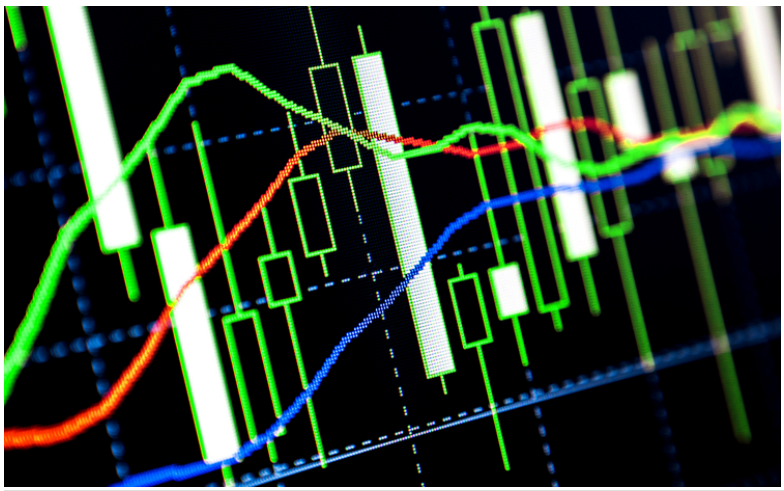
FX·Markets

Fenics to boost FX options offering as e-trading continues rise

Venue will offer streaming first-gen exotics pricing and is considering launching a Clob



Laura Matthews

22 Jun 2021

Flush with cash following a recent spinoff, BGC Partners is looking to bolster its foreign exchange options platform Fenics Direct this year by adding streaming pricing for first-generation exotics.

The venue is targeting a 10-fold increase in average daily volume over five years with a new focus on the buy side, and is considering creating a central limit order book for options trading.

Competition in the FX options venue space has ramped up as electronic trading of the products continues to increase. Dealers have been adding new bells and whistles to their single-dealer platforms, while multi-dealer venues such as Digital Vega continue to incorporate new functionalities.

Now it appears to be Fenics's turn. BGC said last month that the Fenics brands, including its FX options venue, will be the key beneficiary of a $500 million war chest following the sale of its insurance brokerage business to the Ardonagh Group in May.

“It’s all about the growth of Fenics. And every resource I can see in this company is being put into this brand, across all products,” says Jeff Pio, managing director at Fenics Direct in North America.

The Fenics Direct platform facilitates dealer-to-client, request-for-quote streaming in over-the-counter FX options. As of the third quarter of this year, Fenics Direct will add fully auto-priced first-generation exotics such as digital and barrier options and will enable clients to trade the more vanilla instruments up to four legs via the platform.

“It’s a completely new product offering,” says Pio. “The next evolution [after that] will start to include accumulators and target redemption forwards and notes, so you can target the private banks that have open architecture.”

The venue is also turning its attention towards the buy side. Pio, a 30-year veteran of FX trading and sales who was hired in January to help lead expansion in North America, says its client base has traditionally been medium-sized regional banks. The strategy has worked well and the business has grown over the past five years, he says.

But with the Fenics targeting a 1,000% increase in average daily volume from current levels in five years’ time, Pio says the buy side is where the growth will come from.

> **“It’s all about the growth of Fenics. And every resource I can see in this company is being put into this brand, across all products**
>
> **Jeff Pio, Fenics Direct**

“Banks are a super-important part of our business, and they continue to be. But the thing that was missing was the institutional

clients, particularly on the hedge fund side," he says. "We've had some good traction so far, and we want to build on that by continuing to execute on what we're doing and adding talent."

In other asset classes, the interdealer market has usually been the one to embrace electronification first. But with FX options, the dealer-to-client space has been the most active in bringing about change, setting off a race among banks to come up with ways to improve clients' electronic trading experience.

Though larger tickets are still being done via voice brokerage, the **average trade size has increased** from $5 million–20 million just a few years ago to $50 million–200 million today.

The buy-side strategy has already been paying off and May was a record month for volumes on Fenics Direct, says Pio, with half of that coming from clients that have been onboarded in 2021.

Additionally, Fenics Direct is exploring the potential for trading options using a central limit order book-type structure. The firm declines to reveal more details, stating that this work is in its very early stages.

While clients have been the driving force for change in the FX options market, Richard Sykes, a product manager for FX options at Fenics Direct, says liquidity providers have evolved quickly to keep pace.

"The liquidity providers' capabilities for electronic liquidity provision have drastically increased over the last 12 to 24 months. There's now a critical mass of liquidity providers who are able to provide electronic liquidity well," says Sykes.

Banks are also now much better and more interested in tracking metrics such as the impact of a client's trades on the market price, through the use of so-called **mark-out tools**. This offers protection against clients that break large orders up and execute with multiple dealers simultaneously, which can result in losses to the dealer in some instances.

“The banks have the ability to take the aggregated liquidity feedback we’re giving them and adjust their systems to either attract more business or protect them where they need to be protected,” says Sykes.
