmic deployment in New York, to your knowledge, just a firm or any of its clients do they deploy any machine learning or eye type algorithms, or are they more rules based?
SPEAKER2	15:05	If by any means that, for example, I know that there is one individual client, which is an ultra-high net worth individual that has developed something that to some extent could be considered a high, because what it tracks is the news. So, it doesn't track so much the price it tracks that run news about entities, about countries. And then based on that, it would trigger the buy of certain types of bonds or certain types of equities as well, which. Um, I'm not an expert, but I think that one thing is to have some rules that are based on price and pricing trends, and I think it's more based purely on news. It has to have some sort of degree of intelligence to do to be able to trigger those buys and those cells. And funnily enough. That particular individual does trigger in a lot of, uh, of a stall because on many occasions it is too close to call and to the date or to the time where they are releases that I do have an impact on the price and the pricing of the products that they are. It started.
SPEAKER2	17:08	So, he has
SPEAKER2	17:12	been profusely questioned about that,
SPEAKER2	17:16	and
SPEAKER2	17:17	I'm happy to report it as well. Um, but so far and no one has really taken action by this. I mean that even the FCA is fully aware of it, and they have asked questions about it. We have given this we have shown what we have received from the client, but they haven't said, yeah, this is definitely something that might be really insider trading because it is very close to the insider trading. Now, I can that person have insider knowledge in so different scenarios and so different than equities and bonds. I don't know. So, it would be very difficult to demonstrate. But he does by most of very close to the curve of any news that does have an impact on the prices for the products that he's buying.
SPEAKER1	18:52	So, do you play any role at all in the design and deployment calibration process of the firm's own systems at all for the algorithmic functionality?
SPEAKER2	19:12	Not now, so there is a tool that went live... I will say six, seven months ago and it is a tool. What is the name of is a third-party provider? Do you remember the tool that the U.S. wanted to impose on London and you reject it from monitoring transactions?
SPEAKER1	19:47	Um, I cannot remember that, actually. Yeah, I lost a long time ago,
SPEAKER2	19:54	and it was.
SPEAKER1	19:57	You mean like Eventus or something? Yeah. Yeah.

SPEAKER2 20:05 So that is a product that is commonly used for monetary transactions and there is an in-house tool that cannot be calibrated because this is an integral part of all of the legacy system, which I mentioned before. Has it been maintained for seven years? It is a brand-new tool. You have got to live in the company for six, seven months. They're still working on the calibration. It does trigger a lot of alerts that they are working at reducing the noise. And we got a new compliance manager with that has a background in in in transaction monitoring

SPEAKER2 21:02 and

SPEAKER2 21:03 is working very closely with a supplier to try to really calibrate that, to integrate feeds, not only the traditional exchanges, but also integrating effects that feeds to be able to monitor that part. And as I said, I don't play a role in the calibration, but I'm part of the of the storm committee. And also, when there is a potential suspicion that it might be related to the financial crunch, some of those cases are as committed to me for investigation if they are more related to market abuse than I would be informed at the subcommittee that is held on a monthly basis. And then questions will be asked and then decisions will be made as we go along, basically.

SPEAKER1 22:16 So, what is what is your understanding of the term conduct risk and does the firm have a sort of internal framework to manage that?

SPEAKER1 22:34 Um, they do have a conduct risk framework management for our own traders?

SPEAKER2 22:37 But not for what? Our clients are doing you see what I mean in terms of what the clients are doing. Yes, there is monitoring tools for the transactions and the traders, I don't know, because I wasn't one where we worked together. I was not so much party as to how much the traders at our previous company were reporting things. But the traders where I'm working now, if they see something strange. They escalate and report pretty much immediately, so I wonder, and they and I can say that, that there are reports that come through. I would say around two or three a week at least. And they don't and this is mainly based on calls, so calls or messaging, so that when they are asked to execute certain transactions, but not so much what it is DMA or the know that they don't see the monitor.

SPEAKER1 24:35 What would you say are the main conduct risks that face your company?

SPEAKER2 24:45 Basically, I think there are many there are many that, as I say, then there are for what it is, our traders and there are policies in place and training that there is a lot of training that this company provides and a lot of it is online. But and they are coming out with it, and everybody is covered with it. Um. But the main risk that I see is more related with the DEA, OK, we have monetary tools. And I said part of the monitoring tools do not work correctly to trigger alerts too late. The new one does work much better. But the main thing I see is that there are certain patterns or certain clients which normally tend to be clients of clients. So that

means that most of the cases you will have a firm that can be was spread betting company is worth the time. Most of the cases incorporated in Gibraltar or other places like that and behind those companies, those are a number of clients. And some of those clients seem to be very prolific at triggering a STOR, what they are doing and seem to be to move around. We had a case of one and it was the same client in two different companies into different companies that were client of ours. And when he was stopped by one of them, one of the companies basically was yesterday on the other one generating the same type of stores, and then and then it was stopped one. And then I believe it was somewhere else. But the thing is, is that there is a chain where on one side, you have, as I said, a company that might be incorporated in Gibraltar, but it's still regulated by the FCA to some extent they might still report the stores. We would be to report in the STORs. Our settlement agents might be reporting in the STORs. We would at some point get the actual name off of the end client so we can identify it. And. It seems that even though all that information gets to the regulator that the regulator doesn't want to take a definite decision as to what to do or prosecute or do anything that creates a certain people, some of them, as I say, might be extruders. Some of them might be less genuine and there is no way to stop them.

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| SPEAKER1 | 29:09 | What type of what type of actual potential suspected issues are they? I mean, is it sort of layering and spoofing, you know, insider trading frontrunning? What kind of activities are they? |
| SPEAKER2 | 29:28 | The days front running? And in some cases, the suspicion is insider trading. But in most of the insider trading, is that is the one that. That comes to mind, but that is front running and then also there are some patterns, and this is more on the on the commodity side. You have certain firms and normally tend to be Asian firms. They do have very stretched patterns of trading. We were we were alerted by our, um, one of our traders at the LME desk, um, there was a firm that basically was buying a contract that was very illiquid, the market. And he was back with another contract, and he was lost by... There was no logic on that front. So, this is not so much it might not be related so much to do to market abuse that might be more related to the money laundering. And so why would you buy this contract? Not like that. Losing your money. Where is this place? And behind it, you know, and normally what happens in the majority of these cases is that the excuse that the friends are going to use is they say, well, you don't you are not seeing my possessions somewhere else in another brokerage house. And that it is always tricky |
| SPEAKER2 | 31:39 | because, like I |
| SPEAKER2 | 31:40 | said, yeah, I have found some positions somewhere else and that upsets the laws or whatever you say. Well. Oh, and by the way, as you know, they got the communication between compliance manager, so MLROs. Even if you try, it is very limited, so there is no such disclosure. Even though the recommendations |

are to exchange information with that information has to go with names behind it. Otherwise, you know, you're not. You don't get results.

