QIR 3-2

Yearly
Industry Report

2013-2014

WHAT YOU GET IN THIS SPECIAL YEARLY EDITION:

Digital Currencies: All you Ever Needed to Know! **P.74**

Binary Options: Following in the Footsteps of Forex? **P.68**

Bloomberg: The Quiet Giant of FX Trading **P.44**

Our Latest Retail Forex Volumes Review for Q2 2014! **P.20**

How to Tackle Low Volatility Across the Forex Market? **P.26**

FOREX MAGNATES

THE QUARTERLY INDUSTRY REPORT– WHAT'S IN IT FOR YOU?

A unique RESEARCH source comprised of data and content that only Forex Magnates' team of researchers can supply

With 4 distinct content sections, more than 180 pages, dozens of data charts and a stunning design and concept, our Quarterly Industry Report is guaranteed to have something for everyone. Each issue appears in both a digital and a printed format

EACH ISSUE CONTAINS:

1. INDUSTRY VOLUMES EXCLUSIVE data for all major activity in the Forex industry, including institutional and retail volumes detailed by a number of accounts and MT4 usage .

2. IN-DEPTH ARTICLES Each quarter brings with it a new set of developments, trends and concerns, all of which are addressed by our team of writers to provide our readers with a better understanding of the arena in which they operate.

3. REGULATORY UPDATE As regulation is one of the most influential elements in the global operation of Forex businesses, we constantly highlight the pluses and pitfalls which regulation poses to Forex professionals.

4. TECHNOLOGY REVIEWS What is the hottest new platform? What are its pros and cons? And at what cost? All you need to know in a technology-driven industry can be found in our QIR.

5. REGIONS OVERVIEW Different countries offer contrasting trading cultures and regulatory frameworks. Each QIR contains several country's reports zooming in on interesting regional markets.

6. EXECUTIVE INTERVIEWS To succeed in something, you should learn from those who made it big. We bring you the words of the industry's top professionals who openly share their tips for success.

OUR READERSHIP

- CEOs and other CXOs
- Decision makers
- Industry leaders
- Top 50 brokers
- Tier 1 banks
- Technology developers

CONTRIBUTING AUTHORS

Ron Finberg

Ron covers a vast array of sectors for Forex Magnates and is the editor of DC Magnates. Previously, Ron served as a Wall Street trader and a dealer for several FX brokers.

ron@forexmagnates.com

Victor Golovtchenko

Victor is an experienced retail FX customer and a forward-looking Forex devotee. With a vast knowledge of financial markets, Victor began writing for Forex Magnates in 2014.

victorg@forexmagnates.com

Sylwester Majewski

Sylwester holds an MA degree in Finance and Banking. He is a former minority co-owner of NFA registered US Forex broker and a member of the British STA.

sylwester@forexmagnates.com

Adil Siddiqui

Adil is an experienced financial services professional with years of experience in banking and financial markets. He has worked in leading brokerages in London.

adil@forexmagnates.com

Avi Mizrahi

Avi is an economist holding a BA and an MBA from TAU and an IMBA from Taiwan's NCCU. He worked at a Stock Options Trading desk and as an associate for FXCM.

avim@forexmagnates.com

Steven Hatzakis

Steven is a financial services professional as well as a registered commodity trading advisor (CTA), principal of his consulting firm and the author of a blog.

stevenh@forexmagnates.com

Jeffery Patterson

Jeffery's professional experience varies across finance, portfolio management, academia and analysis. He holds degrees in Economics, Political Science and Geology.

jeffp@forexmagnates.com

Lianne Back

Lianne is a journalist with vast experience in covering financial, general and political news. As Forex Magnates' Managing Editor, she is the editor of the QIR.

Lianneb@forexmagnates.com

CONTENT INDEX

Editor's Note 9

Section 1 | Market Overview

Institutional FX Volumes Review
Q3 2013 12
Q4 2013 14
Q1 2014 16
Q2 2014 18
Retail Forex Volumes (Q2 2014) 20

Section 2 | Articles

Low FX Volatility: Diversifying in an Increasingly Challenging Environment 26
The Magic Eye: Regulatory Surveillance in the Asia-Pacific Region 32
Computer Vs. Man: Has Technology Already Made Salespeople Redundant? 38
Bloomberg: The Quiet Giant in FX Trading 44
The Era of One to Many: Prepare for Multi-Asset Platforms 50
Iran: Middle East's Shining Star in Need of a Polish 60
Binary Options Industry: Following in the Footsteps of Forex? 68
The Digital Currency Age: Is Cryptocurrency Trading the Future? 74

EDITOR'S NOTE

From regulatory crackdown across the Asia-Pacific region to low volatility driving volumes down, the past four quarters – from Q3 2013 to Q2 2014 – have posed challenging conditions for the foreign exchange industry.

This special edition of Forex Magnates' Industry Report is designed to provide our readers with a bigger picture review of these four quarters. Distributed free of charge, it is compiled of the best, most interesting and relevant work of research and reporting done by Forex Magnates' team, to present our readers with the pressing problems of today and with the best solutions for tomorrow.

Whether you are a regular reader of our Quarterly Industry Report, a Forex trader or a financial markets fan, this volume will help you to better understand the state of the Forex industry and the different powers shaping it. On top of our exclusive trading volumes report, our collection of articles will take you through the behind-the-scenes of FX.

We take a thorough look into the issue of volatility, which most industry participants will agree is having a major affect not only on immediate business operation but also on the future of the industry as a whole. With traders who are constantly looking for an edge, what can the FX industry offer them in times of low volatility?

Regulation is another element of enormous significance to Forex-related professionals. Regulators around the world outline the framework in which the industry can operate. Our Quarterly Industry Reports pinpoint the most important developments in terms of regulation as well as the different ways to approach them. In this special edition we bring you an article that looks into the state of regulation in the Asia-Pacific region. We review the situation in countries such as Australia and New Zealand, which up until recently were considered to be somewhat more lenient towards the Forex industry, as well as the rigid surveillance applied in places like Hong Kong and Singapore.

Just as important as regulation is technology, which drives the industry into new, exciting and innovative routes. But while technology developments allow faster, better and global trading, it also poses challenging questions to the industry. In this volume we look into technology threatening to take over yet another traditionally human space – sales. Our article efforts to answer the question of whether technology can replace salespeople, and at what cost.

Also on the agenda of this volume are cryptocurrencies, one of the most interesting, possibly revolutionary developments of our times in regard to financial systems, and specifically in terms of currency trading. We also take a look at the binary options industry, which seems to be at a crossroad, having to decide whether to go down the road of gaming or to follow the footsteps of the Forex industry and towards a regulated, respectable status.

From Q3 2013 to Q2 2014, it's been a wild ride for the Forex industry. This free edition of our Industry Report will allow you a quick look into the most important trends and developments of this period. I urge our readers to subscribe to our QIR and be the first to get this one of its kind publication. As always, we invite you to contact us with comments or requests for articles or researches.

Lianne Back
Managing Editor

Lianneb@forexmagnates.com

Section

01

MARKET OVERVIEW

Institutional FX Volumes Review

Q3 2013 • Q4 2013 • Q1 2014 • Q2 2014

Retail Forex Volumes Q2 2014

INSTITUTIONAL FX VOLUMES REVIEW

QIR3, 2013

Publicly Reporting Venues. Monthly and Average Daily Volumes (in $bn, unless otherwise noted)

		Sep 12	Oct 12	Nov 12	Dec 12	Jan 13	Feb 13	Mar 13	Apr 13	May 13	Jun 13	Jul 13	Aug 13
EBS	Monthly	2,238	2,129.8	2,283.6	1,744.2	3,187.8	2,980	2,528.4	2,822.6	2,898	2,576	2,053.9	1,731.4
	Daily	111.9	92.6	103.8	91.8	144.9	149.0	120.4	128.3	126.0	128.8	89.3	78.7
FXall***	Monthly	2,100	2,162	2,090	1,900	2,398	2,200	2,310	2,376	2,484	2,460	2,346	2,134
	Daily	105.0	94.0	95.0	100.0	109.0	110.0	110.0	108.0	108.0	123.0	102.0	97.0
Hotspot	Monthly	516.2	522.9	475.9	392.5	596.9	601.4	554.8	649	774.7	739	657.8	616
	Daily	25.8	22.7	21.6	19.6	27.1	30.1	26.4	29.5	33.7	37.0	28.6	28
Reuters	Monthly	2,660	2,760	2,442	1,938	2,772	2,740	2,751	2,860	3,220	2,940	2,622	2,354
	Daily	133.0	120.0	111.0	102.0	126.0	137.0	131.0	130.0	140.0	147.0	114.0	107.0
FXCM	Monthly	46	53	90	80	116	132	125	183	191	184	185	210
	Daily	2.3	2.3	4.1	4.2	5.3	6.6	6.0	8.3	8.3	9.2	8	9.5
CLS Bank****	Monthly	16,260	16,767	16,610	13,528	20,174	18,880	18,480	19,536	20,861	19,000	18,354	16,082
	Daily	813.0	729.0	755.0	712.0	917.0	944.0	880.0	888.0	907.0	950.0	798.0	731
CME*	Monthly	18,693	15,604	15,331	15,694	17,697	18,782	20,238	20,200	22,675	24,260	18,561	16,390
	Daily	934.7	678.0	730.0	826.0	804.0	939.0	963.71	918.2	1031.0	1213.0	807.0	745.0
TFX (Click 365)*	Monthly	3,254	3,652	4,092	4,078	6,744	6,914	5,007	6,964	5,557	5,880	4,085	3,316
	Daily	162.7	158.8	186.0	194.9	306.5	345.9	238.5	317.0	242.0	294.0	177.6	150.9
GTX **	Monthly	503.7	n/a	n/a	538.4	n/a	n/a	889.9	315.8	382.7	367.2	352	270.4
	Daily	8.4	8.6	8.2	9.4	13.5	14.8	14.1	14.4	16.6	18.4	15.3	12.3

* CME & TFX Data in thousands of contracts
** GTX volumes are based on quarterly statistics
*** FXall Volumes include Relationship & Active Trading Volumes
**** CLS Bank figures are OTC Spot volumes according to BIS accounting

Source: Forex Magnates

QIR4, 2013

Publicly Reporting Venues. Monthly and Average Daily Volumes (in $bn, unless otherwise noted)

	Dec 12	Jan 13	Feb 13	Mar 13	Apr 13	May 13	Jun 13	Jul 13	Aug 13	Sep 13	Oct 13	Nov 13
EBS	1744.2	3187.8	2,980	2528.4	2,822.6	2,898	2,576	2,053.9	1,731.4	1,705.2	1,771	1,669.5
	91.8	144.9	149	120.4	128.3	126.0	128.8	89.3	78.7	81.2	77.0	79.5
FXall***	1900	2,398	2,200	2,310	2,376	2,484	2,460	2,346	2,134	2,331	2,438	2,268
	100.0	109.0	110.0	110.0	108.0	108.0	123.0	102.0	97.0	111.0	106.0	108.0
Hotspot	392.5	596.9	601.4	554.8	649	774.7	739	657.8	616	602.8	684.4	622.9
	19.6	27.1	30.1	26.4	29.5	33.7	37.0	28.6	28	28.7	29.8	29.7
Reuters	1938	2,772	2,740	2,751	2,860	3,220	2,940	2,622	2,354	2,310	2,231	2,184
	102.0	126.0	137.0	131.0	130.0	140.0	147.0	114.0	107.0	110.0	97.0	104.0
FXCM	80	116	132	125	183	191	184	185	210	181	176	193
	4.2	5.3	6.6	6.0	8.3	8.3	9.2	8	9.5	8.6	7.7	9.2
CLS Bank****	13,528	20,174	18,880	18,480	19,536	20,861	19,000	18,354	16,676	15,603	18,101	17,367
	712.0	917.0	944.0	880.0	888.0	907.0	950.0	798.0	758	743.0	787.0	827.0
CME*	15,694	17,697	18,782	20,238	20,200	22,675	24,260	18,561	16,390	17,325	14,812	15,078
	826.0	804.0	939.0	963.71	918.2	1031.0	1213.0	807.0	745.0	825.0	644.0	718.0
TFX (Click 365)*	4,078	6,744	6,914	5,007	6,964	5557	5,880	4,085	3,316	3,003	2,427	2,502
	194.9	306.5	345.9	238.5	317.0	242.0	294.0	177.6	150.9	143.2	105.6	119.2
GTX **	538.4	n/a	n/a	889.9	315.8	382.7	367.2	352	270.4	278.9	291	428.6
	19	13.5	14.8	14.1	14.4	16.6	18.4	15.3	12.3	13.3	12.7	20.4

* CME & TFX data in thousands of contracts
** GTX volumes are based on quarterly statistics
*** FXall volumes include Relationship & Active Trading Volumes
**** CLS Bank figures are OTC Spot volumes according to BIS accounting

Source: Forex Magnates

QIR1, 2014

Publicly Reporting Venues. Monthly and Average Daily Volumes (in $bn, unless otherwise noted)

	Mar 13	Apr 13	May 13	Jun 13	Jul 13	Aug 13	Sep 13	Oct 13	Nov 13	Dec 13	Jan 14	Feb 14
EBS	2,528.4	2,822.6	2,898	2,576	2,053.9	1,731.4	1,705.2	1,771	1,669.5	1,420	1,925	1,670
	120.4	128.3	126.0	128.8	89.3	78.7	81.2	77.0	79.5	71.0	87.5	83.5
FXall***	2,310	2,376	2,484	2,460	2,346	2,134	2,331	2,438	2,268	2,220	2,706	2,440
	110.0	108.0	108.0	123.0	102.0	97.0	111.0	106.0	108.0	111.0	123.0	122.0
Hotspot	554.8	649	774.7	739	657.8	616	602.8	684.4	622.9	579.4	749.7	607.3
	26.4	29.5	33.7	37.0	28.6	28	28.7	29.8	29.7	27.6	34.1	30.4
Reuters	2,751	2,860	3,220	2,940	2,622	2,354	2,310	2,231	2,184	1,840	2,574	2,260
	131.0	130.0	140.0	147.0	114.0	107.0	110.0	97.0	104.0	92.0	117.0	113.0
FXCM	125	183	191	184	185	210	181	176	193	146	184	162
	6.0	8.3	8.3	9.2	8	9.5	8.6	7.7	9.2	7.3	8.4	8.1
CLS Bank****	18,480	19,536	20,861	19,000	18,354	16,676	15,603	18,101	17,367	15,480	19,624	16,960
	880.0	888.0	907.0	950.0	798.0	758	743.0	787.0	827.0	774.0	892.0	848.0
CME*	20,238	20,200	22,675	24,260	18,561	16,390	17,325	14,812	15,078	15,200	17,259	15,380
	963.71	918.2	1031.0	1213.0	807.0	745.0	825.0	644.0	718.0	760.0	784.5	769.0
TFX (Click 365)*	5,007	6,964	5,557	5,880	4,085	3,316	3,003	2,427	2,502	2,798	3,198	2,382
	238.5	317.0	242.0	294.0	177.6	150.9	143.2	105.6	119.2	127.2	145.3	119.1
GTX **	889.9	315.8	382.7	367.2	352	270.4	278.9	291	428.6	348.6	437.4	370.8
	14.1	14.4	16.6	18.4	15.3	12.3	13.3	12.7	20.4	16.6	19.9	18.5

*CME & TFX Data in thousands of contracts
** GTX volumes are based on quarterly statistics
*** FXall Volumes include Relationship & Active Trading Volumes
**** CLS Bank figures are OTC Spot volumes according to BIS accounting

Source: Forex Magnates

QIR2, 2014

Publicly Reporting Venues. Monthly and Average Daily Volumes (in $bn, unless otherwise noted)

	Jun 13	Jul 13	Aug 13	Sep 13	Oct 13	Nov 13	Dec 13	Jan 14	Feb 14	Mar 14	Apr 14	May 14
EBS	2,576	2,053.9	1,731.4	1,705.2	1,771	1,669.5	1,420	1,925	1,670	1,856.4	1,507	1,617
	128.8	89.3	78.7	81.2	77.0	79.5	71.0	87.5	83.5	88.4	68.5	73.5
FXall***	2,460	2,346	2,134	2,331	2,438	2,268	2,220	2,706	2,440	2,772	2,904	2,794
	123.0	102.0	97.0	111.0	106.0	108.0	111.0	123.0	122.0	132.0	132.0	127.0
Hotspot	739	657.8	616	602.8	684.4	622.9	579.4	749.7	607.3	673.9	555.3	569.2
	37.0	28.6	28	28.7	29.8	29.7	27.6	34.1	30.4	32.1	25.2	25.9
Reuters	2,940	2,622	2,354	2,310	2,231	2,184	1,840	2,574	2,260	2,310	1,980	1,914
	37.0	28.6	28	28.7	29.8	29.7	27.6	34.1	30.4	32.1	25.2	25.9
FXCM	184	185	210	181	176	193	146	184	162	200	185	185
	147.0	114.0	107.0	110.0	97.0	104.0	92.0	117.0	113.0	110.0	90.0	87.0
CLS Bank****	19,000	18,354	16,676	15,603	18,101	17,367	15,480	19,624	16,960	17,640	16,786	17204
	9.2	8	9.5	8.6	7.7	9.2	7.3	8.4	8.1	9.5	8.4	8.4
CME*	24,260	18,561	16,390	17,325	14,812	15,078	15,200	17,259	15,380	17,955	12,298	12,958
	950.0	798.0	758	743.0	787.0	827.0	774.0	892.0	848.0	840.0	763.0	782
TFX (Click 365)*	5,880	4,085	3,316	3,003	2,427	2,502	2,798	3,198	2,382	2,445	2,089	1,880
	1213.0	807.0	745.0	825.0	644.0	718.0	760.0	784.5	769.0	855.0	559.0	589
GAIN	367.2	352	270.4	278.9	291	428.6	348.6	437.4	370.8	441.7	409.1	456.9
	294.0	177.6	150.9	143.2	105.6	119.2	127.2	145.3	119.1	116.4	94.9	85.4

