

Retail FX: Market Overview

ECB Briefing

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Coverage: Retail brokerage issues across all asset classes—wealth management practice

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Agenda

- 1) Market Structure
- 2) Key Statistics
- 3) Customer Demographic Profile and Preferences
- 4) Major Industry Trends



Retail FX: Market Structure



- Retail FX Market Participants

- Global brokers (n>50)
- Regional brokers (n>50)
- Affiliate brokers (n<20)
- Global banks (n<10)
- Regional banks (n>100)
- Securities brokerages (n>20)



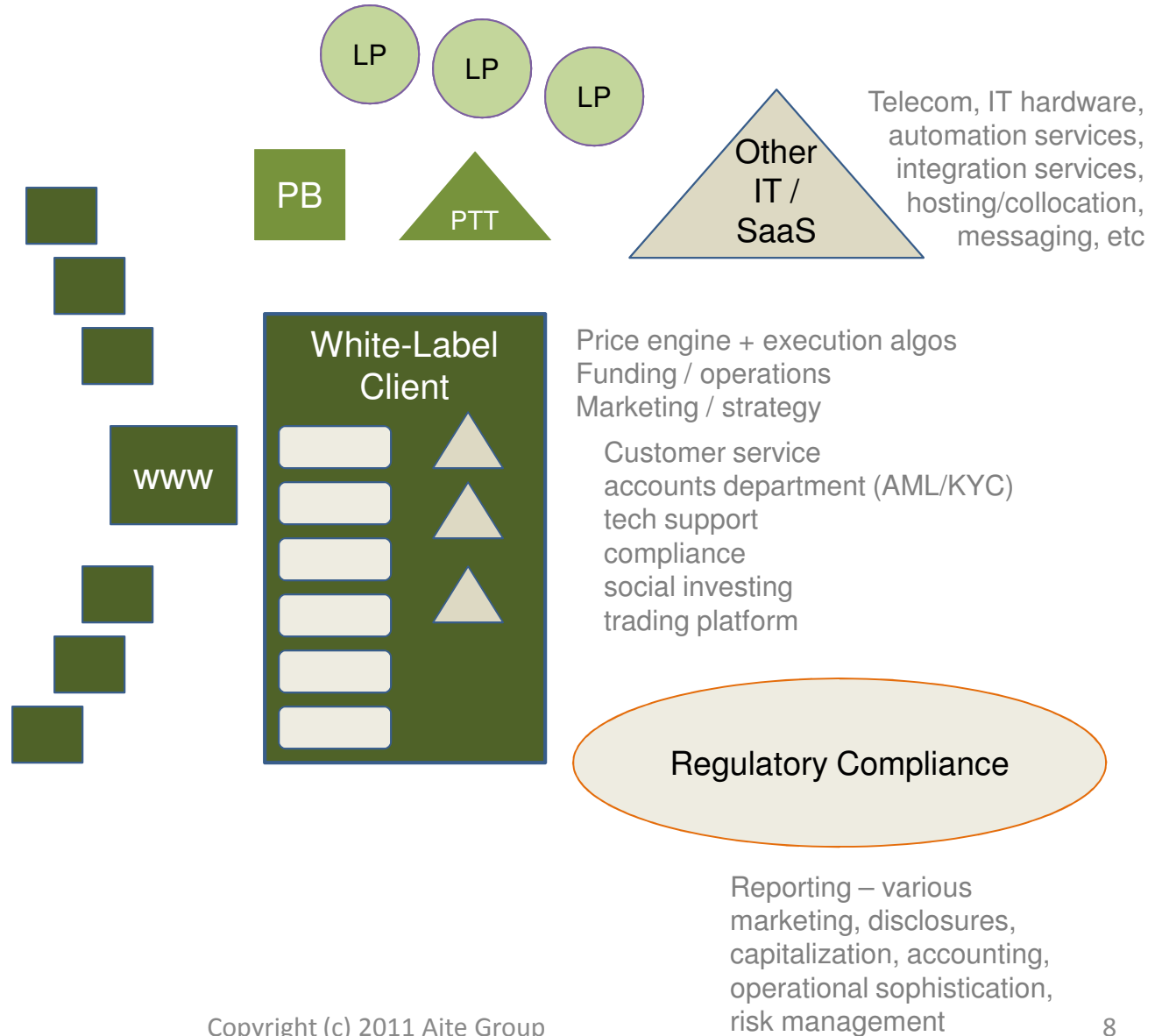
- Retail FX Market Participants, continued

- Technology providers (n>50)
- FX liquidity providers (n>100)
- FX prime brokerage providers (n<20)
- Major regulatory bodies (n<15)

