How the top 50 liquidity providers tackle last look

Uneven disclosure practices are making life difficult for agency algos and ECN trading. By Natasha Rega-Jones

It has been two years since a global code of conduct was introduced to bring more transparency to the spot forex market.

Since then, new debates have sprung up around how that applies to anonymous trading platforms and providers of agency execution algorithms, while old ones around the levels of disclosure of forex dealing terms remain.

As of August 6, some 18 electronic communications networks (ECNs) have signed the forex global code. But they don't see it as their role to ensure liquidity providers (LPs) on their platforms comply: "We're not the policeman of the code," says a source at one ECN.

Need to know

- Last year, *Risk.net* compiled disclosures for 15 large banks. This year, we looked at the top 50 liquidity providers. The resulting table details their approaches to pre-hedging, additional hold times and use of rejected order information.
- While most firms have adhered to the global forex code, a quarter have no public disclosures on their last look practices, nor would they share them with *Risk.net*. More than half refused to publicly state or confirm their approach to hold times.
- This lack of transparency may create reputational risks for providers of agency execution algorithms, as orders may be routed to liquidity providers with unknown last look practices.
- It also makes it difficult for users of anonymous forex electronic communications networks to determine the last look policies of their possible counterparties.

While the code covers a broad range of areas, most of the focus is on LPs' so-called last look policies. These policies cover the period of time after an order is received but before execution, during which an LP conducts credit and price checks, sometimes with an add-on period for further monitoring.

Last year, Risk.net looked at 15 banks to see how the major dealers' last look policies stacked up. This year, we extended this to the top 50 LPs from the most recent Euromoney forex survey, including non-banks (see table A).

Our research found patchy levels of disclosure across the top 50. While the Global Foreign Exchange Committee (GFXC), a forum of central banks and private sector participants overseeing the development of the code, is pushing for more public disclosures of last look policies, nearly a quarter of LPs don't have them.

Within the disclosures, there are big differences in how LPs describe their policies. Principle 17 of the code asks firms to disclose the length of last look and hold times, but Risk.net was only able to find this information for fewer than half of the top 50 LPs.

However, LPs were more forthcoming about whether they pre-hedge during the last look window – a practice discouraged under principle 17 – with nearly three-quarters confirming they do not.

Guy Debelle, deputy governor of the Reserve Bank of Australia and chair of the GFXC, says that although public disclosure of this information is useful for customers – as it gives them a starting point for discussions with LPs – more information should be available to them in bilateral discussions. "We're encouraging disclosures to be publicly available to make life easier for people, but in the end it's probably just a first step along the route to discussions with your counterparty, not the last step," he says.

James Binny, State Street Global Advisors

But James Binny, global head of currency at State Street Global Advisors (SSGA), says that if firms have client-friendly last look policies, they should have nothing to fear in making them public: "If disclosures aren't publicly available then it doesn't really pass the smell test. If LPs have got something to be ashamed of in their disclosures then there's an issue."

"We need to have a trusting relationship with our counterparty, so the more open and transparent they are with us, the better. It's common sense, but it's amazing that people are reluctant to make disclosures public," he adds.

The patchy nature of public disclosures raises other key issues. For firms that offer agency algorithms, there is a risk that clients could be steered to price-makers with last look policies that are unknown – which could be detrimental to pricing and create potential reputational risk for algo providers. Some firms have already cut certain LPs out of their algos as a result.

