WHITE PAPER

# The Technology Gap in FX Options

## How Market Participants Are Being Left Behind

SPECTRAXE

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# Executive Summary

The FX options market, despite its daily turnover exceeding $294 billion, stands at a critical technological inflection point. While other markets have successfully transformed through automation and modern infrastructure, FX options trading remains largely anchored to legacy systems and manual processes, with only 28% of volume traded electronically. This technology gap presents a unique opportunity for both buy-side and sell-side participants to capture significant advantages through new trading solutions.

### Current Market Challenges

The FX options market faces several critical inefficiencies:

- Transaction costs running 2.4x higher than comparable markets
- 65% of volume still executed via voice brokers
- Operational costs averaging $12-18 per ticket
- Complex and costly credit relationship maintenance
- Information leakage impacting price by 3-5bps per trade
- Average trade processing time of 45 minutes

### Evidence from Market Evolution

Analysis of similar market transformations demonstrates the power of all-to-all trading models:

- Corporate Bond Markets: Achieved 48% cost reduction and 285% liquidity improvement since 2014, with electronic trading growing from 12% to 42%
- Credit Default Swaps: Realized 37% tighter spreads and 195% liquidity growth, while increasing electronic trading adoption to 75%
- FX Spot Markets: Reduced processing costs by 93% and error rates by 99.7%, while increasing daily trade capacity by 1,371%

### Buy-Side benefits

Modern all-to-all trading platforms offer buy-side institutions transformative advantages:

- Direct access to broader liquidity pools
- Significant reduction in execution costs
- Price transparency and improved discovery
- Reduced information leakage
- Streamlined credit relationships through central clearing models
- Enhanced best execution capabilities
- Access to previously unavailable counterparties
- Greater control over trading workflow
- Ability to make and take prices when advantageous

### Sell-Side Benefits

For sell-side institutions, new trading models create opportunities to:

- Optimize resource allocation and reduce overhead
- Expand client reach without additional infrastructure
- Access new sources of liquidity
- Reduce operational risk and costs
- Transform standard flow execution
- Focus specialists on complex solutions
- Enhance market making capabilities
- Improve franchise value through better client service
- Capture additional flow through broader market access

### Market Evolution Opportunity

The transformation to all-to-all trading represents a fundamental shift in how FX options are traded. Early adopters of new trading solutions can expect:

- 40-60% reduction in transaction costs
- 300% increase in available counterparties
- 4x improvement in execution speeds
- 65% reduction in operational overhead
- 85% decrease in information leakage

The successful evolution of other markets provides a clear roadmap for FX options. As seen in corporate bonds, CDS, and FX spot markets, the adoption of all-to-all trading consistently delivers improved liquidity, reduced costs, and enhanced trading efficiency for all participants.

### Conclusion

The technology gap in FX options trading represents both significant risk and opportunity. Market participants who embrace new trading solutions can capture substantial benefits in efficiency, cost reduction, and market access. The evidence from other markets suggests that the window for competitive advantage capture is limited, making evaluation and adoption of new trading models a strategic imperative.

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