Retail FX brokerage setup. White-label new entrant



FX Trader

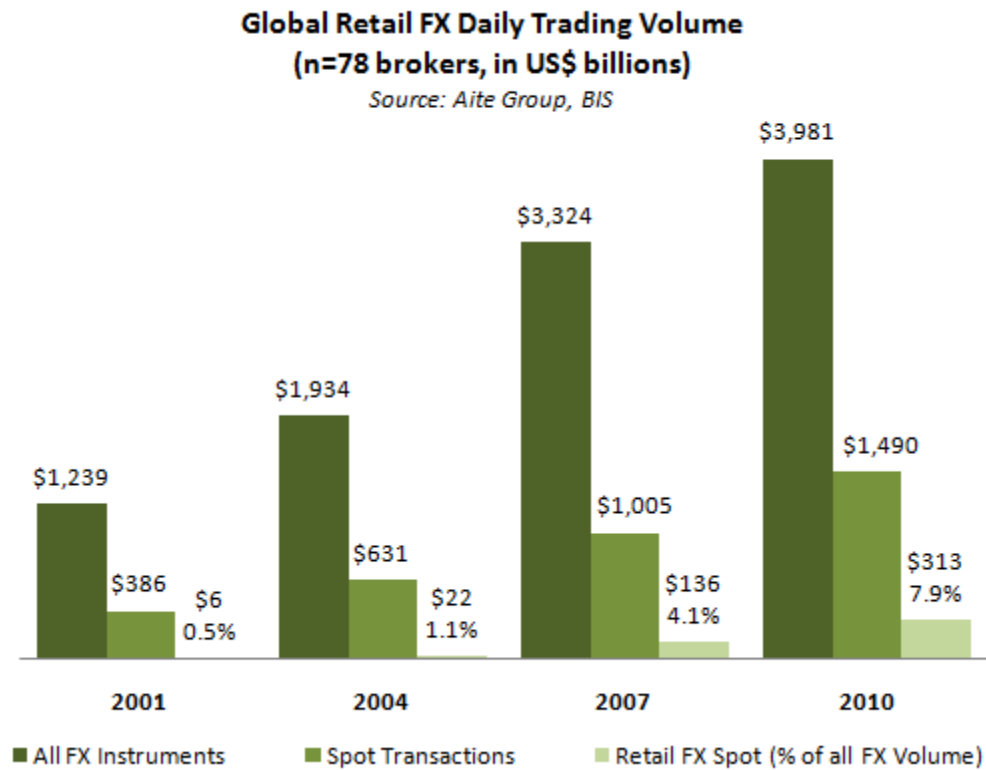


- New entrants. Compelling reasons favoring white-labeling (licensing) solutions over in-house solutions:
 - High mission-critical and other technology costs
 - Constantly changing bespoke liquidity protocols
 - High learning curve for FX retail brokerage:
 - Competitive landscape
 - Front-end technology
 - Middle- / back-end technology
 - Customer preferences

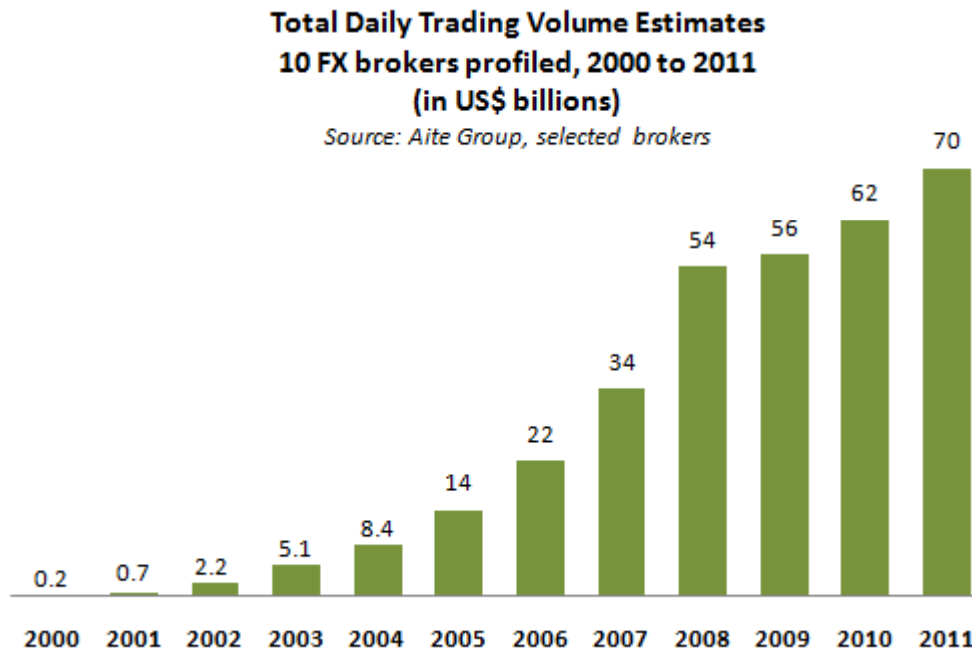


Retail FX: Key Statistics

- Volume increased with economic turmoil



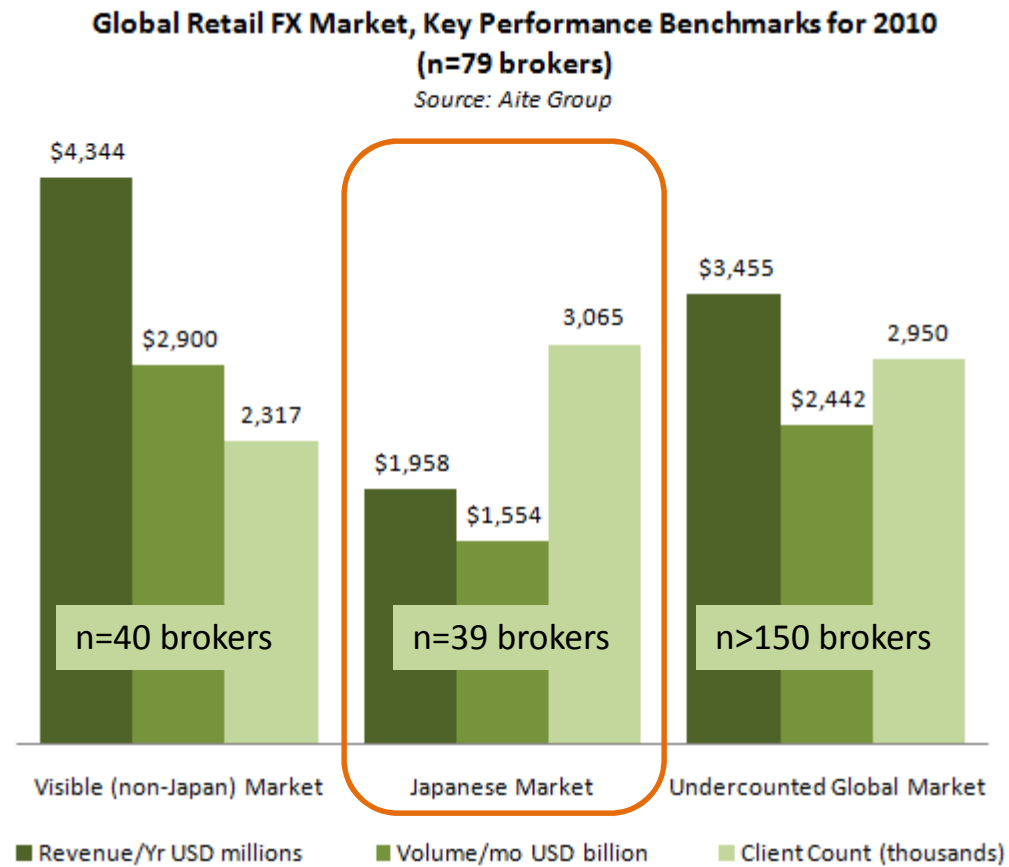
- 2006 to 2008 was a banner period



FX Firms profiled:

Saxo Bank
FXCM
Oanda
Gain Capital
GFT
Dukascopy Bank
MIG Bank
FX Solutions
IBFX
FXDD

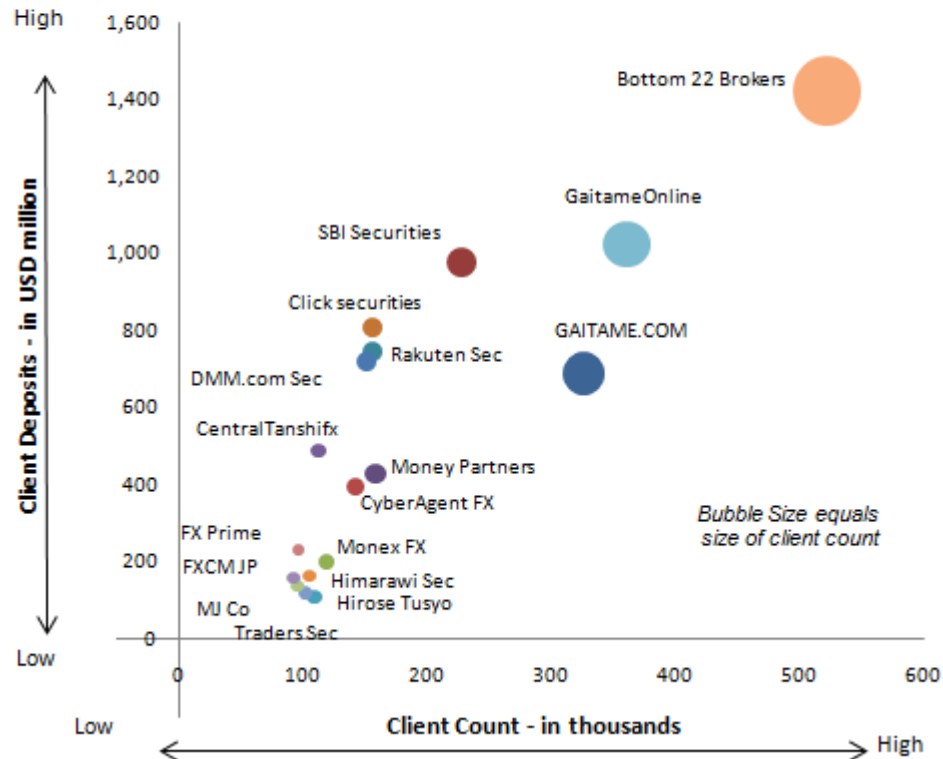
- Japan: Lower FX volume/trader, many traders