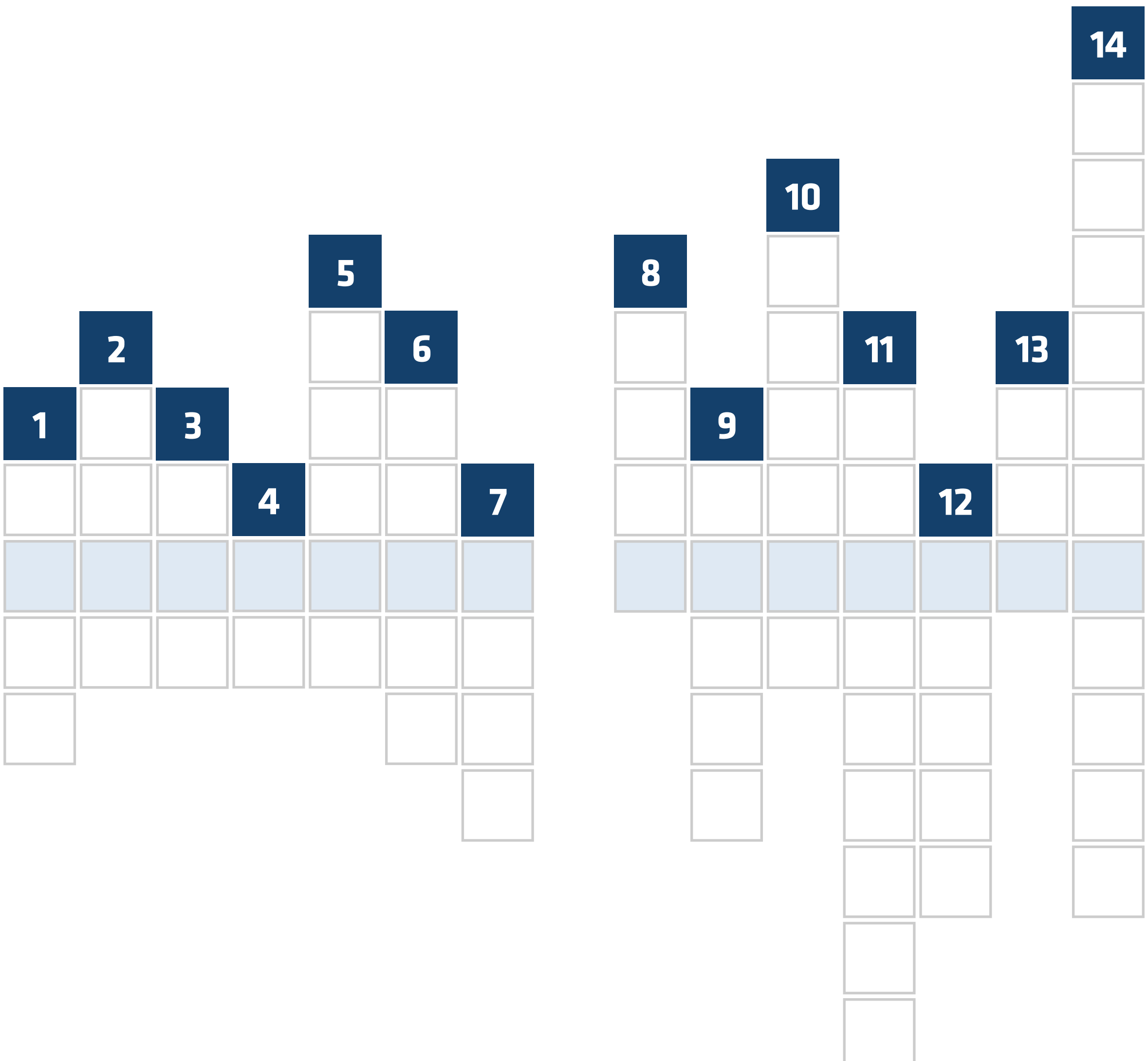
* CME & TFX data in thousands of contracts

*** FXall volumes include Relationship & Active Trading Volumes

**** CLS Bank figures are OTC Spot volumes according to BIS accounting

Source: Forex Magnates

You know the Forex market? Solve the logo quiz and prove it.



1	2	3	4	5	6	7
8	9	10	11	12	13	14

RETAIL FOREX VOLUMES Q2,2014

Retail Forex volumes fell in the second quarter survey (composed of results from March to May). Average daily volumes were $240B vs $288B in Q1 and $321B in the same period last year. Affecting volumes was a decline in currency volatility which led active traders to decrease their activity in the asset class.

Among specific regions, Japan was the greatest underperformer, seeing its overall global market share fall to the lowest level since Q4 2012. Also, volumes from Russia were lower for the second consecutive quarter.

Q2 2014 RETAIL FOREX MARKET

Volumes: **$240.1 billion** daily
$5,202 billion monthly

Total retail Forex volumes fell to their lowest level since Q4 2014

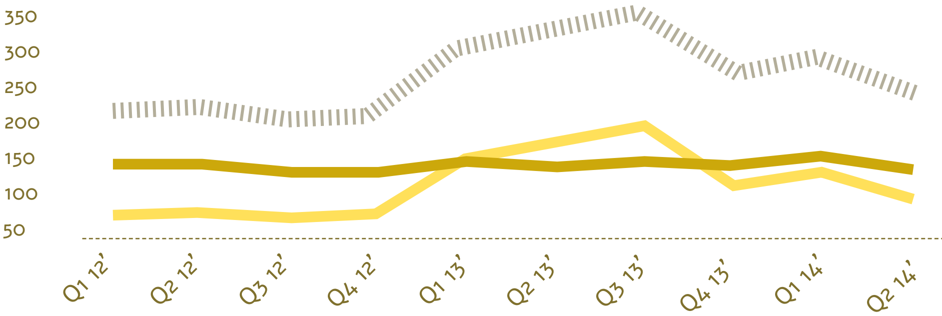
Source: Forex Magnates

	Monthly ($bn)	Daily ($bn)
FXCM	268.0	12.4
Saxo Bank	239.0	11.0
Alpari	200.0	9.2
IG Group	180.0	8.3
GAIN Capital	178.0	8.2
OANDA	114.0	5.3
LMAX Exchange	100.0	4.6
FXOpen	75.0	3.5
IB	75.0	3.5
FXPro	75.0	3.5
Swissquote	70.0	3.2
CMC	65.0	3.0
Pepperstone	60.0	2.8
Axi Trader	60.0	2.8
Dukascopy	60.0	2.8
Forex Club	55.0	2.5
IC Markets	55.0	2.5
Plus500	52.0	2.4
XTB	50.0	2.3
FXDD	45.0	2.1
Admiral Markets	45.0	2.1
Markets.com	40.0	1.8
City Index	35.0	1.6
AVA FX	32.0	1.5
CitiFX Pro	32.0	1.5
eToro	30.0	1.4
BMFN	28.0	1.3
UFX Markets*	25.0	1.2
FinFX	25.0	1.2
iForex	22.0	1.0
forex4you	20.0	0.9
Go Markets	20.0	0.9
ACM Gold	20.0	0.9
HY Markets	20.0	0.9
MB Trading	20.0	0.9
LCG	18.0	0.8
IBFX	18.0	0.8
Teletrade*	18.0	0.8
Easy Forex	15.0	0.7
ActivTrades	15.0	0.7
City Credit Capital	14.0	0.6
Deltastock	14.0	0.6
xforex	13.0	0.6
bforex	12.0	0.6
FX Primus	12.0	0.6
XM Markets*	12.0	0.6
Armada Markets	10.0	0.5
Russian Brokers	70.0	3.2
500 Small Brokers	240.0	11.0
Turkish Brokers	65.0	3.0
Total w/o Japan	**3,036.0**	**140.0**
Japan	**2,166**	**100.0**
Total with Japan	**5,202**	**240.1**

1. Based on 65 trading days during the quarter daily average.
2. FXCM, GAIN and Swissquote report their data publicly.
3. Some of the Japanese brokers' volumes are reported by The Financial Futures Association of Japan; the rest is estimated. Figures exclude exchange traded volumes for brokers such as GMO.
* New entries to the list

DAILY RETAIL FX VOLUMES ($bn)

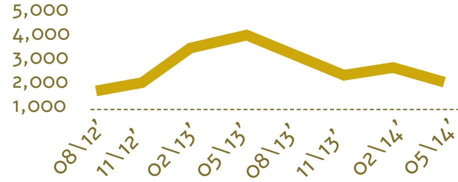
Rest of the World · Japanese · Total



JAPANESE MONTHLY VOLUMES ($b/month)

30

At $100 ADV, activity in Japan fell to its lowest level since Q4 2012, as yen volatility has been subdued



TOP 15 WORLD'S LARGEST FOREX BROKERS BY VOLUME Q2 2014

● Q1 14' ● Q2 14'

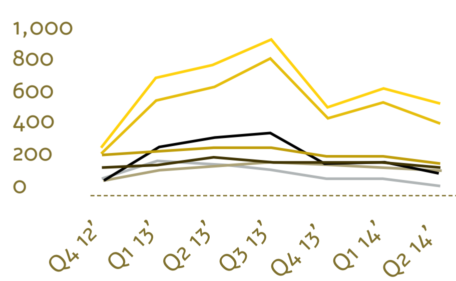
Position		Change	Broker	Volume Q1 14'	Volume Q2 14'	% Change
1	(Q1 14': 1)	–	GMO CLICK	701	607	-13%
2	(Q1 14': 2)	–	DMM	605	474	-22%
3	(Q1 14': 3)	–	FXCM	306	268	-12%
4	(Q1 14': 4)	–	SAXO BANK	268	239	-11%
5	(Q1 14': 6)	+1	ALPARI	225	200	-11%
6	(Q1 14': 5)	-1	YJFX (EX CYBERAGENTFX)	258	191	-26%
7	(Q1 14': 7)	–	IG GROUP	200	180	-26%
8	(Q1 14': 8)	–	GAIN FOREX.COM)	178	178	0%
9	(Q1 14': 9)	–	GAITAME ONLINE	172	127	-26%
10	(Q1 14': 13)	-3	OANDA	120	114	-10%
11	(Q1 14': 11)	–	HIROSE	129	104	-34%
12	(Q1 14': 10)	-2	RAKUTEN SECURITIES	145	95	-6%
13	(Q1 14': 12)	-1	SBI SECURITIES	125	86	-34%
14	(Q1 14': 14)	–	MONEY PARTNERS	116	79	-32%
15	(Q1 14': 18)	+3	INTERACTIVE BROKERS	80	75	-6%

Share of the Total Volumes Held by Each of the 15 Largest Brokers

Broker	Q2 14'	(Q1 14')
GMO CLICK	20.1%	(21.5%)
DMM	15.7%	(18.5%)
FXCM	8.9%	(7.9%)
SAXO BANK	7.9%	(9.4%)
ALPARI	6.6%	(6.9%)
YJFX (EX CYBER-AGENTFX)	6.3%	(8.2%)
IG GROUP	6.0%	(6.1%)
GAIN (FOREX.COM)	5.9%	(5.5%)
GAITAME ONLINE	4.2%	(5.3%)
OANDA	3.8%	(3.7%)
HIROSE	3.4%	(4.0%)
RAKUTEN SECURITIES	3.1%	(4.4%)
SBI SECURITIES	2.9%	(3.8%)
MONEY PARTNERS	2.6%	(3.6%)
INTERACTIVE BROKERS*	2.5%	(N/A)

* Were not part of top 15 brokers in Q1 2014 | (x) stands for Qx figures | Q1 14' Q2 14'

PERFORMANCE OF THE TOP 7 GLOBAL FOREX BROKERS in the past 12 months, volumes in $bn



● GMO ● FXCM ● Saxo Bank ● DMM.com
● Gaitame Online ● YJFX (ex CyberAgentFX) ● Alpari

INSTITUTIONAL
LIQUIDITY

Custom Solutions

Introducing Brokers

- Custom pricing and real-time commissions
- White-labeled onboarding and back office management

Money Managers

- Multi-Account management tools
- 24/5 Live Support

Traders

- 50+ unique liquidity providers
- Supporting FIX, Integral, Currenex, Hotspot, FXAll, and MT4

REGULATED BY ASIC (AFSL#424122)
MEMBER OF THE NFA (FCM/FDM)
REGULATED BY THE CFTC (RFED)

For Retail Partners & Institutional Traders

INSTITUTIONAL
LIQUIDITY

US +1 800 619 5007
AUS +61 2 8607 8364
sales@ilq.com

Your MT4 broker of choice

Grow your business with ForexClub

Bring integrity, exceptional service and advantageous trading terms to your clients with ForexClub Introducing Brokers and Money Manager programs

ForexClub's Institutional Team is dedicated to create new revenue streams for you and to provide advantageous trading terms for your clients. Whether you're looking to expand into Forex for the first time, or to replace your current broker, please contact us to find out what else we can do for you and your clients.

Benefits for Introducing Brokers

- Competitive spreads
- Deep liquidity from top-tier banks for rapid execution.
- Generous and flexible rebate structure.
- Complete range of trading platforms for traders of all experience levels.
- Fully automated demo and live account tracking.
- Powerful partner portal with real-time commission calculation.
- Comprehensive training for clients and marketing tools for partners.
- Hassle free and smooth client onboarding.
- Dedicated and experienced multi-language support.

Benefits for Money Managers

- Competitive spreads
- Deep liquidity from top-tier banks for rapid execution.
- Dedicated and experienced multi-language support.
- Flexible allocation modes.
- Fully automated account settlement between investor and money manager.
- Investor-friendly account sign-on process.
- Complete and fully transparent real-time reporting for investors.
- Hassle-free and smooth client onboarding.
- Direct Bank Access technology, using oneZero's low-latency bridging solution, improves execution speed, guaranteeing real-time market access and the best available pricing.

MetaTrader 4 MultiTerminal

The MetaTrader 4 MultiTerminal trading platform is designed for managing multiple trading accounts, in real-time, simultaneously.

The MultiTerminal is an ideal choice for traders and managers who work with several, or many, accounts at the same time. It offers attractive and user-friendly MT4 design and is similar in scope and functionality.

Features

Manage Over 100 Accounts
The MultiTerminal allows you to manage up to 128 trading accounts in real-time.

One-step Start
All you need is the Login and Password of the investor's account.

Easy Control
Accounts can be added/excluded from the trade pool with just one click.

Security Control
For security purposes, Money Managers can change both Investor and Master accounts passwords.

Detailed Reporting for Money Managers
Reports are easily accessible from the management console and can be exported in html format for each account.

Detailed Reporting for Investors
Investors have access to their trading account report from the Client MT4 via "Investor View". Equity beginning and ending reports can also be generated from the FXBank Client Management Terminal.

Contact us to discuss solutions for all your FX trading needs

Toll Free US: 1(800) 881-3809 ext. 180 **International:** +1 (212) 458-0360 **Email:** partner@fxclub.com

Section

02

ARTICLES

Low FX Volatility: Diversifying in an Extremely Challenging Environment • The Magic Eye: Regulatory Surveillance in the Asia-Pacific Region • Computer Versus Man: Has Technology Made Salespeople Redundant? • Bloomberg: The Quiet Giant of FX Trading • The Era of One To Many: Prepare for Multi-Asset Platforms • Iran: Middle East Star in Need of a Polish • Binary Options Industry: Following in the Footsteps of Forex? • The Digital Currency Age: Is Cryptocurrency Trading into The Future?

LOW FX VOLATILITY: DIVERSIFYING IN AN INCREASINGLY CHALLENGING ENVIRONMENT

After a troubling start for 2014, prospects for the rest of the year promise no material pickup in volumes, which stirs nervousness across the Forex industry.

This article will attempt to determine whether recent low volatility is a paradigm shift or a temporary markets' hiccup, offering possible tactics for survival through a longer-term stagnation.

By Victor Golovtchenko

FX volatility levels have been quite grim recently, to such an extent that relative newcomers to the industry who have started operating over the past five years, have never witnessed foreign exchange volatility at such lows. In fact, JP Morgan's G7 FX Volatility Index had not been seen since 2007, just before it took off to mark its post 2008 financial crisis highs.

There is no telling as to how long interest rates will continue to lean towards the zero. While some central banks, like the Bank of England, have signaled their intention to start raising interest rates, others have already begun, like the Reserve Bank of New Zealand.

Volatility Lies with Emerging Currencies

Today's environment is very similar to the one observed between 2003 and 2007, when commodity exporters were actively raising rates and driving currency flows to their shores. While the Canadian economy is more dependent on the U.S., Australia and New Zealand are the isles of hope for yield seeking FX traders looking to take advantage of low global interest rates. That said, the Reserve Bank of New Zealand has already threatened intervention, so rest assured, the ride won't be smooth.

Under such conditions, the most challenging issue for FX brokerages appears to be the need to change their traders' habits. While G7 volatility has been low, for several years now some emerging markets' currencies have demonstrated the versatility of these markets and the volatility which they can provide in a short time span. The Indian rupee has seen a wild ride, falling to multi-year lows last summer. It has subsequently recovered with the likelihood of a new government. In Turkey, during the political crisis there was a substantial depreciation of the local currency, with growing violence in Istanbul triggering routs across currency and equity markets.

The Turkish Central Bank has eventually raised interest rates dramatically from 4.5% to 10% to protect the currency. The Thai baht was inevitably affected during the protests in the country, with an ongoing lack of popular trust in Thailand's political system spelling more volatility going forward. Also volatile was the Russian ruble: The price of the annexation of Crimea has seemed rather expensive when looking at the Moscow Stock Exchange.

However, since February all losses have been recovered and confidence is slowly creeping back to the market.

These four currencies have all surpassed a 10% move in a matter of weeks. But being creatures of habit, traders have been largely ignorant as to what has been brought to the table by the market. So what can be done differently?

To answer this question, Forex Magnates brings the perspective of two of the largest players in the Forex industry, the Danish multi-asset brokerage Saxo Bank and Dukascopy. We asked for the opinions of co-founder and co-CEO of Danish multi-asset brokerage Saxo Bank, Kim Fournais, and Dukascopy's Chief Broker Officer and Deputy Chief Technology Officer, Dimitry Kukels.

As the Future Is Unpredictable, Diversify Today

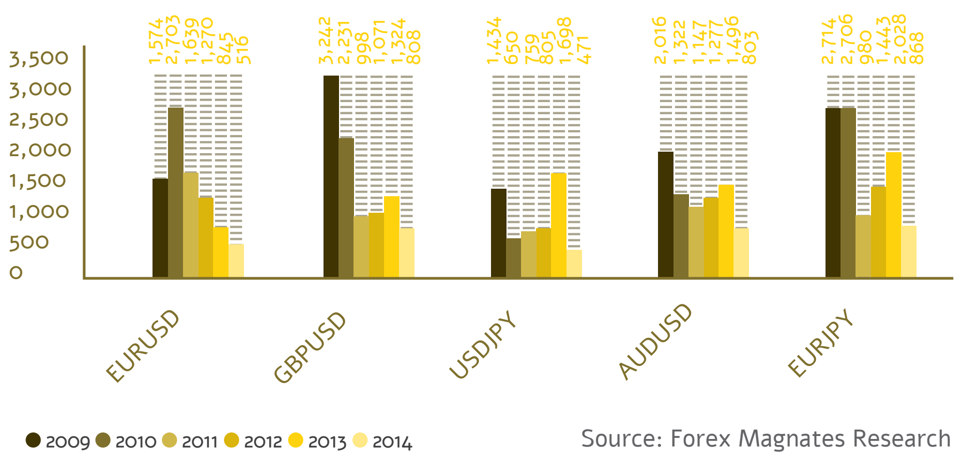
Kim Fournais, co-founder and co-CEO of Saxo Bank, told Forex Magnates that while current lows of FX volatility are being somewhat managed by central banks, there is still hope that geopolitical developments may send volatility up in the near future. "G7 currency volatility is at its lowest level in 21 years, and it has only been at these levels twice before, in 1996 and in 2007, yet this is the lowest we have ever seen. Central banks have been playing a big part in keeping volatility artificially low. It's difficult to predict how and when we will see a return to a more volatile environment. Historically, shifts in volatility have always occurred in rather aggressive and drastic ways. That said, it could take years for previous high levels of G7 volatility to come back to the market, but the growing geopolitical tensions may play a role and we may see something happen quicker," Mr. Fournais explained.

