

***Interview with a senior manager at an MTF***

- SPEAKER1 00:06 OK, so the recording has now started. So just to the background. Could you just describe, and I should say I'm not looking for any names here as well, but could you just describe sort of what your role is in the investment industry and sort of how that's developed through time and where so where you are now?
- SPEAKER2 00:34 My personal role for the company?
- SPEAKER1 00:36 Well, I mean, your personal role to start with and then maybe sort of what sort of entity is that you know, that you're involved in?
- SPEAKER2 00:45 So, I have been in the financial markets for around twenty-seven years now. And most of that, if not all of that time, has been around the foreign exchange markets. So, I started out as a graduate trainee on a graduate trainee program back in the mid 90s for a Swiss investment bank, worked through a number of different roles on FX trading desks in banks through to the sort of mid 2000s when I moved across to more on the brokerage side of the business. So, an ethics broker that traded both with institutional and retail clients and then in that period, sort of from the mid 2000s into around 2010, helped that brokerage become much more electronic in their workflows. So, I got a good understanding of the electronic side of the trade and industry and then made that move around 2012. So about nine years ago now into the technology space to work for my current employer, which is a Californian based software company that provides electronic trading workflow solutions for banks, brokers and hedge funds, any type of financial institution, as well as running a multilateral trading facility for participants to trade non-stop products in a in a multilateral trading venue and a ECN. But we run full participants to execute on the liquidity that's available within the ETF environment. So, we offer [REDACTED] a liquidity venue, but also electronic trading workflow solutions for financial institutions.
- SPEAKER1 03:02 Your sort of time in the financial markets and particularly in this space. How would you say trading has evolved from then to now in terms of previously, it may have been more manual to now, you may be saying more information, automation, what have you seen as a sort of development progression?
- SPEAKER2 03:27 Yeah, well, obviously, I've been in the industry for quite a while, so I've lived through that transition really from voice execution of trading into, you know, to a fully, you know, a ninety-eight- or ninety-nine percent electronic trading environment. You know, I started, you know, as I said, around the mid 90s when they were just the introduction of the first electronic trading platforms was just coming in. So, the likes of EBS and Reuters matching, which were the first what we would now call primary venues for foreign exchange traded and had just come into the market. So, these were these were brand new, literally just sort of appearing on people's desktops just as I came into the business. So there was always a reluctance from both people, from all over the professionals in the business, from the trade in on the south side to the you know, there's always

been a reluctance to embrace technology from the people on the ground floor that the sales and trading people, because they fear that that's going to impact their jobs in some way. You know, it's taken a long time for, you know, for probably those effects to really take place. But I think one of the catalysts for that was the shift to the single currency around 2000, which really, I think for me personally sped up the adoption of technology because you suddenly saw a much more condensed number of currency pairs that were being traded. And it just helped facilitate, I think, the shift more in the electronic space and of course, technology evolved considerably around that time as well. So, I know, yeah, yeah, so, you know, there was there's always been that kind of reluctance to embrace technology I think there was a, you know, in the early 2000s is when things really started to take shape and more and more of clients were looking to at electronic trading solutions to execute their trades. So, you know, I think that's really where we are now, that we've got to the point where there are very few people now that would want to execute trades over voice channels. There are a number of organizations that we speak to know that are late to the game and are looking at solutions that they can put in place to migrate the last of their boys' trading business to electronic channels. But I think that within a few years really very few transactions will take place over telephone chat or any other non-automated workflows

SPEAKER1 06:39 Given, you know, where you sit in the food chain, because I think the MTF space and also, I'm familiar with what your business is also doing before the sort of MTF remit was expanded benefit to what kind of algorithmic deployment do you see? Because if it too made it sort of defined what it's perceived to be three types of algorithmic deployments, there's automating so quite basic, probably most common equity space because you've got a lot of fragmentation there between different venues. Then they had execution enhancement. So, it's still a human being, sort of setting the parameters for each transaction, but the transaction would be executed in accordance with those parameters by the machine. And that's quite common with your sort of desk, sort of traders, brokers sitting upstairs. They might go and put a spread on or something or stop, and that would be classified as an algorithm. And then, you know, then you have on the other end of the scale the investment decision algorithms where you've got people actually sort of coming out of university with sort of scientific degrees in the main. And they will go into designing something which will trade on the markets. They may not very much have understanding of the markets themselves. They see themselves probably more as tech people, but obviously they're trying to beat certain ratios. Sharpe ratio something like this in trying to justify their returns. I mean, what kind of scale of what you're saying your customers are doing? I mean, what kind of deployment are you seeing?

