

> Aggregation is the Key



TIMOTHY JAMES
Deployment Manager, Aegisoft

Aegisoft is a leading provider of global trading solutions, software and professional services. Aegisoft's AthenaTrader is a multimarket, broker-neutral execution management system (EMS) for trading equities, foreign exchange, futures and options. It is a high-performance and configurable platform that is used by high frequency proprietary traders, buy-side desks seeking minimal market impact, market makers relying on automated trading technology and low latency agency brokers around the world.

Introduction

Trading in the foreign exchange market means that you're trading on the most liquid and active market in the world. Trillions of dollars are traded through FX transactions every day. Banks, proprietary traders and funds trade through electronic communications networks like Hotspot, FXall, and Currenex.

Unfortunately, trading in the foreign exchange market means that you're also trading on one of the most distributed and fragmented markets. Unlike trading futures or equities where there is a single exchange or only a few trading destinations, there are dozens of major trading venues for FX (including banks, ECNs, and retail platforms), as well as any number of secondary destinations.

WHAT IS AGGREGATION?

Since there are many possible venues for trading currencies, traders have two options: use each vendor's platform to trade in each destination, or employ some solution that consolidates the pricing data and allows orders to be placed at several trading destinations at once.

Aggregation software provides this capability. Trading currencies is the same everywhere. The EUR/USD pair can be traded with many partners worldwide. Since it's the same universally, the prices on this pair from multiple sources can be brought together, displayed, and traded in a single interface. This allows the same trading to be done with many different partners.

WHY USE AN AGGREGATION PLATFORM?

One reason to use a single platform is to remove the potential for errors. Even among only two or three platforms, the potential for errors is large. Order placement may vary slightly across

platforms; stop and limit orders may be handled slightly differently. There are subtle fluctuations between the ways that different platforms operate – and simple mistakes cost traders lots of money.

Beyond removing some of the opportunity to make mistakes, using a single platform reduces the training cost for rolling out new trading destinations to traders. End users can trade currencies on one easy-to-use platform, and only need to be trained on a single application. After an aggregation platform is deployed, adding new trading venues requires little to no additional training or understanding.

Probably the biggest reason to aggregate the currency markets, however, is to take advantage of the best possible prices. While prices across trading destinations will typically be rather consistent, there may be small fluctuations. A wide pip spread may lead to a few pips' difference when pricing with multiple quote providers. When trading large quantities, just a few pips can lead to a difference of thousands of dollars.

What's more, trading large quantities will often require volume that may exceed what's available at the best price on a single trading venue. Being able to not only see deep into one order book, but several order books, allows traders to see an aggregated book with better prices and higher volumes at every price point.

For example, when trading on one venue, if a trader needs to fill an order to sell 20M USD/CHF, only one order book is visible. If a quantity of only 5M is available at the top of the book, then the order can't be filled at the best price – it's going to have to go deeper into the book. However, if multiple trading destinations are aggregated, then there may be 10M, 15M, or even all 20M available – and the quantities may even be available at better prices.

HOW DOES AGGREGATION AFFECT THE NETWORK?

Adding additional FX venues requires additional connectivity. This means that trading IDs and network connectivity must be established. Typically, this must be done even when using each provider's platform. The problem with using each provider's platform is that it will generate a lot of network traffic.

Many aggregation platforms provide a multi-tiered solution – one that requires server components and client components. One big advantage of multi-tiered aggregation is that the server components typically enable the filtering of prices – so that your network isn't overwhelmed with propagating unnecessary data. Instead of getting pricing updates on every currency pair on every client in your network, the clients can identify the pertinent pairs and the server can only deliver data on those pairs. More advanced functionality allows removing redundant information or throttling back the rate of price updates.

HOW DO YOU DECIDE ON A PLATFORM?

There are quite a few dimensions to consider when looking for an aggregation platform.

1. What venues does the software support? More important than support for the most trading destinations is

finding support for the desired trading destinations. It's best to look for a platform that will enable you to trade where you want to trade.

2. What is the learning curve to use the software effectively? Software that is easy to deploy and simple to use can be put into production more quickly, and have traders using it to make money that much faster.
3. What is the level of support for the product? Problems happen. How well support responds to your requests can make a lot of difference when problems do arise.
4. What is the product's performance? Showing a trader the best prices is pointless if the system is not fast enough to act on them. Performance is important when you're executing algorithms or performing manual trades.
5. How extensible is the platform? Unless it's perfect out of the box, it's very practical to use a platform that can be customized in both layout and behavior so that it can best meet your needs.

AthenaTrader

Aegisoft's AthenaTrader (www.aegisoft.com) platform allows users to easily trade across many destinations. With support for dozens of FX trading venues, this product empowers users to trade with the most complete information available. Hotspot, Lava, Currenex, FXall, Barclays, Deutsche Bank, and many others can be connected to the platform and traded directly.

AthenaTrader can give traders multiple views into the aggregated market, so that volume-weighted average prices, best bid and ask, cumulative available quantities at different prices, or simply an aggregated order book can be displayed in the interface.

AthenaTrader has support for over a dozen algorithms to execute your trades in the most effective way possible. Each of these algorithms is provided with source code so that the system can be customized and enhanced to meet the trader's needs – in fact, AthenaTrader is fully customizable, programmable, and extensible. The API allows developers to quickly adapt the system for automated trading, easy

integration with other systems, and customized behaviors so that the product can be utilized in the most effective way possible.

Morten Hoyer, Lead Developer at FX Concepts, one of the world's oldest and most established independent currency managers, saw significant value in the API and feature set of AthenaTrader. "One of the things that led us to AthenaTrader is that we were thinking of implementing market feeds directly for our algorithmic trading. We quickly realized that this was a daunting project, both in terms of implementation and ongoing maintenance. By leaving the trading platform to the experts we were able to concentrate on our business logic and trading algorithms."

The AthenaTrader platform provides users with lots of features for post-trade analysis, order monitoring, risk management, and automated trading, and it does it all with low latency – can be sent within 700 microseconds of the system receiving a quote update.

When outlining the process for finding the right aggregation platform, **Thomas Vinding, co-head of e-Markets at Nordea Bank**, had this to say about AthenaTrader: "We were looking for adapters to connect to ECNs and banks directly; we were looking for an execution management system GUI; and we were looking for API connectivity, so that when we build algorithms we only have to connect to one system. Those were the three things we were looking into and we have been very happy with the AthenaTrader platform."

AthenaTrader is simple to learn and easy to use. Intensive training programs get traders up to speed and using the system quickly and Aegisoft's support can help you deploy the platform in a matter of days. Deploying an aggregation solution can help traders accomplish better prices, lower costs, and better executions, so that they can concentrate on trading and not on the software. <

For more information, visit www.aegisoft.com