Based on that, he voiced support of the claim that while it is almost impossible to forecast what lies ahead, brokerages better prepare themselves for a long period of similar FX volatility. "We need to be prepared for this environment to last for a long time.

This is not the best thing for foreign exchange as an asset class, simply because most traders and investors are there to try to make money out of fluctuations in currency values – something we are not seeing much of," Mr. Fournais said.

The best way for brokerages to prepare for such a scenario and to try to make the best out of the current situation, is to diversify their offering. With the attention of many traders divided between different asset classes and with a continuous drop in trading costs, the new direction should be offering diversification. Not all Forex trading companies have added indices and commodities to their offering and quite a few are playing catch up and losing clients in the process.

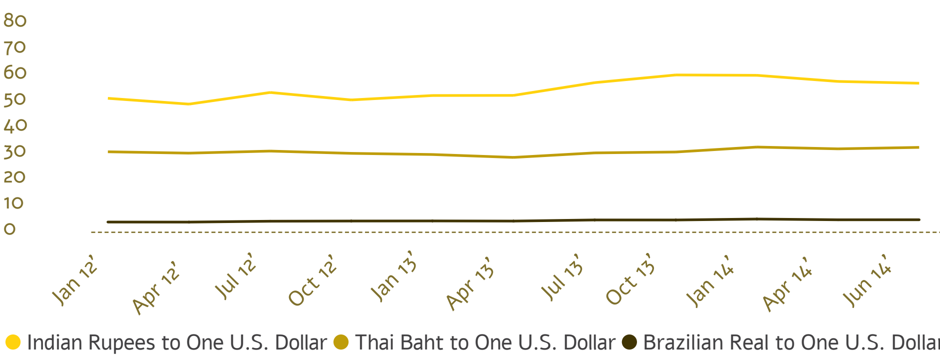
Range of Major Currency Pairs (in Pips)



Source: Forex Magnates Research

According to Mr. Fournais, "Saxo Bank is fortunate to be in a position where we are already growing and diversifying our multi-asset platform. Equities have grown significantly as an asset class, which is reflected in the fact that major European and US indices have hit all-time highs."

EMERGING MARKETS CURRENCIES AGAINST THE U.S. DOLLAR



Source: Board of Governors of the Federal Reserve System

Referring to the share of equities traded on the company's platform, Mr. Fournais made a surprising statement: "Right now we have more clients trading equities than FX, however in revenue terms the latter is still the biggest in terms of overall share, with equities catching up closely. The best aspect of this is that the multi-asset solution is working very well for us and we are seeing growing client interest for multi-asset trading."

Technology as an Expensive Necessity

In order to diversify in the current environment, brokerages who don't have the appropriate scalable technology at their disposal are very likely to encounter substantial challenges in implementing a cost-effective, appropriately diversified solution. In what is seen as a paradigm shift towards greater consolidation, Mr. Fournais elaborated, "From a technological point of view, people have underestimated the complexity of the market. The costs associated with the introduction of different platforms and additional tools are relatively high and that is quite dangerous in my mind, because I think you really need to have a one platform approach from point to point."

While Saxo Bank has been successful in this respect, other brokerages like Dukascopy have chosen different ways to diversify. As the company's Chief Broker Officer and Deputy Chief Technology Officer, Dimitry Kukels explained, "We are offering new products only when we are sure that we are able to ensure a high level of service, quality and obvious competitive advantages of the product. That is why adding new instruments is taking time. A complete multi-asset platform is a long-term goal and we are moving in this direction step by step. We are currently offering other asset products through our subsidiary Dukascopy Europe."

But not every single financial institution out there has the resources and know how to develop its own platform and infrastructure. Saxo Bank's Fournais stated, "Even in a year such as this one, we have spent over $100 million on product development, platforms, infrastructure and so on. We have 600 people working on this, so the costs of innovation are high. This is why we are seeing an increasing demand for our white labelling solutions. We have done more white labelling than anyone else in the industry. It allows our clients to keep their costs low by outsourcing their technology to us, while focusing on their core areas of the business." He continued to say, "Most people in this industry are typically not big technological facilitators, hence engaging in unnecessary operational and capital expenditure trying to develop their own infrastructure makes no business sense. I still believe that the cloud-based, crowd-sourced solution is going to be the future of this industry." When looking outside the financial industry realm, Mr. Fournais explained that one can already see greater specialization, with each entity adding a new component to satisfy client demands and delivering that in a seamless fashion. "This is the future," he said, concluding, “Brokerages out there should be directing their efforts towards meeting clients’ demands which are changing. The only way to keep up with this change is to outsource elements of it to innovators such as Saxo.”

Prospects for Emerging FX

As the common understanding among industry professionals is that exotic currencies are a good way around low volatilities in more established ones, why is it that trading the former has not been more popular? According to Dukascopy’s Mr. Kukels, it is due to the fact, “The liquidity of G10 currencies is much, much larger than of that of emerging market currencies. Another thing to consider is the local regulations which affect trading conditions. The clients that generate the highest turnover trade on very small market movements and periods of small volatility are favorable to short-term trading. Short-term traders prefer to trade currency pairs with tight spreads. This is not the case when we speak of emerging market currencies.”

Another point highlighted by Mr. Kukels was, “Higher liquidity and tighter spreads ensure a smaller trade cost. Trading cost is one of the most powerful factors to develop a successful intraday trading strategy,” he explained and added, “The most attractive assets to trade after FX are indices and commodities.”

The view of Saxo Bank’s co-CEO, Kim Fournais is largely contrasting. He stated that he doesn't believe that the cost of trading emerging market currencies is that prohibitive when compared to a lot of other asset classes. He elaborated, “It’s much more related to habits - when people are used to something it’s much more difficult to get them out of their comfort zone, it always takes some time and work to do that. So I think it’s about getting comfortable, and obviously about exotic currencies not being as freely traded as majors - people need more information to make decisions. I do think that there is a lot of potential in emerging FX, this market is going to further grow in the future.”

He went on to clarify, “People always want to find markets that are moving and that are highly liquid. They have got that in FX majors a few years back, which is not the case anymore. Right now, people are more comfortable with stock indices and precious metals and fixed income rather than moving into exotic currencies. I reiterate that there is a lot of potential in the area, so we could very well see that, going forward, this part of business will grow.”

How Has it Come to This? Causes for Low Volatility

Can this seemingly random periods of high or low volatility be explained in a way that may shed some light on the future? According to Mr. Fournais, there are a couple of central factors currently manifesting in low levels of volatility. One of them is an obvious reluctance by banks, at the heart of the mainstream media’s speculations regarding the FX probe, to take any unnecessary risks. “There is no doubt that banks which are under scrutiny right now have much lower risk appetite. They are less keen on market-making as well, so I wouldn't neglect this aspect when looking at the overall picture either,” said Mr. Fournais. “More broadly, I think the problem is that there is a lack of political will to really adopt the reforms that we

Kim Fournais, co-Founder & CEO, Saxo Bank

Dimitry Kukels, Chief Broker Officer, Dukascopy all need in developed countries. It has become too complex to run businesses - too many hurdles and too much regulation, while taxes are too high and labor laws are too strict," he added, blaming politicians for choosing the easier way, allowing central banks to keep funding costs low. "But as we all know, this funding is not going into the right hands - it's going to the major banks, and not to the small and midsize businesses which are in need of capital to fund growth."

Forex Magnates predicts that this policy is going to backfire sooner or later, while years could go by before this happens. As the funding costs of developed governments worldwide have dropped to all times lows; with interest rates at rock bottom; when the global economy is still looking unhealthy amid problems lurking around the corner across several emerging markets, there is no certainty as to where the next shock will hit the system or why.

Survival of the Fittest

What is certain is that every FX brokerage wishing to survive out there, needs to employ all tools and strategies at its disposal as to assure that it can cope with tough times lying ahead. The possibility that major central banks' policies will diverge at some point is a touch closer than it was half a year ago. With the ECB continuing its easing cycle, the Federal Reserve is mildly shifting its focus. This environment could lead to much more data-dependent trading going forward and might provide new periods of higher volatility, especially in relation to the euro.

The ECB meeting has become the center stage of every month's trading. Traders are anxiously awaiting what will be the next set of policy measures to be taken by the ECB governing council in a bid to stimulate further lending to those parts in the economy in real need of it. In June, volumes at some major exchanges, like the CME and LMAX, have been driven by central bankers. With Mark Carney committing to higher interest rates before the end of the year, the British pound is gathering steam in anticipation of becoming a higher yielding currency.

Meanwhile, as the structure of the currency market is changing, a new paradigm is inevitably looming across the industry. Major G7 currencies are very likely to be soon joined by a slew of emerging markets counterparties, leading to more liquid markets and lower costs of trading. Finally, the main driver for growth on the market is the switch of traders' habits. Who if not the brokerages themselves can provide enough information to currency traders and point them to more volatile currency pairs which they are always looking for? Whoever will be able to invest in educating its clients in this direction and in offering them a more diverse trading 'menu', is more likely to survive through this time. Whatever costs such a switch may bare, they are expected to be paid back by increased activity.


MT4
CITYINDEX

THE MAGIC EYE: REGULATORY SURVEILLANCE IN THE ASIA-PACIFIC REGION

The days of light regulatory presence and FX firms being left to their own device have been long consigned to the history books. In what has proven to become a highly involved regulatory environment worldwide, the majority of financial markets supervisory authorities have embarked on implementing a series of stringent measures.

This article focuses on the most recent measures taken in the Asia-Pacific region.

By Andrew Saks-McLeod

In the days before electronic trading became so common, and customers of financial institutions operated less internationally, traded on fixed executing venues, or developed a relationship with a financial adviser, the regulatory monitoring was a less sophisticated and infinitely simpler task. In fact, it was very rare that any investor, whether a large corporation or a private individual, would enlist the services of a global firm and even less likely, that any such investor would deposit funds into a client account in one country, to fund a trading account in another, with a company with a head office in yet, another location.

Therefore, compliance departments often performed regular audits on firms by visiting them and taking samples from their records, in order to ascertain correct recordkeeping and adherence to laws that ensure such firms act in the best interest of their clients.

The growth of the FX industry presented a very serious challenge to regulators, because the entire structure by which most authorities had been established was somewhat inadequate, to maintain a watchful eye over firms which operate globally, and can provide service within seconds to clients thousands of miles away, and hold client data on server farms which are often hosted in the ether on increasingly popular cloud-based systems.

Whilst the ability to act upon complaints is relatively unencumbered by logistical or regional differences, a firm which infringes the laws in the jurisdiction of its base or a client with a reason to complain, can easily be brought to book if reported to a regulator, as the regulator can request information from the licensed FX broker. And thus, it has become practically impossible for auditors to conduct their inspections via traditional methods to ensure that all aspects are being adhered to on a day to day basis during a company's operations.

For this reason, an increasing

number of regulatory authorities are turning to automated surveillance systems which conduct detailed monitoring of the activities of FX firms remotely, and can detect all aspects of compliance adherence, handling of client assets and the general day to day operational care and attention employed by such businesses.

Forex Magnates' research team spoke to Andrew Smith, CEO of British financial software company Cor Financial Group, in detail on the virtues of such systems, not only for the use by regulators, but also for institutions themselves, in order that they may conduct their own monitoring to ensure a clean record with regulators and credibility with customers.

Mr. Smith confirmed that the firm is "taking a brand new step into Anti-Money Laundering (AML) and Know Your Client (KYC) monitoring systems to enable firms to monitor their own compliance procedures, thus keeping the cost of administration down and ensuring that the regulatory authorities are satisfied that the company is less likely to fall on the wrong side of the law." According to Mr. Smith, "In Western markets this is of great concern to firms, as the Office of Foreign Asset Control (OFAC) in the United States issued over $4 billion in fines during the financial year 2008/09. It is therefore, more effective for firms to invest in systems that will help mitigate this."

AML and KYC are procedures required by the majority of regulatory authorities worldwide, which usually take the form of documents containing steps that a broker took to understand the origins of funds entrusted to the broker by a client, and detailed information about the client, in order that a broker can demonstrate to a regulator that sufficient steps were taken to ensure that a client is deemed of good character, and that the client understands the product that is being sold.

The Asia-Pacific region, home to a very large and established retail FX industry, has been pioneering this method, Australia's national regulator ASIC having been among the first.

REGULATORY FINDINGS AND ACTIONS IN H1 2013

371
Proceedings were completed in Australia

133
Traders manipulated benchmarks in Singapore

20
Singaporean banks suffered from compliance deficiencies

Source: Forex Magnates

Australia: The Spearhead

Not only does using automated surveillance reduce the human cost, but it also serves to remove the logistical implications otherwise present in monitoring FX firms which operate globally on a real-time basis.

The US and UK are deeply engaged in reforming the entire regulatory structure under which they operate, forming entirely new government acts such as the Dodd-Frank Wall Street Reform Act, which covers the methods by which global businesses such as FX should be regulated in the US and overseas, by collaborating with governments worldwide. Australia has spearheaded the automated monitoring method and set up its system which was provided by British software company First Derivatives.

Under the Delta Stream designation, this particular system uses leading tick capture database kdb+ and is part of First Derivatives Delta Suite of financial software products. Aside from ASIC using the system, it is currently in use globally at banks, hedge funds and securities companies, meeting a range of business challenges including monitoring market makers at Singapore Exchange (SGX). It provides its service by offering surveillance capabilities in reference data management, market data management, complex event processing (CEP), algorithmic and high-frequency trading, FX trading, treasury risk management and exchange management.

The user interface of the system offers dashboards complete with powerful tools for ad hoc OLAP (Business Intelligence Pivot and Drilldown), simple query extraction, charts and other visualizations to readily provide feedback to the users. Thus, each user can easily run most (permissioned) queries, allowing for the monitoring of Australian financial markets without over-complexity using minimal highly skilled staff.

Rob Hodgkinson, First Derivatives' Director for the Asia-Pacific region explained to Forex Magnates: "The system has already demonstrated improvements in running benchmarks, and extracting historical reports in a matter of seconds rather than the several minutes taken by the previous system. In terms of functionality, system alerts are acted upon using a workflow solution and various dashboards for research and investigation, particularly market replay, with entity tagging to highlight suspect entities in the market at the nominated time."

He continued, stating how "Delta Surveillance has been benchmarked against traditional market data capture implementations and has shown similar functions being performed 20 to 100 times faster. This gives ASIC a major advantage in analyzing much large datasets for market abuse than was previously possible.

"Recently, First Derivatives has been in discussions with regulators and exchanges around the world. We anticipate strong interest in Delta Surveillance as abuse detection and market integrity become increasingly important to increase the level of transparency, efficiency and trust in global financial markets." concluded Mr. Hodgkinson.

Subsequent to the implementation of the Delta Stream system in December last year, ASIC has completed a series of enforcements against FX companies for irregularities in compliance procedures. One such case was an enforceable undertaking by Halifax Securities in early April 2013, for inadequate risk management procedures, and then one week later a similar enforceable undertaking by City Index Australia for lacking the correct care when handling client funds.

At the end of the first half of this year, Australia's ASIC officially stated that it had processed 371 outcomes of regulatory proceedings, including criminal action as well as civil and administrative action, enforceable undertakings and negotiated outcomes. This serves to demonstrate the effectiveness of such a procedure, as comparative to the same period last year, ASIC was able to affect 303 enforcements, via a far more labor intensive method of inspecting the activities of gatekeepers of financial services firms.

> "The United States government issued fines of over $4 bn in 2008/2009, therefore it is more effective for firms to invest in systems that will help mitigate potential regulatory risks, than to later deal with the penalties"
>
> Andrew Smith, Cor Financial Group

New Zealand: Risk-Based Approach

Following Australia's lead in this direction, other regulators in the region are going down the surveillance route, including New Zealand's Financial Markets Authority (FMA). This particular regulator was established only two years ago, in May 2011.

New Zealand had been viewed as a very easy standpoint from which to approach the Asia-Pacific market, as until recently a virtual office was acceptable and there was no financial markets regulator at all. In January, the New Zealand authorities purged the country of all FX firms with no physical office, compliance facility or operations registered and present in New Zealand, and the FMA began strengthening its cause, leading to the broker Alpari packing up and leaving the country, due to what at the time were proposed regulatory changes making it less viable as a springboard to the Far Eastern markets.

These new regulatory procedures were brought into effect at the end of June 2013, and the monitoring of compliance procedure was at the forefront. The FMA began to monitor the compliance of the firms it oversees with the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (AML/CFT Act), including assessment of the adequacy and effectiveness of reporting entities' systems and controls, to detect and deter money laundering and terrorist financing, and to take action where these fall below the expected standard.

At that point, the FMA decided that rather than going down the route of using surveillance systems, it would make use of an intelligence and risk-based approach to monitoring and surveillance of firms' activities, which enables the regulator to prioritize resources to those areas with the greatest risks of money laundering and financing of terrorism and identify new and emerging risks.

In considering risk, the FMA now makes use of market intelligence and research to identify potential problems, assess the likelihood that poor practice or non-compliance may be occurring, and consider the impact on New Zealand's reputation and the public's confidence in the domestic financial systems.

Although, this surveillance will be conducted manually, the Financial Markets Authority Act 2011 (FMA Act) gives FMA the power to monitor compliance and investigate conduct that constitutes, or may constitute, a contravention of the FMA Act and Financial Service Providers (Registration and Dispute Resolution) Act 2008 (FSPA), and to enforce this legislation, thus paving the way for further use of surveillance in the future, in accordance with a specific law that permits it and provides guidelines for such a practice.

Rob Hodgkinson, Director APAC, First Derivatives

Hong Kong: Monitoring Trade Repositories

Rather in the same vein as the contributing factors toward the commencement of the Dodd-Frank Wall Street Reform Act in the United States, the Hong Kong Monetary Authority (HKMA) intends to pay very close attention to the institutional sector, as opposed to its APAC region neighbors Australia and New Zealand's concentration on the retail sector.