- SPEAKER1 32:30 How much of these I mean, in your view? I mean, maybe also since you've worked in the markets. Yeah. How many? I mean, house conduct risk really changed as we've moved. From more sort of human trader led markets, you know, in the old days, most markets were open outcry.
- SPEAKER2 32:57 Yeah.
- SPEAKER1 32:58 Now obviously you've only got the LME left and that's sort of nearing its end. Yeah. How much and now we know you've got some markets which have got more algorithmic development and more deployment than others. How much, if at all, do you think that conduct risk has evolved and changed? I mean, are you seeing I mean, you mentioned DEA, but is that sort of point and click trading still with a human being, actually? Directing the orders or are you seeing any evidence that things are changing because people are using algorithms which are maybe frontrunning other people's customer orders or whatever it is they do? I mean, how much do you think has changed?
- SPEAKER2 33:43 And I think it's a combination of both. So, you have I mean, as you know, the technology has evolved a lot, and you will have people that are playing. And because the technology is so cool, the Internet is so good, they can play on a click basis using different brokers at the same time. So, they might be having positions in different places and they're playing the market. And it's very difficult to identify. The only people that can identify this type of movement are the changes. But the centre, for whatever reason, the majority of the cases, there's no triggering enough of that. So, this and the FCA, when they see the reports of the transactions and what is going on. But. They don't seem to react to that neither. Maybe because they don't have the resources. Maybe because I don't know. So, the way I see it is that if someone wants to do something nasty in the market. He can do it. He can do it very easily, made it beat, use it using algorithms and technology. And I mean, as we are aware, there have been some cases where you have guys out of our bedroom that have caused havoc to the markets. You know, and it is very difficult to stop it. I and that there is now also what will happen is that is that...When we are talking about a here in London, I don't know if it is the same somewhere in continental Europe, but I'm talking about brokerage firms. The bigger gets smaller. There is not that that I think I think that the money rules. And senior management. Some guests are happy to do to incur the risk of getting fined and just to have enough margins or bigger margins for their pockets. So, I'm determined it is not only in terms of the clients that are in, but also even what they would allow their teams to do in terms of their trading, in terms of charging their clients, in terms of...so.
- SPEAKER1 37:03 I mean, one of the one of the things which you often

SPEAKER1 37:07 read is what about

SPEAKER1 37:09 conduct risk in brokering brokerage firms or you hear about is, you know, some of the sort of you see these stories in newspapers take the enemy as an example of brokers or traders who have been very drunk, or they have been hosting parties, you know, Playboy Club or something or. Yeah, all these, you know, sometimes you hear, or you read about excessive markup and stuff like this. Yes. You in your view, I mean, are you seeing a change in the demographic of the brokerage sector because of technology? So, you know, all firms reducing the level of staff, maybe in some trading areas because of technology, or is that not really reached this sector yet, like as maybe with equities and other places?

SPEAKER2 38:09 I think in the company and working, it hasn't, and it hasn't because, as I say, that they haven't adopted, or they don't have the right to do so. And fairly basic things where in other brokerage firms will be just push a button and that's it here. It would involve three or four people running like headless chicken to try to get the information out. So, and at the same time, when you walk the floor. You say that they don't have anything to do, so the traders do not have anything to do because the number of orders that they get over the phone or over the head is ridiculous. Most of it is direct electronic access.

SPEAKER1 39:06 So why do you think firms I mean, is it possible that...

SPEAKER2 39:12 They're reluctant to change. And they have their own ways of doing things. They're aware that there have been regulatory changes, but at the same time. And as long as they have the backing of the senior management, they will continue trying to do things the old way. And in my company, one positive aspect is that there is a very strict regime with regard, for example, to drinking and these kinds of things. So, I would say that you don't see people going on the pub because they're willing to go to the pub, so simple. So, um, and in general terms that have anything that is troubling. Neither. Um, which is that is the positive aspect, the negative aspect, and this is that we have a case where we had to, uh, have that very serious conversation with one of the traders because we were in the midst of our investigation and there were a lot of things that basically pointed out tax evasion, money laundering, big time. So, it was not so much market. And the trader just the tip of, you know, and even though they have been going through training every single year because in this company, the training is every single year, they have to go through training, do the exams and all the stuff. Still, when she was sat down on the disciplinary. She didn't understand why. Well. You know, they haven't done it on purpose. Do you have any take on that structure? Because the last 20 years have been closed for 20 years at the company, you know. So, do

SPEAKER1 42:07 do in your view, I mean, do algorithms provide an opportunity to eliminate this type of thing, because you're taking the emotion out? Maybe, yeah, that all that stuff that's associated with trading and it seems like, you know, firms in some

areas have been very good to me just from my point of view. It seems that firms are quite often talking about automation or use of algorithms, but more in the back-office sense because they want to reduce back-office overhead. But sometimes to me, it seems like they're not really so keen on doing it on front office overhead.

SPEAKER2 42:47 Yeah, yeah, I agree.

SPEAKER1 42:50 And why is that why do you think because they're very expensive. I mean, trading staff are expensive. So why the preference to keep the front office staff and they pay more normally than those in the back office?

SPEAKER2 43:04 And I think that there are several reasons. So will the view, which is not necessarily correct, depending on the firms, is that the traders are the ones who are bringing the bread to the table for the whole company and therefore it's worth keeping them. The reality is that there might be some of them that do bring to the table others just like they did, just want to touch that very rich pension. Until they finally retire. So, they do not bring new clients, they do get paid commissions on whatever number of supplies are allocated to them. So, some of them might be getting 40 or 50 grand a quarter for doing nothing. And they are very happy coming to the office and sitting down and read the newspaper, you know, their online shopping or whatever.

