FX Execution Algos
Taking stock

Ankur Pruthi, Norges Bank Investment Management

Lars Henriksen, Nordea

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
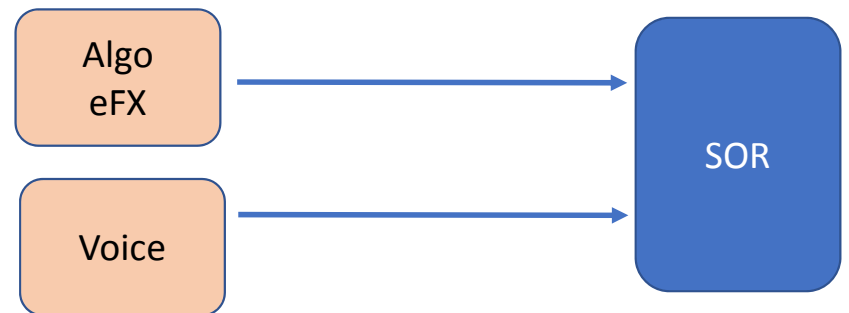- Algo Selection & Access
- Outstanding Issues
- FX vs EQ

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

Provider topology – evolution
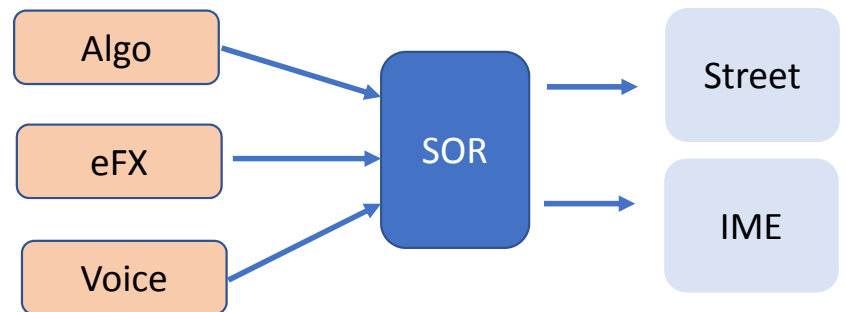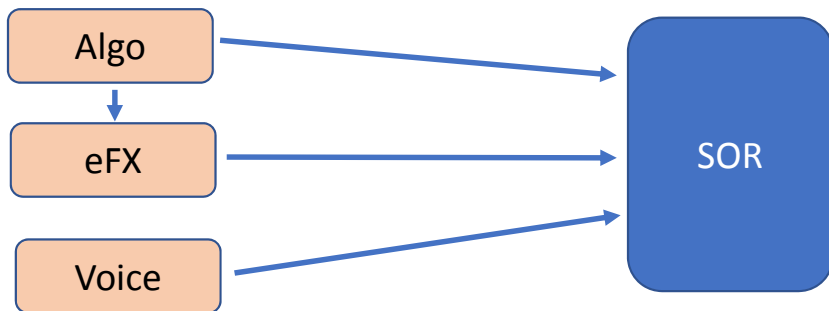
Distribution Channel

Schematic

1

Algo

Voice

eFX

→ SOR

2

Algo eFX → SOR

Voice → SOR

3

Algo → eFX → Voice → SOR

4

Algo → SOR → Street

eFX → SOR → IME

Voice → SOR

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Buy or Build? Provider perspective

- Generally, three options:
  1. Build
  2. Buy
  3. White-label
- In reality, it is a continuum

Pre-Trade TCA	Market access	Normalization/ SOR	Algorithmic Engine	Strategies	Distribution	Post-Trade TCA