It also has a bearing when trading on anonymous ECNs. Although some platforms such as LMAX, EBS Market and Reuters Match-

A. Top 50 liquidity providers' last look practices*						
Liquidity provider	Disclosure publicly available?	Pre-hedge during the last look window?	Hold time	Symmetrical or asymmetrical rejections?	Signed forex global code?	Rejected trade order information used for trading or risk management?
JP Morgan	Yes	No	No holding period	Symmetrical	Yes	Not disclosed – No, confirms JP Morgan
Deutsche Bank	Yes	No	A "short delay" may be applied upon receipt of a submitted trade request	Asymmetrical but clients can switch to symmetrical	Yes	No
Citi	Yes	No	Not disclosed – Citi declined to comment	Symmetrical	Yes	Not disclosed – Citi declined to comment
XTX Markets	Yes	No	No holding period	Symmetrical – can only be adjusted upon specific client request	Yes	No
UBS	Yes	No	Delay of 0-200 milliseconds typically placed on orders	Symmetrical but may not always be available to clients under certain conditions	Yes	Not disclosed – No, confirms UBS
HC Tech	Yes	HC Tech confirms it doesn't pre-hedge direct client flow but its disclosure permits it to with consent or notification to the counterparty	Not disclosed – HC Tech confirmed that hold times are discussed and set in conjunction with clients and/or ECNs	Asymmetrical but may accommodate symmetrical at the request of the counterparty	Yes	Not disclosed – No, confirms HC Tech
HSBC	Yes	No	No holding period	Symmetrical	Yes	No
Bank of America Merrill Lynch	Yes	No	Last look process includes a delay of approximately 0–50 milliseconds	Symmetrical	Yes	Not disclosed – BAML declined to comment
Goldman Sachs	Yes	No	"Speed bumps" of up to 200 milliseconds can be applied	Symmetrical	Yes	Not disclosed – Goldman Sachs did not respond to a request for comment
Standard Chartered	Yes	No	Trade request validation checks "are designed to be performed in a timely fashion with no artificial delay"	Symmetrical	Yes	No
State Street	No	State Street did not respond to a request for comment	State Street did not respond to a request for comment	State Street did not respond to a request for comment	Yes	State Street did not respond to a request for comment
Barclays	Yes	No	A "brief prescribed time delay" may be applied before last look	Symmetrical	Yes	No
BNP Paribas	Yes	No	Typical period of time for deal acceptance is between 10 and 150 milliseconds	Symmetrical	Yes	Not disclosed – BNPP declined to comment
Jump Trading	No	Yes, with customer consent – "The process is transparent and documentation is in place"	Hold times are customised, dependent on counterparty	Asymmetrical, but symmetrical is also available if desired	Yes	No
Societe Generale	Yes	No	Not disclosed – *Risk.net* understands that the maximum holding period is 100 milliseconds for some EM pairs	Symmetrical – asymmetrical is applied only "after a consistent pattern of successive trade attempts at stale rates unfavourable to SG has been observed"	Yes	Not disclosed – No, confirms SG
Morgan Stanley	Yes	No	Hold time may be applied to some counterparties – maximum hold time for any client is 300 milliseconds	Symmetrical but clients can opt for asymmetrical	Yes	Not disclosed – No, confirms Morgan Stanley
Commerzbank	Yes	No	Trade requests "may be subject to a delay" before being considered for execution on some electronic platforms	Symmetrical but clients have the option to switch to asymmetrical	Yes	Not disclosed – No, confirms Commerzbank

