

Automated counterparty management

The basics

Who's it for? A-B book brokers. Agency/STP brokers and anything in between.

Which products does it work with? Cross product FX/Cryptos/CFDs etc

How does it work? Via our own native MT4 Manager plugin, or via one of the major FIX bridge providers.

How long does it take? There's no development required and it can be turned on in less than a day.

Can I get a free trial? Yes.

So what does it do? This one may take a few moments longer

Not all flow is equal.

We have an automated process that maps trading behaviour to risk management strategies.

We believe that by automating this process

=> it **avoids losing PnL** by brokering profitable flow to LPs.

=> it **supercharges your B-Book** making more money from it, converting flow that would hurt its profitability into **new revenue streams** via alternate risk management strategies.

=> it reduces the time to **stop negative client trading** behaviour. Catching it and actioning it automatically. There is no coffee break for the algorithm!

=> it **reduces the amount of effort and people required** to review and manage the business.

=> it classifies new accounts, based on similar accounts e.g. say those that use the same Expert Advisor. Getting a leg up on classification of the client, before they have fully ramped up their trading.

We are also the *only* vendor offering some of the sophisticated management strategies based on these classifications.

Different categories of flow may require different risk management treatment for a variety of reasons.

- Simple PnL reasons e.g. for being the other side of a client's trades.
- Commission and rebates
- Some flow may only be monetizable via sophisticated algorithmic techniques and predictive trading signals. Interested in more detail? Contact us for more detail. We have plenty.

We work with our clients to refine what kind of classifications you require and automate the management of your FX flow.

Case Study

For a B-Book broker of ours. We applied the above techniques to better monetise their portfolio.

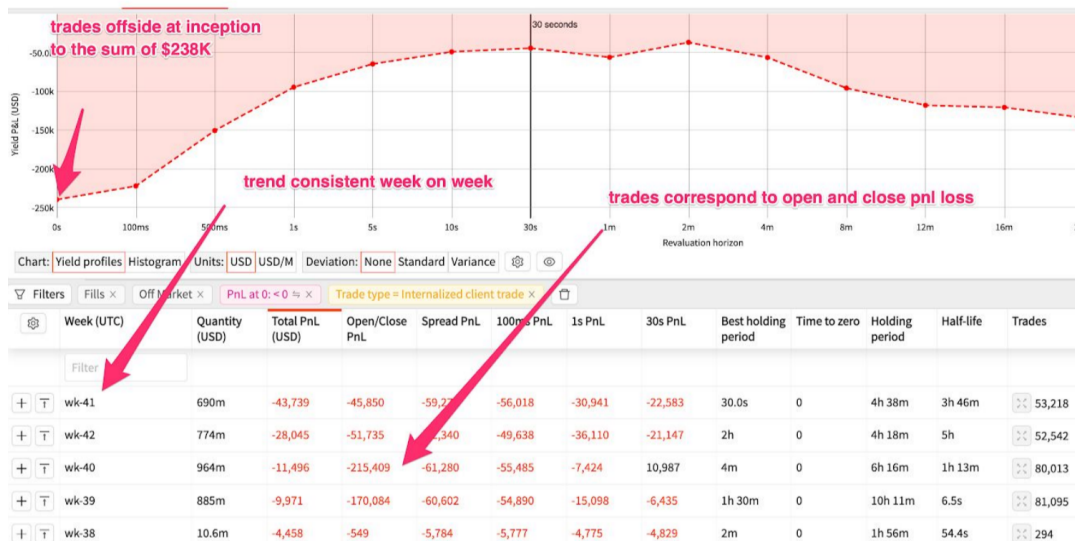
Traditionally they B-booked almost 95% of their flow and were happy with the results. That is until they found a better way!

Flow management was thought to be purely behavioural. => Eventually the clients would lose money and the broker would be there to pick up the profit.