In June this year, the HKMA joined the global movement to improve transparency and reduce counterparty risks in the OTC derivatives markets, this being a direct result of the global financial crisis in 2008.

The resultant reaction by regulators worldwide for the need to increase transparency was to instigate reforms to the OTC derivatives markets on various fronts. The reform measures adopted by the international regulatory community include, requiring all OTC derivatives transactions be reported to trade repositories (TRs) and all standardized OTC derivatives transactions be cleared at central counterparty (CCP) clearing facilities, therefore, the HKMA has set this into effect in early July.

The HKMA defines a trade repository as a centralized registry, which maintains an electronic database of records of OTC derivatives transactions. By collecting and providing OTC derivatives transactions information to regulatory authorities, the TR plays a vital role in supporting authorities in carrying out their market surveillance responsibilities, which the regulator is certain will help maintain stability of the financial systems.

As is often the case in the Far East, the development of such procedures and implementation of systems for surveillance by the HKMA, has been a long, drawn out affair, the planning stage having commenced in December 2010.

At this point, it was decided that a TR would be established in Hong Kong under the Central Moneymarkets Unit (CMU), and that a link will be developed between the TR and the CCP for OTC derivatives to be launched by Hong Kong Exchanges and Clearing Ltd eligible transactions to be passed to the CCP for central clearing.

The HKMA also worked in concert with the government and the local Securities and Futures Commission (SFC) to build a regulatory regime for the OTC derivatives markets under the Securities and Futures Ordinance (SFO), including requirements for mandatory reporting to the TR of the HKMA and mandatory clearing at designated CCPs, which will all be subject to market surveillance by the authorities once fully set up.

Japan: High Involvement

As the world's largest FX market, Japan has a very well established and organized FX industry, and the nation's regulator, the Financial Services Agency (FSA) is very well versed in overseeing it.

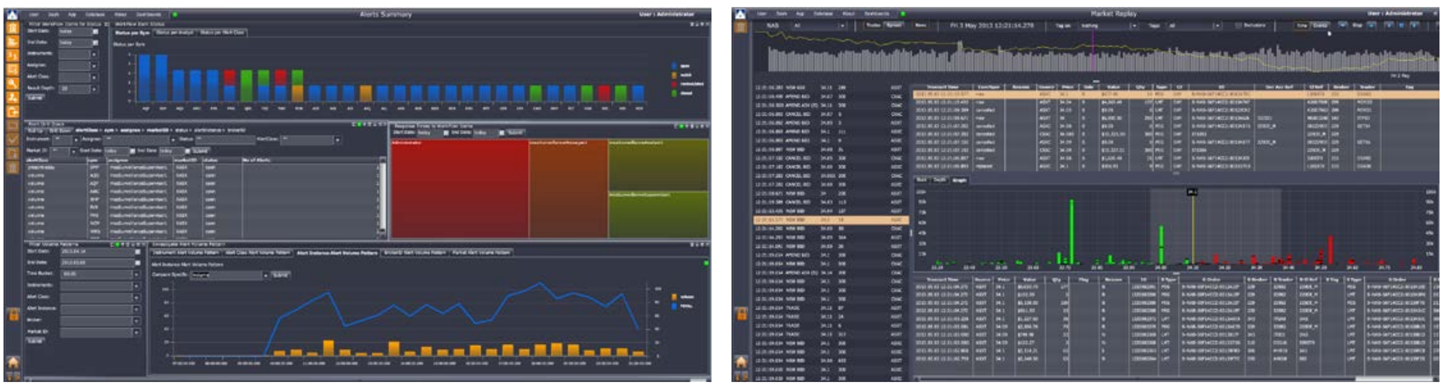
The FSA has its own dedicated unit for the purposes of collating information on the modus operandi of its licensees. The Securities and Exchange Surveillance Commission (SESC) has be in existence for 21 years, although, back in the early 1990s, its remit was mainly to oversee stock and futures markets.

Today, the SESC's main responsibility is market surveillance involving compliance, disclosure, recordkeeping inspection and enforcements.

One high profile case was when the SESC was able to identify areas of concern within FXCM's Japanese operations in June last year, as a result of findings which highlighted matters relating to the trading platform and overall internal conduct. Japan's SESC Commission recommended an Administrative Disposition after observing what it considered to be a serious concern over the management and operation of FXCM, Japan's systems, in that a number of system failures were highlighted. The company was unable to satisfy the FSA with sufficient resolutions as to how these failures were handled internally.

The FSA noted that there were no disaster recovery or contingency plans in place and that there was a lack of understanding among staff as to how to operate the systems correctly, including 55 margin calls which did not take place, and that the consensus was that the FSA was not convinced that FXCM would be able to apply the correct course of rectification should these matters come to light again.

This particular organization is able to take its findings to senior governmental level. The Securities and Exchange Surveillance Commission made a recommendation to the Prime Minister and the Director General of the Kanto Regional



First Derivatives' Surveillance System

Financial Bureau regarding the administrative disposition, based on Article 20(i) of the Act for Establishment of the Financial Services Agency.

Singapore: Watchful Silence

Analog methodology is very much the order of the day in Singapore's methodology; however, it has proven an effective model so far, with the nation being considered a very safe haven for investment and home to a strong and well-disciplined banking sector.

Patience, it appears, is a virtue and in June this year, the Monetary Authority of Singapore (MAS) completed its one year long review of all financial institutions under its jurisdiction, citing 133 traders who engaged in several attempts to influence the existing trading benchmarks, intended to create a false or misleading appearance with respect to the price, value or level of a financial benchmark, with FX traders having been at the forefront.

In addition to 133 traders having alerted the attention of the regulator, 20 banks were found to have deficiencies in the governance, risk management, internal controls, and surveillance systems for their involvement in benchmark submissions, as a testimony to the details which can be unearthed with regard to macroeconomic surveillance under the leadership of MAS Policy.

Surveillance and Risk Head, Jacqueline Loh, has since succeeded Ong Chong Tee as Deputy Managing Director (Monetary Policy & Investment) as well as gaining further responsibility as Deputy Managing Director (Development & International), and the overseeing of the Economic Policy, Markets & Investment, and Development & International groups.

As far as the method by which financial institutions as a whole are regulated in the future is concerned, there is a great disparity between the surveillance-based model that is being rapidly adopted

> "Our system improved historical data extraction from minutes to just a matter of seconds"
>
> Rob Hodgkinson, First Derivatives

in the Asia-Pacific region and the human resource-dependent approach taken by the MiFID directive in Europe and the Dodd-Frank Act in the United States of America. What is certainly a fundamental matter of importance is that governmental organizations worldwide, which are entrusted with overseeing the means by which financial firms operate in today's electronic age, are equally committed to ensuring their procedures keep pace with technological change, despite their different approach to achieving such an end.

COMPUTER VS MAN: HAS TECHNOLOGY ALREADY MADE SALESPEOPLE REDUNDANT?

As technology advances, it not only takes over the technical aspects of the FX industry working but also those traditionally considered to be exclusively human.

This article explores the example set by Plus500's 'Marketing Machine' to understand whether old-school sales people are at all needed when technology can get better results at lower costs.

By Avi Mizrahi

We live in an age where technology is taking over more and more of what used to be essentially human professions and skills. Disrupting an existing industry that might have operated successfully in the same way for decades, is the most common way for new high tech startups to promote themselves to investors. In such an environment, businesses must always question established methods of doing business and look for ways to drastically improve before someone else gains a "killer" advantage.

Since the industry's infancy days, FX brokers have been dependent on the dedicated work of sales people. They are among the highest earners in most firms and are perceived to be the heart of the business. While some companies, mainly operating as white labels, are in fact made up of just sales departments with everything else outsourced to the provider. Considering this, sales people are a part of the business which the average broker is not likely to think of as ever going away. Recent evidence however, might suggest that brokers should start exploring this possibility.

"Hello, This Is a Computer Calling"

In a future business world, automated sales agents based on advanced artificial intelligence will be able to call clients to pitch products, listen to their needs and develop long-term relationships, just as human sales people are expected to do. Such computer agents will only incur a one-time cost to develop and will be able to work on any scale with no salary nor much added cost per client. While such plans sound very futuristic, IBM is already developing such an application with its Jeopardy-winning system, the Watson computer. But we do not need to look so far into the future to see machines replacing humans as sales agents.

The biggest retailer in the world is now a company that has no sales teams and depends entirely on technology. We might not think of Amazon as a computerized sales agent, but behind the recommendations feature on the site sits a sophisticated data mining system that uses artificial intelligence to scan and analyze a user's previous buying history, advertising interest, real-time browsing record and predict what displays are most likely to get the user to buy a product. Another related example is Netflix, which uses computer algorithms to present users with recommendations of movies to watch, demonstrating a great financial success in recent years.

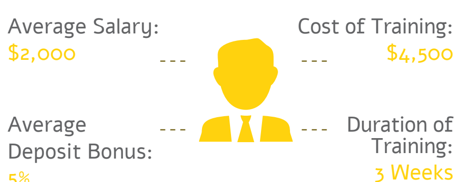
The retail FX trading industry was born with the advancement of the internet, as new technology made it possible for individuals to easily trade online. This industry can obviously be expected to follow a new technological trend promising to enable more money making with less money investing. Today, the FX company. Plus500 claims that it is getting incredible amounts of new traders and deposits without a single sales person. This makes Plus500 a great case study in this new trends, exploring how people-free sales mechanism can actually work.

The Cost of Creating a Salesperson

In order to judge whether the return gained by employing a sales person is worth it, a broker must first realize all the costs associated with hiring and training a sales team. An expert in the field of training salespeople is Karin Zalcberg, Founder & CEO of Karinza which specializes in training sales teams and in creating FX sales call centers. Zalcberg was a VP of Sales at eToro and has been in the FX sales market since 2002.

In an interview with Forex Magnates, Ms. Zalcberg provided a breakdown of the cost of employing a sales person in different markets around the world. She said: "The average salary varies based on location: In Israel, conversion representative's averages salary is between 5,500-6,500 NIS per month plus bonuses which are either based on percentage of first deposit amount up to 6% or per new acquired user. An average rep can earn up to 11,000 NIS per month. A retention rep can earn a base of 7,000-10,000 NIS based on experience and up to 3% for net deposit, although some brokers compensate based on trading volume as well. A retention rep can earn on average 17,000 NIS per month,

Cost of a Salesperson



Source: Forex Magnates Research

"Europe is a little different: Conversion rep base ranges between 1,200 - 1,500 euro per month with bonuses being a bit lower. Retention reps base is a bit higher, tends to reach 2,000 euro with bonuses up to 2.5%. On average they tend to earn around 3,000 per month.

Eastern Europe: Varying by location a base salary can range from 500 - 1,000 euro with bonuses maybe accounting for another 1-2% to total sales from the sales person. Retention reps earn around 700-1,200 euro base salary per month plus up to another 1-2% in commission based on their total net deposit. The bonus structure varies from broker to broker based on their business model whether they're a market maker or STP broker. Some are based on net deposits, others are based on volume of trading and recruiting new clients."

Moreover, Ms. Zalcberg explained that the cost of employing a salesperson must take into account not only his or her salary, but also the cost and time needed for effective recruitment and training. While this process varies from one company to the other, the standard process will usually include at least a one-week training program and big companies train their sales people for nearly three weeks, Ms. Zalcberg said.

Most people are not born to be sales stars, she observed, saying that being successful in this field requires developing the right frame of mind, which according to Karinza's training methodology should be based on the motto: "We are not selling, we are assisting the customer to reach a decision why to buy.

A salesperson's training period of between one to three weeks should cost the company an average of 4,000 to 5,000 euro. Due to the psychologically demanding nature of the work, to which anyone who tried to sell anything can testify, brokers must keep in mind that there is a high attrition rate for sales people across all industries. It is also important to note that training usually continues throughout the employment of a salesperson, when a broker is being regulated or offers a new product for example.

Plus500 Metrics for 2013

New Clients per Year	56,819
Cost of Setting up the Firm	$400,000
Revenue Growth	105%
Active Customer Growth	47%
EBITDA Margin	58%
Net Profit Margin	44%
Average User Acquisition Cost	$632
Number of Sales People	0

Source: Plus500 2013 Financial Report

Affiliate Marketing

The first and most commonly used form of technology used to generate sales in the FX industry is affiliate marketing. Affiliate marketing is a type of performance-based marketing in which a broker rewards one or more affiliates for each new trader brought in by the affiliate's own marketing efforts.

As this practice is well-established and commonly used by many brokers, this article will not look deeper into it. It is still worth mentioning as affiliate marketing utilizes technology instead of sales people, but it requires outsourcing one of the most important processes at the heart of any venture, sales.

Plus500 Marketing Machine

If affiliate marketing is using technology to move sales a bit further up the road to automation, Plus500 demonstrates how technology can take sales departments much further up that road. Elad Even-Chen, VP Business Development and Head of Investor Relations & Company Secretary, Plus500 Ltd., has shared with Forex Magnates some inside information of how the company operates. Mr. Even-Chen explained that the company was founded by six "computer geniuses" and therefore was centered on technology from the start.

At the core of Plus500 is its proprietary online marketing technology, internally dubbed as the "Marketing Machine", which allows Plus500 to effectively bid on over seven million(!) key words a day in search engines, mainly Google, but also Bing, Yahoo! and more. This allows Plus500 to acquire new clients in the most cost effective manner. Developed by the six computer scientists who founded the company and with continual optimization of the marketing machine's Return On Investment (ROI), the company sees it as its driver for taking over competitors' market share.

Mr. Even-Chen explained, "While the human mind is limited in its capacity to analyze multiple factors at the same time, a computer can categorize incredibly large amounts of data in real time." A person experienced in FX marketing may detect that an online search for 'CFD' can direct to a possible lead. He can then place a bid on the keyword which is likely to win the right to be seen by the searcher and eventually generate profit for the broker.

A computer utilizing "big-data" science can take into consideration many more categories at the same time: Is the searcher using an iPhone or an Android phone, what country, state and city is he in, male or female, age? The exact wording of the search and much more, including all online past behavior of similar searchers with the broker. Based on all of this wealth of information, the system determines the estimated lifetime value of the searcher to Plus500 and places the minimum amount needed to win the bid. The marketing machine is also connected directly to Google, Facebook and all other online marketing arenas via APIs making the whole process seamless and incredibly fast.

In order to make sure no salesperson is needed to seal the deal and make the sale, as is the situation with other brokers who use online marketing for leads, the onboarding and registration process is as simple and user-friendly as Plus500 can make it.

The trading platform is designed for ease of use by non-financiers, like the developers themselves. It offers less variety and customizations than other systems, no API for algorithm programmers and it only accepts retail traders to avoid the need to call the potential client to explain about the platform's operation.

Keeping focused on low costs, initially the company offered email support and only recently added chat support, all handled by the core team. Plus500 tries to automate every aspect of the business, including its back office operations and therefore it can operate with only sixty employees, while its main competitor in the UK market, IG Group, has over 1,000 employees. Plus500 develops everything in-house with no need to pay for MT4, bridges or any other technology.

The firm has maintained its lean cost structure thanks to this system, which in turn allows most expenses to be concentrated back in its marketing efforts and allow for an attractive price model for potential customers. With this positive feedback of revenues from online marketing and no sales people, Plus500 was able to reach "an amazing" EBITDA margin of 58% in 2013. The company has also recently increased its social media exposure and expanded an affiliate program.

Another advantage of such online marketing is that it allows a clear understanding of its ROI. At times

Elad Even-Chen, Head of Investor Relations, Plus500

Karin Zalcberg, Founder & CEO, Karinza

of low volatility, Even-Chen explained: "While other companies have high sunk costs, less searches of trading terms lead to less biddings and lower costs for Plus500. This makes the company more efficient and more resistant to drastic shifts in demand."

Based on this model, the company became one of the leading CFD and FX brokers, with a valuation of its worth on the London Stock Exchange's AIM of around £650 million, with only an initial investment from the founders of about $400,000.

Which Is Better?

Forex Magnates has confronted Ms. Zalcberg with the notion that Plus500 has proved salespeople to be redundant for the success of FX brokers. "The Plus500 model is a unique one indeed. Many tried to replicate but very few succeeded doing so," she said in an interview with Forex Magnates. "Their marketing funnel was designed as such to bring self-depositors and this is also evident in their landing pages. Their experience and aggressiveness in marketing lead to their strategic growth and success in that field," she explained. "This model won't work for all as the key to the success here is value and cost control, Plus500 owning their own technology was able to do that, however with them going public they have expressed interests in operating a call center to help increase support for high value traders," she added. Ms. Zalcberg thinks that the white label model that most new companies based on requires a sales team, as those brokers differentiate themselves by creating a personal relationship with the trader. The Japanese FX industry is also known for having no salespeople. Both DMM Securities and GMO Click Securities, two Japanese giants, have detailed their operations to Forex Magnates and stated that they depend entirely on online marketing and have no sales people. The fact that the Japanese FX market is already based on companies with no sales teams is attributed to the very low spreads common in Japan and to the Japanese people's ease of using technology without the need for human touch to mediate. As the rest of the world's population is following Japan in these two trends, it can be expected that similar sales-models will eventually become inevitable all around the world.

> "The Plus500 model is a unique one indeed. Their experience and aggressiveness in marketing lead to their strategic growth. This model won't work for all as the key to success here is value and cost control"
>
> Karin Zalcberg, Karinza

Still a Long Road Ahead

There might come a time when all sales and marketing positions will be held by computer agents. But the FX industry is not there yet and won't reach it in the foreseeable future. While Plus500 proved that it is possible to succeed without salespeople, its technological powers give the company an advantage that no other broker can easily adopt. Also worth noting is that while retail sales might be done with online marketing campaigns, institutional FX sales still require dedicated and experienced sales people. Therefore, brokers who target the lucrative institutional FX clients will have to acquire sales people with FX expertise. The only way to ensure a company has such people, is to train new hires to sell to retail clients and build their expertise over the years, to eventually function as institutional sales people. For this reason, any broker that has great ambitions will retain a retail sales department, while using technology, such as online marketing, to increase the effectiveness and profitability of the human element.

BLOOMBERG: THE QUIET GIANT IN FX TRADING

Bloomberg is quietly becoming an active player in the multi-asset trading sector. Unlike other platforms, order execution is offered between Bloomberg subscribers for free, as it is in essence an add-on feature provided to enhance the popular Bloomberg Professional Terminal for market data.

This article takes an in-depth look into Bloomberg's trading features and examines their advantages and disadvantages.

By Ron Finberg

As much as the global financial data and analytics giant Bloomberg keeps quiet about its trading offerings, the firm is very vocal about the ability of users to benefit from their iconic terminal and the analytic and research power it provides. If a client happens to want to trade directly from the terminal where they are already conducting their analysis and messaging clients, then the platform's trading services can meet this need. As such, in Bloomberg's eyes, order execution is more of a complimentary feature that rounds out their terminal, than a 'must have' app they use to market their product.