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Credit Suisse	Yes	No	Trade is held for no longer than 50 milliseconds after receipt of trade request	Symmetrical	Yes	No
NatWest	Yes	No	Not disclosed – NatWest did not respond to a request for comment	Symmetrical	Yes	No
Citadel Securities	No	No	Customisable holding period	Decision to reject orders symmetrically is configurable by client request	Yes	No, confirms Citadel
Crédit Agricole	Yes	No	No holding period	Symmetrical	Yes	Not disclosed – No, confirms CACIB
Nomura	Yes	Not disclosed – No, confirms Nomura	Last look "may be applied immediately upon receipt of a submitted trade request or after a brief time delay" – Risk.net understands that Nomura typically aims for a maximum time delay of 50 milliseconds	Symmetrical	Yes	Not disclosed – No, confirms Nomura
RBC Capital Markets	Yes	No	Hold period typically varies between 0–100 milliseconds "depending on the transaction history of the client"	Symmetrical but clients have the option to switch to asymmetrical	Yes	Not disclosed – No, confirms RBC
Westpac Banking Corporation	No	No, confirms Westpac	Westpac confirmed that no hold time is placed on orders	Westpac confirmed that clients can opt for symmetrical or asymmetrical last look	Yes	No, confirms Westpac
MUFG Bank	Yes	No	Not disclosed – MUFG declined to comment	Asymmetrical	Yes	No
SMBC	Yes	Not disclosed – SMBC declined to comment	Not disclosed – SMBC declined to comment	Not disclosed – SMBC declined to comment	Yes	Not disclosed – SMBC declined to comment
Alfa Bank	No	Alfa Bank did not respond to a request for comment	Alfa Bank did not respond to a request for comment	Alfa Bank did not respond to a request for comment	Unable to find SoC – Alfa Bank did not respond to a request for comment	Alfa Bank did not respond to a request for comment
TD Securities	Yes	No	No holding period	Symmetrical	Yes	No
National Australia Bank	Yes	No	Typically zero milliseconds. If applicable, delay is typically within 10–100 milliseconds	Symmetrical	Yes	No
ANZ Banking Group	Yes	No	Last look "may be applied immediately upon receipt of a submitted trade request or after a brief time delay	Symmetrical	Yes	Not disclosed – ANZ did not respond to a request for comment
BNY Mellon	Yes	No	Not disclosed – BNY confirmed that hold times are disclosed to clients if requested	Symmetrical but clients can request to opt out of the price check	Yes	No
Natixis	Yes	Not disclosed – Natixis did not respond to a request for comment	Last look "may be applied immediately upon receipt of a submitted trade request or after a brief time delay"	Not disclosed – Natixis did not respond to a request for comment	Yes	Not disclosed – Natixis did not respond to a request for comment
Saxo Bank	Yes	No	Last look is "applied immediately upon receipt of a trade request" – Saxo Bank confirmed that price checks typically take 10 milliseconds	Symmetrical	Yes	No
CIBC	Yes	Unclear – CIBC did not respond to a request for comment	Not disclosed – CIBC did not respond to a request for comment	Symmetrical	Yes	Not disclosed – CIBC did not respond to a request for comment

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ING Group	Yes	Not disclosed – No, confirms ING	Not disclosed – ING confirmed there is no hold time placed on orders	Not disclosed – ING confirmed last look is applied symmetrically	Yes	Not disclosed – No, confirms ING
BBVA	No	BBVA declined to comment	BBVA declined to comment	BBVA declined to comment	Yes	BBVA declined to comment
Virtu Financial	Yes	Yes, if agreed with counterparties	Not disclosed – hold times vary depending on counterparty agreements	Not disclosed – counterparties have the option to apply last look asymmetrically or symmetrically	Yes, but not yet on GFXC register	Not disclosed – No, confirms Virtu
SEB	Yes	Not disclosed – No, confirms SEB	Not disclosed – SEB confirmed that validation checks normally take "lower single digit millisecond or less". No hold time is ever applied to orders	Not disclosed – SEB confirmed that last look price tolerance checks are applied symmetrically	Yes	Not disclosed – No, confirms SEB
Scotiabank	No	Scotiabank declined to comment	Scotiabank declined to comment	Scotiabank declined to comment	Yes	Scotiabank declined to comment
Landesbank Baden-Württemberg	Risk.net understands that LBBW currently doesn't perform any last look checks	Risk.net understands that LBBW currently doesn't perform any last look checks	Risk.net understands that LBBW currently doesn't perform any last look checks	Risk.net understands that LBBW currently doesn't perform any last look checks	No – but is "currently looking at signing"	Risk.net understands that LBBW currently doesn't perform any last look checks
Bank of Montreal	No	No, confirms BMO	BMO confirmed that hold times are disclosed to clients if requested	BMO confirmed that last look is applied symmetrically	Yes	No, confirms BMO
Santander	Yes	No	No holding period	Not disclosed – Santander did not respond to a request for comment	Yes	Not disclosed – Santander did not respond to a request for comment
UniCredit	No	UniCredit did not respond to a request for comment	UniCredit did not respond to a request for comment	UniCredit did not respond to a request for comment	Yes	UniCredit did not respond to a request for comment
Commonwealth Bank of Australia	Yes	No	Not disclosed – CBA declined to comment	Symmetrical	Yes	No
Danske Bank	No	No, confirms Danske Bank	Danske Bank confirmed that last look checks typically take 50–100 milliseconds	Danske Bank confirmed last look is applied symmetrically	Yes	No, confirms Danske Bank
Lloyds	Yes	Not disclosed – Lloyds declined to comment	Last look is applied immediately "or after a short time delay"	Symmetrical	Yes	Not disclosed – Lloyds declined to comment
Zürcher Kantonalbank	Yes	Not disclosed – No, confirms ZKB	Not disclosed – ZKB confirmed it has no holding window	Not disclosed – ZKB confirmed it uses a symmetric system	Yes	Not disclosed – No, confirms ZKB
Raiffeisen Bank International	No	RBI declined to comment	RBI declined to comment	RBI declined to comment	No – RBI confirmed it is in the process of signing	No, confirms RBI
Mizuho Financial Group	Yes	Not disclosed – No, confirms Mizuho	Not disclosed – Mizuho confirmed that information around hold time is available to clients on request	Asymmetrical	Yes	Not disclosed – No, confirms Mizuho
Flow Traders	No	No	Credit checks typically take 1–3 milliseconds. There is no hold time.	Asymmetrical, but symmetrical is also available if desired	Yes	No

