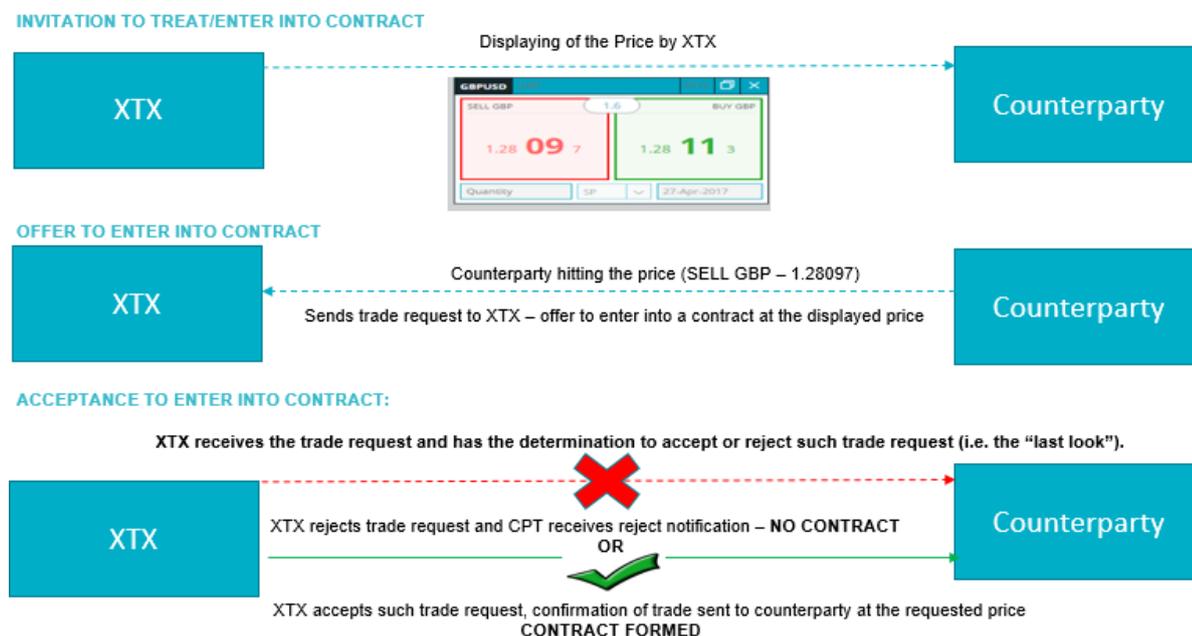


## Zero Hold Time – FAQs

### 1. Does this mean that XTX does not use Last Look? Are your prices firm?

No, XTX will still apply a Last Look check to your trade request.

As the liquidity provider, when we trade bilaterally with you, there is no binding transaction or contract unless we accept your trade request. It is important to note that the right of the liquidity provider to have the “Last Look” is not e-trading specific; it is also used by liquidity providers in respect of voice transactions. The below diagram outlines how a transaction is entered into based on contract law.



We define “Last Look” in the same way as described in the FX Global Code: the last ability to accept or reject the trade against its quoted price. This covers all potential checks that a liquidity provider may carry out before accepting or rejecting a trade request being (1) operational/sanity checks i.e. does the trade request contain any errors (the “**Operational Check**”); (2) credit checks i.e. does the liquidity provider have the credit/settlement/NOP limits to enter into the trade (the “**Credit Check**”); and (3) price check i.e. is the price at which the trade request is made within the liquidity provider’s tolerance of difference with the liquidity provider’s then current market price (the “**Price Check**”).

The Price Check is typically applied after the trade request has been artificially held for a period of time (the “**Holding Window**”). It is the application, and disclosure, of the Price Check after the Holding Window which has raised conduct issues in the FX market.

**XTX no longer applies a Holding Window before applying the Price Check.** The removal of the Holding Window does not mean that Last Look is removed. We still need to perform the Operational, Credit and Price Check.