SPEAKER1 44:30 Yeah, it's a curiosity to me how because often people perceive I mean, there's a I think on the streets, if you because of maybe popularized works like Flash Boys or something, I think there's a popular notion that anything involving algorithms, be it. Very highly sophisticated ones which are involved with high frequency trading or artificial intelligence to more basic things that you might see on the trading platform, it and it's just an assumption. It's not that you know, anything, which I mean, this is the part of this process I'm trying to find out is the lead and I have is it's almost like people feel automatically that algorithms and movement algorithms is a bad thing to take over some of these things.

SPEAKER2 45:26 Yeah, it is true that but based on the on what would be the initial understanding of what algorithms were when the algorithmic trading started, they got a bad reputation. So now, even when you talk about algorithms that the first reaction to

SPEAKER2 45:52 anyone who

SPEAKER2 45:52 said, no, we don't we don't do algorithms, and then you realize that when you explain to them what the definition of an algorithm and the systems is they are using and the tools that they use between those systems, and they realize that there is some sort of algorithm that... But the problem that you have is that a lot of the traders do not have a formal education. So, their understanding of all of these kind of topics is completely void.

SPEAKER1 46:30 Can you see demographics are obviously changing a lot. I mean, is there are you seeing. People coming into the fun now, is it different? I mean, obviously, a lot of firms have got things like graduate training programs or are you seeing a difference in terms of the generations?

SPEAKER2 46:49 Yes, there is a difference in the generations in our company. There's two types of new guys come in for the ones that come into the desk search on one side. You have the guys that come from the physical commodities trading. So, guys, some within that, there are people that come from within the group that that might have been buying and selling grain for the group and they move into the trading area, that they have to go through the exam process, all the stuff, but. Their main aim was to say that there may or may not want this in terms of bringing them to our side, is their contact with the physical grain companies around the world. And then you have other type of profile that are young guys that would have little tools. Normally it might be cell-based, or they might have their own access system where they make up relations, improve the data and they will base the trading decisions and promise to the market of the data that they have. But those words. Most of the cases, they don't allow them to trade. They just have the tools as a tool to provide information, advice to talk to the actual traders. So, and understand to be educated. The large majority of the guys in my company, as I say. There are over 55. So, it is a very, very old team of traders...

SPEAKER1 49:11 And how does that compare to maybe the demographics in other? Brokerages that you've worked for, similar or other big differences.

SPEAKER2 49:25 Uh. I think there are big differences with regard, for example. I mean, I have worked for four as a consultant for one year for a big firm, was a subsidiary of a French bank. And there were around 400 traders, but the vast majority were very, very young. I'm very loud and very aggressive.

SPEAKER1 50:04 Yeah, and what markets, what markets were they predominantly active on?

SPEAKER2 50:09 They were doing prime brokerage. They were doing all commodities. There will be FX, I believe they were Category one LME. No, they were they were very, very active. They were doing equities as well as energy. So, I say you have we think those ones you had kind of the heads up that were more or less senior, let's say close to 50, but then the people and the traders were not except for the LME desk. And then the majority were more senior at the other desks, the prime brokerage and all those were young, all young when they were old, most of them that were coming from banks, from banking backgrounds. And they were they were young, educated and very angry that the CEO at that firm as an introduction to all the newcomers him what he was doing, a weekly introductory welcome to all the newcomers. And basically, well, he would say is that if you walk down through that trading floor with a Rolex, when you go to the other side, you don't have it is gone. So, and he would boast about the fact that his traders were a bunch of thugs. He was very proud about that. And so, then I

worked as well where you have worked with what you had a mix. There were newcomers as well, but some of the newcomers that were coming on, the younger generations for some for some markets were just sons of...So basically passing down the generations. And. Here I am, yes, there are some new comments, butand they are really, really, really a minority and they don't last. So, they stay one year, one year and have two years max and they've got the whole state

SPEAKER1 53:00 with your car company and previous company. You've worked, as you mentioned, are. It is trading in a number of different sort of subsectors, if you like, yeah, comparing in particular LME, the bond markets and eFx markets.

SPEAKER2 53:21 Yeah.

SPEAKER1 53:22 Are you aware of any major differences in the nature level? Of algorithmic deployments between those markets and if so, what do you think are the reasons behind that?

SPEAKER2 53:39 I think it's down to the nature of the market, so on the one on the FX side. It's mostly algorithmic, so there's very little or no human intervention there, so they apply to the platforms, and everything goes on platform, and they said, you know, it's just on the on the bonds market. We have a mix. So, there's one part that is based on order routing

SPEAKER2 54:23 [inaudible]

SPEAKER2 54:25 and, um, one part. And this is based on also the population that we have that we have some very old clients that I still like to pick up the phone and buy. And so, there is a mix of both, but I suppose that as the older generations pass away, it's just that it's electronic what is happening in the case of the LME and. We don't have guys on the floor. We have three guys. And I think. Ninety eight percent is all electronic total so they don't see it passing.

SPEAKER1 55:28 Decide it's electronic, I mean, is it? His electronic more in the sense of sort of the end point and click,

SPEAKER2 55:36 yeah, is the ability

SPEAKER1 55:40 to but not necessarily all automation necessarily.

SPEAKER2 55:45 No, not necessarily. Not. I mean, when I say we know that we have at least some functionalities that that I consider algorithms. We know that some of these clients might load their own programs on top, on top, on the on the face. But we don't have visibility unless there is an issue with one of them.

SPEAKER1 56:20 In terms of, you know, this latest I don't know if you've been following the debate about the market structure, the LME.

SPEAKER2 56:30 And so, a little bit,

SPEAKER1 56:35 obviously, for Category one brokers, you've got the trading Ring. Potentially, as a result, you know, some of the changes that are coming out of that process that the ring may not survive because of it's becoming less attractive maybe to do business down there because it's not going to be the closing price setting mechanism anymore down there. And that obviously could have an impact on those brokerage firms which have ever been involved in the Ring. Yeah, and also but also, in addition to that, you've got other initiatives. So, for example, the move from the changes to the margining structure and discounting and things like that, which may lead to the market becoming more like a futures market than in the forward market. Yeah, that is something which, you know, I know a lot of Category one brokers has been very well publicized in the press, were very upset about it. I mean, it's effectively changing the nature of the market and to talk to a large extent, actually making it really more attractive to the sort of high frequency traders, the trading firms which want to be able to realize their profits very quickly and trade in and out, which is not possible in a forward market.