SPEAKER2 08:19 Certainly, because our MTF is really there to enable people to be compliant on their known spot workflows. Now we are predominantly a spot FX sort of trading venue when we look at our traditional trading venue, which we have. But so that

the money is there to support the nonsupport workplace in our typical client base as a vendor, is corporate banks looking to service their corporate clients. So, it's what we would call the flow originating from that client. So, this is, you know, commercial activities, hedging activity taken by banks, taken by corporates and other institutions to be executed with their bank, whereby we provide the technology. So, with this type of origination flow, typically it's a functional business. It's there whether to match off and to provide people with the ability to execute their swaps or that they're for trades for but for proper commercial reasons rather than any type of speculative or other type of trade and reason. So for that reason, we fall more into the categories, one and two that you mentioned, rather than number three, because we don't say and because the MTF is known only we don't see, and I don't know whether it goes on other platforms, we don't see that type of activity or fully automated speculative kind of trade in execution on our MTF, it's purely functional to enable corporates to trade with their banks and the banks that use our software to be able to know banks or brokers, whoever they may be, to automate that workflow in a compliant way. So, you know, it's functional more than anything.

SPEAKER1 10:39 Ae you giving any sort of API access to the MTF at all, is it purely just your own platform?

SPEAKER2 10:50 So no, we don't I mean, I think it's possible, but that isn't something that, you know, typically we offer or have had a request from. Clearly there are APIs, but they are between the components of the XXXX solution. So, a typical workflow would be the customer of one of our clients. And they could be trading on a single dealer platform that we provide for them. So branded in our client's name, it could be a multitude of platforms, like the traditional multitude of platforms out there, like 360 or Bloomberg, that probably the two different areas that we would typically see trade from. So, on a typical spot workflows API would then be another option. So, you'd have three main distribution categories. You would have API, you would have the single data platform, which is like a fully branded GUI. And then there are the multitude of platforms. But for nonsupport workflows and particularly for MTF workflows, API doesn't really come into its purely transactions being done by corporate style clients on the single data platform that we provide for our banks or one of the multitude of platforms. And then our MTF access to connectivity then is just into our infrastructure whereby we can match the trades with whoever, whatever the liquidity sources are for our customer. So, it's just a kind of workflow automation within our environment. But typically, the clients are trading on a GUI, whether they're always trading on it. It's just whether or not it's a multi data platform or whether it's a single data platform. Regardless, typically the client is trading on a user interface manually and the trades that just come in through the workflow of our technology. So, it's not really an API, not really API access at all.

SPEAKER1 13:02 On the spot FX side. And one of the things which always used to certainly when I was working. In the industry, one of the things that we really struggle with

sometimes was rolling spot FX, the concept of owning spot FX because of some of the MiFID definitions and some of the definitions that were in the UK legislation, which could make things quite confusing sometimes. In terms of the sort of access that you give out to that, how much should you have? I mean, I would assume that there's a lot more speculative activity in that on that side. How much sort of activity do you think is driven by some of those types of proprietary algorithms?

SPEAKER2 13:57 That's a tricky one to answer, because it's obviously a very large market, a significant amount of volume traded every day by a very diverse set of participants, obviously depends on the market segment, clearly in the retail space. You know, it's highly opportunistic. The flow that the transactions are typically happening for speculative reasons. So, what was the actual question taken?

SPEAKER1 14:29 So, yeah, so how much of it would you say, you know, that sort of spot side? How much of it do you think is sort of driven by that sort of proprietary algorithm, the sort of investment decision making type algorithm, a bit more sophisticated than maybe a built-in platform?

SPEAKER2 14:46 I guess so you know, I can answer from the perspective of our company and the products and services that we offer. I don't think that that's necessarily representative of the entire industry, because other venues tend to have a very different set of customers, a very different customer base. As I said, XXXX is predominantly serving what we would call buy-side clients. So, these are clients with you know, we're trying to service clients that banks, brokers, financial institutions that are trying to service the end client, and those clients typically are in the broken segment, retail clients, so purely retail investors on the banks, it's on the corporate side. So we as a company don't tend to see a lot of that algorithmic trading activity is typically originating IP coming from the retail or the corporate space, and tends to be kind of what we would call non-informed flow, as in that they're not making a decision based on an attempt to time the market or take advantage of short-term price discrepancies or movements is more about making investment decisions on a you know, on a I don't know what to say on the basis that they need to execute that trade at that particular moment in time, so yeah, so it's a small part of our business, but I think it's a much larger part of the overall market.

SPEAKER1 16:51 So, in your case, is there any risk on your side? I mean, some of the more traditional venues? Take the LME as an example. They were forced to make sure they had formal things like price collars and in some venues introduced speed restrictions or this kind of stuff. Is that something which your entity has done or is it because of the nature of the business, as you've just described is it left to the intermediaries and others, other participants to sort that out?