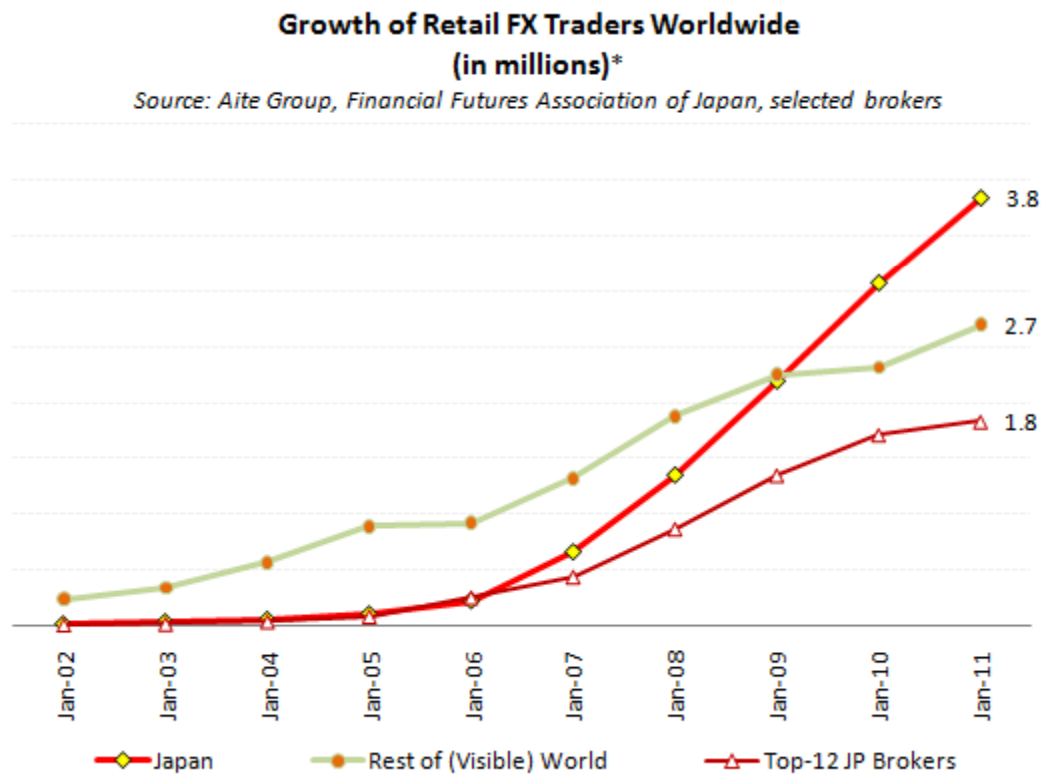
- Leading Japanese FX Brokers

Japan, Largest Retail FX Brokers
By client count and client deposits

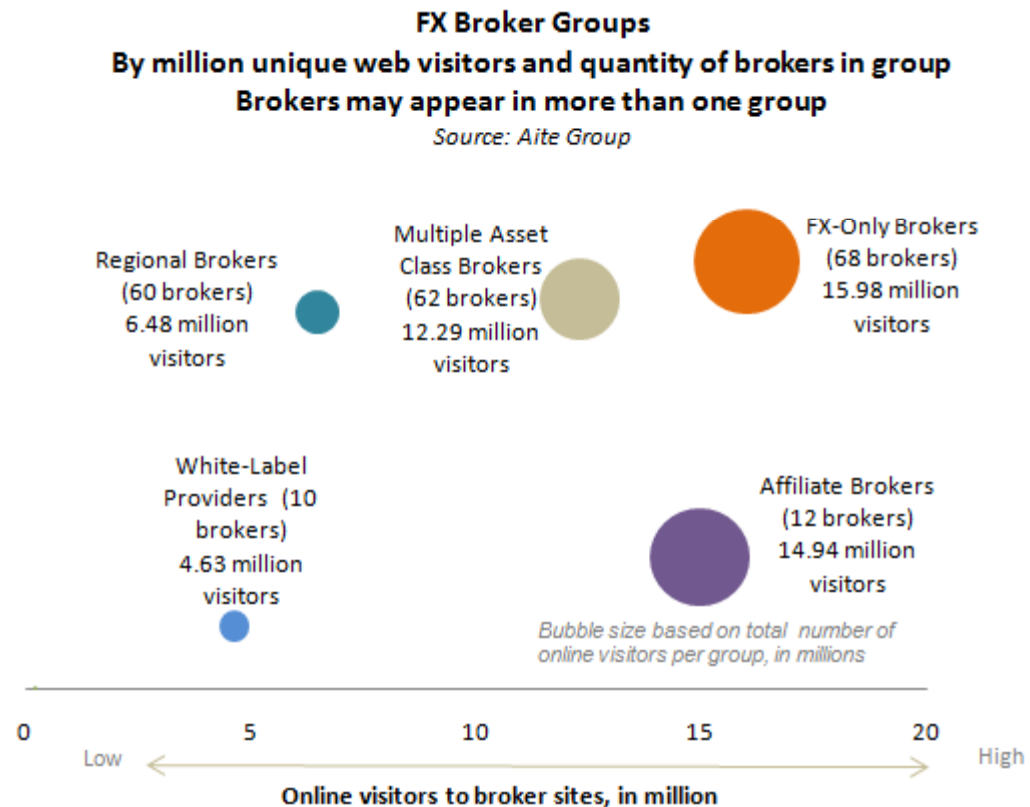
Source: Aite Group, selected brokers



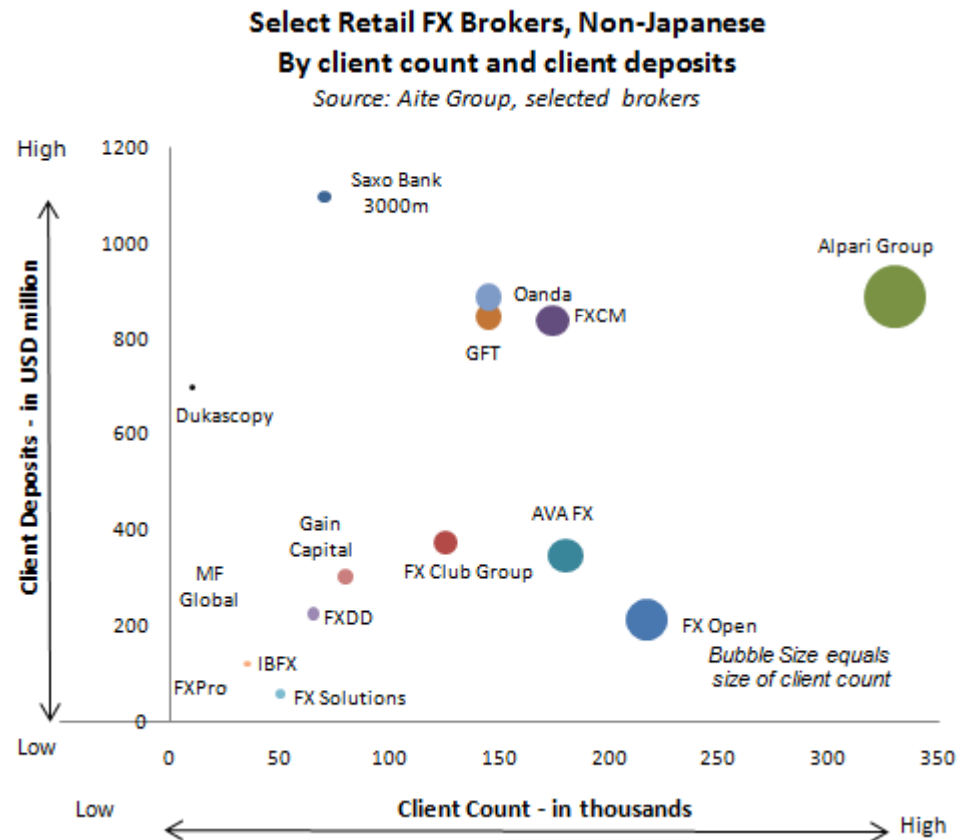
- Japanese new-entrants drive most growth since 2009



