FOREX MAGNATES QUARTERLY MARKET REPORT FOR Q4 2012

Content Index

Q4 2012 Forex Market Overview

Much like the previous quarter, Q4 2012 was lackluster at best. With volumes unable to recover from 2011 levels it seems the forex market has reached a new, lower, equilibrium which influences all brokers' plans going forward as double digit growth is no longer attainable.

Five major trends dominated this quarter: flat volumes, regulatory actions and implications in the US, technological developments, growth of binary options market and increase of Rupee and emerging markets products.

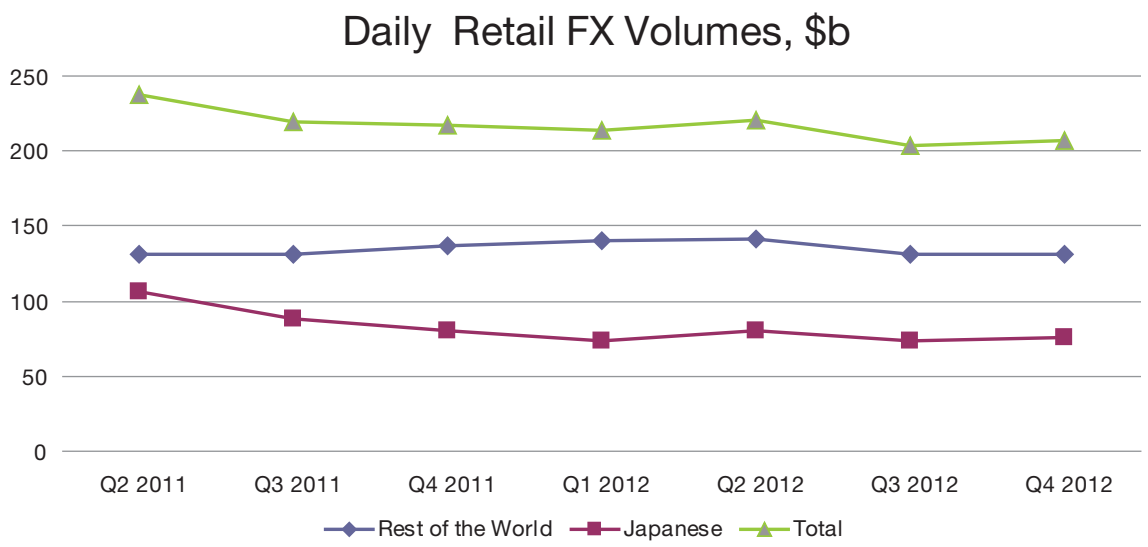
Flat volumes – the retail and institutional volumes are discussed in detail below however it seems that overall volumes have considerably dropped from peak 2011 levels to form a new equilibrium. Many brokers have yet to adapt to this new reality possibly because they are still hoping for major uptake in volume in the near future or simply because they are not yet ready to face this reality and make required internal changes. If there's a silver lining to be found here it is the (relative) rebound in Japanese trading volumes. Volumes in Japan have stabilized in the past 12 months and are even slowly growing amid aggressive consolidation of the local market which led to dozens of brokers selling or closing the business. Though volumes still are 20% below the 2010 levels – the recent growth trend may indicate a brighter future.

Regulatory landscape – more than anything, the NFA's actions (and the result of) have dominated the news in Q4 2012. Brokers like FXDD, Forex Club, Advanced Markets and GFT have all been considerably affected. FXDD was charged again and then required to post a $3.3 million bond to secure its ability to pay for alleged damages to clients. Forex Club was fined after its withdrawal sending a message that leaving won't help avoid getting fined. Advanced Markets downgraded its RFED license since it made no sense for it to keep all that capital just for few retail clients only to see the NFA roll out a new requirement mandating FCM's to keep the same capital amount as RFED's. Last but not least was GFT which found itself in a Catch 22 situation where the NFA overturned its own decision overnight basically requiring it to shut down its business in the US with 24 hours notice.