The interesting fact is that despite the lack of dedicated marketing, it hasn't stopped volumes from rising on the platform. Specifically in FX, volumes have been growing rapidly on the firm's multi-dealer platform as users embrace the free option. As a result, despite overall weakness in the FX industry during 2012, the firm has reported rising YoY volumes on the platform, with Paul Tivnann, Bloomberg's Global Head of FX and Commodities Trading, telling Forex Magnates, "We saw an 80 percent increase in volume on Bloomberg FXGO in 2012 and this year we continue to see strong growth and demand for our multi-bank trading solution." While not publically posting its figures, Forex Magnates estimates that average daily volumes (ADV) of FX products including spot, swaps, forwards and options has continued to grow over 50% in 2013, to reach upwards of $70 billion, with recent months "whispered" to have been gigantically higher.

At the center of Bloomberg's FX trading offering is FXGO, a multi-dealer FX platform that supports trading in spot, forwards, NDFs, swaps, deposits and options trading. Liquidity is offered in this configuration through connections to over 300 banks from around the world on a Request for Quote (RFQ), fully disclosed basis, and according to Tivnann, there are 6,500 market participants using the platform, with a "global client base which includes buy-side and sell-side traders, corporate treasurers and government agencies."

The diversity of liquidity allows customers to connect with local banks that can provide tighter pricing for exotic currencies.

Describing Bloomberg to Forex Magnates, noted angel investor and CEO of StockTwits, Howard Lindzon, referred to the platform as "the social network for millionaires", by saying, "The reason Bloomberg works is that it's the original Facebook". The idea being that by charging $2,000 a month for the service, the product in a way 'pre-filters' its users, and therefore fellow hedge funds feel comfortable chatting with each other over the network. Similarly, FXGO leverages this network of 'pre-qualified' users to match liquidity providers and takers.

Corporate Rise

In contrast to its peers, FXGO is a 'click' trading platform. As such, despite the use of Bloomberg terminals for analytics, the FX trading platform lacks internal functions or an API for automated trading. In addition, Tivnann added that this isn't expected to change, and "We have no plans to facilitate high frequency trading on our platform. Nonetheless, algorithms are available to provide reports on optimal periods of liquidity and spreads for each currency. But on the execution side, the simple interface can be described as less sophisticated than your average retail trading platform. Nonetheless, FXGO has found its growing sweet spot of appeal in the market.

On the march towards near zero latency, and increased examples of electronic trading in the FX industry, it has alienated users seeking simple solutions for executing orders and handling risk. An example is average trade size. With spreads tightening due to electronic trading, it has led to smaller average orders. In addition, similar to practices that are common in equity market-making, FX liquidity providers are utilizing algorithms that automatically widen their spreads and reduce available order sizes when large orders hit the market. For corporate firms, the result is often a lack of suitable pricing when executing large orders.

FXGO Combined* ADV ($bn)

*For FX Spot, Swaps, Forwards and Options

Source: Forex Magnates

Therefore, despite the rise in available eFX solutions, many companies are seeing value in returning to relationship-based brokerage models, with voice orders and direct bank to client connections. However, even within this model, customers have been burned by aggressive trading tactics. Among violators, the poster boys for misbehaviors in the sector are Bank of New York Mellon (BNYM). Currently facing multiple lawsuits, BNYM was accused in 2011 of purposely slipping foreign exchange trades of standing orders that were being executed to hedge client currency risk of daily foreign assets. As a large custodian of equities, BNYM provided services to holders of foreign stocks to settle their risk on a daily process. Taking advantage of firms, BNYM was accused of executing these trades beyond existing market prices.

In light of the accusations, it has led to increased awareness of the hazards of the FX industry. Due to the issues involved with both electronic and voice trading, it has provided reason for firms to become more proactive in how they are being executed. As a result, demand has risen for simple to understand platforms with deep liquidity. In this regard, Currenex has marked its niche among corporate users, based on its easy to use interface and long list of integrated liquidity providers. Similarly, as existing Bloomberg users, many corporates are seeing the benefits of trading with FXGO.

On this point, while refraining to comment about the practices of other firms, Mr. Tivnann did explain, "We continue to see increased demand for greater price transparency. As it relates to best practices around efficient price execution, we offer clients compliance tools, such as two-step trade approval processes, reporting and audit trail functionality, and real-time cost saving analytics as part of the Bloomberg solution."

As opposed to other multi-dealer platforms, by requiring FXGO users to create individual connections with dealers, customers are able to create customized liquidity to fit their needs. In addition, by being integrated within the rest of the Bloomberg terminal, FXGO users can also manage their multi-asset trading needs on the single interface. For users where simplicity is essential, such a solution has its appeal.

As a result, chief among FXGO's growing client base are asset managers and corporate traders using the platform to hedge foreign

Tradebook FX's Interface

currency risk of their cross border operations.

Trading Platform Alternative

Another area that is seeing uptake of the platform is via banks to their customers. Rather than invest in maintaining their own eFX trading solution for clients, banks are simply connecting their liquidity to the platform. Bank clients are then accessing this pricing from their FXGO terminals. By operating their trading infrastructure within FXGO's network, banks are able to leverage the high usage of the Bloomberg terminal among their clients without offering a branded platform.

Explaining the setup, Andy Schreiber, Senior Client Relationship Manager, at TraderTools provided an example to Forex Magnates. Using their FX pricing engine, TraderTool's bank customers can publish rates directly to FXGO. Banks can then customize rates being accessed by their customers on the Bloomberg platform. Using this model, a bank sidesteps deploying its own trading platform while focusing only on monitoring the pricing engine.

The main advantage of the model is that it allows banks to offer eFX without maintaining their own technology, and all of its costs. On the downside, it leaves banks vulnerable to competition. By veering clients towards FXGO, bank customers may elect to also create relationships with rival firms. This differs from offering a branded trading platform, where a bank controls the liquidity sources available to clients.

Introducing Tradebook

In addition to FXGO, Bloomberg operates an agency brokerage named Tradebook. Technically, a separate unit from Bloomberg, Tradebook provides equities, futures, options and FX trading. As opposed to FXGO where users connect with liquidity providers that they have relationships with, Tradebook operates an anonymous FX ECN.

Working with Bank of America as its central clearing party (CCP), the FX platform can be described as a hybrid between interbank ECNs and exchanges. Tradebook includes bank liquidity providers that stream rates on a dedicated process. In addition, as an anonymous platform, market depth is presented on an aggregated display similar to rival ECNs. However, unlike ECNs, Tradebook provides the ability for non-banks to add liquidity on the network. The firm also encourages non-banks by charging no fees when adding liquidity. As a result, according to a Tradebook representative, the platform is catered towards the buy-side, with much of the volume crossed between non-bank participants.

Retail Liquidity Source?

One of the more important features of Tradebook is its integration within the overall Bloomberg Terminal. This provides traders the ability to combine their statistical analysis and algorithms that is the trademark of the terminal, with the trading interface. As many firms use data from the terminal as well as similar products like Reuters Eikon to compute their market risk calculations, Forex Magnates took a look to see whether Tradebook is a viable liquidity solution for retail brokers. As a hybrid exchange/interbank venue, for brokers, Tradebook provides tight spreads (0.3 pip EURUSD averages during EU/US sessions) and charges that rival that of other interbank ECNs such as EBS or LMAX Interbank. However, unlike those venues, minimum trade sizes are lower at 100,000. In addition, Tradebook doesn't charge additional data fees from it users, which exist among other interbank ECNs. As such, brokers accessing Tradebook via its FIX connection can use the feed to create pricing on their feeds. On the negative side, the 100,000 minimum is well above the .01 and 0.1 lot sizes that are common among retail broker offerings. Therefore, as a true STP liquidity source integrated directly to a retail platform such as MT5 or cTrader, brokers would need to customize their trading conditions and limit trades below 100,000. Alternatively, brokers can connect Tradebook to a third-party aggregator along with other liquidity sources that offer smaller minimum size trades. Using this approach, brokers can customize their aggregator to warehouse internally all trades below 100,000, apply STP of these trades to the non-Tradebook source.

Bottom Line

As a result, when discussing the value proposition of Tradebook, technology providers expressed to Forex Magnates that the best case scenario of using the liquidity would be via a third party aggregator along with other pricing sources. As a standalone source, the lack of sub-100,000 orders simply puts STP out of reach for retail brokers. On the other hand, Tradebook could be a match for market makers. Specifically for dealers using a pooled risk management strategy, and only hedge when position exposure moves beyond pre-defined limits, can benefit from the tight spreads and deep liquidity available from the bank participants of the platform.

Another consideration is a broker's prime broker relationships. Tradebook is only accessible to firms with credit relationships with the platform's CCP, Bank of America. Brokers without a prime broker relationship incur additional fees when connecting to Tradebook via a prime of prime. These fees need to be calculated when comparing Tradebook pricing to alternative sources. Overall, for retail Forex brokers Tradebook isn't your typical liquidity source. Nevertheless, as a venue that favors the buy-side, Tradebook does provide beneficial features for brokers handling their own risk. Specifically for brokers already integrated in the Bloomberg eco-system, the advantages of Tradebook make it at least worth taking a look.

Paul Tivnann, Global Head of FX and Commodities, Bloomberg

Bloomberg's Tradebook Brokerage

Advantages	Disadvantages
Tight spreads	Fees higher when accessing Tradebook with Prime of Prime
Overall low fees and no charges for limit orders	100,000 minimum size trade
100,000 minimum size trade	Currently lacks reconciliation reporting
No charges for data feed	
FIX compliant	

Source: Forex Magnates


CHOOSE THE
PREMIER
PROVIDER FOR
RETAIL FX BRIDGE
/ OMS TECHNOLOGY
oneZero
FINANCIAL
PROVIDING SOLUTIONS TO DIFFERENTIATE YOUR FX BUSINESS
WWW.ONEZERO.COM • SALES@ONEZERO.COM

LIQUIDITY BRIDGE | MT4 / MT5 STP TECHNOLOGY

- Proven Technology for Enterprise Scale MT4 / MT5 STP
- High Performance and 24/5 Stability
- Flexible Client Routing / Spreading Controls via Web UI

HUB SOLUTION | ORDER MANAGEMENT SYSTEM

- Handle Complex Multi-LP Environments.
- FIX API / Flexible Platform and Taker Access
- Built in Credit Controls / Risk Management

ARMS | ADVANCED REPORTING AND MONITORING SYSTEM

- Monitor Exposure and Positions in Real Time
- Manage Client Relationships
- Enable Introducing Brokers

THE ERA OF ONE TO MANY: PREPARE FOR MULTI-ASSET PLATFORMS

One of the recent, yet controversial technological developments in electronic trading is multi-asset platforms.

This article will examine multi-asset trading platforms as an element of the e-trading life cycle, their development and developers, users, costs and benefits.

By Adil Siddiqui

As financial markets constantly adapt to technological progress, electronic trading has gone through a fascinating evolution. During more than four decades, the motivation behind such change to e-trading has been an ongoing effort to reduce cost, create opportunity and ensure markets operate in a fair, transparent and efficient manner.

The age of information has also brought with it a structural change to the marketplace, which was followed by one of the most interesting phenomenon in this new era – intercorrelated financial instruments.

Traders who were experts in one asset class and now have the tools and resources to exercise their strategies across a range of financial instruments. One of the technological tools allowing this is multi-asset trading platforms. We will explore the role of these platforms and their status in a monopolized market where single-dealer platforms have reigned for years.

Electronic Trading Takes Over Financial Markets

E-trading dates back to the early 70's when US-based NASDAQ first deployed electronic systems. The e-trading bug then began spreading across Wall Street and several large exchanges such as NYSE, CME and CBOT joined the trend by developing new assignments to build their own competing trading platforms.

This was followed by the emergence of Electronic Communication Networks (ECNs), to source liquidity and challenge giants such as NASDAQ. Thus, POSIT®, the first anonymous electronic trade matching system, was launched by ITG in 1987. Volumes were growing significantly and regulators had to react. The US Securities Exchange Commission (SEC) responded by establishing specific rules and regulations for operators of ECNs, and in 1998 Regulation Alternative Trading Systems (ATSs) was set in stone, thus creating a levelled playing field by allowing the once private venues to transact on a public scale.

E-Trading Forex

Forex markets saw their first dose of new technologies in 1981 with Reuters' Money Dealing System. A new entrant then joined to compete with Reuters: In 1993 the world's largest FX banks launched Electronic Broking Services (EBS), a wholesale electronic trading platform.

Nowadays, electronic trading is a standard, with all exchanges having order books that are trading electronically with full pre and post-trade systems, reporting real-time transactions. Traders in both the retail and institutional markets are accustomed to implementing strategies using new technologies, to such an extent that the human, or manual element to trading is diminishing and automated systems are carrying out 100% of the trades.

As markets moved forward, traders have also understood the new world of trading and are using technology to not only ensure they achieve alpha in trading strategies, but also to ensure that they are using the right system and connecting with the right venues to aid and inhibit their trading ideas. Still, the cost of electronic trading is a relatively new phenomenon which traders have started to take notice of.

Everybody Wants to Go Multi

Multi-asset trading platforms offer to ease the burden of e-trading costs, and are a natural development following the organic growth and progress of electronic trading. Multi-asset trading platforms offer not only a technological step forward, but also address the fact that cost has become a key factor for firms, especially after the 2008 financial crisis, with traders now more conscious of fees and charges that affect their bottom line. Furthermore, as traders are inundated with platforms and complementary services such as news and charting packages, they need to maximize their screen's real estate,

Des Gallacher, VP of Product Management, Charles River Development

for which the multi asset platform fits perfectly. The need for multi-asset platforms is also backed by the type of trading strategies that are deployed in this modern era. Pontus Eriksson, Product Manager at SunGard Front Arena, commented on the dynamics of multi -asset platforms in a white paper prepared by SunGard in June 2008. "The most striking aspect of today's trading environment is the range of aggressive, high-speed and sophisticated trading strategies employed by participants. Traders on both the buy and sell-sides are now prepared to tap into a wide array of global markets and are happy to cross asset classes in pursuit of alpha and to exploit arbitrage opportunities," Eriksson stated in the white paper.

Des Gallacher, Vice President of Product Management at Charles River Development, also believes that the current nature of trade and traders calls for the kind of infrastructure that multi-asset platforms can offer. "There is an overriding need for firms to understand company-wide exposure, and to adjust that exposure by executing complex, multi-leg, multi-asset trading strategies. In these circumstances, firms will be more effective with a single trading platform," Gallacher explained in an interview with Forex Magnates.

Institutional traders voiced their wish-list in regards to multi-asset trading capabilities in a survey conducted by the Securities Industry and Financial Markets Association. The 2008 annual survey with asset managers, included interviews with a hundred leading buy-side institutions, who stated that their core requirements were access to multiple liquidity sources and accessibility to a diverse range of products. Following the survey's results, Harrell Smith, Co-head of Product Strategy at Portware, delivered comments to the media. Being a firm that develops broker-neutral, automated trading software for global equities, futures, options and FX, Portware's Smith was satisfied with the survey's conclusions. "The survey highlights the buy-side's need for flexible, multi-asset and broker-neutral electronic trading

Best of All Worlds

Every broker knows it's hard to win new business and retain the loyalty of existing customers in the highly competitive world of margin FX. Today many brokers running MT4 are looking for new ways to differentiate themselves, increase customer acquisition and retention. Ariel iTrade offers you the best of all worlds. Choose iTrade as your principle FX trading platform or as a complementary system to MT4. Make iTrade clearly your own with custom branding, bespoke layouts and an evolving range of innovative features. iTrade also provides matching look and feel across all mobile devices.

Ariel iTrade makes managing risk across multiple platforms easy and efficient. iTrade offers a consolidated view of market and client risk. Make informed decisions based on the real-time trading activity of your customers. Ensure you have all the information required to manage risk dynamically and hedge effectively or let iTrade manage it for you. Our new shared wallet feature enables customers to easily transfer available funds from one platform to another using an 'easy to use' graphical interface. Your customers will also be able to see all committed funds and available balances.

platforms, a model that Portware has long endorsed. Since its founding, Portware has provided clients with a complete trading solution, including access to multiple brokers and market destinations and true cross asset trading," Smith said.

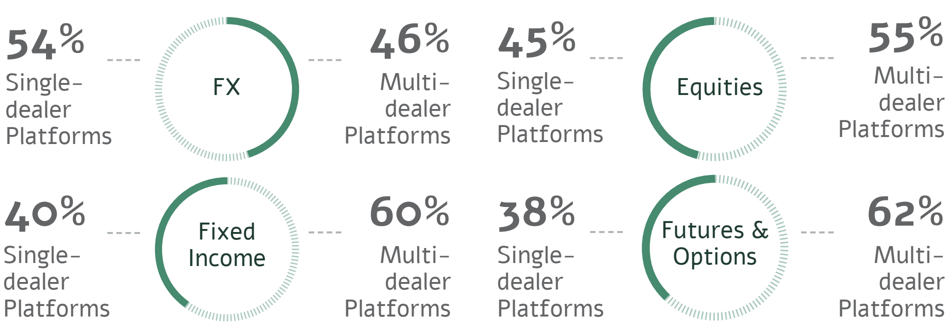
What Advantages Do Multi-Asset Platforms Offer?

Even after the need for one platform that covers a range of instruments has been recognized, it is still useful to assess the added value for traders. Each financial instrument has a unique order structure, for example, when comparing equities and FX, the product differs by the way liquidity is sourced to the clearing of the instrument. However, technology enhancements through initiatives such as FIX and API integration, have meant that inter system connectivity is viable across trading venues. Multi-asset platforms give traders full pre and post-trade services on top of their multi-asset class nature. One example is JP Morgan, who launched its markets cross-asset platform in January 2013. The bank's Global Head of FX & Rates Trading, Troy Rohrbaugh, said that having a complete solution in one trading portal is ideal for trading firms, as it releases them from the efforts invested in ad hoc activities like regulatory and executive matters. "We have created J.P. Morgan Markets to give clients an intuitive user experience, and a convenient and efficient way to trade across different asset classes, all in one place," Rohrbaugh said in a statement to the media. "By having a high degree of automation at every stage of the trade, clients will be able to focus on trading ideas rather than the increasing complexity of a post-regulatory world in trade execution, post-trade clearing, settlement and reporting." Another significant advantage that multi-asset platforms carry, as mentioned before, is a reduced trading cost. Instead of having to pay subscription and implementation costs for multiple platforms, the multi-asset platform ticks the boxes for firms which are cost sensitive. Furthermore, with cost being part of the whole trading approach, a multi-asset platform offers data and information about TCA carry out, which becomes simple and easy. Jean-Philippe Male, Head of OTC at TradingScreen, said to Forex Magnates, "We also offer TCA in order to help clients evaluate Alpha generation, as well as to assess the performance of their liquidity providers and broker algorithms. "For big firms as well as for end-users, multi-asset trading platforms offer the advantage of simplified infrastructure. One terminal is built in one programming language and has a synchronized architecture, making it easier to manage and to use. Multi-asset platforms also enjoy less regulatory and compliance tasks, and should benefit from regulatory requirements for multiple products in their core system.