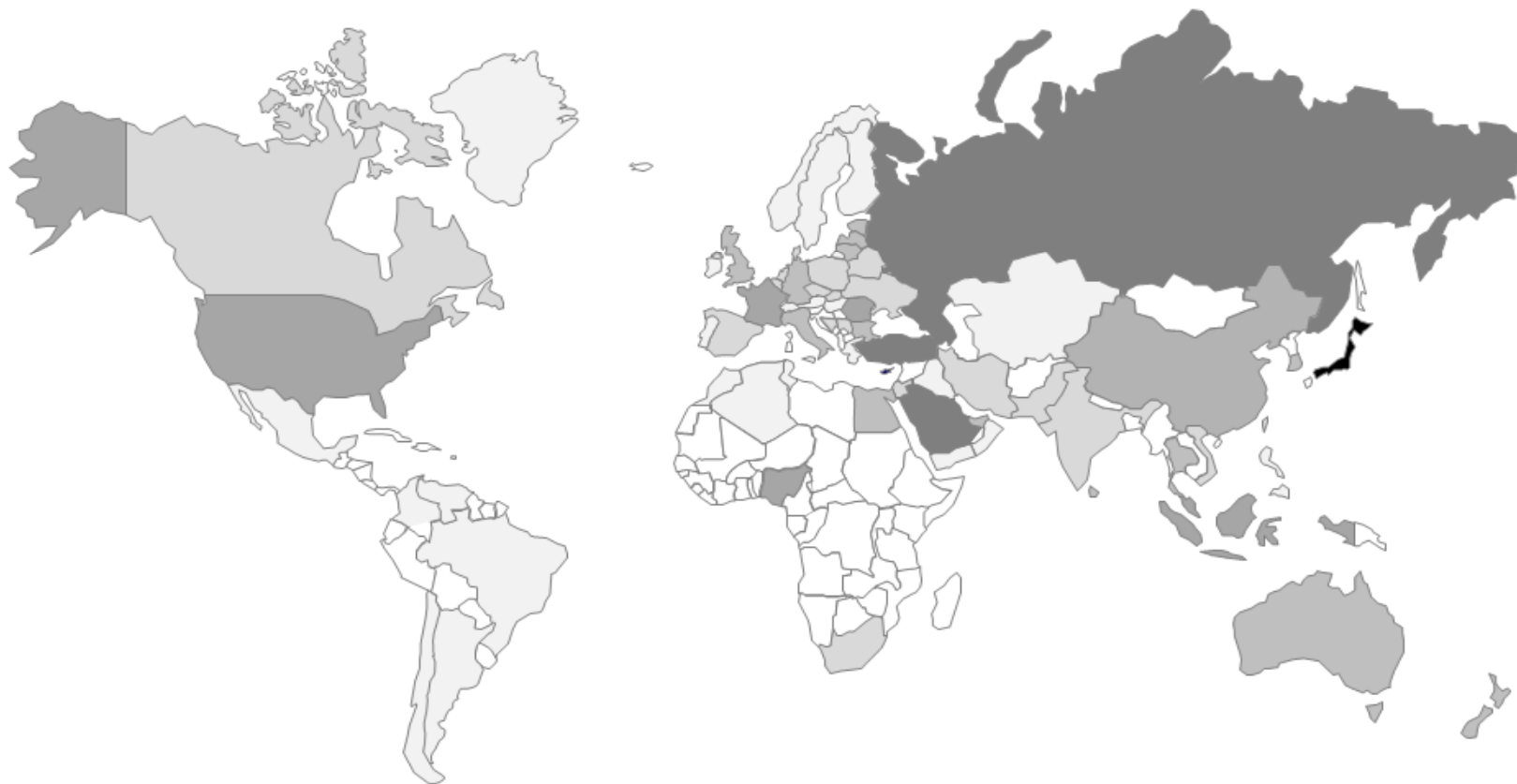
- FX-only and brokers using affiliate programs attract the most online traffic



- Select FX brokers outside of Japan



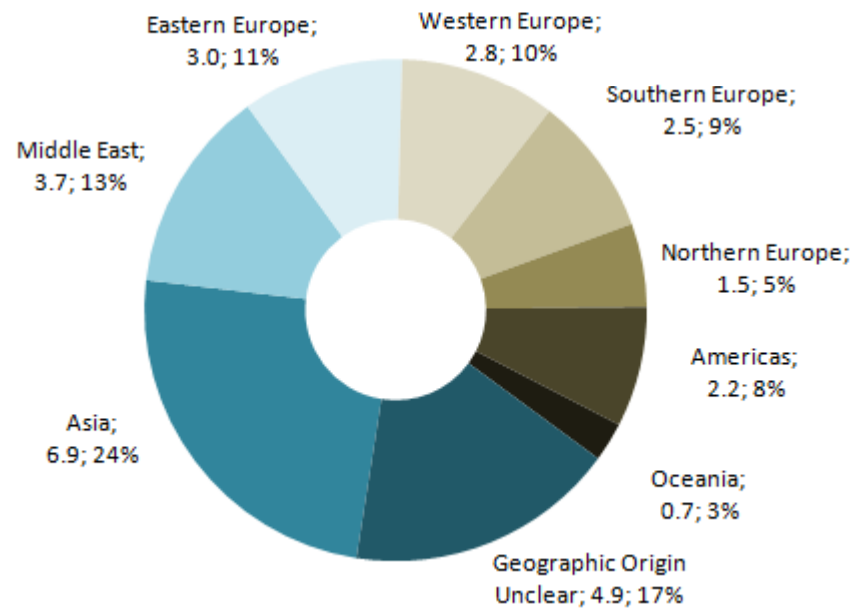
- Retail FX web visitor heat map*



* Dark areas denote higher numbers of retail FX online visitors

- Europe accounts for 35% of retail FX web traffic

Geographic Location of FX Online Visitors to Broker Websites
Millions of unique visitors, May 2011
(n=28.3 million visitors, from 305 FX broker websites)
Source: Aite Group, Google



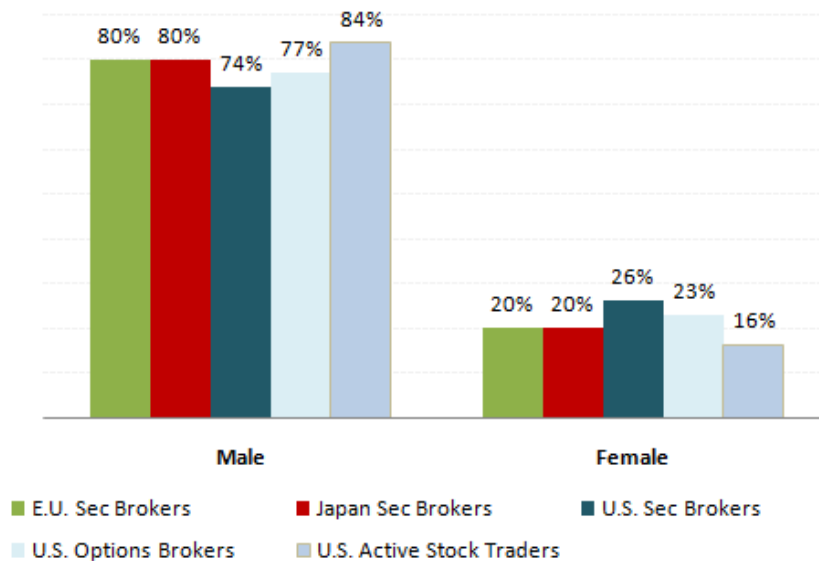


Customer Demographic Profile and Preferences

- Retail FX trading attracts a larger minority of female participants than what is seen for stock trading