Source: Public disclosures and *Risk.net* research.

ing only provide firm liquidity pricing – and thus forego last look altogether – this isn't the case for all ECNs. Cboe, Euronext and 360TGTX are among those that give users the option to trade on both firm liquidity prices or last look prices. For those platforms where last look is enabled, the lack of public disclosures means participants are unable to see the policies of all the potential counterparties on the platform.

Some believe that these platforms have a role to play in policing last look activity. But the platforms tend not to have strict policies and don't see their role as being the nightclub bouncer who keeps out undesirables.

"As a platform it's important to show non-discrimination. We provide participants with as much information as possible, so they can make their own decisions as to who they trade with," says Serge Marston, a managing director for Europe, the Middle East and Africa sales at CME Group, which acquired interdealer platform EBS last year.

Keeping schtum

The forex global code – first published by the GFXC in May 2017 after a series of fixing scandals – sets out conduct standards for trading in the forex market. Part of the code asks LPs to disclose their last look policies.

The GXFC has been pushing for all professional forex market users to adhere to the code. It has had good success in getting LPs on board, going from 11% in 2017 to 55% in 2018, according to a GFXC survey of more than 500 global forex market participants. As of August 6, some 92% of the top 50 LPs in Risk.net's study had signed up to it.

It's unclear why the remaining firms are yet to do so. "I'm surprised there are still people who haven't signed the code," says SSGA's Binny. "If they're not signing up for it then what's their problem? It feels a bit wrong. Why not sign up?"

While much of the code is fairly uncontroversial, the suggestions relating to disclosure of last look policies have attracted the most attention.

Market participants have their own definitions of what last look entails, but broadly it consists of two elements. The first is a price check conducted by the dealer – which could last anywhere from five to 300 milliseconds – where they can see multiple price updates from trading platforms. Depending on the dealer's policies, it can then decide to reject an order if it moves too far from an agreed price.

Photo: Juno Snowdon

Serge Marston, CME Group

The second element is a so-called hold time, sometimes referred to as a 'speed bump', which can be applied on top of the last look check and could be used to see whether a client's behaviour leads to market movements against the LP, making it harder to lock in a profit.

The code doesn't differentiate between the two, and simply defines last look as a risk control mechanism where final checks are made against credit limits and price. Last look has been a fixture in the forex market for years, though some more recent entrants say it is a dinosaur that should be abolished.

