

# WHAT COMES NEXT FOR FX?

**Carlo Kölzer, CEO of 360T Group and Head of FX & Digital Assets at Deutsche Börse Group, picks out the key trends that will play out across the FX industry in 2024**

Carlo Kölzer, CEO of 360T Group



Both economically and geopolitically, 2023 was another tumultuous year that left many important questions unanswered.

Will the US Federal Reserve manage to continue on its current path and achieve a soft landing? How will the conflicts in Ukraine, the Middle East and elsewhere evolve? What will the political ramifications of this year's elections be, when countries containing more than half of the world's population all head to the polls?

These are all difficult topics to predict with any degree of certainty. What we can be more confident about are some of the key themes which are likely to affect the FX industry in the months ahead.

Chief amongst these will be – yes, everyone's favourite topic – regulation.

## NAVIGATING DIVERGENT REGULATORY REGIMES

After the UK voted to leave the European Union (EU) in 2016 there was concern across the financial services sector that businesses could be disrupted by divergent regulatory regimes if Britain sought to implement its own rules and regulations for the industry. Given that the UK remains the largest global hub for FX trading globally, this concern was especially acute for firms operating in this marketplace.

The regulatory impact of Brexit on firms operating in the FX market was initially relatively muted, even when the UK formally left the EU in 2020, due to various temporary regulatory provisions put in place to minimise disruption. However, with these now expired we are indeed



seeing the emergence of two distinct regulatory regimes.

That is why in January 2024 360T launched the UK Multilateral Trading Facility (MTF) alongside our existing European MTF, to ensure that we are fully compliant with the rules in both jurisdictions and that there was no disruption for our clients.

Another important regulatory development over the past year was the release of the final opinions from the European Securities and Markets Authority (ESMA) and the UK Financial Conduct Authority (FCA) regarding the Trading Venue perimeter. In both cases, the authorities concluded that the vast majority of existing electronic OTC trading platforms operating in their respective jurisdictions would have to reconfigure themselves to become EU or UK MTFs.

But what does all this actually mean in practice? Well, we know from experience that launching an MTF takes time and it requires significant resources (legal, operational, technical, etc). So the firms that now need to do this will have to, firstly, divert existing resources towards this project and, secondly, manage the costs associated with this. That means planned innovation and development might be put on the backburner while additional costs will either have to be passed onto customers or absorbed by the business.

---

## ADAPTING TO T+1

---

Another big theme for 2024 will, undoubtedly, be the shift from T+2 to T+1 settlement in the US and Canadian Securities markets scheduled to occur in

May 2024. While this change is designed to make these marketplaces more efficient and reduce risks, the knock-on effects for the FX market will be significant.

For example, with the US equity market closing at 4pm EST there will be very little time left on T+1 to match the equity trades and to then generate and execute the FX required to settle them. This is forcing some market participants to consider whether they need a local presence to manage that activity in the US trading day, or an automated or outsourced solution that can support the required trade management and FX execution in a very streamlined and robust workflow.

The impact that this change will have on FX market liquidity is also unclear. Typically, it tends to thin out at the end of the US trading day but after the shift to T+1 there is likely to be much more demand for liquidity in these hours.

In the second half of 2023 there was a flurry of whitepapers, news articles and panel discussions on this topic, and so the challenges for the FX market have been well documented. But the question remains regarding how smoothly the industry will be able to adapt.

---

## CRYPTO TAKES OFF

---

Cryptocurrencies continue to prove their resilience year-after-year, and we think that in 2024 we'll see more traditional FX market participants trading these products.

The decision by the US Securities and Exchange



Commission (SEC) to bring a legal case against Binance, a major crypto exchange, was yet another public relations blow to the digital asset industry, yet demand for cryptocurrencies remains strong — as evidenced by the price of Bitcoin, which almost doubled in the second half of 2023 and has seen its all time high in March 2024.

More recently, the continued demand for cryptocurrencies was demonstrated following the launch of Bitcoin Exchange Traded Funds (ETFs) in the US, which registered \$4.6 billion in volume on their first day of trading.