In reality they were losing, or could have been making **more** money via 3 main factors

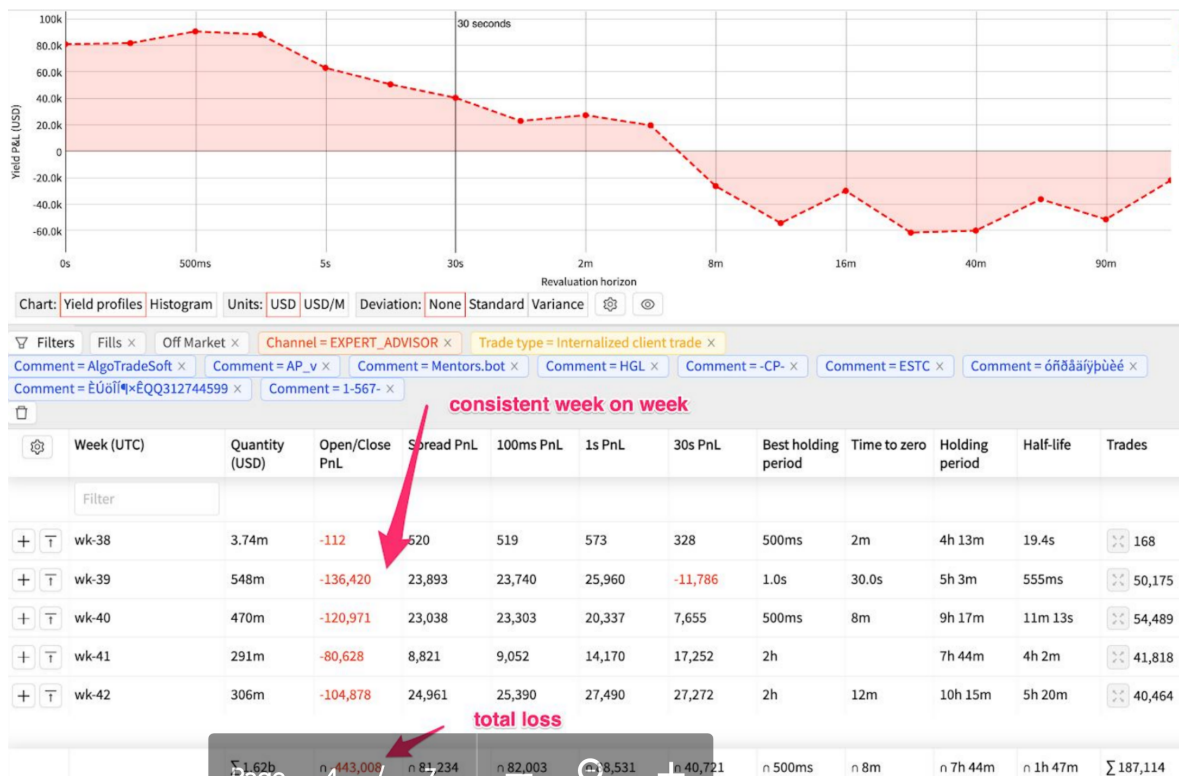
- 1) Their pricing was vulnerable - **Using our pricing models improved pricing by \$470k**

Here's the flow that was entering their book that was offside at inception:



Contact us for more information on how our pricing models are more predictive of where the future price will be than an aggregator.