SPEAKER2 58:01 Yes, you have to bear in mind that the LME traditionally has been close club. As you know, initially it was just owned by the members that decided to make some bucks by selling it, wanted it sold the trading operator in this case that the Hong Kong entity, the only thing they want to do is to make money out of it. And they want to get access to their producers, because at the end of the day, that's where a lot of the producers of the metals there in Asia, they're not know that the prices were set in London, but for producers that were over there. So, for me, it is inevitable. They have managed to hold back quite a few years now. But there's no two ways around it, and if they're upset, well, they should have thought about that before they sold it, you know.

SPEAKER1 59:18 Do you think I mean, how big? I mean, again, I mean, I've seen some newspaper articles where, you know, you'll get a floor, try to say, oh, well, you know, no one wants their business to be run by algos. You know, if you closed the floor, then effectively you're putting the price discovery in the hands of algos and looking at that, I'm not entirely convinced how informed some of these statements are. Do you think. I mean, is I mean, how much would you say, the move towards more algorithmic forms of trading? Are behind this this change or is it, in your view, purely down to commercial interests from China wanting to maximize their profit on their purchase and all the rest of it get there.

SPEAKER2 01:00:13 Yeah, so you have the trading platform, the operators, the trading operators are highly profitable entities. And I think that within the financial services, I think that they are the only ones who are always making money.

SPEAKER1 01:00:33 The big example, I mean, what I mean when you say trading on prices, what type of company are you talking about?

SPEAKER2 01:00:38 They're talking about the stock exchanges and futures exchanges. They are always making money and they make money on the data, they make money on

peripheral services, and they make money from the trade transactions and the clearing when they when they are vertically integrated. So, their interest is as many transactions as possible. How those are done, they're agnostic. But now. Saying that a market I mean, you have other commodities market, is this true, LME, the metal exchange has its own particularities, but at the end of the day, who trades LME? Most of the cases that will be metal producers of metal users. So, there are firms that... Do you have a degree of sophistication because everybody has a degree of sophistication nowadays in terms of managing it? Yeah. And to put the others through. And I do not think that it would be just the algos running the thing. I mean, the way I see it is going to have a presence the same way they have a practice. It will be a futures market. Yes, but there would be price discovery, like you have a life, or you have a motive and all of those other markets. And it is not just the algos, because at the end of the day, the guys who are going to buy and sell and who are going to rely on all members, they are going to be just

- SPEAKER2 01:02:44 physical
- SPEAKER2 01:02:44 producers. So, the true that might be the punters as you know, we had some that might want to play a bit in the market, but that this has been happening even with this model that mean. You had certain firms in Asia that would allow retail to actually trade or have the illusion of trade in metals
- SPEAKER2 01:03:23 when they
- SPEAKER2 01:03:23 are trading back-to-back contracts that are not the actual LME contract.
- SPEAKER1 01:03:41 I mean, you mentioned before about the regulator and, you know, inertia to some of the things which firms have reported when they've seen abusive conduct.
- SPEAKER2 01:03:57 Yeah.
- SPEAKER1 01:03:59 Possibly involving the deployment of trading algorithms. Why do you think there is that inertia that you have any sort of understanding of that, or is that something you're not really exposed to and are not really aware of?
- SPEAKER2 01:04:17 The way I see them, and this is also based on a little bit on look at the regulators in other places is that they do not have on one side resources so that the manpower and the manpower that they have do not necessarily have the knowledge. Due to the certainty to actually make a move that affects it is only when it is something very blatant, that you see them move and normally it has to be because the complaint is inevitably big. But I say we have the case of this individual
- SPEAKER2 01:05:11 trading
- SPEAKER2 01:05:12 with one we've been for a year before reporting the STORs. And when I say we see this as our settlement bank and the company that that was put in the trades

on behalf of the client through us. After a year, basically, we had the FCA come in, we showed it. What are you going to do about it? I said, well, it's up to you to decide where you're going. What do you want to do about these guys? Yeah. And so, they visited also our settlement bank, and we had a meeting with I that that the bank and I was the same thing. Basically, it's up to them to up to the firm to decide what to do about it as opposed to the actually taking action on it. So, in this particular case, what happened is we had a meeting with the MLRO for a the settlement bank that account, you don't route them through us. And we went to do our client firm that that was put in the orders on behalf of the client. OK. Their client. They cannot trade with us, so we stop that flow, but about that client was also a client of another that spread betting company that was also a client of ours. So, we started seeing the flow. Pretty much as soon as it is stopped in one place, they stop the other and the same type of stories, the same thing. And when we ask the question, we identify the same individual. You know, and we reported it and continue to report it, but the NSA basically say it's up to you to make a decision as to what you want to do with that. And the only thing we can do on our side, apart from reporting it, is to stop it. As far as I'm concerned, it shouldn't be. It's just the market stopping it, because the market is a lot of brokerage firms, it can be hidden with two or three brokers in between because out of all the brokers and are there, they're pervasive. You stop them here; they continue doing it and doing it. They don't get penalized in any manner or form.

SPEAKER1 01:08:15 Um, I mean, in terms of...

SPEAKER2 01:08:19 that is also the difference that you have, for example, with US regulators, US regulators, as you know, it is more rules-based approach and they do have a lot of resources, human resources.

SPEAKER2 01:08:36 And I think

SPEAKER2 01:08:38 it is a humongous market, the US, as you know. But the amount of resources and when they act decisively. People feel like, you know, so it's a. I don't think people are scared or wary about their...

SPEAKER1 01:09:03 How do you think how do you think the regulator I mean, talk about resources and stuff? I mean, what would you like to see happen? I mean, what I mean, again, bearing in mind that the world of trading is changing and moving from a more traditional sort of voice, brokerage and stuff and floor trading and, you know, even moved to or is moving towards electronic and in many cases full automation. Yeah. Or algorithmic trading. What do you think needs to change at the regulator and also not just the regulator, but also the trading venues, because of course in many cases they are the gatekeeper?

SPEAKER2 01:09:44 Yes, because the trading venues, those are as I say, we have a lot of cases of these cases where it didn't require any electronic trading venues. So, it did trigger alert at the brokerage firm at bank level, but not that the trading venue level. So, you got to let me ask a question about it. We haven't seen anything, if

we had seen something, we would have told you. OK. OK. So, the thing is, is that at regulator level, basically the funding that they should have. Should be much, much, much bigger. So that that will enable them to do employ capable people. And also have the right technology and knowhow behind the technology to be able to monitor things, because on one side where we are, if you look at the society as a whole, we are we are in Big Brother society. But it's not so much a big brother society in the financial services area where all the bad things happen, you know. You walk on the street. You are traced with cameras. You can be traced with safeguards that you have traced everything. When it comes to the markets that tracing is very limited and there is no one to react to it neither. So, the resources given the fact that it is a market. That is so important in terms of the amount of money that is transacted and that in some cases is vital to the economy, which should be a proper oversight and the proper resources allocated for that oversight. There is a risk there because if that funding needs to come from the market participants or the brokerage firms, some will not run out of business, basically. And it would be just the big boys. And which is not ideal neither, but it needs to happen.