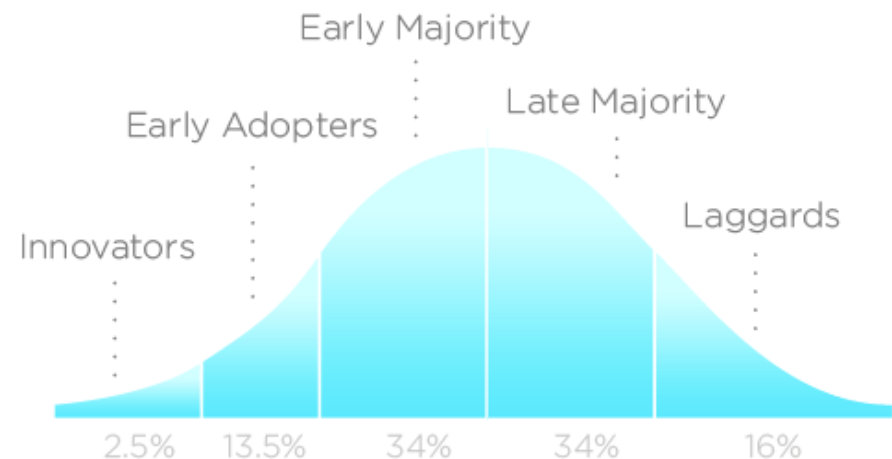| Off the shelf	Commoditized	Few options	"Secret sauce"

Nordea

Build or Buy - 2?

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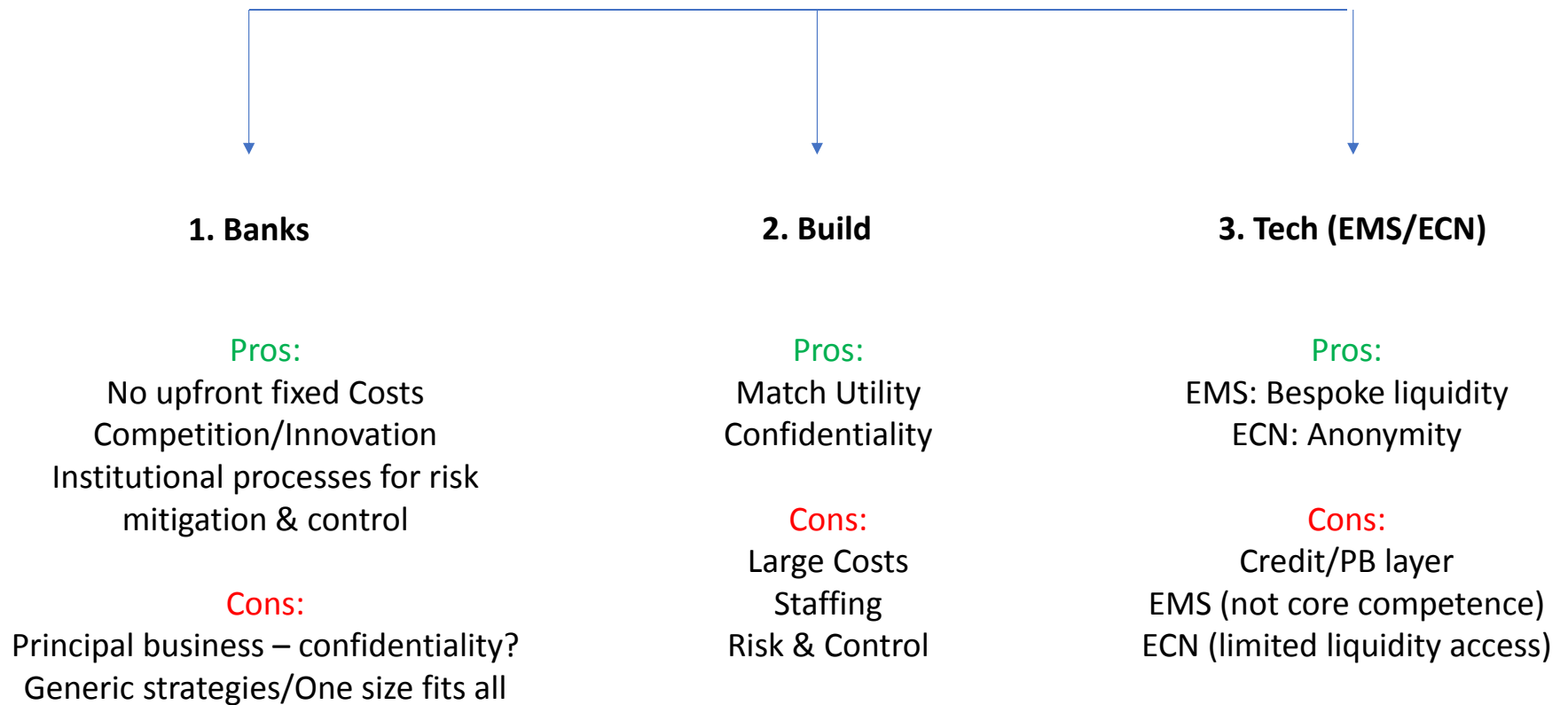 - Size of the provider
  - Timing

