FX Execution Algos

Taking stock

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Agenda

• Algo Volumes – Current State
• A slice of history (Algo adoption, Provider Topology, Strategy Evolution)
• Acquiring Algo Execution Capability – End User Perspective
• Providing Algo Execution Capability – Provider Perspective
• Algo Selection & Access
• Outstanding Issues
• FX vs EQ
Algorithmic adoption – contributors

• Contingent Orders – Transparency
• Anonymity
• Size of order
• Appetite for patient execution – avoiding spread on block (urgency/cost)
• Fragmentation – access to liquidity pools
• More control of trade planning
• Risk management according to utility

NBIM
Provider topology – evolution

Algo
Voice
eFX

1
3

1
2
3
4

Algo
eFX
Voice

Schematic

Distribution Channel

Algo
eFX
Voice

Algo
eFX
Voice

Street
IME

NBIM
Buy or Build? Provider perspective

- Generally, three options:
  1. Build
  2. Buy
  3. White-label

- In reality, it is a continuum

Nordea
Build or Buy - 2?

- Implementation path decision
  - Cost
  - Time to market
  - Size of the provider
  - Timing

- Future trends
  - More white-label and partnerships
  - D2C platforms already facilitate white-label solutions
  - Opens the space for non-banks

INNOVATION ADOPTION LIFECYCLE

*Source: Wikipedia*
Algo Execution – End user perspective

1. Banks
   - **Pros:**
     - No upfront fixed Costs
     - Competition/Innovation
     - Institutional processes for risk mitigation & control
   - **Cons:**
     - Principal business – confidentiality?
     - Generic strategies/One size fits all

2. Build
   - **Pros:**
     - Match Utility
     - Confidentiality
   - **Cons:**
     - Large Costs
     - Staffing
     - Risk & Control

3. Tech (EMS/ECN)
   - **Pros:**
     - EMS: Bespoke liquidity
     - ECN: Anonymity
   - **Cons:**
     - Credit/PB layer
     - EMS (not core competence)
     - ECN (limited liquidity access)
Algo strategies - Evolution

- Full set
  - Peg
  - Adaptive TWAP/PoV
  - TWAP
  - VWAP
  - Float/Sweep

- Core
  - Peg

- Principal

- Franchise
  - Peg

- 2005 - 2010
  - TWAP
  - VWAP
  - Float/Sweep

- 2010 - 2015
  - Adaptive TWAP/PoV
  - Float

- Non Scheduled
- Scheduled
Algo selection, access and monitoring : Current trends

• Selection process – some examples
  • Qualitative
    • Transparency, Anonymity, Sales effort/consulting & fee, Algo Suitability/adaptability, Credit Availability, Trial and error
  • Quantitative analysis
    • Market impact, spread retention and internalization are important metrics (amongst others)

• Access channels
  • Voice
  • Single/Multi Dealer Platforms
  • OMS/EMS systems
  • API

• Monitoring
  • Soft real time through visual inspection of in-flight algos
  • Post-trade analysis
  • ‘Little’ systematic monitoring
Outstanding issues

• Confidentiality
• TCA
• Liability
Equity vs FX

- Algo
- Block
- SI/Risk Flow?
- SI
- Lit Markets
- Dark Pools

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