## **2. How will the price check be performed?**

The Price Check is still performed but that decision is made on a near instantaneous basis i.e. as soon as your trade request is received by our systems (which may vary depending on your technology and where the matching engine is).

The standard setting for the Price Check is for it to be applied symmetrically and without any tolerance applied i.e. if the price has moved at all, in either direction, the trade request will be rejected. However, we understand that the application of the Price Check in this manner is not suitable for all counterparties and their execution objectives, so we can discuss calibrating the Price Check to your needs by applying a tolerance and/or making the price check asymmetrical. We may determine to apply a tolerance, in our discretion, where we think it will improve or enhance your execution experience. Please contact your XTX representative if this is something you would like to explore further.

## **3. Why can't you just make the prices firm?**

If we agreed to accept all trade requests, regardless of any Price Check, we would be exposed to accepting trades on stale rates, with no control over how far away from the current market that rate is or how old the quote is. We also need to perform the Operational and Credit Checks to ensure that the transaction is within the limits set by our prime brokers. If we didn't perform these checks, and we breached our limits, this trade could be rejected by our prime broker.

## **4. What's the difference between "Zero Last Look" or "No Last Look" and "Zero Hold Time"?**

Zero Hold Time is a term we have created to be very clear about our trade acceptance and rejection logic. As described in Question 1 above, the FX Global Code defines the use of Last Look to be the application of Operational, Credit and Price checks. We are using the term Zero Hold Time to make clear that whilst we do perform such checks, we do NOT place your trade request in a Holding Window before applying such checks. As described in Question 2, these checks will be applied as soon as we receive the trade request.

If the terms "No Last Look" or "Zero Last Look" were used, this could imply that we are not carrying out any price or validity checks and that our pricing is firm.

## **5. Why are you moving to Zero Hold Time?**

Firstly, the speed at which market data is updating is rapidly reducing across the CLOBs. EBS is now updating its prices every 5ms and Reuters every 25ms. Subjecting a trade request to a Holding Window is therefore increasingly unjustified. For example, a Holding Window of 100ms, which has not been uncommon in the market, now allows a liquidity provider to see up to 20 price updates in EURUSD before deciding whether to accept the trade. The justification for a Holding Window weakens as the frequency of market data updates increase.

Secondly, the publication of the Global Code is designed to set a standard for the behaviour of market participants. We believe that the bar can be set at an even higher level in respect of Last Look and as such we want to make that commitment public (see Question 8 below). We would like all liquidity providers to make a similar commitment as we think this would go a long way towards restoring trust and creating fairer markets that work for all.

## **6. What is the impact for me? Are my prices going to be wider?**

That is a possible outcome but it is only likely where we are pricing in an aggregated environment alongside other liquidity providers who are applying Holding Windows to their pricing. In general, for most counterparties trading with us directly, we do not expect to see a widening of prices.

Indeed, for counterparties who curate their pool of liquidity and the liquidity providers in that pool, it is possible that the outcome can be tighter pricing. Where all liquidity providers in a pool are pricing on a Zero Hold Time basis and are genuine risk holding entities, our view is that it is highly likely that aggregate pricing will tighten.

If counterparties are able to receive the right level of information around acceptance rates, response times and post trade markouts, they will be in a good position to curate their pool of liquidity and take control of their aggregate pricing.

## **7. What about if I am trading on an ECN or a CLOB?**

CLOBs such as Reuters Matching or EBS Market are firm. On these platforms, the contract determination is made by the platform operator, not by each participant. There is no Holding Window utilised by market participants on these venues.

Some ECNs e.g. LMAX provide firm pricing only. There is no ability for liquidity providers to employ a Holding Window. Others offer a choice to the user between firm-only pricing and pricing provided with the potential for a Holding Window to be applied by the liquidity provider.