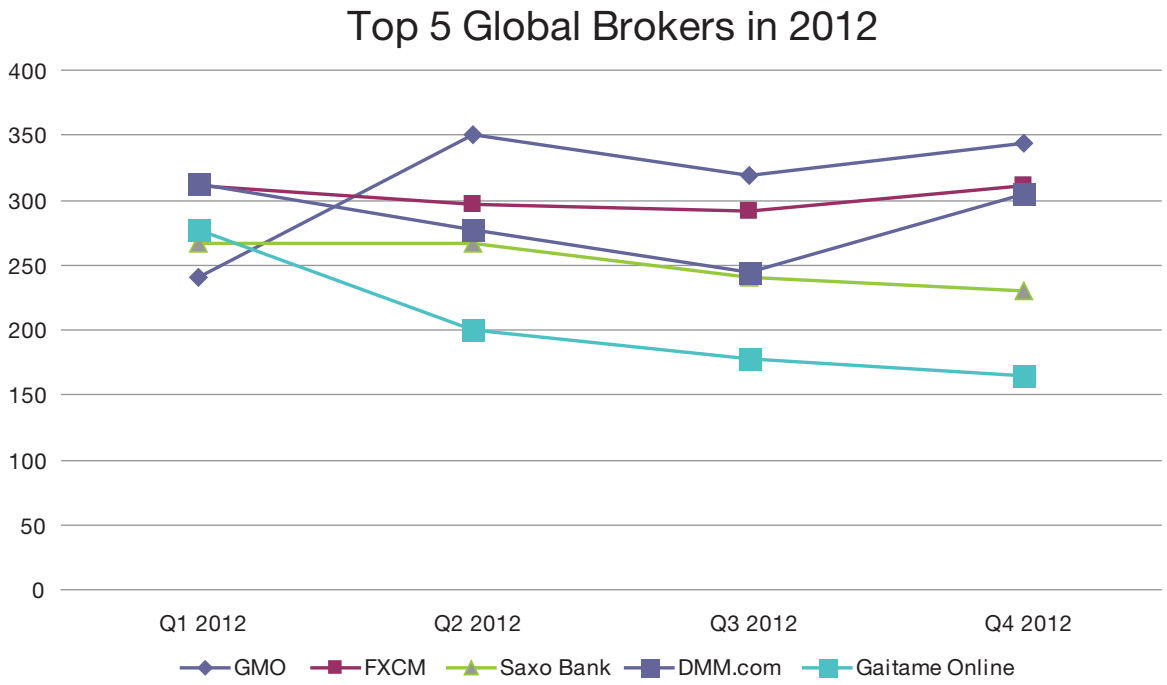
It is then no wonder that even the largest US forex brokers are extremely concerned with what lies ahead.
Technology advancements – In a strange discrepancy with the market's slowdown technology development have been gaining pace. If anything is growing in double digits in the forex market with now it's the number of new ECNs. TraFXpure getting ready to launch, MetaTrader adding trading signals, several new ECNs launching, cTrader expanding, exchanges launching new products and more – this is just a partial list of major technological and product developments we've witnessed being rolled out in Q4. It is hard to understand what is fuelling this technology growth in general however one explanation may be that these are niches developments. Another possible reason is that 2011's success led to multiple product initiatives that are only reaching the market now. The forex market is becoming both very centralized and decentralized – while many may use same technology and liquidity others focus on niches, and this is where new technology is needed and comes into play. One however would need to be very optimistic to believe that the dozen or so new ECNs launched during 2012 will be here a year from now.

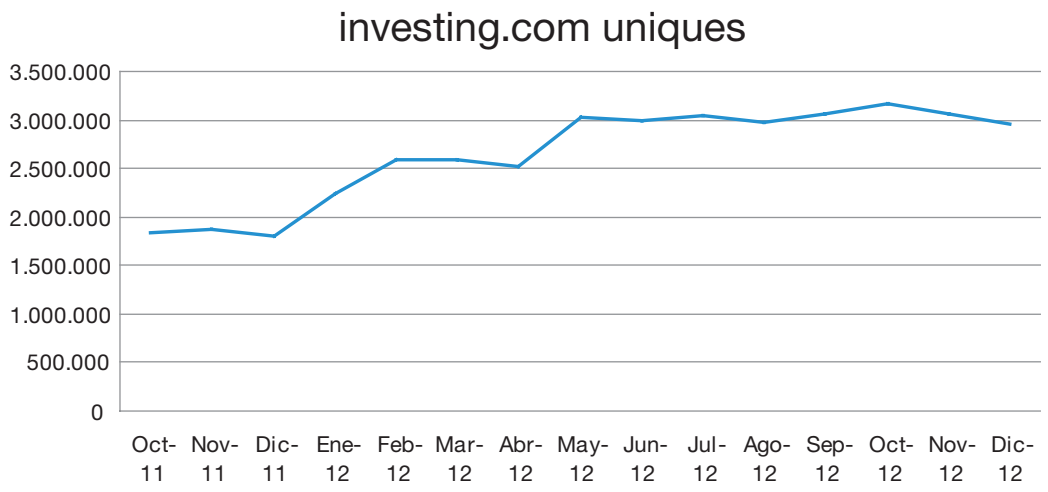
Binary Options – Binary options trading is the niche segment of the online finance trading market and it is now experiencing a very high growth stage.