SPEAKER1 01:12:59 I mean, there's been a lot of talk about tech in the last few years. Can you see, given the resource limitations that the FBI and other regulators are working under?

SPEAKER2 01:13:12 Yeah.

SPEAKER1 01:13:14 And the ever increasing sophistication of well , maybe not everybody , the financial markets , but certainly a number of players and you have a can you foresee any form of sort of machine to machine type regulation where , you know , at the moment we're on a T plus one reactive in most cases monitoring this scenario , which you mentioned earlier with your own firm . Yeah. Do you think firms would ever entertain or tolerate a regulator that move towards more sort of real time monitoring where they may even be using deploying their own algorithmic tools to stop trading activities in their tracks, not just. Find them after the event. Can you ever see anything like that developing or is that too farfetched, you think?

SPEAKER2 01:14:04 I don't think it's too farfetched. It is possible. It is feasible. And as far as I'm concerned, it should happen. So, the problem is where those resources are. I mean, if you look at it as a measure I worked in compliance with, I have also worked in regulation and regulation and in the process of being created. So that was when I was head of European affairs. I have seen the bugs in action. So, the big players, the big players have. Endless resources. Financially. And they do use those resources to circumvent whatever is coming up to them. Yeah, so that means that they would employ and pay. They just economists, lawyers, whatever it is needed to be ahead of what is coming up to them in terms of regulations, apart from distorting the regulation itself. So, when you go to Brussels and you're a lobbyist and you mingle with them and see how they work and the work that

the big banks work, you could say on a cocktail basis because they feel that they will have their own teams. They employ several consultants who employ law firms, and they will all be lobbying. And when you have, you have let's say I proposed regulation from the European Commission. That might or might not make sense, because the people who are issuing that proposal might not have 100 percent the knowledge that is required, but then with that, the resources that they have to do lobbying and that they would make on render part of the of the regulation or the directive unworkable, and that will not make any sense . So then when it comes to the implementation phase. Well, this half hour, half of the legislation is just listened, it doesn't work. And it is because these guys have been at it making sure that the wording is changed in such a way that makes the whole thing not to work or if or if it works, it will work to their advantage. Yeah, so unless you could get the resources on the regulatory side and the money. To be able to control it from a technology point of view, there will always be running ahead and do whatever suits them best.

SPEAKER1 01:17:34 I think you think that's the case even though initiatives like RTS6, for example, which introduce a lot of systems of controls on paper to try and manage direct electronic access, but also algorithmic trading. Yeah, I mean, based on what you've seen, I mean, do you think that's a do you think that's been effective? I mean, it's been a few years now that's been effective. And if not, why not? I mean.

SPEAKER2 01:18:00 Well , as I say , it has a limited success because the big boys and the people who are technologically savvy would circumvent it and there was a competitor and they will get what they have nowadays with technologies that technology , because I had I have that initiative and then it was badly killed by my senior management . Anyway, is monitoring that, for example, monitoring the IP addresses from going from where the trades come. Yeah, because nowadays Internet is that technology is there. You have weapons. And you follow the rules. OK, who's the trader, where is the trendsetting? Certain information is provided to you and then you look at the IP addresses and then you see that the IP addresses go south of Spain, Finland. For the same trailer area, so I have seen it so and there is the issue, and basically, I was kind of stopped on my tracks. Bye. Bye this year. So, they say, OK, this guy. Which would give one access. This is trading out of Gibraltar at five in the morning by 7:00 in the morning, he's at the border with France. And two hours later, he's trading out of Finland. Well, an hour and a half later, he's in Thailand, they say, what the fuck is going on? Who's trading? You know, who's traded

SPEAKER1 01:20:16 the how can you I mean, with an IP address, things like what you've suggested...But how would you tackle things like IP Masking?

SPEAKER2 01:20:24 That that is one of the problems is that is that for firms like ours that we wouldn't be able to even figure out how to do to tackle that. But I'm sure that that there are ways and technology to try to tackle that. And that is where regulators or

delegates, regulators like historic changes, for example, should act on. The changes that have made it a big event, it.

- SPEAKER1 01:21:10 Do you think do you think you've got all this transaction reporting data going to the regulator as well? And of course, a part of that was, you know, one of the big changes referred to also was PII data, not just for individuals, but also for algorithms as well. Yeah. Do you think that firms in the brokerage sector really understand and if implemented, have they implemented that correctly, in your view?
- SPEAKER2 01:21:40 They haven't. They haven't. No, not at all.
- SPEAKER1 01:21:43 And so, what are they doing? What are they doing that is wrong and how they. I mean, just focusing on the algorithm, short code, because, of course, you have a platform and a platform comes with algorithms or you've got a client who puts on the API, they put their own platform. Yeah. How are the firms identifying and putting data so that they can spot that an algorithm is doing a trade?
- SPEAKER2 01:22:14 My firm is not doing it at all. I'm just telling you that that's important so that there is certain information that is put is put on the system for the transaction, reporting how the information is put. I have questioned it. I have been ignored. Especially when we are talking about the identity of the of the persons that are trading like that, you know that there are certain rules in terms of depending on the jurisdiction you have conquered or you have the national insurance number or whatever, there was a decision to make all contact regardless of jurisdiction and that is what has been reported. And no one has it like that.
- SPEAKER1 01:23:10 Yeah. I set up a hypothetical. I put an iceberg on. Iceberg is a form of algo. Yeah, it is so. In what based on what you've seen, how would that be reported in terms of personal identity? Typically, our firms reporting, are they are they printing to the transaction reports that, you know, the short code for that algorithm? So, it's the algorithm that executes the order, or are they printing to that short code of the broker's personal ID or something? And what do you think they should be doing?
- SPEAKER2 01:24:00 And my understanding is that both tags should be there. So, I haven't seen how the reports go out in terms of what it is exact content, I know that in terms of the information that my team populates for on the trading system for the clients. And it is all concat to identify the guys and we just put whatever they have is that it is the jurisdiction which might clash with how we codify that. But when I say that there is a lot of downsides on the reporting. So, for example, we have found the execution of the fund or the fund transaction. It is the fund manager. We don't identify the fund manager on those transactions. Identify just a fund. It's a good thing and it is not if it is not corrected, it is raised and. They might be using systems. Yes, how this how the information from, as you say, from security, these

ones flow into our systems in terms of tax and how it is reported that I don't have the visibility.

