Start Your Own Brokerage (SYOB)

Business Plan

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1. Introduction

The following document is intended to serve as a guide for our customers who want to start their own Foreign Exchange (Forex) brokerage. This document will provide a roadmap to help you start your brokerage business using the Boston Technologies framework.

The Role of Boston Technologies

Boston Technologies builds, installs, maintains and supports foreign exchange software. Boston Technologies also works with our partners to help provide our customers with other related services to augment their foreign exchange businesses. Boston Technologies is **neither a broker nor a trading company**. We will assist our customers with any relevant technology needs but we will neither hold end-user money nor initiate trades in any way. **Boston Technologies is NOT a trading counterparty.**

Starting Up

Every brokerage is regulated in a variety of ways and can be started in a variety of locations. Assuming you want to start in a thoughtful, methodical way, here are the recommended steps to take:

1. Scope - Deciding on the scope of your brokerage business startup is important. We will discuss a recommendation for the scope of your startup in the sections that follow and the reasons behind the recommendation.

2. Incorporation – You will need to incorporate your company in a location where there is a solid background in financial services and where it will be fairly simple, inexpensive and legal.

3. Registration - Registration brings legitimacy and credibility. Even where registration is optional, your company will benefit from being registered. Where registration is required, your company will need to be registered as a financial body in order to market in these locations. You should start by looking at all the markets where you plan to accept client funds.

4. Capital Requirements - In general, being registered means that the local authorities will go through a due diligence process on the owner and the credibility of the project. In addition, to secure the customer funds, many authorities will require that the owner of the entity deposit some capital in the brokerage. This capital is called Net Capital (or Net Cap).

i. As part of your brokerage's capital requirements, you will need to put together a credit line based on the credit requirements to get started. These requirements will be more described below.

ii. We'll do a full evaluation of startup costs – including expected operating costs – in Section 7: Initial Cash Burn and Sales Cycle.

Scope

We recommend judicious, thoughtful steps in starting your Forex brokerage. This means starting with securities and a set of regulations that are manageable and establishing your brokerage where you will be able to legitimately trade and compete without the danger of overstepping legal or regulatory bounds.

Because of this, we recommend starting as a spot Forex company, trading over the counter, in order to become familiar with how the process works. We also discuss the steps for entering into more complex securities like CFDs (http://en.wikipedia.org/wiki/Contract_for_difference), options and futures in the sections below. However, the regulatory requirements and environment for these products is significantly more complex. To jump into these right away would ultimately delay the process of creating a workable business model, in an industry – Forex – that is already early-stage and in many ways, ambiguous.

However, we do discuss different ways to begin to take on more of the risk/reward below in **Section 10: Value Chain / Margins**. Essentially, there are many different parts of the value chain to sort through – even with simple spot Forex, and thus many different ways to take on risk and achieve margin.

Incorporation and Licensing

There are a number of different international locations where you could incorporate your firm and become 'licensed' under that country's financial authorities:

Established Forex Centers

- United Kingdom - London has a very complicated setup procedure for starting a Forex firm. Given your assumed desire to be light- footed and your lack of a need for being able to market in Western Europe, we recommend starting your Forex brokerage in a less complex environment. London has an established set of regulatory hurdles and FX is therefore more difficult there.

- Switzerland - Several existing Forex companies are headquartered in Switzerland, however, Switzerland now requires that Forex companies also have a banking license – again, a cumbersome and unnecessary process for the markets that you may be looking into.

- Belize - Interestingly, Belize has become fairly experienced and well established in regulating Forex because of the presence of GCI, a major Forex company (http://www.gcitrading.com/).

    - Belize's financial services industry is overseen by the International Financial Services Commission (see http://www.ifsc.gov.bz/about.html).

    - Belize has very well thought out regulations around securities trading and licensing. Detailed regulations can be seen here: http://www.ifsc.gov.bz/acts/standard_conditions.pdf

    - For help in starting your brokerage in Belize, the IFSC has put together a convenient list of companies licensed by them to provide corporate services: http://www.ifsc.gov.bz/licensed_provider.html.