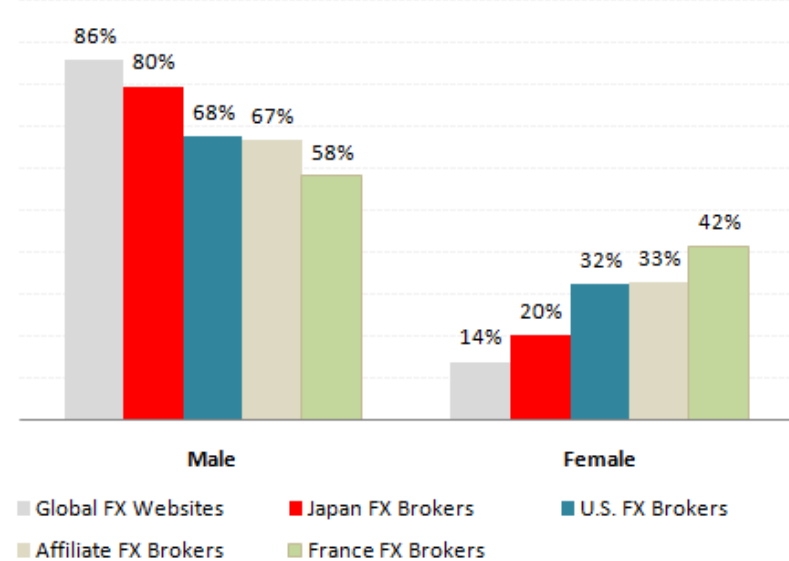
Gender Breakdown: Stock Brokerage Accounts

Source: Aite Group, Google



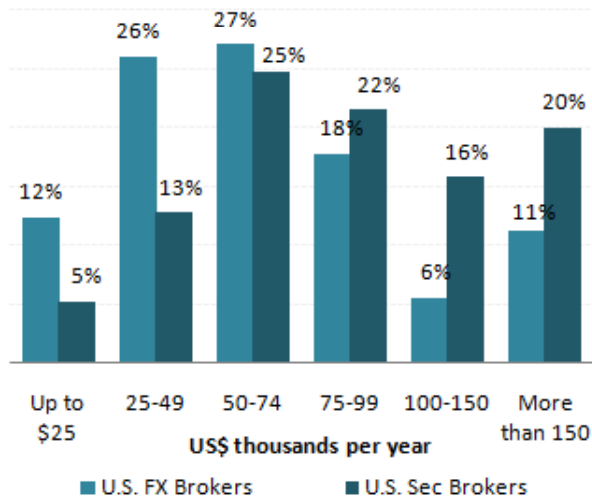
Gender Breakdown: Retail FX Traders

Source: Aite Group, Google

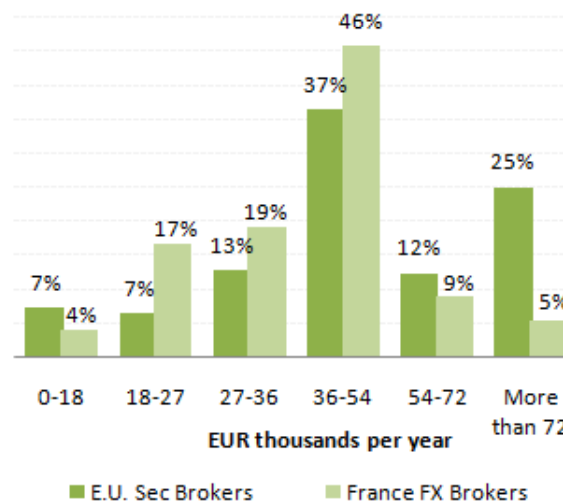


- Retail FX brokers tend to be less affluent than stock traders

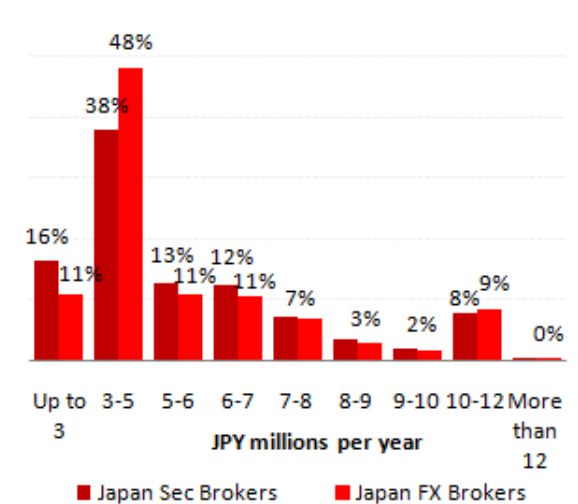
**U.S. Household Income
FX and stock traders, (n=10 firms)**
Source: Aite Group, Google



**Europe Household Income
FX and stock traders, (n=9 firms)**
Source: Aite Group, Google



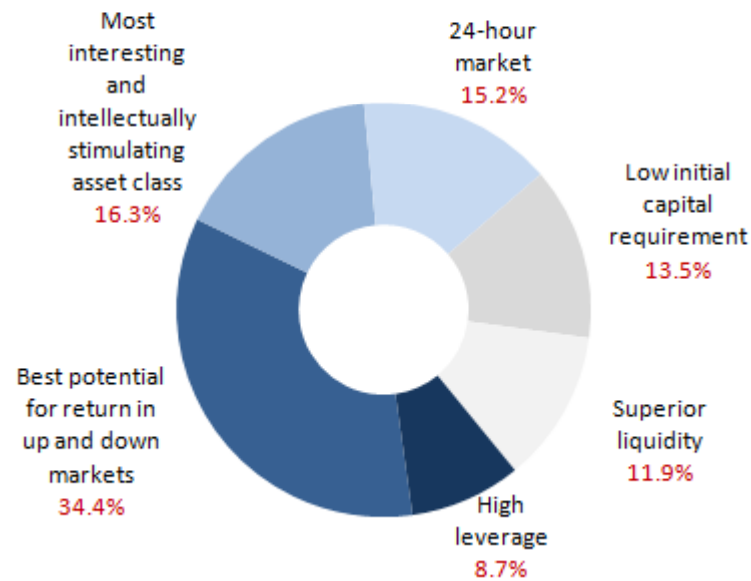
**Japan Household Income
FX and stock traders, (n=11 firms)**
Source: Aite Group, Google



- Retail traders see spot FX as an attractive market for periods of economic uncertainty