The code asks that LPs at the very least share information with clients about "whether, and if so how, changes to price in either direction may impact the decision to accept or reject the trade, the expected or typical period of time for making that decision, and more broadly the purpose for using last look".

This doesn't necessarily have to be public, but a February 2019 report from the GFXC suggested public disclosure was one way to improve transparency.

One question is whether LPs take a 'symmetrical' approach by rejecting trade requests that move beyond a certain threshold in either direction, or an asymmetrical approach where only moves that benefit the client are rejected. On this, more than 80% of the top 50 have revealed their policies.

Despite this guidance, only 28% of the top 50 LPs explicitly mention in their public disclosures how long last look checks typically take or whether there is a hold time placed on orders. Risk.net asked the non-disclosing firms separately for their policies and in total managed to obtain them from 46% of the top 50 LPs, leaving more than half that still do not disclose their stance publicly.

Another controversial topic, whether LPs pre-hedge client trades in the last look window, also suffers from sparse disclosures. Critics of the practice say it can impair the price a client receives, but there is a carve-out for LPs that operate a so-called cover-and-deal approach, where the LP hedges the client trade before executing to avoid taking market risk.

Of the top 50 LPs, 74% confirmed they do not pre-hedge during the last look window. The remainder either declined to comment or did not respond. Three non-banks – HC Tech, Jump Trading and Virtu Financial – confirmed they do so, under certain conditions.

"The fact that so few people disclose this information is shocking to me as it's one of the key things that should be within a disclosure. Do hold times exist? How long are they? And what are they actually used for?" says Darryl Hooker, chief executive of Harperdan Consulting.

While some believe that the firms keeping quiet on this issue might not have a great story to tell, the RBA's Debelle argues that's too simplistic a view. If an LP has signed the code, he says, they may not feel the need to reiterate that they don't engage in pre-hedging within their disclosure as their statement of commitment to the code already indicates they abide by principle 17.

"Just because someone doesn't mention they're not hedging in the last look window doesn't mean they're doing it. If the client wants to know for sure then they certainly have the right to ask their counterparty – in fact, we encourage them to ask. If they don't get an answer, or don't like the answer, then they have the capacity to take their business somewhere else," says Debelle.

Similarly, only 26% of the LPs explicitly state in their disclosures that they do not use information from rejected trade order requests for the purposes of adjusting their trading or risk management strategy – a controversial topic that is attracting greater focus. After further investigation, 68% of the LPs confirmed to Risk.net that they do not use such information, with the remainder either declining to comment or failing to respond to a request for comment.

While there is much debate about whether the use of rejected order information is ever acceptable in the first place, the only guidance on the issue is contained in the GFXC's February report, which suggests that the topic should form part of bilateral discussions between LPs and their clients. Debelle says the GFXC may look to provide firmer guidance in this area at some point in the future.

Reputational risk

The patchy nature of disclosures across the market creates risks when using agency-style execution algorithms.

Agency execution has become an increasingly popular service in the forex market, where trades are executed on a client's behalf through the use of smart-routing algorithms that scour multiple LPs and trading venues to find the best price, with the agent merely charging a fixed fee for their service.

However, LPs acting in an agency capacity could potentially face reputational risk if they don't make clients aware of the last look practices of other LPs within their liquidity pool – for example, if other LPs have an asymmetric last look and will therefore trade only when the price moves against the client.

"If an agency business isn't concerned about the last look practices of their LPs then it seems to me they would be turning a blind eye to reputational risk," says James Wood-Collins, chief executive of Record Currency Management.

"If we were extensively undertaking agency spot execution for clients, I feel we should absolutely understand the last look practices of the banks with whom we are executing. If you really want to be acting as a fiduciary agent on behalf of your client then you need to understand whether and how any of those parties could act against your clients' interests," he adds.

Some firms identified the risk well ahead of time. The head of e-forex trading at one global dealer says it removed two non-banks from its algo liquidity pool prior to the introduction of the forex code because of their last look policies.