Japanese volumes vs Rest of the world:



Top 5 Global Brokers: Japanese brokers lead the rank, Saxo Bank and Gaitame Online keep dropping





Q4 2012 monthly uniques:

	Oct-12	Nov-12	Dec-12	average
forexfactory	1,038,493	1,033,300	1,022,967	1,031,587
forexticket	1,070,652	1,011,344	946,143	1,009,380
dailyfx	751,618	759,134	743,951	751,568
fxstreet	727,609	700,143	686,140	704,631
myfxbook	224,052	222,586	203,785	216,808
babypips	211,576	209,461	205,271	208,770
forexlive	148,664	147,178	145,706	147,183
forex-tsd	117,066	117,651	118,239	117,652
actionforex	112,484	115,859	113,542	113,962
fxempire	87,049	91,729	111,629	96,802
forexcrunch	59,776	54,233	51,292	55,100
fx360	52,597	51,567	50,536	51,567

Saudi Arabia - Opening up to Global Markets

The boom in oil exploration in the 2nd half of the 20th century opened up the Middle East to the global economy and shifted the once nomad land to economic glory. Saudi Arabia, home to the world's largest oil reserves, ranks as 23rd largest economy of the world.

The largest and most populous nation in the Gulf Cooperation Council (GCC), Saudi Arabia has seen neighbors such as the UAE, Bahrain and Qatar become thriving economic centers, while the kingdom has been slow to adapt the implementation of global values. However with a shift to a more liberal and diversified economy, Saudi Arabia is set to dominate the Middle East and Arab world as an economic leader.

Saudi Arabia is an oil based economy with natural resources making up 45% of budget revenues, 55% of GDP, and 90% of export earnings. However, Saudi Arabia has been developing other sectors of its economy to reduce its dependency on oil revenue. Just before the global financial crisis hit, prices of oil peaked at $147/barrel before crashing to $30. Although higher priced oil is beneficial for Saudi Arabia, the higher costs also lower the demand. Due to these massive price shifts and their effect on supply and demand Saudi Arabia has understood the need for diversification.

Shafi Ahmed

The country has a strong domestic economy driven by oil and petroleum exports. However a concern for the government is the high unemployment figure which is around 10%. This is alarming when compared to neighbors such as the UAE where only 4.6% of the population is unemployed. The jobless problem becomes more complicated for the future as the majority of the unemployed are below the age of 25.

GDP per capita is at a modest $25,000, ranking 38th in the world. There is a relative imbalance amongst Saudis, although the government gives housing and funding grants. Saudis living in rural areas are faced with difficulty as the oil wealth does not usually reach them. There are an estimated 670,000 families who can be classified as poor or close to the poverty line. From the 18 million Saudi citizens in Saudi Arabia (total population is around 25 million) that equates to nearly 3 million people who are poor.

The country's vision to see Saudi Arabia as a dominant global force has been backed up by strong economic policies. In addition, the Kingdom is a member of major international organizations including the; World Trade Organization (WTO), Organization of Petroleum Exporting Countries (OPEC) and the Group of Twenty Finance Ministers and Central Bank Governors (G-20).

Saudi Arabia has a structured capital markets system. Its financial exchange offers trading in equities and bonds. Saudi Arabia, being a country heavily influenced by religious values, incorporates the religious teachings in its financial markets system. It offers sukus, similar to bonds however redefined in accordance to the religious guidelines, and the Tadawul (stock market) only issues firms that are in line with religious principles.

The stock market is one of the most liquid and well capitalized amongst all developing nations and the largest in the GCC/ Middle East. It ranks as the 10th largest stock exchange in the world. As the market develops and new opportunities take place, the stock exchange is set to grow. The market has been volatile during 2012, however the Tadawul has an average daily volume of $1.9 billion.

Forex Trading in Saudi Arabia

Despite the nation being home to the highest number of high net worth in the Middle East region, forex trading in Saudi Arabia has been an investment product for a small portion of investors. Computer literacy and awareness of global markets meant that only a handful of Saudi Arabian investors were familiar with the leveraged product. Forex was first pioneered in this region by introducing brokers from Jordan in the early 2000s. Clients would be informed of the numerous benefits offered by forex trading and most traders would invest with the introducing broker who would also manage client money on their behalf.

At the same time, firms like FX Solutions had set their eyes on the nation and started preparing the right material to educate Saudi investors on the dynamics of the forex markets. The firm had specialist sales and marketing individuals as well as material in Arabic language. Overall, the country has been slow to explore global investment products like forex and CFDs. Neighboring countries such as Jordan and UAE established marketplaces for online forex trading at an earlier time.

Banks offering Margin Trading

Resulting from the development of the market, Saudi Arabian

Regulatory Roundup

By Felix Shipkevich

With the looming U.S. elections acting as a timeline, the world of Forex regulation began the quarter in a state of uncertainty. As the scandals tied to Peregrine Financial Group and MF Global faded into the background, regulators began to address the issue of whether Forex would find exemption from pending rules that would soon affect the broader derivatives market.

The confusion persisted well into September, when Barney Frank, co-author of the Dodd-Frank Act, criticized regulators for causing uncertainty in the Forex market. In a letter to U.S. regulators, Frank demanded action, stating that if an exemption was inevitable, it would be a "waste of resources" to force companies to go through the registration process.

The decision would wait until after the election. On November 19, the U.S. Treasury settled much of the confusion when it announced the exemption of Forex swaps and forwards from rules that would bring much of the market under central clearing.