The Necessity of Functionality

TradingScreen's Male believes that multi-asset platforms need to be flexible in their structure in order to connect with complementing systems. He outlines a list of key functionalities that traders require in a multi-asset platform: Capability to integrate bespoke workflow on a case-by-case basis; Sophisticated OMS/PMS integration; Robust compliance capabilities and fat-fingers protections; Low latency connectivity; Robust, flexible & unique trading functionalities, including the latest algorithmic strategies. "All of the above has historically been more associated with elements of either single bank or multi-bank offerings, seldom both," Male added.

Global Market Share in % of Volumes



Source: Forex Magnates, Celent

Gallacher lists similar important functionalities that are useful for traders: Efficient and intuitive trading workflows; Access to data and analytics; Liquidity access; Compliance oversight, integrated into the workflow; Trade performance measurement (TCA); Responsiveness/speed

Paul Tivnann, Global Head of FX and Commodities Electronic Trading, Bloomberg L.P. believes that flexibility is the key. Speaking to Forex Magnates, Tivnann said that, "Users are increasingly looking for flexible trading solutions that offer value, efficiency and liquidity in a challenging and complex market."

Main Multi-Asset Platforms on the Market

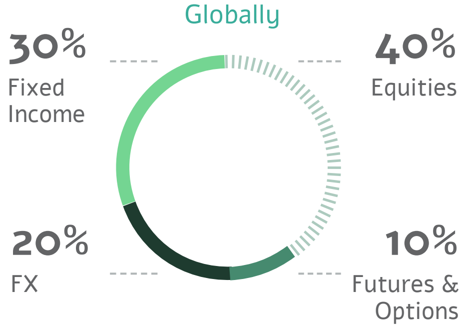
Due to the large infrastructure required to support multi-asset platforms, only a handful of platforms are available:

Sungard's - Front Arena
Trading Screen
Fidessa
Bloomberg
JP Morgan's - Markets
ITG
Portware
Options City
Interactive Brokers
PFSOFT

The Opposition

Critics of multi-asset platforms believe that despite the convergence in trading strategies, single-asset class platforms play a stronger role in the overall trading environment, primarily because they are specialist portals. One fundamental point is the fact that development and integration in other systems are easier with single platforms, both on the architecture and regulatory fronts. A multi-asset platform would have to make changes to all of its modules regardless of their direct vulnerability to any specific, new legislation. Multi-asset platforms are also unsusceptible to change or enhancements as single platforms, due to the sheer size and number of prgrams connecting the system. In the electronic trading environment

Asset Classes Traded on Multi-Asset Platforms Globally



Source: Forex Magnates

in spot FX markets, for example, platforms have been interconnecting through the 'bridge' for the past six years, to allow institutional offerings to retail portals. Platform providers were able to evolve along market conditions and instantly implement new measures, a treat that is both complicated and costly to deploy in multi-asset systems.

The Future of Multi-Asset Platforms

Multi-asset platforms reflect the natural extension of traders' behavior in an ever progressing world of electronic trading. Fundamental differences between the nature of asset classes have kept products isolated. However, with initiatives such as the Dodd-Frank Act and the G20 group of nations determined to migrate OTC products to mandatory clearing and trading on recognized exchanges, the uniqueness of products will be eliminated. Furthermore, the trend of 'combining' asset classes is well on its way.

In 2012 NASDAQ OMX purchased BGC's eSpeed, thus intertwining its position as a trading venue for both equities, futures and fixed income. Forex Magnates expects the multi-asset class paradigm to extend to mainstream platforms in the retail environment. As a first phase, platforms that offer cash products will branch out to derivatives, to be followed by similar related product adoption, such as equities platforms that will offer equity derivatives (futures and options) and currency products to manage FX exposure and risk. Electronic trading's most crucial achievement so far has been 'accessibility'. In the next chapter, 'multi' will be the key driver.


Local presence.
CME European Trade Repository is a business name of CME Trade Repository Limited, a registered trade repository under EMIR supervised by the European Securities and Markets Authority. Issued by CME Marketing Europe Limited. CME Marketing Europe Limited (FRN: 220523) is authorised and regulated by the Financial Conduct Authority in the United Kingdom.

IRAN: MIDDLE EAST'S SHINING STAR IN NEED OF A POLISH

Iran's forex market seemed to be on the rise up until recent years, when international sanctions and internal restrictions crippled its potential growth.

This article will review Iran's recent history and current state, and will look into the future to assess whether and how forex trading can thrive again in the currently isolated economy.

By Adil Siddiqui

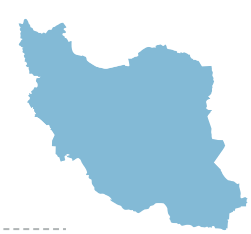
Iran, formerly known as Persia, was one of the world's most renowned civilizations with history dating back over a hundred thousand years. Similarly, it has been a strong player in the global margin FX markets since retail investors first caught onto its benefits in the late 1990's. However, under the strict rulings of the supreme council and the ongoing international sanctions affecting the country, currency trading has slowly been given the cold shoulder. We will explore the current state of FX trading in the Middle East's second most populous nation as it undergoes an era of change under the direction of its new President, Hassan Rouhani.

Iran is an important country from both political and economic perspectives. It is conveniently located as a central corridor in Eurasia & Western Asia and it is home to the Strait of Hormuz. Situated in the midst of the Persian Gulf and the Gulf of Oman, the strait observes over 20% of the world's petroleum, thus emphasizing the importance of its location. The energy sector holds significant importance as Iran is the Middle East's second largest oil exporter.

Due to its controversial nuclear program, Iran has been facing tough times with developed Western countries, including the USA and Europe enforcing sanctions on the country. Consequently, the

Iran
Key Facts

Population: 76 million
Capital: Tehran
Internet Users: 42 million
Social Media Users: 10 million
Currency: Iranian Rial
Number of $ Millionaires: 50,000
Mobile Phone Users: 126%



on-going sanctions have had a direct impact on the economy and the way Iranian's make investment decisions. With limited opportunities to trade with the outside world, Iran has been developing its domestic economy to accommodate the new wave of internal participants in the financial markets.

Economy

Iran's economy is centrally planned but is gradually migrating to a free market business environment. It is the second largest economy in the Middle East and North African region, after Saudi Arabia, recognized by the World Bank as an upper middle economy. Despite the stigma relating to its nuclear program and due to the significant development opportunities in the country, Iran was included in Goldman Sachs' Next Eleven group of countries, a subset of countries where the bank believes economic growth will take place. With Asia being the "growth story" of the new millennium, Iran's strategic location acts as a bridge to connect major hubs such as Turkey, Kazakhstan and Pakistan, giving the country compelling openings.

Since the country's political system underwent major changes in 1979, with the 'Islamic revolution' superseding the rule of the Shah, most of the main industries were nationalized. Yet, leading economists and thinkers in the country have been recommending reforms that aim to make Iran a free market for trade and commerce.

Iran's main exports include petroleum (80%), chemical and petrochemical products, fruits and nuts and carpets. The country benefited from spikes in the price of oil in 2008, however with tapering still in question, oil has traded range-bound, above the formidable $100 a barrel mark. On the other hand, the sanctions placed by the UN and the international community on Iran are slowly crippling the economy. Over the last three years, Iran's economy has contracted significantly with the country experiencing negative growth in 2013.

> "There has been a constant increase in traffic from Iran since 2006, despite regulatory changes"
>
> Carolina May, FXStreet

Sanctions Cripple Iran's Economy

Iran has been on the receiving end of sanctions since the 1979 revolution. The US has been the main country to question dealings with Iran. However in 2006, the UN passed Resolution 1696 which affected international relations with Iran.

The 2006 resolution was followed by Resolution 1929 in 2010 which had a direct impact on Iran's banking and financial services sector. In January 2012, the EU froze assets belonging to the Central Bank of Iran, and banned all trade in gold and other precious metals with the bank and other public bodies. On March 17, 2012, all Iranian banks were identified as institutions in breach of EU sanctions and were disconnected from the SWIFT, the world's hub of electronic financial transactions. In October 2012, the EU banned any transactions with Iranian banks and financial institutions.

Iran has also been the subject of strict trade and commerce restrictions by the US and other developed nations, which has meant that its oil exports have suffered as well as the free flow of people, money and goods. The aim of the sanctions were to discourage the nation from creating a nuclear program which ultimately has impacted the economy, currency valuation and employment prospects.

In 2012, the effects of the sanctions became visible. They had pushed the price of food imports to record highs with the Iranian currency Rial losing nearly 80% of its value between March 2012 and March 2013, during the same period when Iran's oil exports fell by 50%.

Over the last five years, unemployment figures increased dramatically, reaching a record 14.7% in April 2011. Latest figures from the country's central bank show that the unemployment rate has been in the range of 10.3 to 10.5%, while youth unemployment is above 20%. In addition, the country has been suffering from record inflation figures, and 2013 concluded with the central bank reporting inflation at 35.50%. In December 2013, Iran's new president announced the first budget under his governance to focus on improving the economy. Mr. Rouhani informed the media in a statement: "Job creation is the most significant issue in the future of the country's economy while the combination of inflation and stagnation is now the most important problem."

Financial Markets

Iran's capital and financial markets have been active for over fifty years, pre-political revolution of 1979. However, during the height of the crisis Recognized Trading Exchanges (REI) were placed under the domain of the new government. Initially the government outlawed international trade. However, with reforms taking shape across the board, Iran has built a developed marketplace for securities trading.

Stock Exchange

Iran's main equities trading exchange, the Tehran Stock Exchange (TSE), was first established in 1967. The TSE is one of the largest and most liquid exchanges in the Middle East. According to the exchange, there are 341 companies with a combined market capitalization of US$174 billion. Iran's stock market has been one of the best performing exchanges in the region. The main index has spiked over 100% during the last 12 months, with trading volumes jumping 25% from figures reported a year earlier. The exchange reported that the average daily trading volume in 2013 was above $200 million.

In January 2014, the Chairman of Iran's Securities and Exchange Organization, Ali Salehabadi, commented about the stock market in a statement to the media. He said that the total value of Iran's capital market, including the Tehran Stock Exchange and the over-the-counter markets, is half of the country's gross domestic product (GDP).

Commodities

Iran's warm climate means it produces a range of commodities. As

Carolina May, CEO, FXStreet

a result the country established two trading venues that cater for the growing trading activity in the commodities sector. The first commodities exchange was formed in 2003, the Tehran Mercantile Exchange, which was accompanied by the Iran Agricultural Exchange in 2004. The two commodities bourses were later merged to form the Iran Mercantile Exchange in 2006. The new bourse offered a combination of industrial products, agricultural products and petrochemicals. Like with its Middle Eastern neighbors, energy derivatives contracts have been slow to enter the GCC region, which is one of the largest contributors in the energy sector. Iran was one of the first exchanges in the region to recognize the need for a domestic bourse for hedging and risk management purposes. As its share in international oil trade is very low, such a bourse will allow Iran to take a leap forward in this sector in the near future.

Derivatives

In 2008, commodity futures were launched at the Iran Mercantile Exchange, which was followed by equity derivatives in 2010 at the Tehran Stock Exchange. The TSE introduced six single-stock futures contracts based on a number of banking stocks, with the exchange offering traders a leverage of 10% on single stock-futures.

OTC Markets

Iran launched an official OTC exchange for equities and bonds in 2009. The exchange was named Farabourse, its main shareholders include the TSE.

Financial Regulator

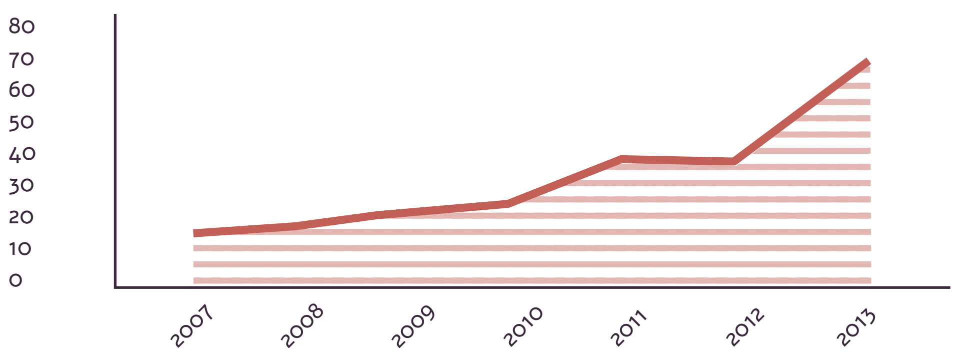
Iran's financial regulator is the Securities and Exchange Organization, a government body that oversees the country's financial services sector. On its website, the authority states its aims as: "The general purpose of Securities and Exchange Organization (SEO) is to provide a safe environment for investing in securities through supervising the participants' activities in that market and to ensure that efficiency, fairness and order govern securities markets." The regulator supervises a number

Main FX Brokers in Iran

BROKER	NUMBER OF TRADERS	AVERAGE DAILY VOLUME $ MILLION	MONTHLY DEPOSIT IN $THOUSANDS
FIBO Group	3,500	100	60
IFC Markets	1,250	50	40
Insta Forex	1,000	50	30
Alpari	800	40	30
Hot Forex	500	40	20
ICM Brokers	500	40	20
Forex-er	350	25	25
Others	1,000	50	50
Total	8,900	395	275

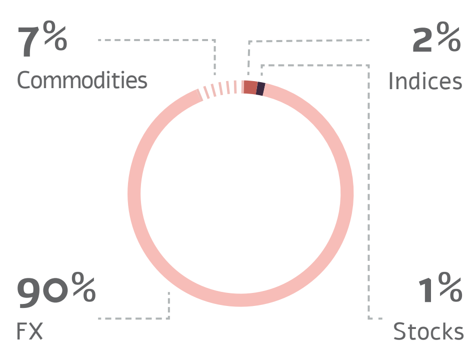
Source: Forex Magnates

Securities, Commodities and Derivatives Trading Volumes in $ bn



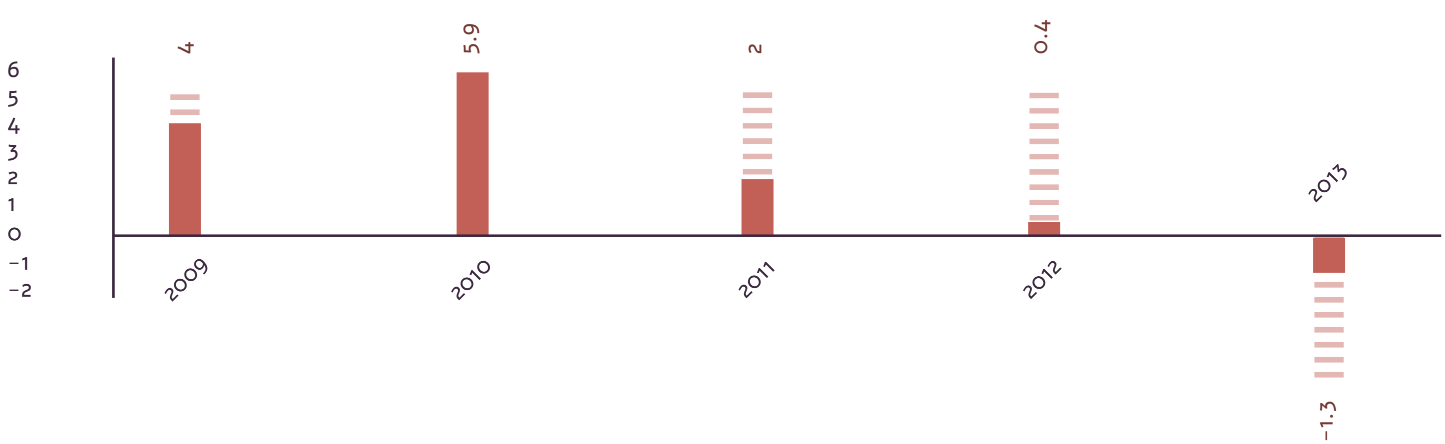
Source: Securities Exchange Organization Iran

Main Instruments Traded



Source: Forex Magnates

GDP growth



Source: World Bank

of organizations, including brokers, investment advisors, portfolio management firms, financial information process rating agencies, management of central assets and mediation entities, investment funds, investment companies and holding companies. Iranian stock brokerage firms are regulated by the SEO and are members of the exchanges. The TSE has 91 member firms promoting its products and services, according to the exchange's website.

FX and CFD Trading in Iran

Iran was one of the first major locations where FX and CFD trading was active in the Middle East and Central Asia. The legal system allowed for a financial markets trading environment, in comparison to its regional peers, and enabled traders in the domestic markets to be familiar with global instruments. In the early 2000's, FX markets were traded by interact savvy stock investors.

The growth of the internet during the middle years of the last decade saw a surge in trading activity which was driven by new marketing techniques used by FX brokerages. Iranian investors were attracted to the currency markets because of the opportunities to trade on leverage on electronic trading platforms. Iran's close links to Dubai have also been a contributing factor to the growth of FX, with Dubai becoming an offshore hub for Iranian FX firms who were setting up in the UAE's free trade zones including Ras al-Khaimah.

Another contributing factor was Iran's relations with Russia, which hadn't always been on the best of terms. However, Russian firms saw an opportunity in the close knit trading environment which saw Iranian residents being turned away by European brokers. Payment techniques such as Liberty Reserve and other similar methods were widely used to fund trading accounts.

During 2007 and 2010, Iran's thriving FX trading environment saw thousands of investors enter the market, driven by volatility in the currency markets as well as by marketing techniques used by introducing brokers, including seminars across the country.

But since the international community's sanctions were fully imposed, Cyprus-regulated Forex brokers terminated their offerings to Iranian residents as to align with the ban on fund transferring. At the same time Iran's financial regulator for the securities market, SEO, has been making the operation of firms acting as introducers to foreign FX brokers more difficult.

Forex Portals

Although Iranians have a high literacy rate, English is not widely spoken, and only a few global FX news websites have Persian language translated sites, including investing.com. During the latter years of the last decade, several mainstream portals have invested in Farsi language portals with real time news, analysis and broker reviews among the content offered.

However, with the sanctions in place banning Iranian residents dealing with US and European brokerage firms, the portals removed their content. Apart from investing.com, Iranian FX traders can only access information in the English language. Stanimir Zhelev of Forexbrokerz.com, an FX news and analysis portal, said that he receives less than 0.50% of the site's traffic from Iran.