- In addition, Belize has the added benefit of offering ecommerce solutions that help you bring your business offshore. See http://www.apintertrust.com/belize/belize_offshore_ecommerce_package.htm

Offshore Financial Centers

There are a number of islands such as the Cayman Islands and the Bahamas that are experienced financial services centers, though they may be less established Forex centers. Obviously, many of these locations have fairly low-cost barriers to entry and certain tax benefits, although many of them require that the institutions they license appear to have some sustainability. BVI officials, for example, typically do fairly extensive background checks on the principals/partners at a company. For general information about getting started offshore, OCRA Worldwide is a good resource: http://www.ocra.com/.

For a detailed comparison of jurisdictions in which to do business, go to the following link and hit the "View Comparison Chart" link: http://www.ocra.com/jurisdictions/index.asp#compare.

- British Virgin Islands, which has the largest number of offshore companies. Regulation and supervision of the financial services industry is the responsibility of the BVI Financial Services Commission: http://www.bvifsc.vg/About/PrimaryFunctionsoftheFSC/tabid/137/Default.aspx

- Cayman Islands, which has the largest value of AUM in offshore funds, and is also the strongest presence in the U.S. securitization market.

    Regulation and supervision of the financial services industry is the responsibility of the Cayman Islands Monetary Authority (CIMA). The CIMA licenses firms to conduct securities investment business, which includes market makers, broker-dealers, securities arrangers, securities advisors and securities managers. Incorporation in Cayman Islands: The main government registry for new businesses can be found at:

    http://www.gov.ky/portal/page?_pageid=1142,1594248&_dad=portal&_schema=PORTAL

    In order to incorporate in the Cayman Islands, you need to contact a register office.

- Jersey, which is a dominant player in the European securitization market and the European REIT market.

- Luxembourg, which is the market leader in Undertakings for Collective Investments in Transferable Securities and is believed to be the largest offshore Eurobond issuer, although no official statistics confirm this.

- Panama, which is now second only to the British Virgin Islands in volumes of incorporations.

Recommended Locations for Incorporation and Licensing

We believe that of the above offshore financial centers, the Cayman Islands and Belize are ideal locations to incorporate. Our top choice is Belize, given the country's experience in regulating Forex brokerages.

Some consultants estimate that the legal and startup fees in these countries could be as much as $30-40K, not including legal costs for 1) legal documentation of incorporation and the 2) "operating documents". However, we believe there may be more cost effective ways to start – and will discuss them more in **Section 7: Initial Cash Burn & Sales Cycle**.

Registration

Registration with regulatory authorities is required in markets where you are considered to be "marketing" to clients. This is typically defined by country. In general the rule of thumb is that registering in multiple countries can get very expensive. If you are an online company, it is possible that you will get online clients from a variety of countries beyond where you register.

At first, you may choose just to register in the countries where you are actively marketing. If you start by incorporating in Belize, for example, then just registering in the developing countries where you will initially operate is likely the most cost effective path. However, if you find that, say, you are getting a lot of clients from a different country – it will start to make financial and legal sense to go through the regulatory hoops of the country.

Below is a discussion of two example countries, Pakistan and Bahrain and also an overview of the U.S. registration landscape for comparison.

- Pakistan - The State Bank of Pakistan (SBP) is the primary financial regulator (see http://www.sbp.org.pk/). Currently, the SBP is not specifically regulating Forex brokerages, but a good practice would be to incorporate in an area where there is Forex licensing in order to put forth a good faith effort to follow sound regulations.

- Bahrain - Central Bank approval is required to operate as a Forex or other brokerage company. Bahrain requires that if you are selling to its citizens, you need one of their citizens to be part of your partnership, or be in partnership with a local company. There are a number of local management companies there that will help you meet this requirement, as well as individual Bahrain citizens (or potentially colleagues/friends one may already have). Either way, you can still own the majority of the subsidiary company that is you set up in Bahrain.

- United States – In the United States, most Forex brokerage companies start by organizing as a Futures Commission Merchants ("FCM" http://www.investopedia.com/terms/f/fcm.asp), which is essentially synonymous with being a brokerage in the Forex arena. Two organizations police the sector and step in to protect the consumer on a regular basis. These organizations are the National Futures Association (NFA) and the Commodity Futures Trading Commission (CFTC). Of the two the CFTC is most heavily involved in the detection and punishment for fraud, manipulation and abusive trade practices in the retail Forex sector. The www.CFTC.gov website is an excellent source of information on customer protection and on-going legal disputes against brokers and other entities. Here is a list of some of the regulating agencies:

    - NFA - the National Futures Association.

