

# Next Generation Electronic OPTIONS TRADING



Stephen Baker  
SuperDerivatives

Electronic trading has clear benefits for the options market, as participants on both the buy- and sell-side seek the ability to improve transparency and meet new regulatory requirements while trading bespoke hedging structures.

**D**CX is a new multi-bank electronic trading platform that is set to revolutionise the options market, connecting market takers with liquidity providers on a single global platform.

The unique features of DCX stem from the combination of SuperDerivatives' (SD) technology and FXCM's global reach and network of price providers, bringing an instant client base to any liquidity provider. The platform, which is jointly operated by both companies, supports price discovery, negotiation and execution, all the way to option expiration, powered by the industry benchmark SD options pricing model.

According to Stephen Baker, Head of EMEA Sales and Support at SD: "DCX provides, on one screen, multiple quotes for FX options from multiple market-makers, delivering a dynamic depth of market."

The new trading platform is anonymous from both sides – both the buyers and the dealers presenting the options' pricing. Few banks have the technology today to stream FX options' prices directly from their desks through an API. DCX enables prices to be both published through an API or entered manually to make markets. The market taker is also protected from the fact that the market does not know who they are and what their positions are.

Anoushka Hampton, FXCM's Head of Institutional Options Sales, EMEA and Asia, says: "We really streamline the whole execution and exercise process, addressing both sides of the transaction."

After execution, there are two downstream integrations: trade execution details are sent to the chosen prime broker, and then the prime broker will send the trade to clearing and settlement. The executed

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The screenshot displays the DCX trading interface with the following data:

Deal Definition							Best Bid				Best Offer			
ID	Type	Call/Put	Strike	Delta	Cutoff	Notional	B/S	Prem GBP	% GBP	Vol	Vol	% GBP	Prem GBP	B/S
1	Vanilla	GBP Call JPY Put	117.15	50	NY10	22,000,000 GBP	Sell	732,402	3.3291	11.32	11.77	3.4546	760,012	Buy
H	Spot	Hedge	118.04			11,000,000 GBP	Buy							Sell
							Total: Receive 732,402 GBP				Total: Pay 760,012 GBP			

  

Market Bids - RECEIVE			Receive		Pay		Market Offers - PAY				
Prem GBP	% GBP	Vol	732,402 GBP	Vol 11.32	760,012 GBP	Vol 11.77	Vol	% GBP	Prem GBP		
728,606	3.3118	11.26	Hedge						11.83	3.4710	763,626
726,146	3.3007	11.22	Buy: 11,000,000 GBP						11.84	3.4739	764,268
724,830	3.2947	11.20	Sell: 1,298,440,000 JPY						11.88	3.4848	766,660

trade can also be deal-captured into the buyer's risk management, middle or back office system.

In addition to the ability to request quotes, execute trades, post bids and offers and view all the open trades in the system, users are also able to see the market depth across all liquid currency pairs for vanilla and barrier options and basic structures (Straddle, Risk Reversal, Strangle, Call / Put/ Cal Spreads), including emerging markets.

SD and FXCM believe that DCX will change the way that people trade FX options as it will provide transparency to an opaque market and apply analytics to normalise prices to provide a truly best price.

DCX is anonymously sourced from the main price providers and offers users a fully comprehensive trade environment covering all relevant trade activity from execution to exercise:

- **Best Prices:** DCX lets clients trade on the best available price, i.e., enjoy a tight bid-ask spread, for any specific trade.
- **Flexibility:** it is RFQ-based and supports all OTC market conventions (e.g. delta hedge and reference spot rate).
- **Regulatory compliance:** similar to that of a managed ("SEF") market with secure, anonymous, undisclosed and automated trading.
- **Operational efficiency:** prime brokers are utilised as central counterparties (CCPs) for credit line consolidation, anonymity and built in post-trade services, such as notifications and settlement. This includes the world's first dedicated electronic exercise platform for OTC FX options.
- **Technology and Usability:** the DCX platform is fully hosted and delivered using the SaaS (Software as a Service) model; the DCX user interface application is accessed via a standard web browser.

## Future proofed

In developing the platform SD and FXCM had to be mindful of the wave of regulatory developments which will impact all parts of the Forex industry in one way or another. Stephen Baker comments: "We've built a solution which, depending on which way market regulations develop, will fulfil all the requirements for a multi-bank execution platform which is anonymous, but completely transparent, and recorded."

Hampton adds: "We're building something that is cutting-edge. The e-commerce wave that has already happened with other asset classes is now happening

with FX options. Bringing aggregated pricing on one screen is new to the market."

## Currency pairs

Users are able to trade both vanilla and bespoke instruments on G20 currency pairs. Hampton says: "We want to grow this and make an impact in the market by getting the G20 currencies right. A future release brings selected emerging market currencies."

## Target clients

DCX aims to be the optimal market place for both market takers and market makers, both of whom can benefit from it. Hampton comments: "Our target client base is institutional. We will not have retail directly on DCX. We are able to offer margining to some institutional clients, who may not get credit lines with banks, which allows them access to the market. This will be a unique client base. We have learned a lot about margining from retail which is something we can bring to the institutional sector."

## Operational and counterparty risk mitigation

In order to minimise operational and counterparty risk, all trading and settlement services will be carried out through major prime brokers serving as central counterparties.

A comprehensive range of post-trade services is also available, including a built-in option-exercise facility that provides customers with added life-cycle management capabilities and reduces operational risk.

## Compliance with current and emerging SEF regulations

In creating the platform, both FXCM and Super-Derivatives have been acutely aware of likely changes to the rules governing options trading as a result of the US Dodd-Frank Act.

Although the SEF regulations are yet to be finalised, SD and FXCM have designed and will continue to evolve DCX to be fully compliant with all relevant regulations.

Compliance with MiFID best execution and the SEC's RegNMS regulation is ensured by clearly displaying the full depth of the market, with post-trade compliance reports available.



Anoushka Hampton  
FXCM

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Further information...

[www.superderivatives.com/dcx](http://www.superderivatives.com/dcx)