

# ForeignExchange ForeignExchange



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### ELECTRONIC TRADING

## FXall looks to secure its position

The platform's chief executive, Phil Weisberg, says the firm is ready to face the difficulties of a bear market

It is hard to believe just how different the FX market was when FXall was created a mere eight years ago with initial investment from Bank of America, Credit Suisse First Boston, Goldman Sachs, HSBC, JPMorgan, Morgan Stanley Dean Witter and UBS Warburg. Back then, although it was clear that electronic trading had already reshaped the interbank spot market, it had made little impact on the way banks interacted with their clients. Perhaps the only thing that was certain was that the market would change but very few people could be sure of the direction it would take.

"Nobody knew how profound the impact of electronic trading would be," says Phil Weisberg, chief executive of FXall. "Everyone was fearful that the role of the bank would fundamentally change. Of course, that hasn't happened but at the time people were afraid. I think at the time the value of the single portal hadn't been proven. Banks were looking for the right way to do it and gain from the experience of some of the other consortium members."

### Born in a bull market

Weisberg points out that although activity in the FX market itself was hardly buoyant – according to the Bank for International Settlements daily turnover fell by nearly 20% between April 1998 and April 2001 – the rampant equity bull market and as-yet to burst dotcom bubble meant that there was no shortage of funding for anything that had a technological whiff about it. "They were very interesting times," he says. "Bull markets create a lot of competition and we were definitely born in a bull market."

Weisberg says that FXall's partner banks,

as well as providing finance, "were incredibly supportive. They were very focused on making it happen and they talked about the big rather than the little picture. We had some really good guys who had a good idea about what they wanted and they were prepared to leave the execution details to our team. The other important thing is that money wasn't a problem... We were able to raise a reasonable amount of money without it being such a big cheque that they [the investors] had to keep too tight control over what we were doing."

The hands-off approach from the banks was to prove extremely important, because it allowed FXall to come up with a business

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model about how they could service the buy side which did not dictate to it. "The banks knew they had to have something that the buy side wanted to use," says Weisberg. "There were certain things that were

important to the banks and we spent most of our time talking to the sell side to [get it to] agree to support us. We knew we needed their commitment because they had to mobilize resources to make it happen. Once we got them all to agree, that's when we went to the buy side and said: 'Look, this is what they are proposing. What works for you and what doesn't.' We were effectively the trusted party in the middle that was able to represent both sides. I think that's how we wound up with something that was going to work."

The relative independence granted to FXall also meant it was not hindered by the fact that its owner banks would inevitably have different views about what was required. "If you had put them all [the member banks] in a room, they might not have been honest with each other

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about what their concerns were. We were able to solve the concerns which might have prevented these guys working together," says Weisberg.

FXall soon saw off an early competitive threat, Atrix, which was backed by Reuters and another, smaller group of banks. Interestingly – and to the surprise of some industry watchers – it has continued to thrive even though at times its greatest competition has actually come from its owner banks. Most now have sophisticated platforms of their own that they encourage their clients to trade on, because it saves them from paying commission to FXall.

Weisberg plays down the potential conflict. "I think it [FX] is a big world. And just like airlines sell their own tickets but also on other sites, I think people understand that both channels (single- and multi-bank) are going to be around.

Each appeals to a relatively different audience. Each has their advantages and disadvantages. The market is still growing and there's a place for both of them," he argues, adding: "Most of the banks don't have the intellectual and economic resources to really make a winning single-dealer platform for the wholesale audience we serve. Most of those institutions that have focused on creating a winning platform have targeted SMEs, which are generally captive to their institution."

#### Speculation

As FXall has matured, there has been inevitable speculation about when the banks would sell their stakes. This increased after it was announced that venture capitalist Technology Crossover Ventures (TCV) had invested \$77.5 million in FXall for an undisclosed minority stake – believed to be between 25% and 30% – in July 2006. But while FX has so far remained a buoyant market, the downturn in virtually every other major asset would seem to suggest that the company will not be undertaking an initial public offering in the near future. Weisberg is swift to play down any relevance to this.

"Prior to TCV's investment, all of our funding came from the banks," he says. "We actually didn't have these guys [TCV] for their money.

We added them because the business had achieved its original objectives. Generally, when that happens, people's interests tend to diverge; everybody has a different agenda. Ultimately, we understood the value of industry participation but we also understand banks are good at being banks and we wanted to make sure we had people that could ensure that the company was operating efficiently."

To an extent, the history of EBS provides a blueprint for FXall. Also set up as a bank-owned consortium, the company became harder to manage once it had achieved its aim of preventing Reuters from gaining hegemony in electronic interbank trading. When EBS was up for sale, there was talk that it would combine with FXall, which could have been a logical move given that the companies had many common



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owners. How that would have worked is a matter of conjecture and Weisberg will not comment.

But he was swift to point out that following TCV's investment, FXall slimmed its board down from 13 to seven members. The original shareholders are still able to elect individuals to the board but Weisberg points out: "It's not a rite of passage that a bank automatically has a board seat at FXall. This year, the banks did something different and elected Gerald Putnam, the former chief executive of Archipelago, to the board." This is significant because, although Putnam is an acknowledged expert in electronic trading, he is independent and his experience has been gained outside of FX.

"We needed some people who weren't just FX people, who could hold management accountable and benchmark our expense base against other companies and to be willing to push for new ideas, which weren't necessarily the industry norm," says Weisberg.

Another important issue for Weisberg is that the company remains entrepreneurial and that it attracts talent because employees can share in the value it creates. And part of that process is to have the courage to try new things and launch fresh initiatives. In early 2007, FXall launched Accelor, a platform it describes as the "next generation ECN for all market participants".

Weisberg claims this has found an audience. Its daily volumes were running close to \$2 billion, although they have contracted recently because of issues around prime brokerage. "Accelor is an add-on to FXall's main business. I think it is a bonus... I think this is a good solution for the future," he argues.

#### Future rewards

Weisberg is bullish about FXall's prospects. "I think our future is great," he says. "There's never been a better time for giving client choices.

That's the core value of our business. This environment separates out platforms people can trust from platforms looking to make a quick buck for next quarter's results. I think we will be rewarded well in 2009 from the investments we've made, not just in products, but people as well."

Looking to the future, FXall will continue to consider new products but, as important, new functionality. "Our energy for 2009 is going into making sure the alpha-based traders get an excellent service and that

the people who want to collaborate with their salespeople have an excellent service. When we get those two things perfected, that will allow us to entertain some of the other products. The problem that we have is that we don't see a stampede from clients for any particular new thing."

It is an open secret in the industry that FXall has considered adding options, which is not entirely surprising since Weisberg spent a long time trading them. He says this will almost certainly happen at some stage. "Accelor as a matching engine is pretty flexible," he says. "If it's matching sterling, it can match a 25-delta sterling put. The question is, can we find sufficient market-makers to support the price. It's got to be a product where the market is being expanded. Stealing flow from an existing venue is tough. Expanding the number of people using options is somewhere I think we want to go."