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Explosion in electronic trading

challenge for the financial markets – challenge for ACI The Financial Markets Association

We live in a world of fundamental changes. Foreign currency reserves skyrocket, FX turnovers reach 3.000 bln USD per day (expressed in more detailed figures, e.g. 3 Mio transactions, each transaction worth of USD 1 Mio !), turnovers in compound structures such as certificates of the 3rd generation add enormous liquidity to the markets – business is great!

The Foreign Exchange Market is probably the world's largest Financial Market. Open 24 hours a day and tradable 5 days a week. But it is also the largest unregulated market in the world. This calls for discipline and proper market behaviour.

The fast growth of eTrading in our markets (autodealing, prime brokerage etc.) has changed our industry dramatically. Surveys show, that about 50% of the daily FX-turnover was achieved in 2006 via electronic platforms, whilst one year before the market share was between 25% - 30%. What effect has this had on the Market? Liquidity is deep, margins are razor thin, costs for transactions are low and access to the FX-market is as easy as never before.

New market participants are arriving. Whilst hedge funds have become driving forces in liquidity over the last years further dynamic countries like China, India, Russia and major countries of the Near and Middle East have also emerged as extremely important players in the FX markets. Interestingly, on the other hand, the average traded volume of tickets decreased. Beside the growing importance of e-Trading for the professional market user, I was a little surprised on the development within the Retail segment (non-market professionals) – a renaissance of individual speculation (margin traders)? Meanwhile many banks offer their services to the private sector. Even in my small home town outside Vienna I can watch people sitting in the Pub and placing orders via their note books!

Discussions are getting more heated about the introduction of a regulated FX-market – steering towards a largely exchange traded market. I'm not in favour of that. Those markets are self regulating – the variety of crosses is enormous, banks have established their limit systems, flexibility and liquidity is there.

Nevertheless, ACI The Financial Markets Association will keep an eye on the further development of e-Trading. FX-Trading was the birth of

the association, the former FOREX-Club! Today, ACI is the biggest individual membership association in the Financial Markets; it boasts some 13.000 active members in 63 countries – and we are setting the standards for the industry as a whole.

What do we offer to our members and to the financial FX-markets? ACI's Committee for Professionalism, staffed by experienced market professionals, overlooks market development constantly. The Model Code is an accepted guideline on ethical standards and market behaviour. Depending on future developments of e-Trading the chapters within the code of "electronic broking" and "internet/online trading" will be adopted.

Beside all the technical and legal aspects of electronic trading I am not getting tired of referring (especially to young traders) to the principle of KYC "know your customers". In my term I will use any possibility to offer to our members and to the industry ACI as the traders "networking platform". eTrading presents traders with a risk of losing contact with their counterparties. It is easy to "plug in and play" – but there is much more to our market! It is a market of trust and ethics – it is a market created by dealers for the dealers.