For some ECNs, liquidity is provided with the ability for the Liquidity Providers to employ a Holding Window. Where trading on undisclosed ECNs, we will continue to utilise a Holding Window. Where the last look technology is hosted by the ECN (i.e. the price check is applied by the ECN), then we will be streaming firm prices into the system; this means that we will not know when our pricing has failed the price check and we will only be notified of trade acceptances.

At XTX, we are encouraging all the ECN providers to move the Price Check away from liquidity providers onto neutral venues (i.e. hosting the Price Check function of Last Look).

## **8. Will the market move eventually to Zero Hold Time? Why is this important?**

We do believe that the market will move to a Zero Hold Time basis over the foreseeable future but we would like this change to happen as soon as possible for two primary reasons.

Firstly, as described above, given the speed at which primary market data is updating, the previous justification for imposing a Holding Window considerably weakens.

Secondly, if all liquidity providers stop imposing a Holding Window, the contentious issue of pre-hedging in the Holding Window is removed. Any trading activity in the Holding Window that utilises information from the counterparty's trade request, including any related hedging activity, is inconsistent with good market practice and prejudicial to the counterparty.

Pre-hedging a counterparty's trade request means that the counterparty's trading intent is signaled to other Market Participants before the counterparty has executed its requested transaction. This has potentially negative effects if the transaction is rejected: The market price may move against the counterparty to such an extent that it causes the trade request to be rejected. The counterparty still needs to enter into the transaction but when it submits the trade request again, the price will have moved against it due to Market Participants having knowledge of the previous trade request; its confidential information has been leaked to other Market Participants which has a detrimental effect on the counterparty who is looking to trade with an entity which knows its trading intention.

We also believe that pre-hedging in the Last Look Window is open to abuse and can be used by liquidity providers (acting in a principal capacity) to obtain a risk-free profit. Using a hypothetical example, a liquidity provider streams prices in a currency pair of 10 (BID) / 11 (OFFER), subject to a Holding Window of 100 m/s. Once the liquidity provider receives a “buy” trade request at 11, it can leave passive buy orders across every other venue available to it, starting at 10 and raising to 10.1 after 10m/s, 10.2 after 20m/s, 10.3 after 30 m/s etc. If one of its passive bids is hit (e.g. a bid of 10.6), the liquidity provider will accept the liquidity consumer’s trade request and make a profit of 0.4. If none of its passive bids are hit within the Holding Window, it will reject the liquidity consumer’s trade request

To be clear, XTX has never pre-hedged in the Holding Window.

We encourage you to respond to the FX Global Code Principle 17 consultation in this manner. Please contact your XTX representative for more information about the consultation. Counterparty influence is an important element in persuading market venues and liquidity providers alike to change their behaviour or at least provide complete transparency around their practices.

#### **9. Where can I see XTX performance on acceptance rates, response times and post-trade markouts?**

Transparency is one of XTX’s core values. XTXray provides full transparency with respect to a counterparty’s dealing with XTX Markets. It shows response times, acceptance rates and post-trade markouts to millisecond precision. It also calculates an estimated cost of any rejections. Full explanations of all of these terms and calculations can be found at the website at [www.xtxray.com](http://www.xtxray.com) where you can also sign up for this service.

About XTX Markets:

*Constantly evolving regulation and technology is changing market structures and the way counterparties trade. Through our investment in quantitative research expertise, we are able to rapidly evolve and adapt to changes in market structure and the regulatory landscape.*

*XTX Markets is a leading quantitative-driven electronic market-maker partnering with counterparties, exchanges and e-trading venues globally to provide liquidity in the Equity, FX, Fixed Income and Commodity markets. We provide consistent liquidity, helping market participants throughout the world obtain the best prices in the various assets classes we cover, regardless of changing market conditions. Our pricing is about being smart and precise - not the fastest.*

*In a changing world XTX Markets is at the forefront of making financial markets fairer and more efficient for all.*