- CFTC – the Commodity Futures Trading Commission – oversees the FTA (the Futures Tradition Association).

- FINRA—the Financial Industry Regulatory Authority—is a self-regulating independent (non-governmental) agency that oversees all brokerage firms in the U.S. (see http://www.finra.org/AboutFINRA/index.htm).

Capital Requirements

Depending on where you are registered, capital requirements will vary. Capital requirements are a catch-all phrase for the capital that countries, regulatory agencies or the country of incorporation will require in order to feel comfortable with you as a Forex institution. In more highly regulated locations like the U.S., large capital requirements of $10MM+ are required by regulatory agencies.

It is likely that startup brokerages will be required to have significant capital in the form of credit lines with a big bank. This is especially true in the case you would like to offer straight through processing or you would like to have a reasonable amount of risk control. If you want to move beyond the developing country markets where you are located, you may be required to put up a higher net capital investment. See **Section 5: Business Model** for further discussion.

- Operating Accounts - For your normal business operating accounts, your local bank is fine.

- Credit Lines - For your capital requirements, there are a number of experienced banks that set up credit lines. It is possible to get credit lines from multiple banks at the same time to fulfill your total capital requirement. See Section 5: Business Model for further discussion on these capital requirements and the typical leverage ratios and fees of various banks, such as:
    - Citibank
    - Credit Suisse
    - Dresdner
    - Deutsche Bank
    - Barclays
    - HSBC
    - JP Morgan

Overview of Risk and Associated Mitigants for Startup

Issue	Risks	Mitigants
Market Risk	To be prepared for unexpected market movements and unexpected events.	To be connected to news sources at all times.
Technology Problems	To be prepared for the situations where you need to act quickly.	Have backups and a plan for calling on your software / hardware providers in those situations.
Regulatory Existence	Unknown regulatory environment which can lead to regulatory investigation and fines or other consequences.	Ideally become a licensed entity where you are incorporated and know your local markets; hire appropriate legal talent.
Regulatory Update	Forex is relatively new and faces regulations that are changing daily.	Focus on simple securities first, and then move into more complex and highly regulated securities.
Location of Incorporation	Incorporating in an offshore area usually means that you are in a less-experienced country for dealing with Forex issues.	The Cayman Islands has a strong reputation for financial services. Belize has a good deal of Forex experience. Both of these locations also provide more flexibility and lower startup costs than many other countries.
Countries of Registration	You may get customers from countries where you are not registered.	Start with countries where you are actively marketing, then move to new countries if customer concentration increases in new places
Taking Risk as a Counter-Party	Taking the other side of trades that go against you risks your capital.	Hedging trading risk with liquidity providers.
Fixed Costs	Not enough income to pay the operating costs.	Make sure that you pay your recurring costs from your recurring revenue.

2. Market Description

Forex is an emerging market with many disaggregated players. The diagram below provides an overview of the major players and how they interact.

Let's start by defining the segments of the market:

Big Institutional Players

- Big institutional players include large banks like Deutschbank, UBS, and many others make the major trades in the Foreign Exchange industry.
- Size - There are 7-10 total large banks/institutions estimated to be trading Forex, for a total daily traded value of $3.2 trillion USD reported in April 2007 by the Bank for International Settlement.
- Business model - These companies trade between each other and with Prime Brokers. Currency trade values are in the multiple tens of millions of US dollars at a time. These trades are the ones that really set the price of a particular currency. They are used for speculation, hedging and currency exchange for international commerce.
- Spread - the 'spread' on the margins for these firms is low – i.e. 1 Pip. The prices are determined with less variability than smaller players.
- Regulation - these banks are typically present in many market sectors and are well regulated on their Forex operations.

Prime Brokers

- Prime Brokers are large capital firms that specialize in offering financial services to the trading industry.

- Size - There are 25-50 total estimated Prime Brokers trading Forex.

- Business model - These firms' aggregate trades by Brokers, and/or their own desired trades in order to get trade sizes in the $100K-$1MM level.

- Spread - These entities aren't market makers, they only offer credit and services to traders who usually trade on ECNs. The 'spread' for these players is lower, at about 1.2 pips.
- Regulation: These entities have similar regulations to large broker houses.

