

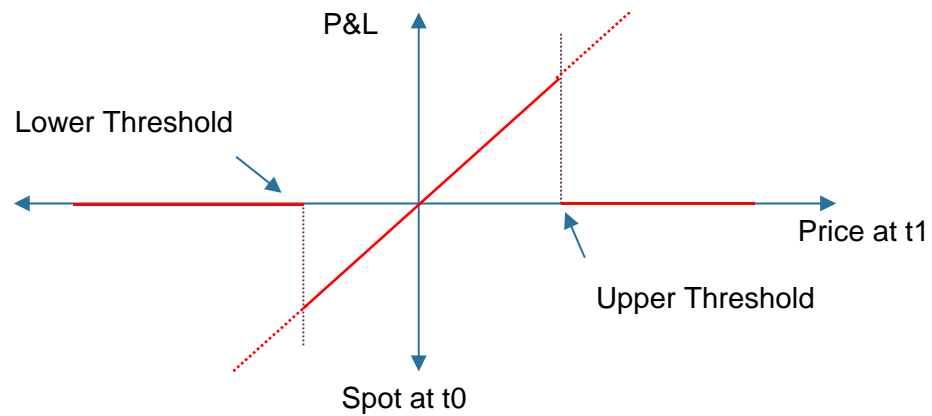


THE ROLE OF LAST LOOK IN FX MARKETS

ECB FXCG, FEB 18 2016

What Is Last Look?

- Non-Firm Quotes (liquidity providers can step back)
 - Symmetric vs asymmetric thresholds
- Introduces *execution uncertainty*
- Equivalent to a knock-in option:



Arguments for Last Look

- Mechanism for controlling information asymmetry
 - Fundamental information
 - Latency arbitrage
- Liquidity providers can quote in greater depth and at tighter spreads
- Reduces price uncertainty (but introduces execution uncertainty)



Potential Issues with Last Look

- Designed to control impact of latency arbitrage *at a particular point in time...*
- ... but has impact on trading performance over time.
- Release of private information about trading intentions to liquidity provider
 - ‘Pre-Hedging’
 - Retention of information about trading intentions
- ECNs vs RFQ processes



Managing Conflicts of Interest

- Monitoring and Benchmarking
 - Platform providers and ECNs' role
 - Liquidity takers
 - Static characteristics: thresholds, evaluation periods, threshold symmetry
 - Quoting and rejection behavior
 - Post-rejection price action
- Transparency and codes-of-conduct
 - Evaluation period only for price comparisons
 - Implementation of Last Look Thresholds
 - Reasons for order rejection