- SPEAKER2 17:32 Yeah, I mean, we have and predominantly because, you know, for the most part, the business is non spot, doesn't fall under MIFID II. And then, you know, and, you know, as bifurcates is typically unregulated as a as an industry rather than, you know, the specific segments of the market, like the retail brokers who are regulated in some way overall. It's not you know, it's not there's no central exchange here on the spot side. So, yeah there's no obligation on us to have any types of measures in place. We have agreed to uphold the principles of the Global Code of Conduct, which has kind of come into place over the last few years. And most of the venues now agree to sign up to on the MTF side, we know to be able to qualify as a regulated MTF, we have to go through quite stringent process with the FCA. That predominantly required us to ensure that we had some very strong monitoring capabilities in place to spot market abuse and other types of, you know, unacceptable behavior. So, we've had to put a number of automated electronic and manual processes in place to ensure that we fully comply with our obligations to the FCA in terms of monitoring the market on the MTF side. But there's no such obligation for us on the on-the-spot side.
- SPEAKER1 19:42 Did you sort of want to look at those solutions, because, again, I'm aware of a sort of possibly more traditional trading venue. Some of them use some pretty serious vendors out there to help them. Manage that risk, so someone like that might use Nasdaq smart or someone like that. Not cheap. I mean, did you guys decide to build your own thing because the market is quite unique and how it operates, or did you see the merit in also using a vendor solution for that?
- SPEAKER2 20:17 No, we didn't see the need to use a vendor solution, as I say, because you know, the market is so fragmented, there's no one central exchange. You know, we're only really responsible for the activity that happens across our technology. And as such, we are the people that are best suited to design processes and procedures that fit with our technology. You know that we are a technology company, and we have, you know, a well-sized development team. So, you know, it was a matter of really expanding the tools that we had available to, you know, to fulfill these functions. That was never really any need or requirement for us to use any kind of Third-Party solution, because, yeah, really, it was you know, it was very specific to our technology.
- SPEAKER1 21:11 What sort of conduct would concern you the most in this sort of space in which you operate? The types of contacts, again, in different markets, you know, more traditional venues, you might see layering and spoofing or front running or something like that. What sort of stuff, you know, as a vendor, operate as a MTF operator or maybe in your unregulated space what sort stuff that you sort of more most concerned about, what sort of trend are you seeing?
- SPEAKER2 21:41 Yeah. You know, we didn't really have, you know, on the side, we didn't really have any particular concerns, obviously, because we knew the types of clients that we had, there was a lot of the kind of reporting that we was obligated to put

in place we thought didn't really have much relevance to some of the markets that we operated in on the market side, on the nonstop side, so clearly one of the big themes over the last, however, 10 years or so has been on the side has been really market manipulation, collusion and, you know, artificially manipulating prices, you know, particularly into fixes, into other scenarios. So, you know, we had to build in certain alerts around, you know, excessive trading over a short period, unusually large transactions, et cetera. Now, these are all very useful kinds of tools that can identify that type of behavior in the spot market. They don't really translate well into the forward and swap markets because they are you know, they're just very different beast, you know, people you that nobody typically would try to manipulate a...well, first of all, there aren't fixes in those markets, so there isn't really anything to try and manipulate. But, yeah, trying to move the underlying market by doing a very large swap transaction just isn't something that would make any sense. It would have huge balance sheet issues and would be pretty ineffective in a way of doing that. So, yeah, you know, we don't really. You know, we have the tools in place to spot, you know, to be able to identify a lot of behavior that could happen in the spot market we've only really deployed it on the on the nonsupport side for the MTF as part of our obligations. Otherwise really, we just leave it to our customers who are, you know, the financial institutions that are servicing their customers. We leave it up to them to ensure that they are behaving appropriately.

SPEAKER1 24:26 Right. Given what you've said about perhaps there is an argument to say, well, there's been some sort of regulatory overreach and there's been a bit of a broad brush between different sorts of asset classes with things like MIFIDII. The Treasury is currently consulting at the moment on potential changes to the wholesale market regulatory structure. Given where you sit in the ecosystem, is there anything there which you think that our regulatory system could diverge and maybe make so it makes more sense to what you're doing?