Q. What is the Strongest Reason for You to Trade FX?

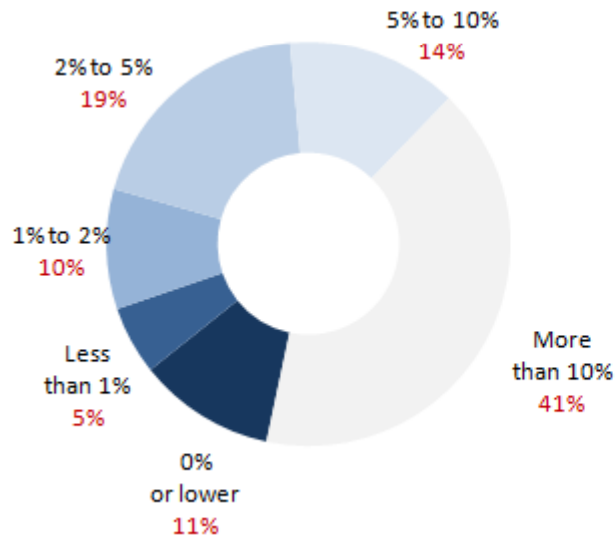
Source: CitiFX Pro Survey, (n = More than 3,000)



- Retail FX traders have high return expectations as they enter the market; EU traders are the most sanguine

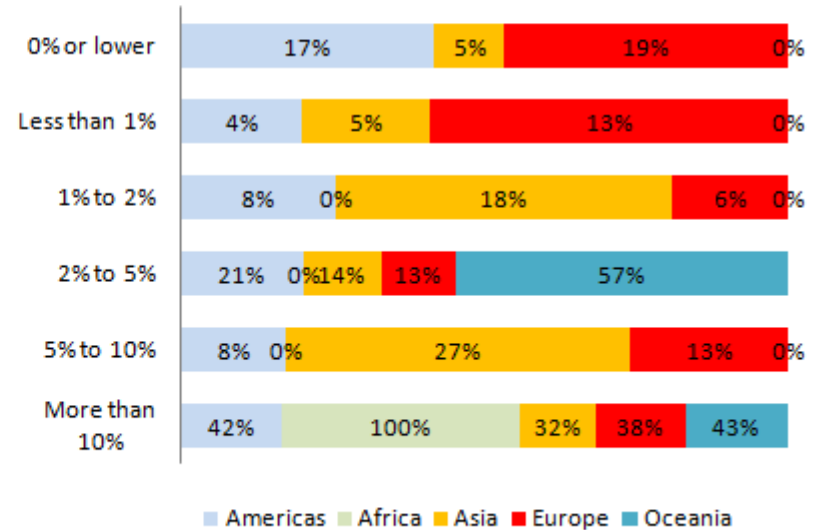
Q. What Monthly Return Do You Believe That You Can Achieve Trading Currencies? (n = 73)

Source: ForexDatasource, Aite Group

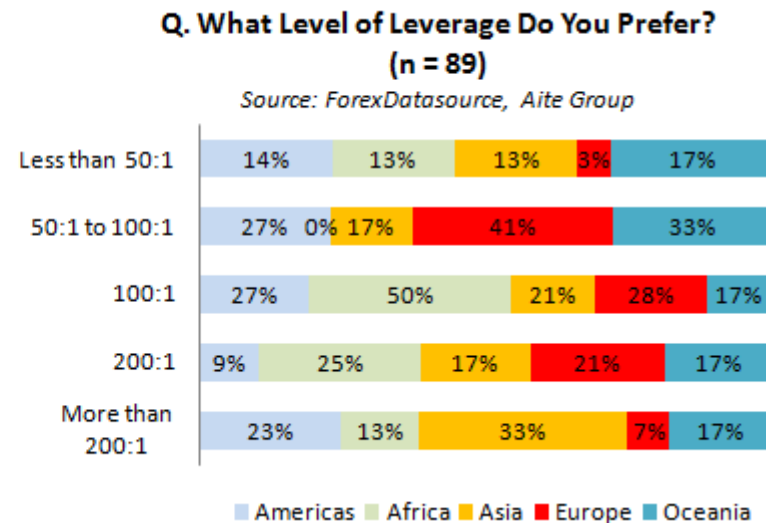
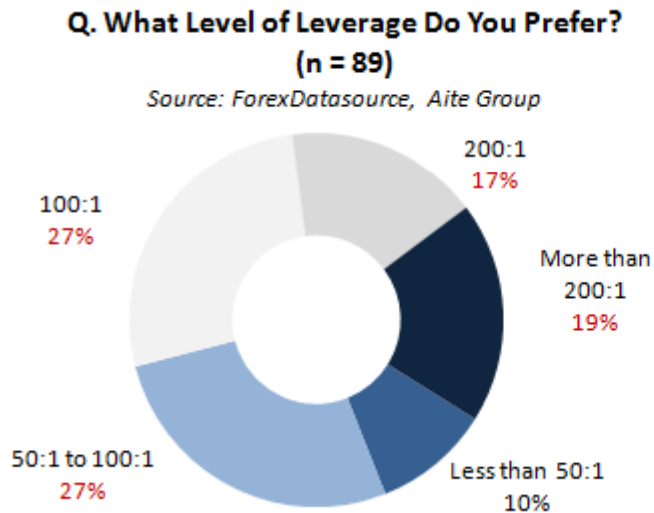