SPEAKER1 01:25:42 Do you think I mean, oftentimes in your experience, I mean, because obviously you talked about some of the surveillance systems are being used. And I think you mentioned that you're using Eventus now, I guess. It would seem to me that there's quite a lot of duplication

SPEAKER1 01:26:05 or maybe

SPEAKER1 01:26:07 in the transaction reports, there's a lot of information that transaction reports, which you might not have on a surveillance system that you buy. Yeah. I mean, all firms missing a trick and using that, you know, could they use transaction reports to make their own assessments of how risky conduct wise may be an actor, you know, be it algorithmic or human, I mean, are they are they really using that for that purpose or is it just let's just get out the door and we don't really have a look at that for our own internal purposes.

SPEAKER2 01:26:43 Yeah. Now that the girlfriend I'm working with are looking at it as well. So, on one side, as I said, that will monitor what is going on based on the food that are provided by but by the monitoring tool provider. They are not actually looking at what comes out on their flows of data. Well, as I say, it is very prehistoric and badly defined as to what needs to be reported, needs to be reported. And at the moment there is a remediation project to solve to identify financial non-financial, counterprotest and identify systematic and analysers. Um. They don't have the data, so. Basically, the remediation project is that we have to reach out to all the clients and start populating our spreadsheet with the data. And then that data will be picked up by the developers to do the reporting or redo the reporting going back to the 2014. The bank reported that the budget is back reported at the back of the rock and back reporting.

SPEAKER1 01:28:29 In terms of

SPEAKER2 01:28:32 and in our case, in the current climate, who determines what is reported and probably needs to be reported? It's not so much compliance.

SPEAKER1 01:28:49 In terms of surveillance systems, yeah, I mean, you mentioned before you of experiences with banks, I mean, do all banks developing their own systems or are they using vendor systems? I mean, because obviously there's a big difference in the level of resources is available to banks and brokers.

SPEAKER2 01:29:14 Yes, but banks both tend to have both looked into how they use their own systems based on their own data. And then they also use their practice systems. But then what they tend to do is they integrate. And I make the data with both systems. To get their own development better, they will have to have human resources and money to do it. When you are a brokerage firm and you see the license prices, they have to pay for all the data that's going to go through, which is not your own data. This is the data from outside, uh, from the outside world.

Basically, the majority of the time they try to cut corners as much as possible because it's just.

SPEAKER1 01:30:20 Um. In terms of sort of industry wide initiatives, I mean, how would you rate the attempts in the sort of brokerage sector to cooperate, if at all, on trying to address some of the issues in terms of conduct and know technological developments, algorithmic developments. In your experience, is there a lot of all that out there? Is there a lot of sorts of collaboration between different types of counterparty or firms to try and achieve best practice?

SPEAKER2 01:31:07 I know I would tend to think that that there is the minimum amount of cooperation which the minimum. Common denominator to be compliant. That simple, and then you have the big banks that even though they are big banks, they tend to be part of most of the financial industry, far from where the brokerage firms are sitting.

SPEAKER1 01:31:47 Because you've seen this these things like FIA working groups and, yes, IT Market Standards Board and all this type of stuff, and they've published papers about the response to some of the things which some of the work the FCC has done on trading and wholesale markets and stuff. I mean, do you think any do you think any of that stuff is effective to people really take notice of that stuff or. Is that more sort of you think pale and what is it?

SPEAKER2 01:32:18 I mean, it is as far as I'm concerned. I mean, I used to be very, very active on the European Federation of Stock Exchanges, and I used to be very active on ISDA as well. Is the FOA at the time when it was FOA. Basically, they were developing tools for the banks, so you while you were going to that, not so much that your definition precipitated because there were more exchanges in Europe that were actually called the shots as to what was important and how to lobby on different things now and in the case of FOA it was a lobbying tool there when there was MIFID I that did get somehow some sort of traction is kind of the reference point for implementation MIFID I. It was. And I think for a while for some of the brokerage firms. But there's so much they can do that is so limited by whatever the bank wants. It to be as profitable for the brokerage firms

SPEAKER2 01:33:53 or other members.

SPEAKER1 01:33:56 Do you think the brokers have much? I mean, do the brokers have much say? And what's always I mean, or is it

SPEAKER1 01:34:05 The dominant, the leading voices?

SPEAKER2 01:34:05 Well, it's always, always the banks and the one when there are things that are said and discussed and potential in some cases partially agreed. If one of the big banks do not agree with that, it will not happen that the big bank will go. It will have some senior guy from the public affairs teams from the banks will go talk privately to whomever is there is the president of the association. I will kill it. I have seen it and I have seen it , they will kill it if there is something that let's say

that that is a statement that has been written and there is certain parts of the statement they don't like , that might be it while they are with the whole people in the conference call or in the face to face meeting , because this method used to be face to face . And there would be some kind of saying, OK, this this seems to be the last draft that's going to be going out. And then they will go behind the scenes, go to whomever is the president or the chairman of the group within that association and say that you remove. If the guy doesn't remove that part. His career at the association is finished, it replaced very quickly, very quickly, and [REDACTED] is notorious for that. For example, sorry, I gave a....

SPEAKER1 01:36:01 I will redact that.

SPEAKER2 01:36:05 But very big banks that have a lot of employees influence on those associations and they do call the shots and when they have things they don't like, those things do not happen. Basically, they get rid of them.

SPEAKER1 01:36:23 I mean, ah, I mean some I mean, certainly in my career. It's sometimes been the case that brokers have come to me and said, oh, well, you know, these changes like they're putting in with MiFID could be around algorithmic trading, but it could be around other things as well. They're just trying to raise barriers to entry and push us out of the market. I mean, do you think there's any is there any real merit in that or is that sort of

SPEAKER2 01:36:53 there is merit in that.