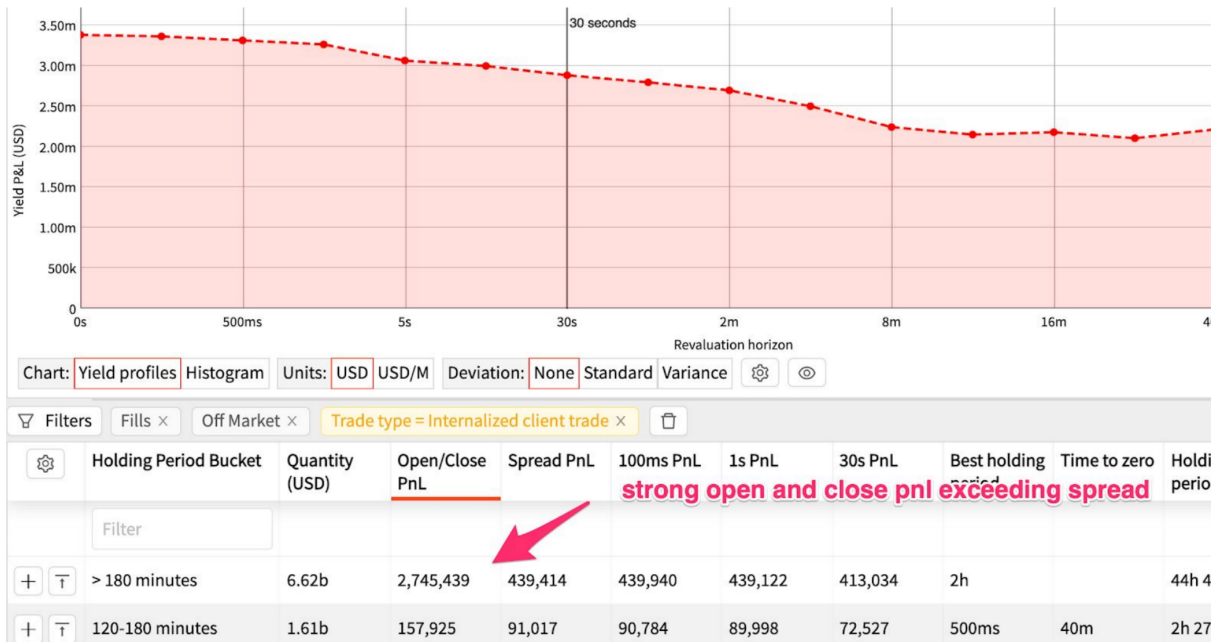
- 2) Policing EAs and counterparties - **Preventing \$450k losses**



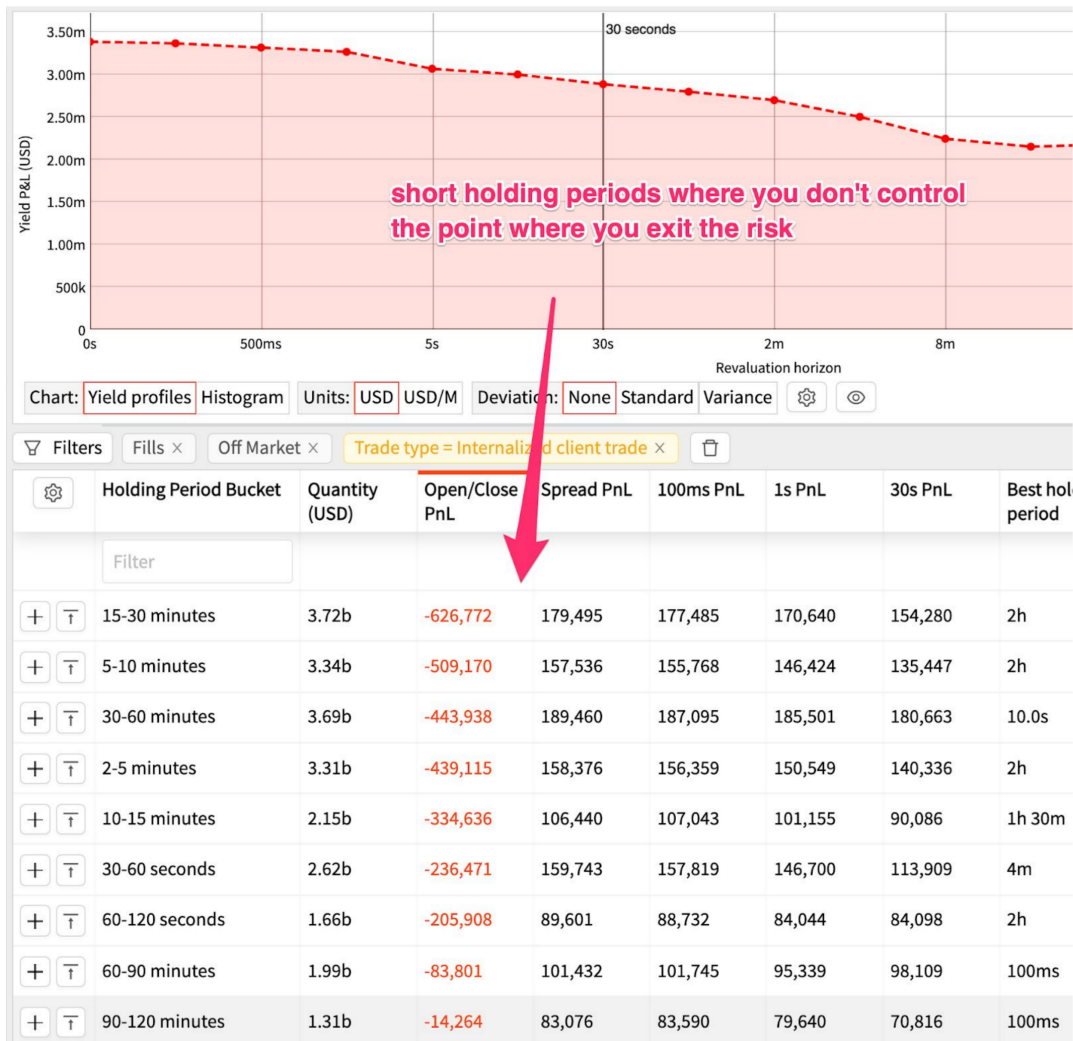
The above set of EAs were identified and were shown to be extracting PnL week in, week out from the broker.