Q. What Monthly Return Do You Believe That You Can Achieve Trading Currencies? (n = 73)

Source: ForexDatasource, Aite Group



- Europeans prefer a leverage between 50:1 to 100:1





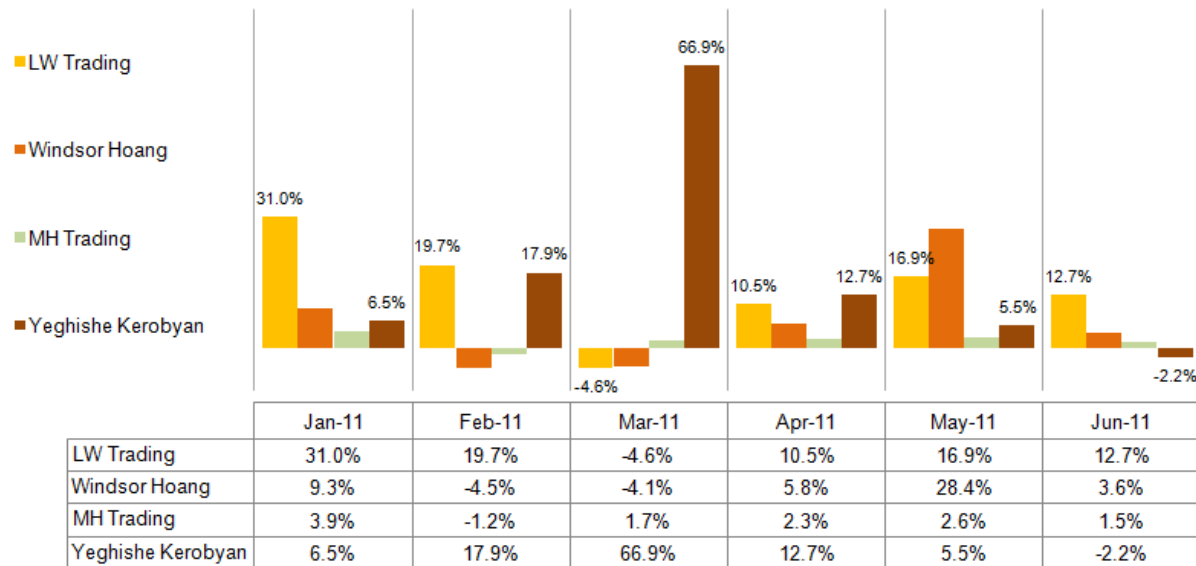
Major Industry Trends

- FX social investing (copy-trading)
 - 5 major proponents:
 - Currensee (U.S.-based, U.S. registered introducing broker)
 - eToro (Cyprus-based, registered introducing broker in U.S., Europe, and Australia)
 - ZuluTrade (Greece-based, U.S. registered introducing broker)
 - Tradency (Israel-based, U.S. registered introducing broker)
 - Collective2 (U.S.-based, U.S. registered introducing broker)

- FX social investing (copy-trading)
 - Social investing firms redistribute the trading success of a group of select traders/trading systems to benefit passive FX investors, using trade replication technology
 - Passive investor can:
 - Turn on/off trade replication
 - Select trade expert/trading system to follow
 - Manage the level of risk assumed
 - Keep 100% control of funds in account

- FX social investing (copy-trading)
 - A well-structured social investing program can benefit millions and be a major source of growth for retail brokerage across asset classes

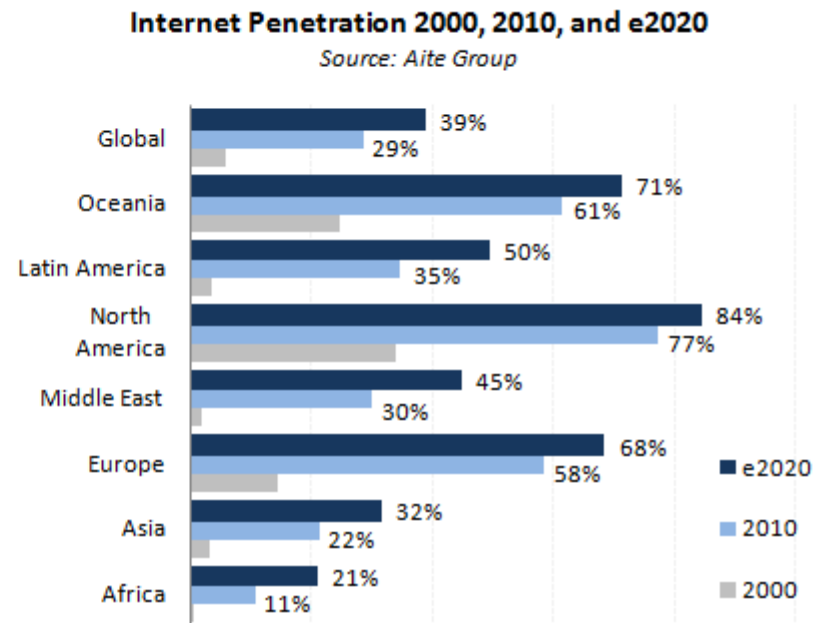
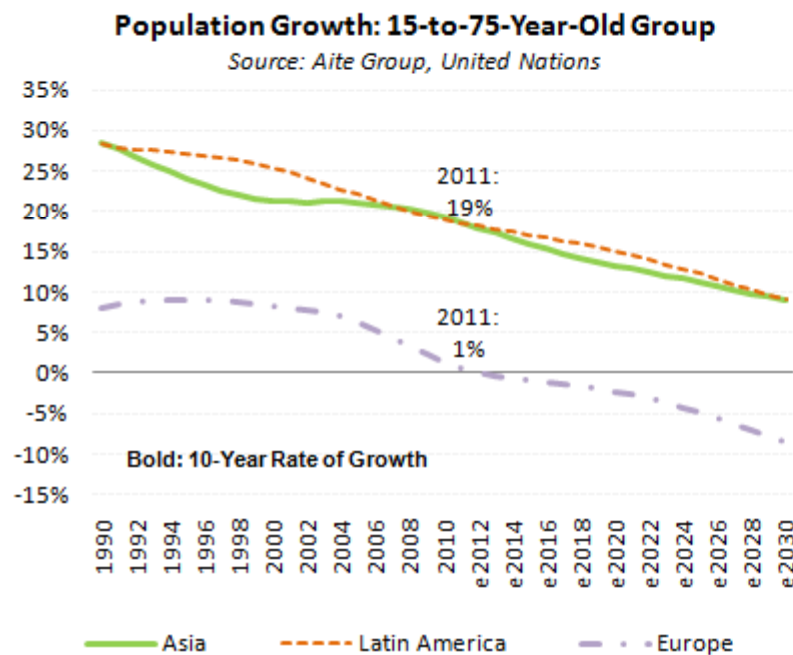
Top Currensee Trade Leaders: Monthly Performance, January to June 2011



- Increased regulatory awareness of retail FX in most jurisdictions
 - U.S. banking and securities regulators pass retail FX rules to enable its registrants to participate in retail FX
 - Lower maximum-leverage levels are set in various jurisdictions, ranging 25:1 to 50:1
 - U.K. regulators administer fines even as more retail FX volume shifts from the U.S. and Switzerland to London
 - Select national regulators in Europe are asking retail FX brokers to demonstrate better operational expertise
 - The Cyprus-based FX brokerage business is robust and has been largely unaffected by regulatory changes elsewhere

- The decision of U.S. banking regulators to allow banks to participate in retail FX will:
 - Contribute to the market's gradual institutionalization in the United States
 - Make it easier for new major markets like China, India, and Brazil to pass competitive retail FX rules in the coming two years

- Online trading demand in the future will be more concentrated in Asia and Latin America





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