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News

FXCM and SuperDerivatives to launch options platform within days

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FXCM's Niv: Deal-X ready for launch on July 14

Deal-X platform will launch with three liquidity providers on July 14, to be followed soon after by SurfacExchange's Surface Wave venture

A long-awaited multibank trading platform for foreign exchange options is set for launch within days, its architects at retail trading firm FXCM have told *FX Week*.

FXCM and SuperDerivatives plan to launch their joint venture, Deal-X, at *FX Week USA* in New York on July 14, **seven months after details of the platform first emerged**. Meanwhile, Greenwich, Connecticut-based SurfacExchange expects to launch its SurfaceWave platform to compete with Deal-X by the end of the month, **after announcing an initial pilot phase in January**.

Deal-X and SurfaceWave will both compete with three other multibank options platforms that have been launched by Digital Vega, GFI Fenics and Alpari over the past nine months. Although foreign exchange options have long been traded bilaterally, impending regulations demanding organised trading have boosted demand to automate this complex corner of the FX market.

According to Drew Niv, chief executive at FXCM in New York, Deal-X already has three liquidity providers and expects to have a total of nine by the fourth quarter. Almost 80 institutions have signed up to use the platform already, he said.

"This platform is based on the SuperDerivatives pricing module, so essentially any SuperDerivatives customer will already have access to it. This means we will be launching with a built-in customer base that is already installed. Our spot institutional business, FXCM Pro, already has 415 clients. Between cross-selling to those clients and the few hundred options clients SuperDerivatives has, we have a much bigger client base than the other options trading platforms," Niv explained.

Deal-X will offer vanilla options on a streaming basis, while more exotic options, such as barrier options and digital options, will be available on a request-for-quote basis. FXCM will take responsibility for the bulk of customer interfacing while SuperDerivatives will manage the support side. The platform will also feature a central expiry module to help simplify and streamline option expiry times for customers.

In creating the platform, Niv said both FXCM and SuperDerivatives have been acutely aware of likely changes to the rules governing options trading as a result of the US Dodd-Frank Act, even though the US Commodity Futures Trading Commission (CFTC) won't complete the rulemaking process until year-end at the earliest.

"No-one has finalised the rules, so we are not 100% sure of what they will be. But if you look at the CFTC's outlook, they view the world from an exchange perspective. I don't believe you are going to be able to have a disclosed model, where the banks know the customers, because that will violate the principles of what an exchange looks like. We have made something we believe will pass the tests to get certified as a swap execution facility," said Niv.

Meanwhile, the launch date for SurfacExchange's SurfaceWave has not yet been finalised, but it is likely to be within the next fortnight. According to Evgeni Mitkov, chief executive of SurfacExchange in Greenwich, the platform will be anonymous and will involve roughly 20 institutions, of which eight are liquidity providers. SurfaceWave's fixed application programming interface (API) will be known as SurfaceStream and will be fully operational from launch. Clients will include banks, hedge funds, proprietary trading firms and volatility traders, said Mitkov.

"About one-third of our participants are new to the OTC options market. They are professional options traders accustomed to electronic trading. For the first time, they can participate in the OTC market electronically and also introduce liquidity to a market that definitely needs it," said Mitkov.

Despite the rush to launch multi-bank option platforms, some are not certain it is possible to automate trading for exotic FX options. Thomson Reuters recently exited the FX options interbank matching business after its platform had failed to gain traction among market participants over a period of several years.

"There is still little evidence options can be moved to electronic platforms – particularly more exotic options. It's a tough market to get into, and there are some major roadblocks," said Jas Singh, global head of treasury at Thomson Reuters, **in a recent interview with *FX Week***.

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Sefs and single-dealer FX platforms

Single-bank electronic commerce platforms are unlikely to qualify as swap execution facilities (Sefs) under the US Dodd-Frank Act. Given FX options and non-deliverable forwards will