FXStreet sees similar statistics, with Iran positioned in the 46th place in terms of traffic, which constitutes 1% of the total traffic on the site. Carolina May, CEO of FXStreet, explained to Forex Magnates, "The number of pageviews from Iran in 2013 were 444.122, in addition the visits were 140.363. There has been a constant increase in traffic from Iran since 2006. In spite of the regulatory changes in 2010, it didn't show any changes in visitors' trends." Interestingly, Dow Jones' FX select service launched a translated version for speakers of Farsi in 2011.

As Iranian FX traders prefer news and information in their local language, several FX traders have set up their websites/blogs in the Farsi language.

The sites cover news and analysis with detailed sections on information for novice or new traders with sections on how to trade in the markets.

Main FX & Financial Websites

www.abmtrader.com/
www.ftl.ir/
www.richbourse.ir/
www.yasfx.com/index.php
mahantradergroup.blogfa.com
www.fxhop.com/
www.bloomforex.org
forum.talarebourse.com
forexschool.iranbourseonline.com/

www.xforex.com/fa/
www.persianforexacademy.com/
guilanfx.com
forexfellows.com/index.php
www.donya-e-bourse.ir/
www.bourse-iran.ir/
namabourse.com/
bourse24.ir/

Payment Services

Iran's financial services sector has been under scrutiny by the UN since 2006, thus US and European banks have extended their dissociation with Iranian banks in 2012, including with the country's central bank. As a result, Iranian FX traders have been restricted to using payment methods such as Webmoney and Liberty reserve until it was dissolved last year.

FX Regulations

Iran's financial markets are heavily regulated. The central bank governs the interbank FX markets and the securities exchange organization supervises the securities market. FX is not recognized as a tradable asset class in the eyes of the authorities.

Iran's cyber police have an article on its site which explains to users the legality of Forex. It quotes the securities exchange act and highlights the difficulties traders face in FX trading. Introducing brokers have been operating in the country under the banner of alternative services e.g. IT support, marketing and sales agents.

Still, new trends in FX trading have emerged as FX markets have evolved from their initial offerings in the early 2000's with simple point and click trading terminals. The latest technologies and trading styles have brought new initiatives such as automated, social and mobile trading.

Social Trading

The social trading phenomena that began making waves in the latter stages of the last decade has been unable to make a major impact among Iranian investors. This has primarily been due to the sanctions limiting the type of services brokerages can offer Iranian investors. The main social trading providers Tradency and ZuluTrade informed Forex Magnates that they do not deal with Iranians.

However, whilst reviewing the ZuluTrade website, Forex Magnates identified seven users from Iran, with access to the portal and with active accounts. In addition, Forex Magnates Research shows that FX Stat, a social trading portal, has its service available in Farsi.

> "Iran's financial trading environment is facing times of mixed fortunes. The economy needs a jumpstart to return to pre-sanction levels in order to reduce inflation and bring growth to modest figures"
>
> Adil Siddiqui, Forex Magnates

Mobile Trading

Iran's telecommunications sector is heavily monitored by the government. However, it is the most penetrated market for internet use and mobile phone subscription in the Middle East.

Yet the mobile sector is under scrutiny by the government and new technologies and new mobile phone launches are slow to deploy. According to InstaForex, less than 10% of Iranian traders transact through mobile, with those that do use the service do so primarily to monitor and view trades.

Cash-Back Sites

Earning rebates on trades has become popular among retail investors. The concept comes from the approach whereby introducing brokers who introduce retail investors to FX brokers pay back a certain percentage of the amount they earn to their clients. CashBack Forex is the largest operator with over 30,000 traders.

According to Forex Magnates Research, of the main rebate sites only KickbackFX.com has a section for Iranian traders. An Iranian IT professional, Gholamreza Saeadian, runs adminforex.com, a rebate provider for Iranian traders. His site works as an introducer to several brokers including FIBO Group.

The Future

Iranian FX traders have been forced to re-direct their investment strategies to domestic markets under the recent sanctions placed on the country. However, with a sense of optimism under the newly appointed president, traders can potentially find light at the end of the tunnel with a number of initiatives taking place to liberalize Iran's relations with the international community.

On November 24, 2013, Iran agreed to an interim deal with the European Union, the UK, US and Russia to curb its uranium enrichment activities, an initiative that is expected to bring relief to the sanctions imposed on the country. Nonetheless firms which have previously dealt with, or are keen to offer a Farsi-based product can target overseas Iranian communities located in US, Europe and the Middle East. Local media reports that there are over 4 million Iranians living abroad.

Overseas Hub

Iranians isolated by sanctions from the developed world have tried to find sanctuary in places like Dubai, as it enables Iranians to engage in business and commerce without scrutiny. Dubai became a magnet for Iranians during the 90's with the UAE government estimating over 500,000 people of Iranian origin living in Dubai. Dubai's lapsed regulations in financial services and commerce allow Iranians to easily establish foreign bank accounts.

Over the last few years, Iran has found a new friend in the form of neighboring Georgia, which lifted visa requirements for Iranians in 2010, thus becoming the "new Dubai" for overseas Iranian investment. Government data in 2013 showed that companies registered by Iranian residents increased to 1,489 last year from just 84 in 2010. Trade between the two nations has crossed $100 million with Iranian businesses exporting goods including machinery, food and IT services.

Iran's financial trading environment is facing times of mixed fortunes. The economy needs a jumpstart to return to pre-sanction levels in order to reduce inflation and bring growth to modest figures. The sanctions are gradually being removed which could signal better times for the average Iranian. Iran's communication with the international community is taking a u-turn and the newly signed agreement is opening up lost channels. This will bring investments back into the country and also allow Iranians to start looking at offshore investment opportunities.

Forex Magnates expects the Iranian margin FX and CFD trading landscape to grow 5% over the next 24 months, with firms outside the regulatory jurisdictions, New Zealand, BVI and Seychelles, dealing with Iranian investors. As stated, the current state of affairs can reenact the peak years of 2008 when introducing brokers were lining the streets of Tehran.

BINARY OPTIONS INDUSTRY: FOLLOWING IN THE FOOTSTEPS OF FOREX?

The binary options industry has come to a crossroad where it has to choose whether to follow the way set by the Forex industry into financial legitimacy, or go down the path of the gaming industry.

This article will review the current state of this industry by presenting various views and predictions voiced by leading binary options technology providers.

By Avi Mizrahi

To examine how the binary options industry is developing, Forex Magnates interviewed four leading binary options technology providers and a recent newcomer crossing over from the Forex platform industry into the binary field.

We spoke to Ilan Tzroya, CEO of Tradologic; Eyal Rosenblum, Co-CEO of TechFinancials; Shay Hamama, VP of MarketsPulse; Tammy Levy, Marketing Director of SpotOption; and Maor Lahav, COO of PandaTS. This group of industry experts has discussed with Forex Magnates the binary options industry's split between gaming and financial trading, along seven vectors identified as pivotal to this market's future.

Forex Integration

As late as last year it was impossible to know for sure whether or not binary options could be embraced by the established retail Forex industry and incorporated into the range of financial products that FX firms offer to their clients. During this year however, the question can be answered and positively so, as technology providers report many brand name FX firms as their clients. Following up on that, Forex Magnates posed the question of whether binary options are expected to be an integrated part of FX firms' own brands, or is it going to be offered under separate binary-only brands, inhabiting a different ecosystem.

The answer to that depends on the direction that FX companies plan on taking with binary options, industry professionals told Forex Magnates. FX brokers who want to use binary options to offer a more gaming oriented experience will chose to operate a separate binary brand as just another profit generator for their bottom line. FX firms who decide to offer binary options as a financial product, could start by testing it as a separate temporary brand. In order to leverage the strength of their already-established brand, companies would then be likely to incorporate this product into their offering, just as was done with CFDs and copy trading platforms.

But, offering binary options may erode a company's image as a financial broker and may suggest that it is operating in the grey area close to gambling. This is of concern to FX firms who have established reliability and respectability in the eyes of both traders and regulators. The apparent solution to this could be to offer the more sophisticated, longer-term binary options offers and market them as financial introductory products while emphasizing regulation. Following that strategy, SpotOption has reported a shift in commitment by FX firms since CySEC's binary options regulations last year.

Client Base Overlap

A crucial step for understanding any industry is to identify its target clientele. When Forex Magnates asked whether FX companies need to worry about binary options cannibalizing their client base, the resounding answer from technology providers was an unsurprising 'No'. This was explained by the fact that binary options trading participants can be divided into two main groups which FX companies cannot utilize without them.

The first group of binary options traders is gamblers, not a segment traditionally targeted by financial companies. Binary options brokers can target online casino gamblers, poker or blackjack players, with simple binary options aimed for those who are looking for fun and for the chance of winning money online.

The second group of traders turning to binary options is comprised of people looking to make financial trades but do not have the ability to commit to FX trading, due to its higher demands for initial capital investment, time required to analyze and follow the markets, and a steep learning curve. Absolutely anyone can understand trading in financial markets using binary options, Forex Magnates was told by a provider, however only a small percentage of people have the technical and math skills required to understand even common terms in Forex, such as margin call and leverage.

Additionally, in times of low volatility in currency markets, binary options can meet the need for excitement. This way binary options could be used as a tool for retention at low volatility, and thus help to prevent FX clients from abandoning trading at all due to boredom.

Industry Structure

At the beginning of the year the young industry seemed to be centered around three to five binary options providers, but recently new

KEY FIGURES OF AN AVERAGE BINARY OPTIONS TRADER

Conversion	1:7
Lifetime Average Deposit	$2K
Withdrawal Average	20%
Lifetime	5 Months
Lifetime Value	$1,600
Average Number of Trades	220
Conversion From Existing Database	20%

Source: SpotOption

players, such as the gaming giant, Playtech, and Forex software developer PandaTS, joined the race. The competition however, is warmly welcomed by those binary option s technology providers with whom Forex Magnets held interviews.

New entrances to an industry usually prove that the industry is profitable and growing, which in turn can attract new investors to the field. Leading technology providers that we have spoken to all think that the entrance of new players, regardless of how much money and software developers they have at their command, will not come at their expense. This is not just because they are confident and believe their services are strong enough, but also because of the split in the binary options field, which allows some providers to specialize in the more financial trading side of the business, others to specialize in the more gambling side of it, while other providers can offer the full range.

Interestingly, some market players suggested to Forex Magnates that the binary options industry is ripe for considerable vertical M&A right now, where leading brokers will seek to get complete control over their platform technology provider to make sure they can differentiate themselves in more areas than just branding.

Worldwide Regulations

The issue that will have the biggest influence over the future identity of the binary options industry is regulations. Some legal authorities around the world have already taken actions to regulate binary options as either a financial service or as a gambling product. And while a gambling license allows binary options brokers to operate, in order for binary options to be truly accepted as a complementary service to Forex, in any specific market, it must get regulatory approval as a financial product.

Only two countries in Europe provide the binary options industry with a financial regulatory framework at this time: the island nations of Malta and Cyprus. In July this year, the Malta Financial Services Authority (MFSA) announced that it had recategorized binary options to fall under the scope of Markets in Financial Instruments Directive (MiFID), whereas until then binary options in Malta were under the regulatory supervision of the Lotteries and Gaming Authority (LGA).

Cyprus, long established as a convenient Forex industry hub, was also the first European country to validate binary options trading as a financial service, with a Cyprus Securities and Exchange Commission (CySEC) announcement in May 2012, saying that binary options should be fully regulated under MiFID and that CySEC will provide that regulation. As a result, most binary options brokers have registered in Cyprus with CySEC regulation allowing them to operate in the European market under MiFID.

The United States already regulates binary options in a very particular fashion that makes it a completely different market than the rest of the world. Binary options are traded in the U.S. not as OTC with a market maker model. Instead, all trades have to go through a Designated Contract Market such as the North American Derivatives Exchange (Nadex). In Forex Magnates' previous Quarterly Industry Report, we extensively covered the American Binary Options Market. During the year of 2013 in Japan, the binary options industry has seen the strongest application of new regulations, when the Japanese Financial Services Agency (JFSA), in cooperation with the Financial Futures Association of Japan (FFAJ), approved binary options as a financial product but required considerable changes to the way the trading was being operated. Despite having some of their most popular products barred in Japan and having to develop new ones to match the new requirements, the binary options technology providers were actually pleased with the Japanese regulation as it provided them a clear framework to operate within.

Shay Hamama told Forex Magnates, "(By) the fact that more and more regulators recognize binary options and specifically regulate it, uncertainty is removed from the market, allowing more participants to enter. On the other hand, it sets higher barriers in terms of technology and standards that have to be met. In all, this is a good thing, as it matures the industry."

In other parts of the world, such as in China, which is home to a huge market, binary options trading is not regulated, yet not declared illegal. So the industry continues to operate in unclear terms and without any certainty about the future.

An especially interesting and hon

Eyal Rosenblum, Co-CEO of TechFinancials

Tammy Levy, Marketing Director of SpotOption

Shay Hamama, VP of MarketsPulse

est opinion of global regulations was voiced by Ilan Tzorya, CEO of Tradologic, who said that the current situation is unsustainable. In an interview with Forex Magnates, Mr. Tzorya pointed out that CySEC regulations approve some binary options products as financial services, though they are clearly gaming instruments that need to be qualified as gambling rather than trading. Fixed Odds and the popular High/Low for less than an hour are such products. Mr. Tzorya said that CySEC is yet to fully understand the products it approves, but, "The party will not last forever," as regulations will have to change. Sooner or later, "MiFID will have to wake up," Tzorya added.

Platform Complexity

One of the main selling points for binary options is ease of use, and both platform providers and brokers emphasize simplicity in their marketing. But as binary options trading becomes more widely accepted and traders more experienced, is there a demand for platforms to include more advanced features and charting functionality? The binary options providers all reported a considerable and increasing demand for advanced functionality and analytic tools on their platform. They have also mentioned that they have begun developing solutions to meet this demand. MarketsPulse for example, offers a downloadable application, developed in partnership with 10trader, with embedded analysis tools, where traders can view up to four options simultaneously. SpotOption is even trying to attract experienced MetaTrader4 users by providing those traders with an "Expert Adviser" system for binary options. SpotWiz, SpotOption's latest development, allows sophisticated traders to create automated strategies, implement them, and even sell them. In parallel to developing more advanced offerings, some of the binary options providers understand that a simple system will always be needed, especially for the more gaming-minded clients. Ilan Tzroya said that desires of the two different target audiences are different. "Professional traders will look for professional graphs, indicators, real-time information and low spreads-high returns. The casino gamblers will continue to look for bonuses, easy experience and the dream to make money."

Social & Copy Trading

Social is a hot trend in Forex trading and binary options were not late to follow. Most platform providers already have some social trading features, like SpotOption that has a SpotFollow feature to allow the creation of a social environment on the brokers' sites. The end users can see, and choose to follow the top five traders, copying their actions.

In addition to just social features, all of the technology providers who

Forex Magnates interviewed seem to believe that social is a must for the future rather than just a hype. They are now working to develop offerings specifically with this in mind. SpotOption was the only company ready to admit at this stage that it has a real social product in development, specifying a new Facebook application, scheduled to be launched in early 2014, that will allow clients to trade directly from the social network's website.

Market Saturation

Numerous binary options brands are currently operating in the market, with the majority of them using the same platform providers. This raises the question of whether or not the market has reached its saturation point. Costs of marketing and especially affiliates payouts are increasing and may start to put a strain on binary options brokers' profits. Will there be enough clients to sustain the ever-increasing marketing cost?

The answers to these questions vary. But the platform providers who were interviewed by Forex Magnates all agreed that the binary options market is growing rapidly and therefore will be able to support many brokers. As for the ability of brokers to keep up with the rising costs of marketing, some said that the problem is very low entry barriers. With minimal capital requirements and no experience, aspiring entrepreneurs can open a new white label binary options brokerage in a very short time, and begin soliciting clients.

Rachely Esman, CEO of MarketsPulse, thinks that the issue is lack of diversity. "It is hard for brokers to survive if your competitors are equipped with the same front end as yours. Every broker needs to be able to be equipped with tools to build a unique offering," she said in an interview with Forex Magnates. With platforms being relatively similar, the main battleground between the brokers is over advertising and lead generation. Some suggested that it was the drive to increase the number of new labels by the most dominant players that led to the difficulties with profitability now experienced by some brokers.

> "By the fact that more regulators recognize binary options, uncertainty is removed from the market"
>
> Shay Hamama, MarketsPulse

According to SpotOption, the solution is diversification in branding. SpotOption Marketing Director pointed to two of their leading brands, one branded as a financial institution and the other as a gaming site. "Binary Options have bridged the two major online industries, gaming and Forex, and henceforth enjoys the abundance of both worlds. In other words, the market is tremendous, and there is room for many more operators to profit from this ever-growing market," Tammy Levy told Forex Magnates. Other providers stated that it is a matter of normal evolution going on within the industry, saying that there must be a natural selection process, as in any industry, to weed out those that are unable to compete. Ilan Tzroya summed up the situation by telling Forex Magnates, "The cost of bringing clients will increase as more brands will compete – these are the forces of the market, supply and demand, they are stronger than us all. That is why you must rise the value produced from every client. Additionally, returns on investments today are low, so traders will look for higher returns and only the experts will know how to deliver. Just as Forex started with huge spreads and today they are really low."

The takeaway conclusion for the Forex world from this article is that the binary options industry is going to be split between gaming and financial trading, but the financial side can and should be absorbed by the already established FX industry. FX firms can benefit from a simple and exciting product to extend their offering to both existing and potential clients, and a regulatory approval process of it is already well under way. Moreover, if FX firms fail to take over the binary options market they are leaving a pathway for gaming companies, flush with cash and looking for new opportunities to establish themselves with brands and a clientele in a financial trading segment that they can later build upon to try and take on the FX companies in their home field.

THE DIGITAL CURRENCY AGE: IS CRYPTOCURRENCY TRADING THE FUTURE?

Cryptocurrencies present exciting and unique alternatives to conventional currency trading. The expansion of numerous options and exchanges has forged a new channel of investment.

This article will examine the current landscape of digital currencies such as bitcoin and altcoin, and their ascension as a tradable fixture in the financial world.

By Jeffery Patterson

In a world that operates on tangible goods, tangible means of exchange and an overarching sense of accountability, the genesis of digital currencies seems an oddity in the modern financial realm, namely as it abstains from most economic and commercial paradigms. As such, tracing the origins of digital currency or cryptocurrency trading is not merely a look into the past, but quite possibly the future.

Modern currency trading of Forex has carved a niche in today's financial markets. Moreover, official currencies, while varying in market exposure, popularity and stability, are all considered 'hard' options, if only in the sense that they are backed and supported by gold reserves, national governments, legitimate entities, etc.