Harperdan's Hooker agrees that dealers should be proactive in helping clients decide which LPs they want exposure to. "The best way to get around any reputational risk would be for agents to give all of these disclosures to their clients and ask whether there are any LPs they don't want to be connected to," he says.

Consultant and former head of forex at Deutsche Bank, Kevin Rodgers, says the onus should be on clients, rather than agents, to understand which last look practices may adversely affect them.

"Unless the client tells you they don't want to deal with X LP because of Y last look practices, then realistically it's a bit tricky for you as an agent to winnow out who's doing what. Unless clients tell you otherwise, you're just going to go out into the market and deal with whoever you can to get them the best price," he says.

But Wood-Collins says that although clients may want to understand the last look practices of other LPs as part of their own due diligence, the responsibility should ultimately remain with the agent acting on their behalf: "It's the agent's responsibility to have the skills, the ability, the resources, and most importantly, the commitment, to fulfil that fiduciary role. It shouldn't really be the client's job."

> "For every bank we partner with on the algo side, we send them our trading disclosures and our trading practices are scrutinised"
> Kevin Kimmel, Citadel Securities

Citadel Securities is a major disclosed, direct streaming liquidity provider to the client algo platforms of large banks. Kevin Kimmel, the firm's global head of e-forex, says the algo providers are "very rigorous" about reviewing Citadel's trading practices and execution quality.

"For every bank we partner with on the algo side, we send them our trading disclosures and our trading practices are scrutinised. Our disclosures can then be passed down to all of their clients as well," says Kimmel.

Different banks have different policies on providing this information to clients, however. "We have some that disclose that we are the liquidity provider behind the scenes," Kimmel adds. "Our view is that more transparency there is good. We feel very confident in our execution quality because we have some of the largest banks regularly evaluating our trading performance."

The role of ECNs

ECNs are also coming under more scrutiny over the role they should be playing to uphold last look standards in the market. The ECNs are typically anonymous, meaning it's impossible to know what a counterparty's last look policy is before execution. And a user wouldn't be able to see the last look policies of all LPs on the platform as not all are publicly disclosed.

While not included in the code, the role that ECNs play in the forex market has been an increasing focus of the GFXC and will form part of its three-year review of the code in 2020.

"Anonymous trading is one area where the market has moved on from when we developed the code three years ago, so that's definitely one clear area of focus for our review," says Debelle.

Some believe ECNs could be gatekeepers to ensure there are basic standards of last look practices for all LPs on a given platform. But for now, market participants say some of the platforms do not set boundaries on the use of last look by LPs. "I don't get the sense that ECNs police their platforms. I've never had a platform come and tell me they police last look really well so I should come and trade on their platform," says one senior forex source.

Some ECNs do have minimum standards in place. One of them – a signatory to the code – enforces a maximum order review timeframe of 100 milliseconds and a minimum order acceptance rate of 75%. As a result, some LPs were removed from its liquidity pool.

"At one point, we had 39 designated market-makers on our platform. Once we implemented our standards, we reduced that to 30. So there have been a few market-makers that we've had to remove," says a source at the ECN. "That's done to improve the overall quality of the liquidity in the platform. By implementing these standards, the benefit is for the liquidity takers – they end up getting higher fill rates and hopefully better spreads."

However, the ECN has no policy on pre-hedging trades during the last look window. "We've signed the forex global code but there's a misunderstanding out there in terms of what that means for a platform," says a second source at the ECN, adding that he doesn't see it as their role to monitor LPs' compliance with the code.

Similarly, EBS – another signatory to the code – provides platform users with a filter in the form of analytics on metrics such as an LP's typical market impact and its cost of rejects, as well as flagging which providers on the platform have signed the code.

"There have been some industry conversations around the role of the platforms when it comes to the global code. Do we just sit there and do nothing? No, we have a role to provide transparency, but ultimately it's up to market participants to decide who they want to trade with," says CME's Marston. ■