Brokers

- Size - There are 100+ total estimated Brokers trading Forex.

- Business model - These firms send trades by individual customers to larger institutions for straight through processing, or alternatively act as "dealing desks" themselves – trading directly against their customer.

- Spread - The 'spread' for these players is higher than for larger institutions – often at 2-3 Pips. However, in some developing countries, spreads are even larger, at 3-4 Pips.

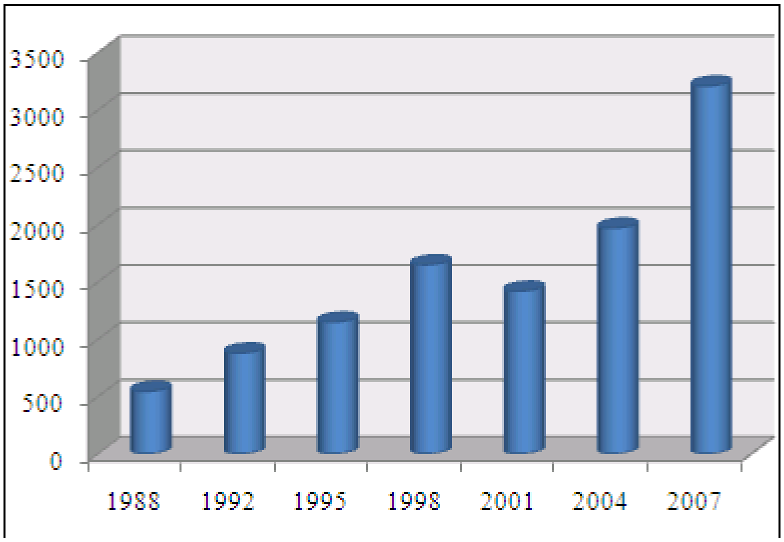
- Regulation - These entities have similar regulations to large brokerage houses.

- Legal matters - The major legal / litigious cases in this industry in the last couple years have been:
    - Forex liquidity [regulatory issues] ,
    - Rogue traders (see for example http://www.cnn.com/2004/BUSINESS/02/01/nab.Forex/)
    - Country size problem (see http://www.dnaindia.com/report.asp?newsid=1197859)

  The outcomes of most of these cases were more regulations, more control, and more risk control by brokerages. In general, this industry is still growing a great deal, and is thus in flux. Best practices are to get licensed in your country of incorporation to start, followed by a careful review of the regulations in countries where you are marketing.

Market Size

Global foreign exchange market turnover according to the BIS study Triennial Central Bank Survey 2007 was estimated to be an average daily turnover in traditional foreign exchange markets of $3.210 trillion. Daily averages in April for different years, in billions of US dollars, are presented on the chart on the following page.



Of this:

- 30% of transactions were strictly interdealer (i.e. interbank);
- 43% involved a dealer (i.e. a bank) and a fund manager or some other non-bank financial institution; and,
- 27% were between a dealer and a non-financial company.

Retail traders (small speculators) are a small part of this market, but constitute a growth opportunity.

- Currency composition of turnover - In 2007, the dollar was on one side of 89% of all transactions, followed by the euro (35%). Only 3% of all transactions in FX derivatives did not involve either the euro or the dollar, underlining their importance as vehicle currencies. EURUSD continued to be by far the most traded currency pair, with 27% of global turnover, followed by USDJPY with 13% and GBPUSD with 12%

- What categories of investors / clients? According to the Wall Street Journal Europe, the top ten dealers in the foreign exchange market are primary dealers (banks or brokerage firms who may trade directly with the Federal Reserve System of the United States), and between them account for almost 73% of Forex trading volume. Please see a listing of the Top Ten on the following page.

Rank	Name	% Of Volume
1	Deutsche Bank	18.06
2	UBS	11.30
3	Barclays	11.08
4	Citi	7.69
5	Royal Bank of Scotland	6.50
6	JP Morgan	6.35
7	HSBC	4.55
8	Credit Suisse	4.44
9	Goldman Sachs	4.28
10	Morgan Stanley	2.91

What about internationally? Detailed information on international foreign exchange can be found in the following PDF: http://www.bis.org/publ/rpfxf07t.pdf?noframes=1

For Middle Eastern countries, there are only two – Bahrain and Saudi Arabia – that currently have statistically significant Forex turnover, daily:

Rank	Name	Amount	% Of Volume
1	Saudi Arabia	$USD 4 billion daily avg.	0.1
2	Bahrain	$USD 3 billion daily avg.	0.1

As a back of envelope calculation, one can often assume that the Forex market is mostly proportional to the size of the local stock market volume.