.

As a corollary, digital currencies lie at the counterpoint of this archetype, operating outside the realm of multi-national governments or central banking bodies. The abstention of digital currencies from more conventional measures yields several advantages and disadvantages for users and traders alike.

Furthermore, the infancy of digital currencies on a global scale has fostered a sense of latent misunderstanding. Individuals ranging from economists to basic traders generally hold reservations for that theory and laws which we do not quite yet understand.

However, past this cautionary line of thinking lies a very real metamorphosis of the currency trading industry presently unfolding: The rise and inclusion of digital currency trading as a legitimate member of financial markets.

The Fundamental Attributes of Digital Currencies

Digital currencies in the most rudimentary sense can be defined as an electronically created and stored

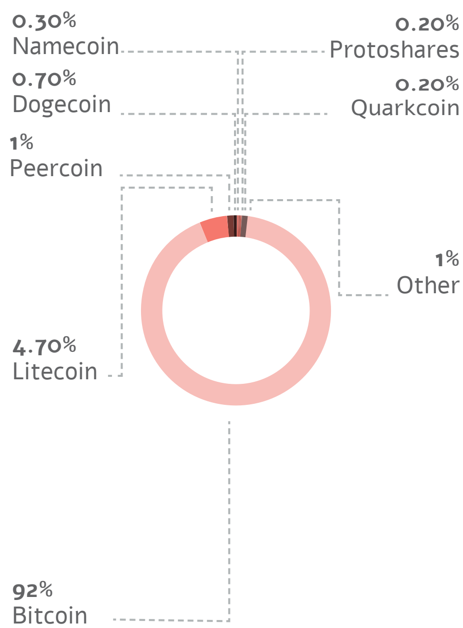
MOST NATIONAL BANKS WARNED ABOUT THE RISKS IN TRANSACTING VIRTUAL CURRENCIES

Source: Forex Magnates

Before Its Collapse in February 2014, MtGox Held 43% of All Bitcoin Trade

Source: cryptocoinstat.com

Cryptocurency Market Capitalization Including Bitcoin & Litecoin



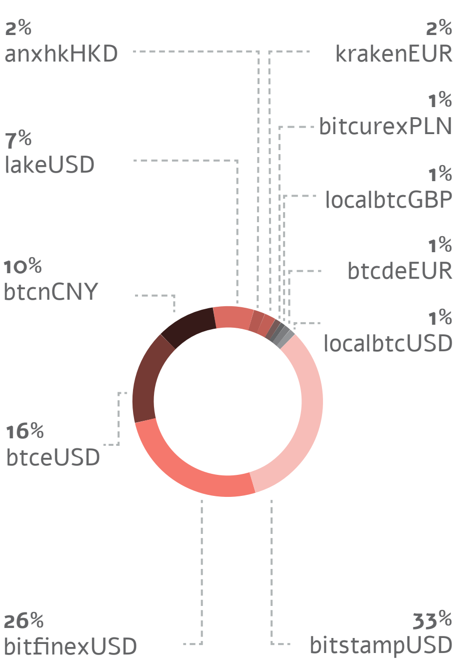
Source: cryptocoinstat.com

Cryptocurency Market Capitalization Excluding Bitcoin & Litecoin

Digital Currency	%
Peercoin	30.8%
Dogecoin	22.5%
Namecoin	10.2%
Protoshares	7.6%
Quarkcoin	5.3%
Feathercoin	3.4%
Megacoin	2.8%
Infinitecoin	2.8%
Primecoin	2.6%
Novacoin	2.1%
Worldcoin	1.8%
Tickets	1.0%
DevCoin	0.9%
DigitalCoin	0.8%
Zetacoin	0.7%
Freicoin	0.7%
Netcoin	0.6%
Terracoin	0.4%
Anoncoin	0.4%
Mooncoin	0.3%
Unobtanium	0.2%
Sexcoin	0.2%
Bbqcoin	0.2%
Cryptogenicbullion	0.2%
Goldcoin	0.2%
Tagcoin	0.2%
Other	1.1%

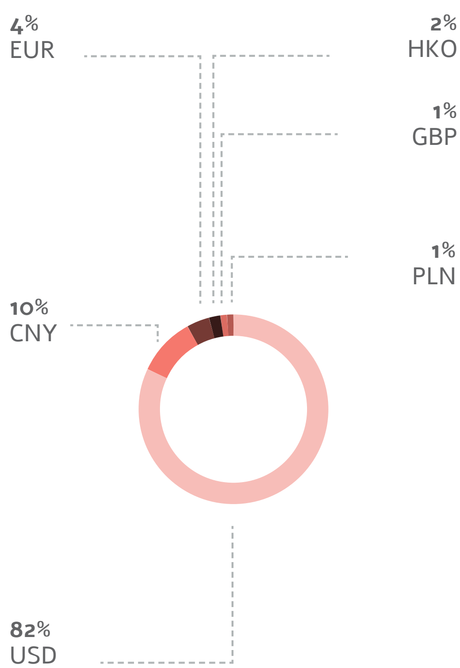
Source: cryptocoinstat.com

Bitcoin Exchange Volume Distribution By Market



Source: Bitcoincharts.com

Bitcoin Exchange Volume Distribution By Currency



Source: Bitcoincharts.com


4:21 PM
22%
SHORT TERM
76%
0
EUR/USD
24
+1.1
24option.com
by {24/7}Traffic

medium of exchange. This lies in direct contrast to hard currencies which are printed or manufactured at some central point of origin, while also having a respective legitimate cache available to the public. The digital currencies that are traded today however, represent a new breed entirely and can be classified as cryptocurrencies, which stipulates a decentralized format, peer-to-peer (p2p) networking, and a floating exchange rate – as opposed to pegged to metals.

Quite possibly the most unique attribute to cryptocurrencies is the means by which they are created. Mining processes are dependent on a host of different factors, specifications and computing parameters, specific to each cryptocurrency in circulation. Generally speaking, each cryptocurrency is mined in an incentivized manner, contingent upon the settlement of transactions and execution of code or script. Unlike hard currencies, most cryptocurrencies can only ever be created or mined in a predetermined, finite amount, which invariably increases in difficulty and financial commitment over time, given the exponential growth in computing requirements.

Another hallmark of cryptocurrencies is the manner by which they are exchanged. As opposed to FX, cryptocurrency transactions do not store or reveal the identity of the payer and receiver, but rather entails address-to-address methods of transfer. Subsequently, these transactions are bundled into 'blocks' that are confirmed to public channels, known as a block chain.

Pending a transaction between two respective cryptocurrencies or a hard currency, a user stores this information in a digital wallet – a program that generates and stores private keys or an address that is capable of communicating with peers or exchanges. At present, there are a multitude of options for exchanging cryptocurrencies that have gradually crept into the realm of real-world payments recently, albeit on a limited scale.

The Rise of Bitcoin and Altcoins as Tradable Entities

The first of these cryptocurrencies ever launched for tradable purposes was Bitcoin, launched in 2009 as an open source software. However, whereas Bitcoin was the only tradable cryptocurrency just four years ago, the market has since splintered into myriad directions, culminating in the birth and exchange of an extensive and ever-growing suite of other options known as alternative coins or altcoins.

Universally, Bitcoin remains the paramount cryptocurrency traded or exchanged by virtually every measure– its longer existence and lone initial establishment has forged it into the most legitimate of options when weighed against its peers. While Bitcoin carries an astonishingly high percentage of the overall market cap in tradable cryptocurrencies, there have been a number of recent suitors since its inception, several of which have burst onto the trading scene with remarkable effectiveness.

Presently, the top four most widely traded cryptocurrencies by market cap are Bitcoin (91%), Litecoin (4.9%), Peercoin (1.1%) and Dogecoin (0.8%). Excluding these mainstream options lies a cascade of other altcoins, each of which collectively only accounts for approximately 2.2% of all the remaining market share of traded cryptocurrencies.

Practically all modern cryptocurrency exchanges feature Bitcoin as a tradable unit in some capacity, specifically as a fundamentally transferrable unit into all other derived altcoins. Beyond Bitcoin, the market is in the midst of rapidly transforming into a more altcoin-friendly realm, offering traders access to virtually all manners of cryptocurrency pairs, similar in nature to the diverse offering of FX currency pairs.

Is Cryptocurrency Trading a Risky Business?

Every tradable asset class has its distinctive advantages and disadvantages. Most commonly these entail variances in market exposure, taxable differentials on profits, or liquidity and settlement constraints. Conversely, digital currency trading represents a fringe option in this equation, specifically in that it lies outside the realm of regulation, while also constituting the most narrowly defined market exposure. To date, fund managers and hedge funds have neglected the use of cryptocurrencies in their portfolios and only until recently has the idea of exchange-traded funds (ETFs) involving these constructs been explored – for now, trading of cryptocurrencies is relegated purely to digital currency exchanges.

The trading of cryptocurrency on

an exchange offers users a unique experience that has historically drawn waves of criticism as well as praise. That cryptocurrency lies outside the influence of central banks or regulatory authorities can ultimately be seen as its greatest strength, and perhaps greatest weakness. The nature of seemingly untraceable transactions makes traders of cryptocurrencies bereft from gains taxes, scrutiny, or other means of financial reporting.

In an era where the FX industry is under relentless regulatory pressure in the wake of recent scandals, and other European Market Infrastructure Regulation (EMIR) standards are being erected globally, cryptocurrency trading offers a plausible alternative, free from these potentially stifling market forces.

Moreover, users of cryptocurrencies are not at the mercy of central banks such as the US Federal Reserve or the Bank of Japan, each of which are fully capable of dictating the value of their respective currency through stimulus programs and other initiatives. Finally, the p2p relationship governing cryptocurrency transfers generally allows for the avoidance of transaction fees– a huge asset among traders who are keen on high-frequency payments.

Alternatively, cryptocurrency trading on exchanges offers particular disadvantages, notably when weighed against FX. As stated previously, digital currencies constitute a realm that lies outside the jurisdiction of regulators and governments. However, focusing exclusively on this schism in a positive light ignores the true rational behind the collaboration between the means of exchange and governmental bodies.

Fraudulent transactions and scams are among the most common types of practices that are effectively mitigated on a market-wide scale given the involvement and specter of global regulators. Central banks prevent the rapid deflation of the currencies over which they have respective reign, giving users and traders a sense of comfort and tranquility that is not yet prevalent among cryptocurrency traders. Indeed, the price of the latter has shown a repeated willingness to fluctuate wildly in the absence of such stabilizing measures.

Antony Lewis, Business Development, itBit Pte

In addition to the lack of financial stability or governmental fiat supporting cryptocurrencies is the ever-present issue of legality that has especially plagued Bitcoin from the outset. Since its enigmatic beginnings in 2009, cryptocurrencies, namely Bitcoin, have demonstrated a predisposition for money laundering or illegal trafficking of drugs and other nefarious operations. As users are able to operate in complete anonymity, cryptocurrencies provide the ideal vehicle for precisely these types of transactions that governments hope to curb. Ultimately, these issues lie at the forefront of a lingering debate that has called for the regulation of Bitcoin, as well as other cryptocurrencies in recent years.

The Evolution of Cryptocurrency Exchanges

Much like its FX counterpart, cryptocurrency traders have access to a variety of different exchanges, each specializing in a different avenue of trading capabilities and services. These exchanges, formally known exclusively as Bitcoin exchanges, have been a functioning establishment since 2010. Previously, no exchange nor market existed for Bitcoin, whose trade included only a small faction that exchanged the currency for little or no initial value.

This narrow demand soon blossomed and coalesced into the accretion of multiple exchanges, principally the oldest and longest tenured Mt. Gox, which filed for bankruptcy on February 28th, bringing a downward-spiraling saga to its tragic end. In today's market, there are hundreds of operating cryptocurrency exchanges, however, a few notable examples have captured the largest percentage of the Bitcoin market share.

Presently, the three largest Bitcoin exchanges by volume are BitStamp, btc-e and BTC China – alternatively, Cryptsy, Vircurex and btc-e con

Liquidity aggregation from banks and ECNs

Direct access to the whole market

Increased operational efficiency

Full control of key business processes

Industry-leading transparency

stitute the largest altcoin exchanges by market share. In either scenario, there is a noteworthy trend among traders to utilize the US dollar in their actions, constituting the largest majority of transactions.

Despite the fact that cryptocurrency and Bitcoin exchanges have a penchant for operating on the periphery of regulatory and governmental control, they still are subject to the same manner of invasive threats endemic among many FX and asset exchanges. Moreover, the lack of regulatory oversight places these exchanges in a particularly vulnerable state, especially without the omnipresent gaze of law-enforcement bodies.

Since 2010, approximately fifteen cryptocurrency exchanges have suffered episodes of breaches, hacks, or outright seizures totaling at least US$50,000 – the most infamous case in recent memory was the seizure of the Silk Road, an underground marketplace that was eventually shut down by the Federal Government in 2013.

Mt. Gox Shutdown and Aftermath

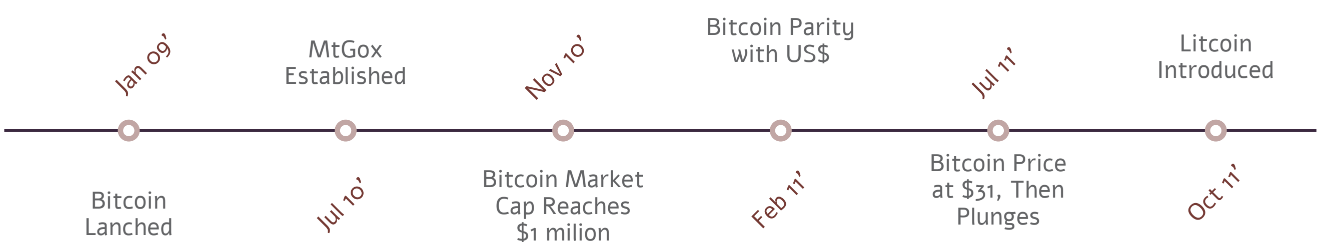
Most recently however, the cryptocurrency world was roiled by the collapse of Mt. Gox, which essentially put Bitcoin on life support at the end of February. The consequent effect on the industry's largest exchange led to a collapse in the price of Bitcoin, which has since led to a complete rewriting of the divisions in market share and a general upheaval across all cryptocurrency markets.

The lingering effects on altcoins, principally the primary competitors to Bitcoin, i.e. Litecoin, Peercoin and Dogecoin, have been localized more so to a general retreat against hard currencies, rather than an infringement of market share vs. Bitcoin. Despite the recent turmoil, Bitcoin remains the paramount cryptocurrency being exchanged. Increased regulatory pressure on Bitcoin could yield far more reaching consequences, once the initial knee-jerk reaction surrounding the Mt. Gox fiasco quells. In the absence of this exchange, several other exchanges dealing in altcoins have certainly seen robust volumes, specifically Cryptsy, Vircurex and btc-e. Due to the infancy of altcoin trading, many exchanges do not offer direct hard currency to cryptocurrency platforms, however this is certainly changing.

At the moment there are myriad options from less established altcoin exchanges, with even the prominent ones in the process of implementing these sorts of initiatives. Previously, most altcoin transfers had to first be converted from Bitcoin. As such, this 'cutting out of the middleman' sort of trading strategy could theoretically lower Bitcoin trading volumes, which up until now has seen an uncontested majority across exchanges.

Taking these recent phenomena into account, cryptocurrency trading still ranks as more of a fringe

Digital Currency Evolution



trade than better established options such as foreign exchange trading for example, despite its own legal woes recently. This is to be expected, given the youth of cryptocurrencies and lack of established options for traders. Unfortunately for proponents of cryptocurrency trading who might have been expecting some revival or quantum leap into the overall financial market, its flagship exchange has just been torn asunder, leaving thousands of traders' investments lost. This is hardly a move capable of fostering an extinction of Bitcoin or altcoins, however it has left a bitter taste in users, traders and regulators' mouths.

The Future of Cryptocurrency Trading

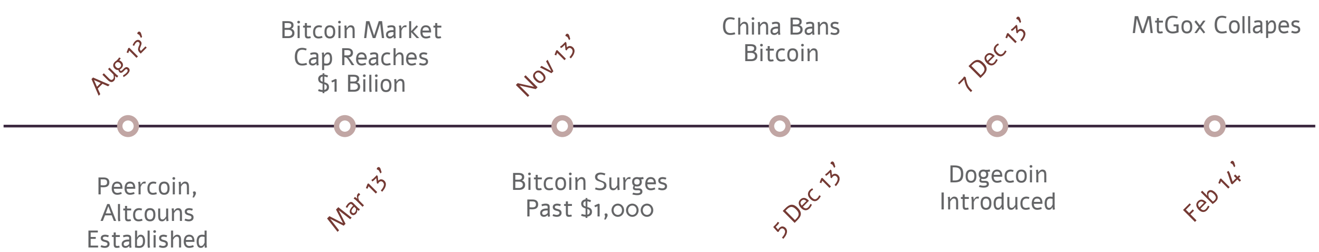
Cryptocurrency trading has come a long way since Bitcoin's launch in 2009, however the path has resembled a fight for survival and legitimacy at every turn. Governments have been mixed in their stances towards cryptocurrencies and in 2013 alone, Russia and China both made concerted efforts to ban Bitcoin transactions – India also shut down numerous Bitcoin exchanges though ultimately denied such formal efforts. In addition, as cryptocurrency creeps into real-world payments, many will invariably seek outright regulation or taxation that could yield significant effects on values.

"Security, credibility and regulatory approval are the biggest challenges moving forward – since Gox turned out to be illiquid and compromised client funds, this served to accelerate regulatory scrutiny around Bitcoin Companies. The emerging regulatory focus seems to be on Bitcoin Exchanges and Wallets," Antony Lewis, Business Development, itBit Pte Ltd, explained in an interview with Forex Magnates.

"Moreover, this year we will see more hacking attempts - both unsuccessful and successful. Exchanges will need to spend more on security and processes. This is natural evolution for an emerging industry. Bitcoin is entering its adolescence now and needs to learn responsibility – the days of running around with no one paying much attention are over," Lewis warned.

Looking ahead, even the staunchest proponents and traders of cryptocurrencies are unsure of its direction and future. Just one year ago Bitcoin was trading at US$20 and many of the most prominent altcoins were scarcely in existence. It will remain to be seen which cryptocurrency emerges out of the hodgepodge of options, or whether a legitimate challenger to Bitcoin arises in 2014.

If history is any precursor of the future, trading volumes and cryptocurrencies are in for a volatile future, with some facing outright extinction and exploding – such is the fickle nature of digital currency trading.



Source: Forex Magnates


TEAM PARTNER OF
MERCEDES AMG
PETRONAS FORMULA ONE TEAM