In its decision, the Treasury cited the relatively low counterparty risk of Forex swaps. It also suggested that bringing Forex swaps under central clearing would result in undue costs. The Treasury did not, however, exempt Forex swaps and forwards from new reporting and business conduct requirements.

Meanwhile, the CFTC responded to calls that it had been to slow to act on prior regulatory violations with a wave of enforcement actions. On September 19, the CFTC announced that it was bringing action against ProphetMax Managed FX, which currently stands accused of a defrauding nearly 1,000 clients worldwide of more than $53 million.

U.S.

New NFA Rules

The National Futures Association moved forward with controversial new Forex requirements. In late November, the NFA announced its approval of new capital requirements for FCMs involved as counterparties to Forex transactions with ECPs. The approved NFA rule requires FCMs to maintain at least $20 million in capital, up from the prior $1 million requirement. In terms of capital requirements, this new rule puts FCMs on par with FDMs. The rule was submitted for CFTC approval on November 20.

Simultaneously, the NFA announced its approval of proposals for increased monitoring of FCM accounts. The approved amendments will require an FCM to instruct its depositories holding segregated, secured amount and cleared swaps customer collateral to report those balances to a third party designated by the NFA.

Fiscal Cliff

The exemption issued by the Treasury, the controversial new rules from the NFA, and the enforcement actions brought by the CFTC all took place against the backdrop of ongoing "fiscal cliff" negotiations in U.S. Congress. It remains to be seen if Congress will pass legislation in the 25th hour, or if the dollar will face uncertainty in the New Year.

Europe

After the U.S. Treasury's exemption of Forex swaps and forwards, attention naturally turned to Europe. Yet it is still unclear whether European regulators will follow the footsteps of their American counterparts. Currently, there is no reason to assume that the European Union will follow suit with a Forex exemption. Markus Ferber, the MEP responsible for pushing MIFID legislation through European Parliament, has so far suggested that Europe will not exempt Forex swaps from clearing regulation. Of course, the European Commission and the European Securities and Market Authority will also have a say in the discussion.

In the meantime, Europe looks forward to receding funding risks, better growth, and lower volatility in 2013. All of this depends, of course, on further intervention from the ECB, the outcome of "fiscal cliff" negotiations in the U.S., as well as a bold resolution to the sovereign debt crisis.

Australia

As the global regulatory environment moves toward implementation of new rules, matters of technology have become crucial. In the U.S., the CFTC will soon require audio recordings and all other pertinent data that may have led to a trans-

action. In the case of regulators at the Australian Securities and Investments Commission (ASIC), a new partnership that utilizes HFT technology will be used to monitor markets.

ASIC now plans to use a hosted system to monitor HFT practices. The regulatory agency, which is charged with supervising real-time trading, will also introduce kill switches into its regulatory regime. The new data-mining and marketing technologies will come relatively cheaply, at about $44 million. Should the project prove to be a success, it is likely that Australia's foreign counterparts will follow suit.

China

China's State Administration of Foreign Exchange (SAFE) ramped up over-the-counter deals during the quarter. In November alone, Chinese banks acquired $18.5 billion in foreign exchange currency.

What is the impetus behind the Forex push in China? It appears to be that the notion that China could use Forex funds to secure a potential bailout of its banks—should they need it—is giving confidence to investors.

South Korea

To stem the tide of the quickly appreciating won, South Korea is now curbing exposure to currency derivatives. According to government finance ministers, banks will be allowed to hold 30 percent of their total equity, a ten percent decrease. Foreign bank subsidiaries will now be allowed to hold FX positions of 150 percent, which amounts to a fifty percent decrease.

The South Korean banking sector is already well ahead of international regulatory benchmarks for capital requirements. This cautious approach comes after a series of economic crises over the last decade. Together with its restricted foreign exchange positions for banks, the capital requirements aim at shoring up future issues with Forex liquidity.

Russia

Forex brokers in Russia are continuing their efforts to rein in its image as a haven of fraud. Earlier this year there were reports that Forex regulation was pending. The new regulation was expected as early as January, 2013, but little news of progress has since arrived. The forthcoming rules are expected to instate requirements for a standard dealing license, a minimum of 35 million rubles in capital, and a possible cap on leverage. In the interim, CRFIN, the Russian regulatory organization that seeks to promote more effective regulation of the Forex industry, has issued a report stating that nearly 80% of Russian's polled are interested in trading Forex in the coming year. Of course, the citizens surveyed by CRFIN have three primary concerns: 1) They want a guarantee of substantial legal protection; 2) they want clearer information on potential returns and how to obtain better returns; 3) they want greater clarity on trading activity and execution in particular. CRFIN has suggested that the report flies in the face of the widespread belief that Russians are not interested in the Forex marketplace.

