Reprinted from
FX·Week
Best Banks Awards issue
fxweek.com
The global business of foreign exchange
November 28 2016 v.27 n.47

Saxo: true access eliminates conflict of interest

Conflict of interest has been a huge topic of discussion in FX markets in the aftermath of the benchmark scandal, which highlighted the issues surrounding responsibility when acting as a principal or agent.

In FX prime brokerage (FXPB), conflict of interest rarely comes up, because the traditional credit-intermediation model is driven by direct access and the agency model is rewarded by the volumes clients trade. But, since the emergence of prime-of-prime providers (PoP), who are both clients and vendors of credit, questions are emerging as to whether clients get true direct market access (DMA) to liquidity.

"Lots of providers are able to give clients a type of third-party pricing, but that does not translate into comprehensive DMA," says Peter Plester, head of FX prime brokerage at Saxo Bank.

FX·Week
Best Banks
Awards
2016
Winner

Direct market access translates to full transparency, where the credit provider does not internalise or manipulate spreads, but instead gives clients a clean price from a third-party, which they can hit with full knowledge of what they are doing.

"When we offer DMA access to liquidity providers, to avoid conflict of interest by default, we don't put our own pricing into the client's stream, as some of the other PoPs do. This means our interests are completely aligned with our clients' interests and therefore our aim is to get them the best possible execution," Plester adds.

Saxo, the winner in the Best FX Prime-of-Prime House category at the 2016 FX Weak Best Banks Awards, can offer access to bank and non-bank liquidity, as well as ECNs – where it has been increasing its coverage with the recently added access to Thomson Reuters Matching.

Saxo has introduced a dynamic credit-allocation tool, which enables clients to rebalance their credit exposures across the three matching engines in NY4, LD4 and TY3, to reflect their overall positions.

"One of our key advantages is that we utilise the latest technology. We use pre-trade risk management and kill switches, which means we are able to manage risk in real time. This, in turn, means we are able to allocate credit more efficiently

Peter Plester

too," says Lucian Lauerman, head of API business at Saxo Bank.

Following the retrenchment from banks, some PB clients considered getting into the PoP space by leasing their own credit lines. Not all of these efforts were successful due to the risk systems, account management and support required to be a PoP.

"Clients require comprehensive DMA access, and while a number of providers thought they could get into this space, many failed to reach any momentum. What differentiates us is that we are able to provide access to third-party liquidity providers rather than just an opaque, aggregated liquidity stream," Plester adds. *Eva Szalay*