SPEAKER1 01:36:57 But at the same time, I mean, a lot of banks have been offloading that commodity to questions, right? So, yeah, I mean,

SPEAKER2 01:37:08 they do offload and I mean, it might not be economical to them, but before that, they're offloading while they still have it. They will still try to do to do to make things to their advantage. And this is a trade association level with a lot of institutions when they lobby the institution is the same. I mean, when you look at the institutions and you look at the people and some of the people that that were at those institutions, and they were key players against institutions. Where do they end up? There is normally a five-year period within five years of them retiring, no stopping the position of the other institution they are suddenly they become consultants of one of the big banks. All of them. All of them with [REDACTED] from the European Commission, and beat MP, MEP, same thing, and they all end up working as a consultant for [REDACTED] or for over one of those. Sorry for that. So, always in the same thing that I have seen, I have witnessed in Brussels so that I'm a guy, I'm not going to tell his name neither. I mean, he is retired. I think he died right now. And he was the head of Government relations for [REDACTED] with an American guy, I have seen this guy threaten people, as European Commission said, your career is dead. You do it this way; your career is dead. You know how

on earth you dare say that like that in public, you know, not a problem. Not a problem.

SPEAKER1 01:39:25 So, I mean, so will I mean, given that the UK is leaving as left.

SPEAKER2 01:39:31 Yeah, it's even worse because you have a much smaller circle. And whomever, as you know, within the small circle, the majority are really part of in one way or another, so that they are part of the wheels. Both.

SPEAKER1 01:39:59 So, in you, I mean, in your view, I mean, in order to maybe drive some changes. On the sort of might be to do with this topic, I would assume that it would be that you would be in favour of more of a top-down approach than would you. Or, you know, because obviously there's always this tension between firms coming up with solutions themselves and then the regulator coming in or the government coming in and saying, well, actually, you know what? We've given you a chance and this is it.

SPEAKER2 01:40:36 now it really needs to be the regulator and then and it needs to be truly independent. And that is the difficulty here. I mean, it is a difficult case as well as well. I mean, it needs to have all the resources they need. And it's to be truly, truly independent. So away from political influence or the influence of the financial firms, which I mean, this is a topic, but I mean, the only way it can work otherwise it is just as I say, the banks are 20 steps ahead.

SPEAKER1 01:41:22 Of regulation to the brokers need their own association, because the way yeah, I remember from my involvement, involvement, dealings with it used to be. I would say my perception was a bit more. In tune with brokers and closer to what they were sort of,

SPEAKER2 01:41:43 yes,

SPEAKER1 01:41:44 their needs, whereas the FBI is something much bigger and seems to be more corporate and all the rest of it

SPEAKER2 01:41:52 is purely corporate. This is a business. There's not a not-for-profit organization or association. So, it is a pure business.

SPEAKER1 01:42:05 So should the brokers, should they form their own association and away from

SPEAKER2 01:42:12 that they should. But there we go to the problem of getting enough funding to do the work and paying the salaries and work up a joint a joint approach to things. And then you will have always the situation where you're going to suddenly have this brokerage firm. That is ultimately owned by the bank that they will join and then from there they will start wreaking havoc. I'm very cynical about the say I worked in public affairs and government relations. I have seen how things move and how banks move things. And. The regulators do not have a chance. You do not have concerns.

SPEAKER1 01:43:18 I mean, how would you rate how it's done in Europe versus

SPEAKER1 01:43:24 and

SPEAKER1 01:43:25 the U.K., I suppose, as well, versus in the U.S. because in the other.

SPEAKER2 01:43:31 And then they are more in the much, much more independent, so. So, on one side. You have the framework regulation that that is established, by the numbers. Um, but then there is interpretation implementation, which is completely independent. Now. There is always the lobby there, so that that doesn't change. So, the banks still have a lot of influence there and you can see it because the majority of the people that retired from regulators end up working for a very large law firms that are the firms that the banks are using as lobbyists. So that is a common denominator. But at the same time, as I say, that much, much more independent and then

SPEAKER2 01:44:44 that would

SPEAKER2 01:44:45 happen in Europe. And they are rules based as well. So, um, and then you have. And the self-regulatory bodies that tend to be very serious as well. So, you have you have NYSE regulation, Those bodies looked like a nice regulation, for example, is owned by NYSE but they're independent and they are true enforcers of the rules that are set by FINRA and the FCC. Yeah, so that is the difference between an agency or an LLC or Euronext,

SPEAKER1 01:45:45 which they seem to they seem to give a lot more finds out in America.

SPEAKER2 01:45:50 Certainly, everything so is rule based. And there is they don't they don't take basically there's no. It or anything like that. So basically, you are supposed to keep records and report on this date or your records. You report when they let you get fined. Yes, or yes, you know, it might be a small fine because it is just one day delay and because you might have some good reasons why you have been with one more delay

SPEAKER2 01:46:32 or one day delay.

SPEAKER2 01:46:33 But you're getting fine. Yes, I guess so. Um, and

SPEAKER2 01:46:41 so

SPEAKER2 01:46:42 when you look at the US. All the firms in general do have some history of getting fines bigger, as much as some of them can be very small, but they still are fine, and it is public. So, it is with which does play its own role

SPEAKER2 01:47:05 in terms of people

SPEAKER2 01:47:06 trying to scramble not to get that negative publicity. The. With the principle-based approach. It takes a long, long time and a lot of. When I say

SPEAKER2 01:47:30 I'm

SPEAKER2 01:47:31 misbehaving before you get a fine and get this post to the public. So, between us as brokers, we more or less know that there are things going on here and there, whatever, but the public, the clients who are the ones who are supposed to decide who use them do not have visibility unless there is something big that has happened. You can be in the midst of one six, which is a relatively unimportant event, a decision taken by the FCA, it will not stop you getting additional clients. The girls don't even realize that. And so, they continue bringing clients in. And the impact. Yes, you have to spend a lot of money in remediating and paying the consultants to get the things right, which might eat into your margin. But it will not impact on your or your client, on your capacity of getting additional clients or anything like that.

SPEAKER1 01:48:55 The problem declines, and you mentioned before that there might be some decline to again and they might be able to run algorithmic capabilities, and that may cause some disruption, either intentionally or unintentionally caused a serious disruption. Obviously, the regulator comes to the firm and the firms. Then need to go to decline, and it's almost like because the regulator doesn't have jurisdiction over the client in most cases because of offshore or whatever. I mean, is that is that really fair on the brokers? I mean, how much can the brokers really control that? I mean, given that. Like you said, you know, it's like it's like that game you get at Brighton Beach where you're not one head down, another head comes up and I mean, do they really have a chance to talk to Ben and should, you know, is there anything the regulators could be doing differently to actually target the clients themselves? Because I think in America, you know, if you are a liar and spoofing algorithm in America, it may look at look at the number of sounds like what he did. The American will come after you. Even if you're the client. They don't care.