India

Pending regulatory approval, CME Group has announced the launch of new Forex contracts based on the Indian Rupee. The launch for the new contracts is slated for January 28, 2013.

FX Prime Brokerage – Evolving Every Step of the Way

The FX prime brokerage scene first came into play in the early 1990s with the emergence of FX specific hedge funds accompanied by commodity trading advisers and asset managers using FX as a tradable asset class. Initially the market consisted of a handful of players including Deutsche Bank and AIG, but the last few years have witnessed a surge in the number of banks and financial institutions offering FX prime brokerage services. The FX prime brokerage arena has undergone much development over the years as the asset class has become more widely used. New regulations have been implemented along with the market reaching some level of sophistication indicating that this sector is set to reach maturity in line with the current level within the FX industry.

What is FX Prime Brokerage?

Foreign exchange prime brokerage (FXPB) is a mechanism whereby a trading firm (hedge fund or CTA) can trade with multiple counterparties each sourcing their own liquidity (and offering best pricing and execution). With a PB the trading firm has a single relationship and is able to maintain credit relationships (with other executing brokers), place collateral (use the same set of funds to trade with 'other' parties), and settle trades with a single entity with whom they face – their prime broker.

Over the last decade, global FX volumes and the number of participants have increased substantially. Other participants such as retail aggregators, pension funds and smaller banks (tier 3, regional) have opted to use a prime broker due to the numerous advantages they receive. Prime brokers can provide firms with enhanced pricing capabilities as they have access to relationships with other participants, thus providing access to the elite club of FX counterparties. Working with a PB doesn't come cheap though; firms need to deposit an amount of collateral and along with sizable trading volume to compensate their costs of maintaining the relationship.

The Early Days

Sine inception, FX prime brokerage has been a niche element of a bank's business. The business was initially relationship dependant, and banks charged very high fees, while services were limited for fund managers, primarily as a byproduct of lack of volumes. Processes and procedures were driven by manual systems and prime brokers would typically have a large labour force.

This changed significantly after 2004 when more and more trading firms explored the advantages of FX. For example, FX overlay managers were also entering the space and using prime brokers to manage their trade flow.


Jon Vollemaere

The sector underwent a major operational upturn as new procedures were implemented in 2005 when the infamous International Swaps and Derivatives Association, or ISDA for short, Master Give-Up Agreement was introduced. This new contract was put into place to govern the terms on which a fund manager 'gives up' its business with an executing dealer to a prime brokerage firm. The 2005 ISDA Master Give-Up Agreement objectives are to pass the economics of the fund's trade or trades with its dealer firm counterparties to a prime brokerage firm in return for a management fee so that all ensuing transactions are conducted between the executing dealer and the prime broker.

Key features of the agreement include details such as when the prime broker is legally obligated to a trade the fund and the trading limits applicable to the prime broker's relationship with the fund. Products covered by the agreement are interest rate swaps, caps and floors, swaptions, credit derivative transactions, cross-currency swaps, FX transactions and currency option transactions. The Master Agreement is not restricted to fund managers. Other participants such as retail aggregators also sign the same documentation.

Since the 2008 global recession the FXPB market saw an influx of interest from new hedge funds that were being set up by traders from leading banks like Lehman and AIG among others. The industry underwent a major swing and the concept of prime broker plus 1 (+1) was unearthed. Lehman's fall meant that firms large or small were cautious of the safety of their funds and opted for multiple brokers. This new concept causes increased operational drawbacks as the relationship now includes up to five parties when transacting.

The industry has undergone significant changes which has delivered new pressures and hurdles. Carl Elsammak, President and Head of Trading for Kammas Trading believes that counterparty risk is a key element of the current climate, he says "The main challenge (in the FXPB sector) is the conscious realization that counterparty risk has a greater impact when related to peers (other banks or financial institutions) than cli-

Payment Solutions - Get Your Cash

When was the last time you gave much thought to the method of payment you used for your purchase? More likely than not, you simply swiped your credit card, took out some cash, or entered a few numbers into an online ecommerce website. Typically, it's not the payment method we worry about, but the price. The effortless way in which money is transferred has become part of our expectations when performing transactions. This is true if we are buying a carton of milk at the local supermarket or ordering a gadget from the other side of the world. However much of that simplicity is part of an extensive infrastructure that involves lots of technology and moving parts that allows smooth completion of transactions.

A popular anecdote to new drivers when learning how to handle a car is that "driving should be smooth enough that the passenger doesn't realize the car is moving". The same mindset is important for brokers when creating their payment process. While a company's payment solution may not be a 'sexy' subject like trading platforms or real time data analysis, it's a core system for any online business. Have too few options, and customers may go elsewhere. Have too many, and it can become difficult to monitor them. In addition, transaction speed is a major area of importance. With the future becoming the present, and current technology enabling smartphone originated purchases without the need to remove one's wallet from one's pocket, the world is becoming used to transacting business in many more ways than just a few years ago. Therefore, it's important for any broker to have a solid idea of their choices and how each option works.