For the most recent study done on the Foreign Exchange market, please visit the Triennial Central Bank Survey at http://www.bis.org/.

3. Business Model

There are a variety of pieces of the "value chain" that you can take on and their corresponding business models, which don't have to be mutually exclusive. This includes being a pass through, or being counterparty. Below are some simple overviews:

- **Straight Through Processing -** The lowest risk and lowest money is made if your brokerage doesn't take any risk, but just takes trades from customers, sends them to a liquidity provider automatically, and on the way asks for some commission and some spread. Here, the broker makes money regardless of the market movements ASSUMING his technology is able to act quickly and without errors to unload the risk from the customers to the liquidity providers. This is not zero risk! Errors can happen. Risk has to be monitored and controlled at all times. Rule of thumb calculations show that if a broker deposits $10,000 USD then the broker will make about $1,000 in profit over a month if he is active. For a non-active trade, the broker will make $100 because fewer fees are collected.

  Below is a representative model for **Straight Through Processing**:

			Choose: Types of Liquidity Providers and Their Fees				Optional	
	Customer Pays	You Profit	Large Bank (min Deposit $10 million USD)	Small Bank (min deposit $100k USD)	Prof ECN (min 200k)	Retail ECN (min 10k)	Primer Broker (min 100k)	Trading Platform
Spread in pips	1.80	1	0.8	1.2	1.2	0.80	-.-	-.-
Commission in pips	1.65	1	0	0	0.05	0.40	0.07	0.25
Commission in $/million	165	100	0	0	5.00	40.00	7.00	25.00

The way this works is as follows:

Spread - Spread is the difference between the bid and the ask price, calculated in pips. Thus when the customer buys currency, you the broker offer them a "spread". If you offer a 1.80 spread, they automatically lose 1.80 pips upon their purchase. Of this, 1 of these pips goes to you, and 0.80 goes to the retail ECN (an ECN – Electronic Communications Network – is defined in the Appendix: Definitions.)

Commissions - The maximum number of pips you can realistically charge in the U.S. is about 2.5 pips, given the competition. In developing countries, you can actually charge higher commissions – up to 4 or 5 pips. Here, we give an example of charging a commission of 1.65 pips. The customer pays 1.65 pips, you get 1 pip, the retail ECN charges you 0.40 pips, and the trading platform charges you 0.25 pips.

Summary - The customer is paying 1.80+1.65 pips, or 3.45 pips total. Multiply this by the U.S. dollar value of the pip, $10, times total number of trading days in the U.S. (258), and you can start to define how much money you can make using this model. Below is an estimate of your company revenues using the **Straight Through Processing** model:

Estimated profit STP model		Number of trades per day per customer			
		1	**5**	**10**	**15**
Number of customers	**100**	$258,000	$1,290,000	$2,580,000	$3,870,000
	350	$903,000	$4,515,000	$9,030,000	$13,545,000
	600	$1,548,000	$7,740,000	$15,480,000	$23,220,000
	850	$2,193,000	$10,965,000	$21,930,000	$32,895,000
	1100	$2,838,000	$14,190,000	$28,380,000	$42,570,000
	1350	$3,483,000	$17,415,000	$34,830,000	$52,245,000
	1600	$4,128,000	$20,640,000	$41,280,000	$61,920,000
	1850	$4,773,000	$23,865,000	$47,730,000	$71,595,000
	2100	$5,418,000	$27,090,000	$54,180,000	$81,270,000
	2500	$6,450,000	$32,250,000	$64,500,000	$96,750,000

In the Financial Model section that follows, we'll give more detail on these numbers.

- **Closed Loop Dealing Desk -** The second business model is to take more of the risk. The customer buys from the broker and sells to the broker. If the customer makes money, the broker loses money, and the contrary. Most small retail customers have no experience and 95% of them WILL lose money. In this model, which is more like gambling for the customer, most customers spend 95% of their deposits in 2-3 months.

