14 June 2019

5 Reasons to Change your Liquidity Provider

It takes years to build a relationship of trust, understanding and communication with a liquidity provider (LP). So, it might seem a daunting task to consider getting out of the relationship, which seems to have worked fine for you.

But, to remain a viable and successful market participant, you have to continuously evaluate your business relationships and analyse the returns and service quality being offered to you. With proper research and pre-emptive steps, you could make significant savings, not just of money, but also your reputation, while making your trading smoother.

Here are 5 reasons you should consider before changing your liquidity provider.

1. Superior Technology

The world of business is full of success stories attributed to newer technologies, and trading is no different. Technology can offer a competitive advantage, no matter what asset you choose to trade. Your provider needs to offer you superior trading platforms, easy onboarding and integration methods, along with assistance with set-ups. In recent years, the evolution of exclusive digital markets has driven the need for real-time price discoveries, instant executions and low-latency systems.

Opt for a provider who offers you a highly scalable electronic communication protocol, such as FIX API. Along with robust trading infrastructure, you will be able to develop your own trading platforms or embed depth-of-market information within your risk management software, using the "live pricing" feature.

2.Consistent & Reliable Services

It is very convenient for a liquidity provider to be busy or unavailable when the markets are going haywire, or when you need instant technical support. A good market-maker will have the ability to make a two-way price during periods of extreme volatility.

Your LP should offer 24-hour technical support, along with real-time trade and position monitoring. This includes rapid connectivity through seamless bridge integration, for 100% STP execution and minimal slippage. The company should have strong relationships with banks, non-banking financial services providers and ECNs, to ensure smooth liquidity flows during hours of crisis.

+357 25 752 420 +357 25 752 450 info@ausprime.eu
Room 102, 1st floor, Block B, Steratzias Court, No. 41, Spyrou Kyprianou Avenue,
4003, Mesa Geitonia, Limassol

3.Multi-Asset Liquidity

The financial markets have been constantly expanding over the years. The range of instruments available for trading is not limited to major currency pairs. So, make sure your current liquidity provider is not restricting you to only these. Metals, indices, exotic currency pairs, commodities like oil and gold could increase the volume of your transactions and business. Also, just providing the option to trade in varied instruments is not enough. The LP has to provide access to deep liquidity pools for each of these options. Only a prime of prime brokerage firm or LP can offer that.

4.Increased Transparency

Lack of openness in business dealings with liquidity providers should be avoided at all costs. The financial markets are evolving in terms of regulatory guidelines and LPs have to maintain a strict code of ethical standards and conduct, in terms of how they offer services to traders.

You should have complete clarity on how they conduct business or how the pricing models are calculated. They need to provide you insights into their reporting standards and established risk management processes. Always opt for a provider with multiple regulatory licenses.

For example, the MiFID II guidelines released by ESMA mandate regulatory reporting to prevent market abuse. It also talks about the need for consistent information regarding trading instruments and risk disclaimers on all marketing channels of an LP. Regular release of annual reports, press releases, educational articles and transparency regarding changes at the executive level indicate a professional and ethical business.

5.Reduced Costs

Attractive streaming rates, which are not executable, are common among LPs. Your average executable spread, rejection ratio and slippage can eat into profits. Liquidity providers offering commission rates below the market average could seem attractive but are not feasible. This indicates that they intend to make money through other channels.

A good LP will offer tighter spreads across all markets, with consistency. They will process withdrawal and sales requests within the given timeframe.

Changing liquidity providers is not something to be taken lightly but if your service partner is not meeting your high expectations then speak with us for a customised solution.

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