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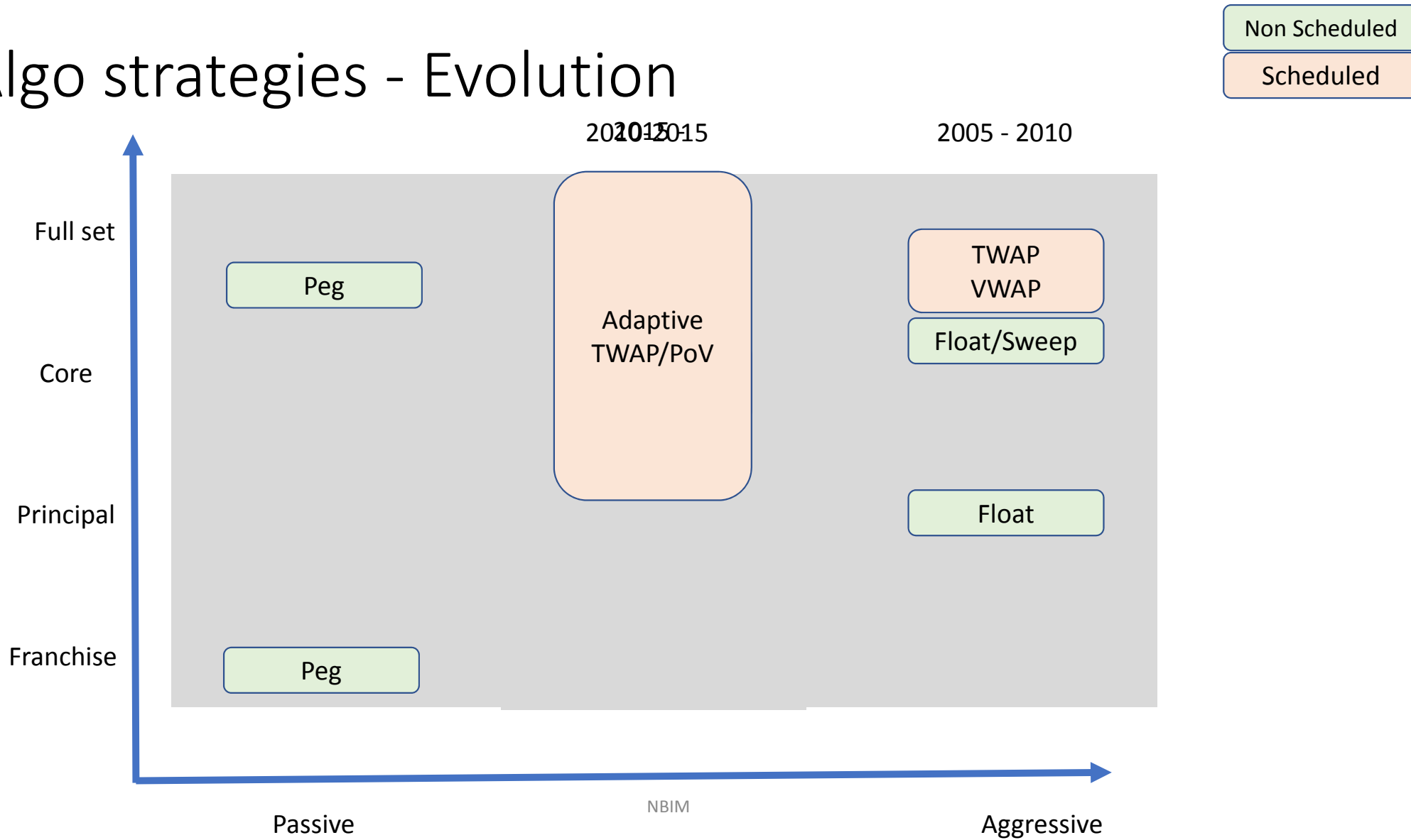 - Opens the space for non-banks

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 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

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Outstanding issues

- Confidentiality
- TCA
- Liability

Equity vs FX