  This model is simpler, but riskier. Here, most customers act like gamblers, and your model is to act as the "house". If they start with a deposit of $10,000, because of betting psychology most end up losing 95% of that investment in 2-3 months. They take small profits, and let losses run. Thus, this is a "non recurring" customer model, in that most customers lose their cash, and do not come back with additional investments. Ongoing customer acquisition is thus very important.

  In this model, some of the more experienced or savvy customers will grow frustrated that they are not dealing with Straight Through Processing. Segmenting these customers out and dealing with them through a Straight Through Processing model is usually a good idea. Below we discuss such hybrid models.

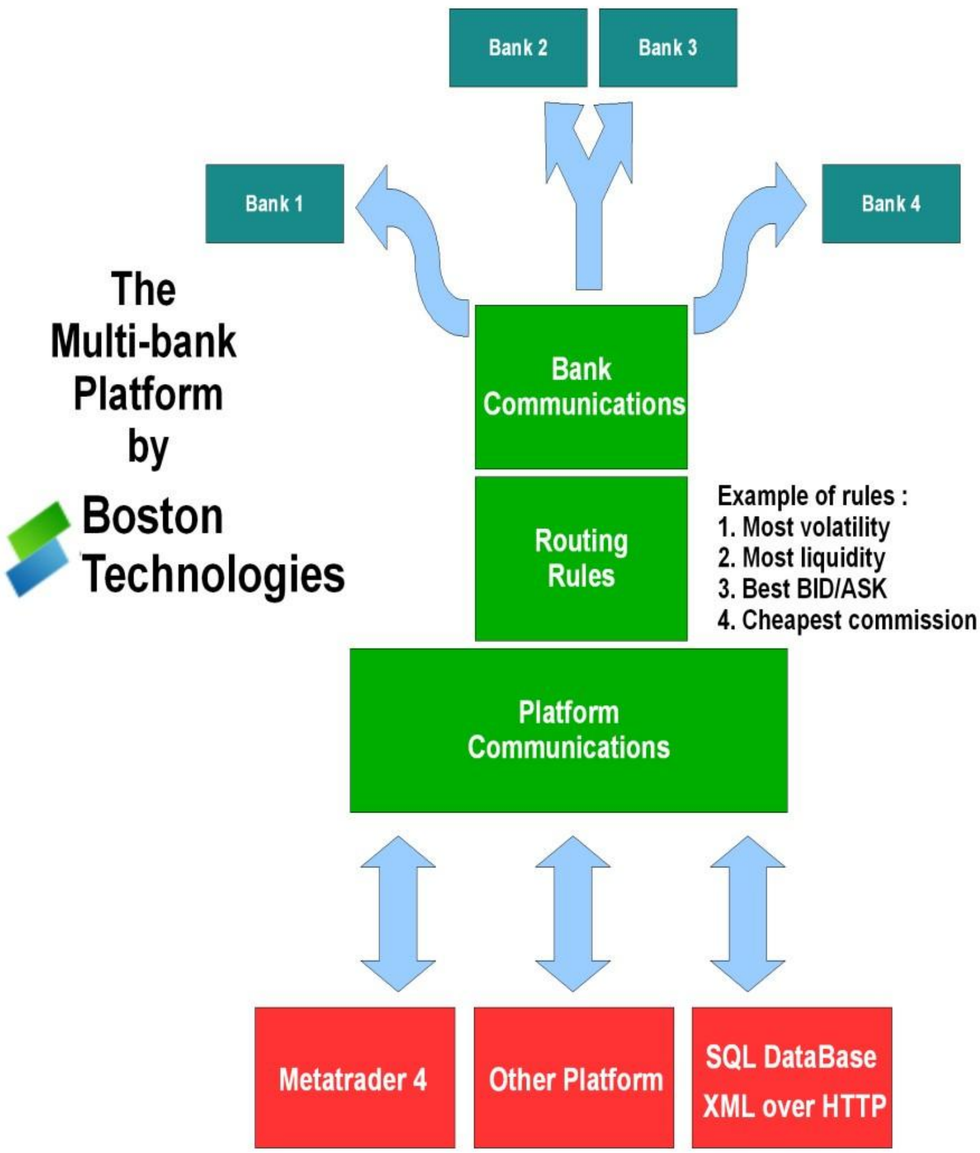
Estimated profit from risk		Percentage lost over 1 year				
		-25%	**25%**	**50%**	**75%**	**90%**
Total number of deposits	**1,500,000**	-$375,000	$375,000	$750,000	$1,125,000	$1,350,000
	5,250,000	-$1,312,500	$1,312,500	$2,625,000	$3,937,500	$4,725,000
	9,000,000	-$2,250,000	$2,250,000	$4,500,000	$6,750,000	$8,100,000
	12,750,000	-$3,187,500	$3,187,500	$6,375,000	$9,562,500	$11,475,000
	16,500,000	-$4,125,000	$4,125,000	$8,250,000	$12,375,000	$14,850,000
	20,250,000	-$5,062,500	$5,062,500	$10,125,000	$15,187,500	$18,225,000
	24,000,000	-$6,000,000	$6,000,000	$12,000,000	$18,000,000	$21,600,000
	27,750,000	-$6,937,500	$6,937,500	$13,875,000	$20,812,500	$24,975,000
	31,500,000	-$7,875,000	$7,875,000	$15,750,000	$23,625,000	$28,350,000
	37,500,000	-$9,375,000	$9,375,000	$18,750,000	$28,125,000	$33,750,000

