EBS Plans Matching Engine Changes as Part of Migration to Globex

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EBS is planning to change how clients match on its EBS Market platform as part of a planned migration to CME Globex, including a new matching engine infrastructure. The firm, which was bought by CME Group in 2018, is in the throes of migrating its fixed income BrokerTec platform to Globex later this year and plans to follow with the migration of EBS by the end of 2021.

Following what Jeff Ward, head of EBS, terms an "extensive consultation" with clients, EBS will operate two matching engines, one in London for emerging markets and NDF pairs; and another in New York for broadly the G10 and some additional currencies. Clients in other centres will be able to access EBS either via their own network infrastructure or via dedicated gateways in not only Tokyo, London and New York but also through CME hubs located in all the major market centres, including Singapore. "Clients will have additional gateways to connect to EBS and they will have a significantly improved client experience on EBS Market," says Ward. "It makes for a simpler, more deterministic and efficient trading process all around and gives us scalability for further enhancements if and when they are seen as necessary."

Ward adds that the vast majority of feedback from clients indicated they felt that trading on EBS Market was overly complex thanks to the regional matching model currently in place and that rather than having a 'follow the sun' model, where the matching engine was passed between Tokyo, London and New York, a more simplified infrastructure was preferred. "The feedback was, and our analysis agreed, that while the current model is very clever and its intention is right, a simpler process would better benefit the market," explains Ward. "The problem with the 'follow the sun' model was that it could introduce liquidity risk around changeover times as participants may be uncertain where to place their orders – these times are among our busiest so it is important we didn't do something that could introduce complexity".

"This change offers clients significant benefits. It helps enhance the quality of liquidity on EBS by concentrating it into a single view of the order book"

"As for maintaining the status quo distributed matching, while we have a unique model for a primary market but again it was felt that we can simplify the trading process and reduce uncertainty around the matching process, thus making trading more deterministic and predictable," he adds. "At the moment there is a range of matching times. We will maintain our randomised latency floor, which is three to 5 milliseconds today, and by and large that covers the differences in travel times. We will also keep our minimum quote lifespan, which requires quotes to be in the book for certain times, depending on the currency pair. The overall result will be more certainty around matches and latency."

Ward explains that London was chosen as the site for the EM and NDF engine because nearly 75% of activity in these pairs on EBS either matches locally in the centre due to aggregation connections or is with a London counterparty on at least one side of the trade. Similarly, in New York, he explains that 80% of deals occurring during busiest time of day in the G10 pairs have a US-based counterparty.

"This is a change that we think offers clients significant benefits," Ward suggests. "It helps enhance the quality of liquidity on EBS by concentrating it into a single view of the order book."

In response to questions of how Asian-based traders will find the new structure as they effectively lose their Tokyo matching engine, Ward acknowledges that the issue was discussed at length both within EBS and with clients, but that in terms of how clients were using EBS, and to actively encourage them to continue placing real interest orders, typically for larger amounts and for longer duration, the benefits of the new structure outweigh the disadvantages. "EBS Market has an important role in the FX market as a market of reference and people use it to place real interest orders," he says. "These types of orders' average life span, their size, and their lower correlation to market data updates, mean clients will benefit greatly by being in a single order book with certainty of execution experience.

"A lot of this flow is currently being matched inter-region, and therefore often travels to find a match," he continues. "The distributed matching engine model is slightly less efficient in this instance, so clients will see a net benefit for centralisation."

With so much attention on the trading experience on platforms at the moment, the switch should also benefit a critical client segment for EBS – manual traders. For these traders, latency is less important, but greater depth of liquidity could be a huge benefit.

Credit, Data and Fusion

The changes will also deliver a simplified credit infrastructure for FX market participants. "This will allow us to offer a truly global credit model," Ward explains. "Currently clients have to keep credit in three different places because they may match locally. With the new model, we will be able to offer things like net open position and true global credit which is tremendously beneficial for clients from an operational perspective. For prime brokers the simplification of credit allocation these changes will bring is highly important and will allow them to better service their clients and allow them to trade optimally."

While the changes to the trading model may be significant, EBS does not, at this time, have plans to dramatically change its market data paradigm. "We took a lot of feedback and consultation around this topic and where we ended up was much closer to what we have today," Ward explains. "We will have the capability to evolve market data with the expanded capabilities of CME, but by and large it won't change as part of the migration process. Clients don't want us to change too much at one time, but they like that in the long-term we have the ability to adapt our service quickly on the Globex platform and can adapt as the market evolves."

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By bringing EBS onto the Globex framework, CME is building the foundations for a liquidity pool that looks across OTC and listed markets. EBs is in the process of rolling out EBS Direct 2.0 and a new HTML5 user interface which allows clients to tear off windows and, importantly, see all EBS markets simultaneously. Inevitably at some stage, CME FX futures liquidity will also be available. "There is a growing interest in futures liquidity among the banking community," Ward acknowledges. "As we get our client base on a common platform, even though the markets will continue to have the structural differences, our clients' ability to access the entire spectrum of liquidity will be significantly enhanced. This move makes it easier for them to explore opportunities on the listed side of the business."

The sense, observing the proposed changes to what remains a vitally important part of the FX market infrastructure, is that EBS is seeking to rediscover its roots by encouraging an environment that promotes genuine interest, which hopefully leads to a much deeper top and depth of book, while delivering operational benefits.

Certainly Ward sees the changes as reinforcing EBS' position in the FX market. "Our feedback from clients strongly indicated how important they feel it is that EBS retains its integrity and remains a trading venue with robust liquidity," he says. "EBS Market is a systemically important part of the FX market especially around price discovery. We don't always get rewarded in terms of trading activity for that, but we take our role as a primary market very seriously and want to maintain and improve how it functions – that is what these changes are all about."