At the core of every business is a payment solution process that allows buyers to purchase goods from the company. For clients of brokers, this entitles sending the firm funds that will be deposited into their accounts. Before the wide scale use of account funding via credit cards, most account deposits at financial institutions were conducted by wire transfers, checks, cash, or through some sort of direct deposit mechanism. In each of these methods, the funds are sent to a financial institution's bank with a note of who the deposit is from and their account number. The broker then deposits a similar amount (minus any accompanying fees) in the corresponding trading account. While bank transfers continue to be a key payment solution for brokers, cross border limitations have caused physical cash and check deposits to become obsolete. Therefore, the majority of payment solutions revolve around three main methods, bank transfers, credit cards, and e-wallet payments.

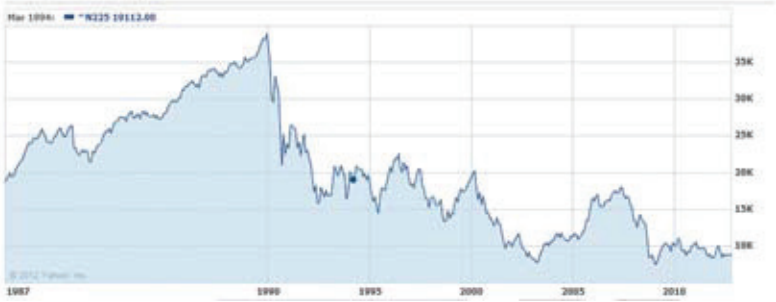
Credit Cards

With around $1 trillion charged to credit cards every three days globally, credit card transactions have become the driving force for conducting online business. For brokers and binary options providers, the same is true; credit cards provide a simple and quick way to facilitate both client deposits and withdrawals. To facilitate credit card transactions, brokers partner with a payment solution company such as SafeCharge, Netpay, or AllCharge. Before agreeing to work with a broker, the payment company conducts due diligence to determine who is backing the financial firm, its business plans, and regulatory status. After deciding to work with a broker, the payment solutions provider will then introduce the firm to merchant acquiring banks. Due to their relationship with acquiring banks, payment solutions providers only introduce brokers which meet certain criteria. As a result, unregulated brokers, or firms expecting to do business in regions that are considered high risk due to credit card fraud are often rejected by the payment providers. For binary options providers, regulation is a sensitive issue. Until recently, binary options providers were allowed to legally operate without regulation. As a new industry, the product lacked formal laws from regulators that classify its status. Without a regulation, this led options companies to have a narrower choice of payment solutions companies to work with. However, CySec, the Cypriot financial regulator, has recently passed binary options trading laws to regulate the product. This provides a binary option broker the ability to gain regulation and partner with more payment solutions providers.

Shemer Katz, VP Product and Market at SafeCharge

The role of the acquiring bank is to receive credit card transactions and transfer funds to the bank account in which the broker keeps client funds. Although an account is opened with a merchant bank, money is never held by the bank (except the rolling reserve, read below) as they simply receive and transfer the funds minus fees. Acquiring banks around the world include RBS, Barclays, and Chase. Companies receiving funds from European clients, however, will need to partner with an EU merchant bank. Also, while a broker only needs to create a relationship with one merchant bank, some payment solutions providers establish multiple accounts for brokers. This is due to merchant banks using different criteria directing the acceptance or rejection of transactions. SafeCharge, a pay-

Surviving and Thriving in Japan



Nikkei 225

Mired in a 20 year plus downtrend, the Japanese equity market has experienced plenty of false moves higher only to retreat. At around 9000, the index is currently trading at around 25% of its late 1989 highs. Seeing little value in Japanese stocks, retail traders have moved towards forex trading and the ability to profit in both an up and down market. For a public that sees little value in local equity trading, the opportunities in forex have appealed to Japanese traders and led the retail industry to become a around $2 trillion/month market. As a result, Japan is the number one market by volume and accounts for around 35% of global retail currency trading.

Beyond the rotation from equities, the country's export driven economy is another catalyst for the growth in forex. With much of the general public having a grasp of currency price changes due to its effects on the economy, educating traders in forex is much easier than in other parts of the world. Also, the ability to trade with lots of leverage is an advantage that the forex market offers to risk taking traders. The popularity in forex led to an oversaturation of brokers servicing the product and seemingly new companies sprouting up every day.

2011 Regulation

The competitive market ultimately led to companies offering tighter spreads as they sacrificed their profit margins to grow their businesses. With margins already dropping and weaker firms exiting the industry, the market took a hard blow in 2011 when the Japanese regulator, Financial Services Agency (FSA), passed new regulation that decreased available margin forex trading from 50 to 25:1. The immediate effects were a drop in trading volumes. To compensate, forex brokers further tightened their spreads to trigger increased volumes. The result has been that volumes have rebounded in 2012 after an initial fall in 2011, but profits per trade have decreased. When asked about the effects of volumes after regulation, one large Japanese broker who preferred anonymity answered "Many people think Japanese FX market is going down by leverage regulation, but in these days, volume is going up and forex deposit is keep increasing, and Japanese FX market is still the biggest market in the world."