SPEAKER2 25:06 Yeah, I mean, potentially. I mean, I'm not a regulatory expert, but the some of the you know, when we first went into this process of MTF approval by the FCA, we had to do a lot of work and we had to, as I said, put a lot of processes in place and answer a lot of questions. And now, from my understanding, the MTF world, you know, a lot of what the FCA were questioned was really you know there was a lot of specific requirements that seem to emanate from other markets, such as the equity market, for example, which didn't translate well to the foreign exchange market. So, it was quite a broad brush that they were using to, you know, to capture everything under this sort of MTF banner. So I do think that there is you know, I'm not overly familiar with what you was just mentioning there, but I do think that there is a, you know, there is probably a requirement to look at FX, you know, as basically the most fragmented industry in the financial markets out there. This should probably be a different way of looking at how they, you know, how they interpret the MiFID rules and any other kind of regulatory rule basically be around such an unregulated, typically unregulated

and fragmented market? You know, I don't think you can use this broad-brush approach that you've taken with some of the more typical exchange traded venues.

SPEAKER1 27:04 We've I mean, the FCA has already announced that they're going to drop some of the best execution, things like RTS 27 28 reporting. Which I think for a lot of market participants and venues themselves was really difficult to comply with for a number of different reasons. I mean, is that something which you welcome, or do you see any merit in those types of reports that has been concerned obviously with transparency, sometimes with, you know, things like last look and I think I've got busted a number of years ago for best execution failings. I mean, is that something which you welcome or what was it? Do you think that there needs to be something like that?

SPEAKER2 27:47 Well, again, we are the people, really that, you know, get involved, have any kind of obligation around this, we are just, you know, the facilitating software and, you know, the onus is on the user of the technology to make sure that they are complying with whatever obligations they have in that particular business. Having said that, you know, I follow some pretty in-depth and quite hostile at times disagreements between various different brokers who have different interpretations of, you know, 27, 28 requirements and how they should report, etc. from a, you know, technology standpoint. We are here to provide as much transparency as possible with our technology. And, you know, we offer that down to our clients. So, personally, I think it's quite a good thing. I think it's having those types of reports can provide some clarity to clients as to how they are being treated, how those trades are being executed. And I do think it provides a level of transparency that benefits the consumer. So, I do think there is there is merit to having that type of reporting in place.

SPEAKER1 29:48 Um, do you guys have any sort of requirements around liquidity provision for participation in any of your platforms, or is that something you don't really get involved in? So, you know, again, some of the markets say OK, you've got these market maker rules, and they have various incentive programs sometimes where, you know, to supplement price makers and things like this, don't you? Is that something that you look at or again, is not really relevant to what you guys are doing?

SPEAKER2 30:24 No, I mean, because, you know, because the trends, the activity happening within our platform are predominantly bilateral. So, counterparts, a liquidity provider and a customer have an agreement with each other that they can trade with each other, and they would like to trade with each other via our software. So, any conversation around that helps performance level or that, you know, how they how they the service level that they provide to that customer is really between them. We will provide the information we will provide, you know, not necessarily the last look data, but we can because we don't know whether or not that is what we would classify last. Look, on the customer side, there might be

other reasons, but typically the longer a response time would indicate there is some level of loss look being applied so we can provide all of that data, all of that transparency, as I said before, around response times, holding times , et cetera , so that our clients are very well informed about whether or not they feel that they're liquidity providers are providing them with the appropriate service level. But we provide that information to our customers and then they have that conversation with their liquidity providers and, you know, and then they come to some agreement if, you know, they don't feel that they are being suitably serviced. So, we do have a rule book that we expect people to apply to, you know, and that includes things like the appropriate mediation of market trades. For example, if, you know, if somebody is transacted with an LP a long way away from the market, you know, we expect people to use reasonable methods to try and resolve that dispute. And we will we have we reserve the right as a technology company to intercede if need be. But typically speaking, you know, the conversation between the performance level and service level is between them and their counterparty.

SPEAKER1 32:54 If somebody infringed your rulebook, is that something where I mean, are you required to publish details publicly about any disciplinary action that you've taken and the reasons for doing so? Or is that just between you and your participants?

SPEAKER2 33:11 No, no. There's no obligation to do that. Um, no. Typically, these things are just resolved. And then, you know, the difficulty here in this conversation is that there are two parts of our business. There is the traditional bilateral workflow, which I was just describing, whereby, you know, our client trades with each other and that is, you know, the majority of the trading activity that happens down to our technology. But we also do run an anonymous ECN. It's a much smaller part of the business. But we use a central clearer. So, everybody that trades on that platform, you know that for these guys, they're not using our automated workflow technology to run their electronic trading business, that purely using us as a liquidity venue. So, on that basis, they are coming onto the platform via a central clearing. So, we have a central counterparty on that, and the actual counterparty is anonymous to anybody who trades on both the LP and the and the consumer of the price are unknown to each other, and that means that there is a greater level of responsibility on us to ensure that people are behaving accordingly. And it's our venue to basically decide what we want to do. So if we, you know, if an LP is offering a very poor service level , e.g. , a very long holding time, clearly last look for an unreasonable amount of time, or is rejecting a high number of trades or is doing anything that we feel is not to the benefit of the entire community, then we reserve the right to be able to switch that counterparty off effectively and say that, you know, we don't want your price and activity on our screen. So, you know, that's something we can control. But that's only on the despotic side of things. For the majority of our workflow, it's that the relationship is between the client who uses our software and the LP.