- **Hybrid Models**

  Send some customers to the liquidity providers and keep some in house
  For all customers keep some trades in house and send some to the liquidity providers
  Send all trades of size X or larger to the liquidity provider

4. Technology

The example below is an illustration of how a large multi-platform, multinational, multi liquidity provider brokerage organization looks. It will usually offer multiple trading platforms, one of which will be mostly for retail (maybe MetaTrader 4) and one of which will be mostly for institutional investors (see red boxes). It will also use multiple specialized liquidity providers (banks, in blue). Each liquidity provider will offer different spreads for different pairs and different volumes for each pair. The routing rules mechanism (in green) is an advanced setup as there aren't any available off-the-shelf and it would be custom made to fit the needs of the brokerage.



There are 3 different ways to acquire a trading platform:

1) ***Buy a platform***. In general one can acquire a platform for a flat fee plus a monthly fee. Examples are:
   a) MetaTrader4 (MT4): $100,000 at time of purchase, payable over 12 months, 20k down, and $1,500 per month for maintenance and support. MetaQuotes has developed a new platform, MetaTrader5 (MT5), and an upgrade fee should be expected.
   b) ACT Forex: $25,000 at time of purchase and $20 per million of USD traded + $2,000 a month in maintenance costs.
   c) Other platforms: around $100k at time of purchase + a few thousands a month.

2) ***White label***. This means that one can use somebody else's platform and just put his own name on it. In general this is the cheapest option ($5000 + $500/month or even free) but it comes with the condition that all the trade flow goes to the entity providing the white label platform.

3) ***Lease a platform***. Here the prices can vary between $20,000 upfront and a few thousands a month (example: MetaTrader 4 leased by Boston Technologies). In this case over the 1st year one will end up paying less than in the case of buying a platform but over time one will end up paying more.

Tradeoffs
In general the less you pay the more dependent you are on somebody else. If one purchases a platform one needs to also pay for its maintenance, add-ons, updates, and IT personnel to maintain and upgrade it. In addition the platform is usually installed in the broker's datacenter which means that the broker is responsible in case of hardware failure but also has full control of the platform access in case of security concerns. The broker who owns a platform fully controls it.

If one uses a white label one rarely has control over the minimum spread which is usually imposed on him (with a markup of course). In addition the white label provider could theoretically shut down the access and the platform at all times.

In the case of leasing a platform the control is somewhere in the middle.

Platform features
Before you choose a platform you have to decide on the features that you are looking for. There is no such thing as a perfect trading platform but a list of features can/should be obtained before purchasing a platform.

Last but not least we would like to mention that all brokers sooner or later will be interested in creating their own trading platform. The cost of such a venture is estimated to be at least 3 years and $2 million USD. Such an investment only makes sense in the case when the broker would like to have FULL control of the platform features and potential and in the case when the broker is envisioning becoming part of the top 10-15 largest brokers in the world.