ETFs are actually a good example of how a transparent, trusted, regulated trading environment can help unlock pent up demand for cryptocurrencies. We see a similar dynamic with our partners in the FX market today — many of them want access to cryptocurrencies but don't (with good reason, perhaps) trust the existing market infrastructure and have reservations regarding regulatory and compliance issues.

”

**360T has launched cryptocurrency NDFs this year, providing FX market participants with the ability to trade crypto-currencies.**

This is precisely why 360T has launched cryptocurrency NDFs this year, providing FX market participants with the ability to trade cryptocurrencies across our proven and robust platform without having

to hold the underlying assets themselves.

---

## INNOVATING IN FX SWAPS

---

Focusing back on the traditional FX market, we think that 2024 will be the year that we see a very real and tangible change in how FX Swaps are traded, particularly amongst banks. The 360T Swaps User Network (SUN) was launched into a challenging environment for a new platform, given that it was announced two months before Covid-19 hit and the whole world got turned upside down.

However, the economic case within banks for electronifying and automating their FX Swaps trading has always remained strong. We now offer the trading, credit and technology solutions to support this and, with the pandemic now largely in our rearview mirror, we're seeing momentum around 360T SUN really beginning to grow.

We marked two major milestones on the platform in the second half of 2023 as we enabled banks to begin trading FX Swaps via API and match at the market midpoint for the first time, and also became the first platform to offer round the clock API pricing for these instruments. Our innovation in this space is increasingly being recognised by the FX industry as 360T SUN was named the Best Sell-Side OTC Trading Initiative for the second year running by WatersTechnology.

Having firstly delivered the technology and then secondly proved its value and validated its proposed use case, the next step is to begin scaling up the platform. We are confident that will happen in 2024 as the advantages of automating FX Swaps



activity become too evident to ignore and banks still trading across more manual channels see they're putting themselves at a disadvantage.

---

## PUTTING THE ARGUMENT TO REST

---

The growing use of Exchange for Physical (EFP) products is another change that we're anticipating in the FX market.

For many years now there has been speculation about whether some of the liquidity in the OTC FX marketplace would shift towards exchange listed FX products that are centrally cleared. This speculation was driven by regulatory changes which are making it more capital intensive for FX market participants to trade certain OTC products bilaterally, while by contrast, central clearing can help to alleviate this burden.

Once again, the FX industry has demonstrated its ingenuity by turning a challenge into an opportunity. Rather than viewing OTC vs. listed and cleared trading as a binary either/or proposition, market participants are turning towards EFPs, an existing product which enables them to combine the best elements of both marketplaces.

In essence, EFPs allow market participants to draw on the vast FX liquidity that exists in the OTC market and provides them with the flexibility of a bilaterally negotiated contract before the trade is then moved onto the exchange to gain the capital, and in many cases operational, efficiencies of central clearing.

Getting the best of both worlds is obviously very attractive, and that's why last year we saw a distinct uptick in interest from both our buy-side and sell-

side partners in accessing EFPs via 360T. In 2024, we think that this will materialise into the increased trading of this product and, hopefully, help put to rest a tired and outdated debate about where the future of FX trading lies.

---

## EMBRACING CHANGE

---

A final point – while we can't predict global economics or geopolitics with any certainty, the expertise and experience of the FX market that we collectively have at 360T means that we are able to forecast some of the key trends that will impact our industry with a fair degree of confidence. But forecasting is one thing, actually anticipating these changes and responding appropriately is another.

That is why at 360T we have moved swiftly and expediently to ensure that we are able to offer a trading venue that caters to an increasingly fragmented regulatory environment and remains agile enough to support changing user behaviour as firms adjust to new settlement requirements in equities.

”

**If change remains the one constant in the FX industry, it's one that we are eager and happy to embrace.**

It's also one of the reasons why we continue to innovate by launching new products and platforms, such as Crypto NDFs and 360T SUN, to meet the changing needs of our clients in a marketplace that is constantly evolving.