And even if we were to believe that the service level from the LP wasn't great, if the customer's happy with it and they have the relationship with the LP, then it's up to them, really.

SPEAKER1 35:52 OK, and you mentioned the global code earlier. How much sort of collaboration is there between maybe of the various different MTF operators or people in your own space? I mean, do you guys sort of work with each other to sort of help tackle common issues that you might see across the market? Or is it very much that you you operate very separately, you don't really discuss anything with them? I mean, again, in the future as well, there are sort of panels where different firms get together and also different trading venues get together and they discuss common challenges. Is there something like that in your area or is that something which doesn't really exist?

SPEAKER2 36:45 Well, my experience really on the side has been that there is very little collaboration between vendors and venues. People do tend to run quite independently, you know, maybe at some of the at the primary venue level, the likes of CME and EBS, maybe work maybe to have some collaboration with Reuters or LSE these days. But even then, I would suggest that there was quite little in the way of standardization in this business, whether that comes to whatever that is down to actual execution methodologies or down to interpretation of how best to regulate and to standardize. You know, certain standards around how people should behave in their venues. I think there's very little cooperation on the ethics side.

SPEAKER1 38:05 Do you think that's because of competitive concerns?

SPEAKER2 38:10 I think so, yeah. I think that, you know, there is not one dominant platform in space. You know, clearly there are some big platforms out there that, you know, capture a lot of decent market share. But it's still not one platform that has a significant amount market share. And I think that nobody really wants to, you know, nobody feels secure enough to really. Cooperate and sort of restrict their ability to offer a differentiated product.

SPEAKER1 38:55 OK, and finally, what would your principal concerns of the future be and your sort of space

SPEAKER2 39:05 From what perspective?

SPEAKER1 39:08 Well, I mean, from any perspective. And what sort of operators are in your space? One of the things high on the agenda in terms of concerns is the way the market may develop in the future. Um.

SPEAKER2 39:30 Yeah, I don't know if I was necessarily concerned, I think that, you know, it is a mature market. It's, as I say, very fragmented, but typically it tends to work. Well, I think that, you know, there is a large dependency on a relatively small number of market makers from the bank and the non-bank side, and I think that that is an ongoing issue that has that does just doesn't realize any issues typically, but

typically tends to raise its head whenever there is a period of dislocation in the market. So when there is some unexpected event and we've had a number of days over the over the years, Brexit, the SNB, etc., then liquidity, which in the affects market appears to be very deep all the time, could dissipate very quickly because everyone is pretty much dependent on this half a dozen or so true market makers in this space. So that's always an issue. And it's a tough one to resolve because there are very few institutions out there that are sophisticated enough or have sufficient balance sheet to really hold the risk required to be a true internalize and holder of risk in this business. So that's something that's out there all the time. I think that, you know, to jump on a theme, but I think that the evolution of digital assets and central bank digital currencies and crypto currencies in general may have an impact, really, on how people trade foreign exchange in the future, and that's going to tie into, you know, at some point they haven't really figured out, you know, the details, think that these digital assets are going to become mainstream, particularly when they are central bank digital currencies. And it's going to be an interesting conversation over the next few years about how the traditional spot or traditional trading venues and software providers, how they service clients in that space, and how you know, the central banks and the regulators decide that they want to regulate in that space. So, I think that that's probably one of the areas that really is going to be we're going to see the most interest, I think, in the coming years

SPEAKER1 42:22 As far as that very I think those central bank digital currencies, I mean, for people like me, I sort of look at those. I think I think the government's sort of jumping on the bandwagon now. But I think the man on the street doesn't really understand the implications of that. And it's not really the same as they're not made for me. They're completely different to something like Bitcoin. They're not conceptually, they're totally different. And there's going to be interesting to see how they diverge.

SPEAKER2 42:58 Yeah, absolutely. And, you know, the impact that has on, you know, traditional fiat currency trading activity, etc., it's yeah, I think it's there's a lot of unknowns there.

SPEAKER1 43:13 OK, that's great. That concludes the interview, so thank you very much for that. I'm just going to switch off the recording now.