

# Mahi looks to be strategic risk manager for retail brokers

Appointment of Nick Mortimer comes as technology company prepares to push its Compass offering to the retail segment



Mortimer will spearhead retail push with Compass

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MahiFX is looking to boost its presence in the retail broker and aggregator space by positioning itself as a strategic risk management partner to these firms, which have been struggling to maintain credit lines and whose profits are being eroded by rising prime brokerage costs.

The technology company, which has a retail FX platform as well as risk management and price formation tools for banks and brokers under the brand MFXCompass, has hired Nick Mortimer from CFH Clearing to spearhead the initiative.

"My role has two key components: I look after the retail platform MFX Trade and add to it where we can with strategic partnerships on a global basis. The other significant part of the role is to speak to as many retail brokers and retail aggregators as possible around our Compass offering and create partnerships with them," Mortimer tells *FX Week* in an exclusive interview conducted in his first week at the company.

"Compass is well-established now in the bank space and everybody knows what we can do for a bank in terms of price formation, price distribution and the risk management. What we are doing is to move that into the retail broking market," he adds.

Launched in February 2014, MFXCompass offers a full-service, packaged solution that allows institutions to set up and run spot electronic foreign exchange businesses. The suite includes analytics, risk management, internalisation and price formation tools, as well as distribution services.

## Retail push

While by now well-established in the bank space, Mortimer's appointment will push parts of the service to retail brokers, with MahiFX making prices into strategic partners' liquidity pools, and in turn managing the broker's overall risk as well as handling flows to minimise balance sheet requirements for maintaining credit lines.

Under the new setup, retail brokers can trade with MahiFX on a margin basis, eliminating their need for securing credit and market access via prime-of-prime providers or prime brokers. In April this year, MahiFX partnered with CFH Clearing, Mortimer's previous employer, to offer the broker's institutional product, MFX Compass, to the straight-through processing venue's customers as a risk management and price formation tool.

"The reason why we have a compelling argument to be the strategic risk managers for the broking community is that the cost of credit since SNB has gone through the roof. The appetite the large PBs have for the broking community has diminished, so brokers are looking at their liquidity structure to try to minimise their balance sheet usage," Mortimer continues.

"That's where we can come in and offer through our own relationships a facility that will allow us to manage the broker's whole flow in terms of credit and margin between the two companies. I think that's quite compelling in terms of overall cost to the brokers," he says.

The costs of prime-of-prime and credit have been creeping higher since January 2015, when the Swiss National Bank removed its currency floor and caused a market-wide shake-up of the foreign exchange prime brokerage.

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**Nick Mortimer, MahiFX**

These higher costs, coupled with the fact that this type of access usually only offers anonymous ECN liquidity, are pressuring retail players to look for alternative solutions that provide them with consistent liquidity.

"We don't want to go down the road of offering our liquidity through a prime broker, we want to be able to distil people for whom we can be an alternative for a prime broker by offering margin cleared risk management," says Mortimer.

"There are a lot of brokers out there who want to do the risk transfer; we offer something more sophisticated than that. We offer strategic risk management because nowadays balance sheets need to be very big to run the kind of positions that people need to run and unfortunately those balance sheets are simply not there to support positions. As a result, a lot of brokers are looking for a strategic risk manager rather than just a risk transfer," he adds.

## Compass points

Aiding this process are elements of Compass, including the analytics tool, which allows users to look at the flow and determine how to maximise profitability given the characteristics of the broker's flow, including possibly moving flow away on an STP basis.

"That part of the Compass offering is very attractive; and from our perspective, if we can work on an exclusive basis or we can reduce the number of liquidity

providers needed then we can very effectively risk-manage that flow," Mortimer says.

In essence, Mahi thinks it can make a material difference to the broking community with its ability to handle brokers' flows. Compass makes it possible to create prices and benefit from internalisation opportunities, provided that Mahi can listen to the flow.

"I don't like the term A book B book, I think it's all just flow. One man's A book is another man's B book so with our analytics tool we can determine what flow is good and what flow needs to just be put through the STP. Maybe the flow is all good on a whole basis rather than looking at individual price feeds. We can optimise all of that risk and maybe take all of that flow," Mortimer says.

"Right now it's about going out there and introducing our services to a number of target areas and seeing the big retail brokers, the guys who are still running risk but who may not be that comfortable running it in-house. Instead, they can do it more efficiently and strategically with us rather than sitting there with their balance sheets creaking," he concludes.