SPEAKER2 01:50:13 How did they go after you wherever you are. Doesn't matter if you are in China, they will still try to get you. So, and that is the difference is that they will still try to get you. But they do have the resources to do it. So, they will have the backing of the government, the diplomatic corps, if need be, that on one side. And they will have the funds to actually go and hire whatever law firm they need to do locally to get the guy. So, and this is

SPEAKER2 01:50:55 the regulator

SPEAKER2 01:50:56 for the markets, but it also applies for the regulator in charge of all of our soft reporting and anything that has to do with accounting reporting as well. It's the same thing. So, it's just kind of...and that is where you have situations like, for example, in Switzerland nowadays. It is practically impossible for an American citizen, even if they have dual nationality, to open a bank account in Switzerland. Because the regulators will be all over the place. The IRS and so the knee jerk reaction that you got from the Swiss banks is American passport. We are not opening your bank account. I have friends who have dual Swiss / American nationality that they cannot open a bank account in Switzerland, and they are

not millionaires. We are talking about a person that works for an NGO and has a very average salary, you know.

SPEAKER1 01:52:20 Coming I'm coming to the end of this because we should wrap it up, so because we have taken an awful long amount of amount of time, just I say and ultimately there's been a lot in the press about. Deployment of algorithms and other highly regulated sectors, so a good example would be the medical sector, you know, they're talking about robo advice for GPS and this kind of thing, and maybe GPS become a thing of the past. Also, you've got obviously, like the aviation industry, which is highly regulated. And, you know, you've got things like autopilot and algorithms which are sort of flying the planes and all the rest of it. And there's a lot of stuff there. I mean, it's quite an interesting question. I mean, I've had various responses to this one, but. Is there anything? I mean, are you aware of anything from any of a highly regulated sector in that context that. The financial sector could learn from and should adopt systems controls wise or in your view, is it a case that actually the other sectors learn more from the financial services sector?

SPEAKER1 01:53:41 In this case.

SPEAKER2 01:53:45 Good question with question. Uh. I wouldn't say I mean, that there is a lot of work that has been doing that has been done at the moment and might or might not be the role that, as you mentioned, for example. The boats that are currently in place in a lot of sectors, I mean, you've got sectors, the gas providers, you've got to talk to the app. You want to talk to someone; you talk to the robot. You know, most of the cases. And so, they have.... They are developing on their own side, they go there on speed, and I don't think it is all based on what they have learned from the financial services. I think I think that the I.T. world, with the big players like Google and these kind of guys, which are not financial services per se, even though they do start dipping into that part of their own way of developing things and creating their own logarithms, as you know, they now, if you are in a room, you'll have your phone. You talk about one particular subject and then they even as I say, you just have the phone down. It is not functional in terms of the black experience, whatever you talk about one particular subject, and you're guaranteed the day after they're going to have and if you open one of the apps, you're going to have another. Regarding that particular subject, you know, so that there is a lot of things and a lot of intelligence that that is there and is being used and in most of the cases, it is being used for commercial purposes in terms of trying to get business out of as individuals and entities, to some extent very, very advanced. Much more advanced than what we are currently using on financial services so that they have gone further. So as far as I'm concerned. Financial services should learn from what is going on the other side and what they are dealing with, big data and doing incredible things, not always ethical, but it's amazing what they can do.

SPEAKER1 01:57:04 Finally, what would your principal concerns for the future be?

SPEAKER2 01:57:20 Where I am now, or we are talking in general,

SPEAKER1 01:57:24 I would say, in terms of how

SPEAKER2 01:57:27 in general, the main concern at the moment in financial services, the mechanism that I have. As I said, in general terms and link to technology is what is going on with all these newcomers that do not necessarily have a knowledge of financial services, but they are playing in financial services, and they are playing very aggressively using technology. Mostly of it is fairly advanced, advanced to a point where in some cases, even though they might get hacked, they managed to recover the things that they managed to trace, the things that we have lived, the blocks and protocols that enables them to trace

SPEAKER2 01:58:30 funds,

SPEAKER2 01:58:31 something like that. That's. They are developing new sets of financial products, derivatives products. That's good, as I said, so far, they're just based on them. Yeah. And understand that those products and those newcomers are getting quite a lot of traction from investors. And they are not properly regulated. The regulators do not want to regulate them because they are playing with cross-border regulation in a very aggressive manner. So, saying, OK, we have this product. If players log in online and get it, they get it. We are not in London. We are not regulated by the state. You don't have anything to say to us. Come get us. You know, if there were Americans, it would be different because the American regulators will actually go and get them. But if they are not American and they are based in, let's say, Cayman or one of those jurisdictions and they don't have a problem to ransack the market in terms of clients, retail clients or in the majority? And, um, and there is no way that that is going to be controllable, which is not controllable by the government regulators, they don't even have the resources to control us, which we are more bread and butter, you know, let alone controlling those guys. So, a lot of things can go because those guys, as I say, they are developing. I did. I was approached by one company basically with the company was founded in 2015. It was funded by this guy who was a Goldman Sachs fixed income trader. Very young, and I think it was maybe not even a 30. And his deputy says that the chief operating officer lady

SPEAKER2 02:01:13 said she was also

SPEAKER2 02:01:14 25, 26 from Belgium they had managed to get. I compliance guy that got under the license. And when they approached me, it was to obtain

SPEAKER2 02:01:38 more of

SPEAKER2 02:01:39 a based kind of license to develop all sorts of derivative products and things like that, and they then managed to get the funding and the backing of a big Japanese

SPEAKER2 02:01:56 investment firm mean they managed

SPEAKER2 02:01:59 to get that it was nearly 300 million, you know, something that was run by six people. So, um, so, yeah, that is what concerns me, is that. These types of things can completely change the dynamics of the market, create new markets that may potentially kill the more traditional markets to some extent or limited in scope in terms of, yeah, we have just the hedges and that's it. But all what it is, Britain might just go somewhere else, which might also have an impact on company funding when we are talking about equities.

SPEAKER1 02:03:00 OK, well, thank you very much for your time. That concludes the rather long interview. So, I'm just going to switch off the recording now.

SPEAKER2 02:03:10 Yeah, I run by.