As opposed to some countries where tighter regulation has been welcomed by the general public, in Japan's case it has been met negatively. The same large broker explained that "Before the FSA made the changes to leverage, they asked the public for feedback, and many customers sent their disagreement of the proposal to the FSA." The broker added that after the regulation was passed, many large traders have created corporations for their trading as companies are unaffected by the new laws. Similarly, Mr Kousuke Kotani, Corporate Strategy Department, GMO CLICK Securities commented that "regulation reinforcement has increased soundness and transparency of the market, but some clients said that they wanted to trade in leverage 50:1. So I think some clients do not welcome excessive regulation."

Better Service and Wider Product Range

Other than the tighter spreads, customers have also benefited from better service. When polled about important factors for Japanese brokers to stay relevant, service was one of the leading answers. Shion Ikizake, Director at Hirose Financial UK explained that "Forex companies are now required to offer more (and better) services to meet client needs; if these can be realized, the market still has room for growth." As competition has increased, it has given power to customers to be more selective with whom they decide to work with.

Also, to meet client demands, brokers have been increasing their product offerings. Examples include the launch of binary options trading, more sophisticated mobile platforms,

FastMatch – Bridging the Gap

FASTMATCH

Keeping its participants happy is one of the most important aspects of running a forex ECN system. While that idea seems pretty simple, it's not. Every forex ECN wants to attract as much business as possible, however not every trader's needs is the same as everyone else. A bank liquidity provider already has an established business offering pricing to its clients who trade using the bank's proprietary platforms and receive tailor made quotes depending on their relationship. Therefore, when providing a 'one size fits all' quote for a multi-party ECN, understanding what types of traders are on the system factors towards the pricing they will provide. As such, while liquidity providers can take advantage of using an ECN to offer their pricing to a larger audience of traders, they will tend to quote to the worst customer. For liquidity takers, trading with an ECN provides access to a greater selection of market participants without the need of creating individual relationships with many banks, with the goal of receiving tighter spreads to trade on.

Handling the differences of needs of these two segments can become a difficult task. On one hand, traders are looking for tight pricing. But on the other hand, banks don't want to be burned by traders deemed 'toxic'.

The needs of each side have created two different types of pricing systems; quotes and orders. In a quote system, liquidity providers distribute a quote and market depth for each currency pair. When a trader hits a bid or takes an offer, the order is sent to the bank who has 'last look' and can decide whether to accept the trade or not. A quote system allows liquidity providers to analyze whether their pricing is consistent with the market before authorizing a trade. For traders, although pricing on such a venue will be tighter, it leads to order rejections. As such, in such an environment, traders will analyze their fill ratios and then use smart order routing to send orders to the market maker most likely to execute their trade.

In contrast, with an order based system, 'what you see is what you get', and quotes being offered are tradable prices. Leading ECNs EBS and Reuters are order based systems. For the advantage of providing tradable quotes, liquidity providers though will desire greater transparency among participants and their trading activities. ECNs will also provide rules of what type of trading is deemed acceptable, in order to reduce 'toxic' flow which will send their liquidity providers away. By understanding the scope of traders on the network, market makers can offer more liquidity depth with their quotes.

Fast Match

Striving to bridge the gap between the needs of liquidity providers and takers, FastMatch was launched in mid-2012. The venue is a jointure of FXCM, Credit Suisse, and FastMatch's founders. While FastMatch is technically called an ECN, it is really a pricing engine, whose original technology was initially used for the equity world. Although equity trading is centralized with an exchange system, the order flow is fragmented with numerous ECNs operating around the main order books. This led to the creation of trading platforms that can not only send orders to the 'top of book' but distinguish what is the best venue to execute an order at. While small orders will be best sent to whoever is offering the best bid or ask, with larger orders there are more factors at play. Most important is staying anonymous to prevent front running or quotes disappearing from the market. Also, speed is a major factor as many quotes only appear momentarily. To facilitate the needs of traders, trading platforms began to offer tools that provided such features as masking the real order size a trader was working on as well as aggregating trades to multiple venues to increase fills and maintain a lower profile. Using technology from equity trading that focused on speed and order flexibility at its core, FastMatch was created.

Unlike other ECNs, FastMatch allows liquidity providers to provide both quotes and tradable orders into the system. Also, the network is composed of four trading 'rooms'; retail, GUI, general, and bank to bank. Based on the trading habits of the liquidity takers, they are assigned to one of the rooms, where liquidity providers will stream pricing that is tailored for that room. The benefit of the room system, is that it allows participants of the ECN to remain anonymous, but provides the liquidity providers a better understanding of the types of traders in each room to tailor correct pricing. As such, in the retail room, knowing that the order flow is from retail clients, marker makers can provide tighter spreads, but will widen their pricing in the general room where high frequency trading is allowed.