3) Using holding period analysis to classify counterparties

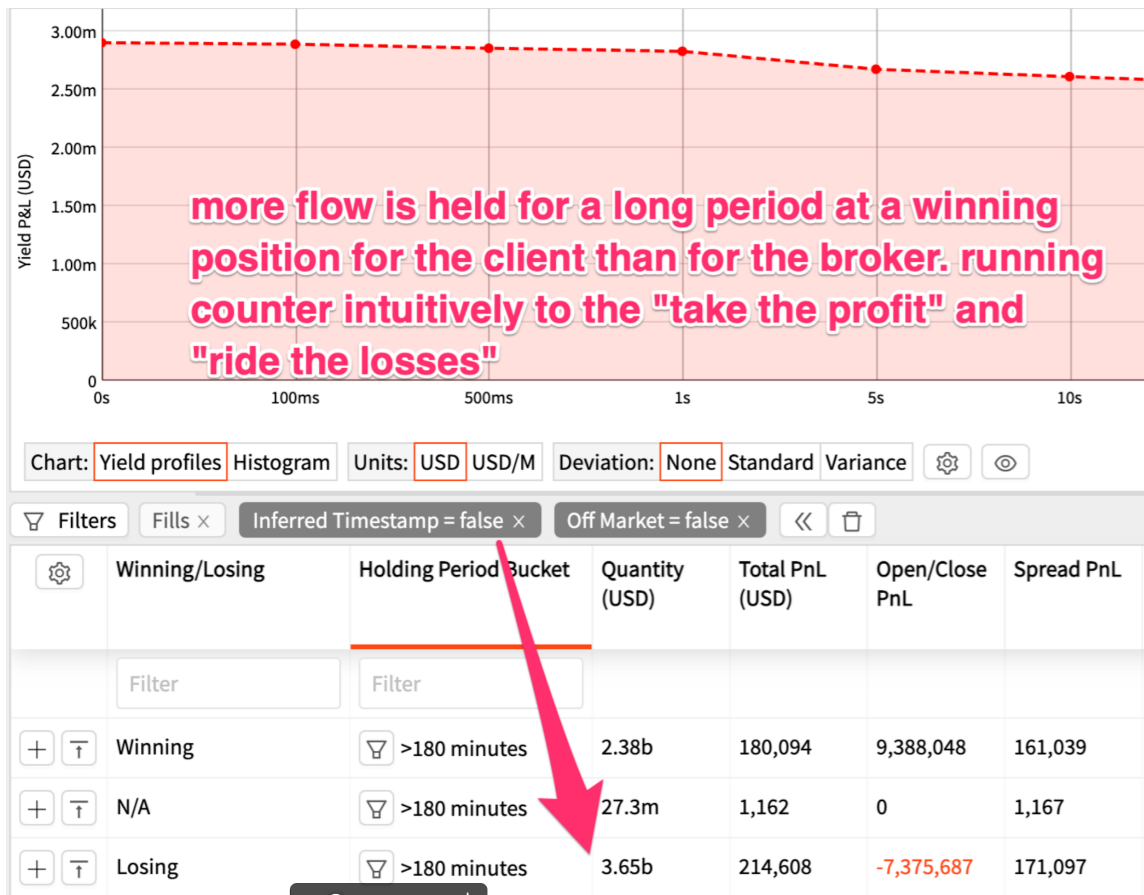
Holding periods are absolutely essential to profitability. Where they dealt with counterparties that held risk for a long time, they made money. Behavioural trading factors win out and they made more than the spread.



Where holding periods are shorter than two hours their clients tend to lose money. This is the specialty of Compass where we look to return at least the ~30-60 second pnl.



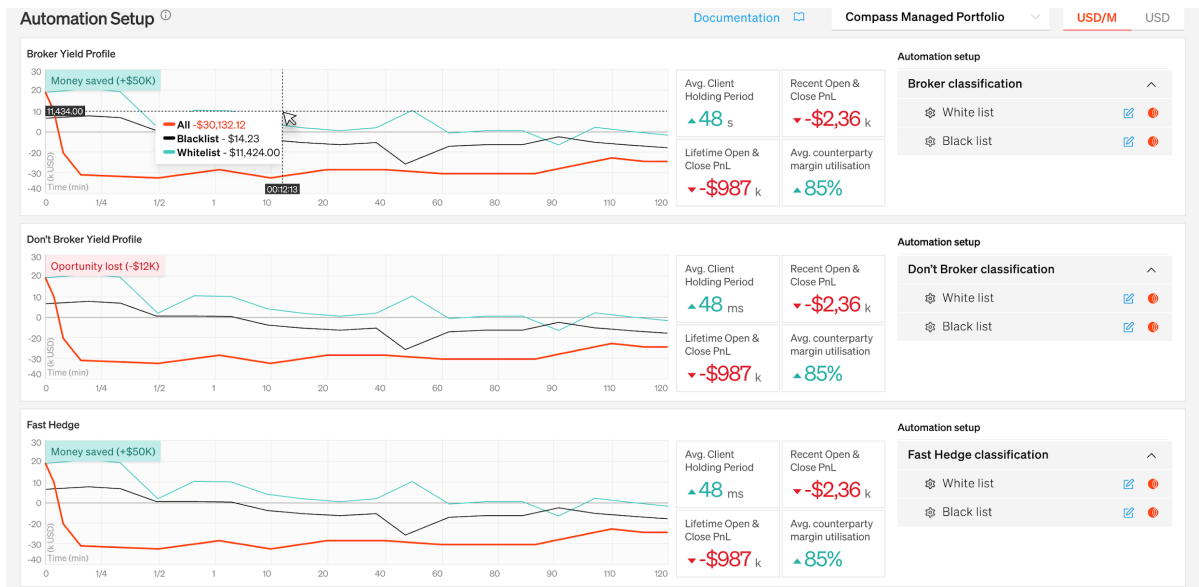
We also bust the myth that clients ride their losses and cash in their profits early:



This means that the pnl that rolls up in long holding periods doesn't have a bias to just reflecting loads of clients not closing their loss making positions. A larger volume of risk is held open for > 3 hours when it's in a winning position for the client.

For this client, the dominating classification was that if a counterparty holds flow for > 2 hours we set the automation to B-book it. If it was for shorter holding periods than this, Compass management was the best means of extracting yield.

What type of classifications would be useful for your business?



Existing examples include:

Broker - flow that is recommended to be brokered. The only way to monetise is to apply markup and send to other LPs that may be able to monetise as part of a different portfolio.

Don't Broker - flow that is currently brokered that could be rehabilitated to Compass management or B-Book strategy.

Fast Hedge - flow that has a limited window of which it may be profitable, but long term risk holding usually results in a negative PnL impact to the portfolio

Don't B-Book - counterparties that are most negatively impacting a B-Book portfolio over a medium to longer holding period

B-Book - counterparties that look so non-informational in their flow that they may be worth B-Booking.

As part of the onboarding process we will work with your business to determine how you would like to classify and manage flow within your business and for what purposes. As part of this process we aim to avail Echo & Compass with as much information as possible to support trading flow management and hedging strategies. If there is something missing that you use to manage your business please indicate what is missing and we will endeavour to integrate this in future versions.