Although the ECN allows for liquidity providers to offer quotes, FastMatch has been working with marker makers to provide more tradable orders along with their quotes. The result for traders is that they have access to both streams of pricing. As such, if a trader is buying the EURUSD and sees a quote from one bank at 1.3010 along with an order at 1.3010, they can take the guaranteed fill and bypass the quote. In a situation where a quote is being offered more aggressively than the order, FastMatch's speed comes in to play.

Automated Client Engagement: cPattern & CorrSight Review

Forex startups cPattern and CorrSight believe that converting new clients is a hard and expensive enough of a process, keeping them active shouldn't be. Therefore, they have both developed products for the retail forex industry that provide end-user traders with automated real time engagement, thereby creating virtual retention managers to work with customers. For brokers, the end results are more active clients with higher long term values.

CPattern

With a background in Behavioral Science, CPattern Founder Oded Shefer set out to track the behaviors of traders, rather than looking at moves in the markets. What he wanted to know was whether there were specific actions that traders did that made them more successful or caused losses. The result was the creation of Guardian Angel, the retail forex market's first product that analyzes client behavior in real time.

Guardian Angel works as an embedded system on a client's trading platform and analyzes trader actions relative to the market. The system sends messages to the trader based on the types of trades taken. According to Shefer "Guardian Angel's goal is to be an automated retention system that works in any language and provides objective information, but not advice to clients."

The product does this by providing historical and real time analysis of trades. Examples include sending a message to traders that they are using too much leverage and their trade size is risky, congratulating traders on a winning trade but also providing a cautious note that "traders with large wins can make riskier decisions, so be careful", encouragement to clients who have lost money, and recommended stop loss sizes based on current volatility. In the statistics section, Guardian Angel provides analysis on the types of trades being made such as average P&L for EURUSD trades is positive, but negative for the USDJPY, or trades conducted during a specific period of time are better than others. Traders can then use this information to gain a better understanding of their own behavior and become more sensitive to the market, and help them fine tune their trading.

In addition to the messages, CPattern provides links to further information about the comments being provided. Therefore, a message about stop losses or volatility will include a link to content explaining what stop losses and volatility are. Brokers using CPattern are encouraged to add their own content and branding to the provided pages for their customers.

Broker Side

As mentioned above, the goal of the product is to provide a constant resource of engagement to Guardian Angel users. This is especially important for smaller size clients that may not be worth of assigning a dedicated Retention Manager to handle. However, this doesn't mean that the Guardian Angel renders the roles of a broker's support staff moot, as CPattern provides additional broker side analysis tools to assist sales and retention people.

On the broker's side, CPattern's analyzes trader behavior to determine when a client starts showing signs of giving up. It does this by cross referencing a trader's real time actions versus the company's database of historical actions. For example, if CPattern's analytics platform determines that the types of trades being taken by a client indicate that they are highly likely to quit trading, a message will be sent to the broker's CRM to allow them to act in real time to save the customer.

Similarly, selected demo users who fit CPattern's profile will be offered a promotion to make a deposit. CPattern discovered that leads who click on this message are much more likely to convert to real clients and will send a message to the broker about the trader's interest. CPattern provides the broker side analysis on a stand-alone program or for better results can be integrated into a firm's own CRM platform, with messages appearing as cases and an up to date description of each trader's trading activity.

According to CPattern, in a sample of 1477 Guardian Angel users Vs. 1376 controls (traders who made at least 5 trades, across several brokers and several months of trading), the following statistics were found; 13.86% increase in volume and 43.3% increase in trades for Guardian Angel users. Currently, Guardian Angel is available as a plug-in for Metatrader 4 servers or can be customized by CPattern to work on other trading platforms. CPattern also has a relationship with both Boston Technologies and Leverate which allows their clients easy access of the product.

Major News of the Quarter

October

Announcing the Launch of Asia's Largest Financial B2B Expo - iFXEXPO Asia

iFXEXPO

Forex Magnates and ConversionPros announce the hosting of the iFXEXPO Asia taking place January 23-24, 2013 at the Venetian Macao Resort Hotel in Macau. The iFXEXPO Asia is a series of expos focused on the retail Forex and Binary Options industry. "The iFXEXPO Asia is a continuation of our successful iFXEXPO International event which was held in Cyprus last May. We attracted over 40 exhibitors and over 1,100 attendees," said Gal Ron CEO, ConversionPros.

The extensive two day program includes several panels focusing on the latest trends and developments within the South East Asian region and will cover topics such as marketing, liquidity and more.

Read the Entire Article

Detailed broker information for the largest brokers in terms of volume

FXCM
Saxo Bank
Alpari
IG Group
OANDA
Gain Capital
GFT
CMC
FxPro
GMO Click Securities
DMM.com
CyberAgent FX
Money Partners