How to choose the platform and set of services that is right for you? We have put together a model that estimates the margin gain in each step of the value chain, and what that means for the cost to the customer of the entire transaction. Below is an example set of choices that lead to the customer payment for any given transaction

	Choices	***a***	***b***	***c***	***d***	***e***	***f***	***g***	***h***	***i***
1. Counter-party			Large Bank			ECN		Small Bank		Other Brokerage
choice	**j**	UBS	Barclays	Deutche Bank	Currenex*	HotSpot*	Lava*	Saxo	na	ODL
cost	**1.5 pips**	0.5 pips	1 pip	0.5 pips	15$/mil	40$/mil	20$/mil	1.5 pips	na	1.5 pips
2. Prime broker			Large Prime Brokers			Medium Prime Broker		Small Broker		
choice	**f**	UBS*	Barclays*	DeutcheBank*	FCStone*	PFG*	ODL*			
cost	**$50 /mil**	$5-12 /mil	$6-7 /mil	$7 /mil	$15 /mil	$40 /mil	$50 /mil (less on ODL)			
3. Platform										
choice	**d**	MetaTrader	ACT	FiniFX	trading platform 1	trading platform 2	FX Bridge			
cost	**0.05 pips**	0.05 pips	na	na	0.05 pips	0.02 pips	na			
4. Options										
choice(s)	**a,d,e,f**	Free news	Prime broker	Custom routing	Money manager	Pattern recognition system	Introducing Broker incentive fee	Manager market		
cost	**1.21 pips**	0.01 pips	0.05 pips	0.05 pips	0.5 pips	0.2 pips	0.5 pips	2 pips		
5. Added Margin		Spread added	Commission added							
cost	**0.6 pips**	**0.5**	**0.1**							
FINAL COSTS	**3.36**	**+**	**0.5 pips**	*(see pips calc for (2) above)*	**=**	**3.86 pips**				

	PIP	$/million
PIPS to $/million calculator	1	100

This is how the model works…

1. Counterparty - You need a counterparty for all your trades. You need to set this up in advance, but counterparty is a relationship for each major trade. They just take the other side of a trade, but you can switch counterparties on different trades. As counterparties, a large bank will be a market maker, whereas an ECN is just an exchange – they find someone else to make a match against you.

a. To get one of the banks to act as the "counterparty" for your trading accounts, you may need managers that are known in the industry, some history of how you trade, etc. Thus, for practical reasons, sometimes it is easiest to use a counterparty favored by your Prime Broker, because they already have a relationship.

b. Fees - counterparties charge you a fee either in pips, or in dollars per million traded (which you can estimate / translate into pips to add to each customer's transaction)
If you go with ODL, you might it useful to also use ODL as counterparty in their trading platform, because you will get a fee discount. Example: here, we have chosen ODL as our counterparty, which charges 1.5 pips per transaction.

2. Prime Broker - Your Prime Broker is your credit source – it is a bank that provides a service to you. For this relationship, you need to put money down in an account with that bank, and also pay a fee per transaction. There are several types of Prime Brokers, with varying associated fees.

- UBS, Barclays and DeustcheBank are the most expensive. These companies service large companies, governments, and other large institutions. Minimum balances are $5MM+ for UBS, and $25MM+ for DeustcheBank. FC Stone and PFG are cheaper, starting at $200K minimum balance.
- ODL would start significantly lower, at $20K+ or so, but they charge higher fees per million USD.
- So for example at ODL, if I put in $20K, I can get leverage of 100:1 – which increases the leverage, but also the risk of losing everything. So I can start buying up to $2MM at a time of something, against a counterparty (might be ODL, or not).
- An early stage company would likely start with ODL. www.odlsecurities.com – because ODL is easier to start with. The upside of something like ODL is that it allows you to start with low startup costs. The downside is that fees are higher.

- **Leverage -** In order to figure out leverage they're willing to offer you, these banks usually conduct due diligence. The bank or prime broker that you work with will provide you leverage for trading – i.e. if you have $100,000 on deposit with this company, they will give you, say 33:1 leverage. This means that you can trade up to (33 x $100,000) = $3,300,000 – or $3.3 million. Usually, however, banks provide at most 20:1 leverage. Smaller / riskier Prime Brokers like ODL will provide higher leverage ratios.

- **Fees** - These credit sources also vary not just by leverage, but by the fees they charge. Thus, UBS may charge $5-12 per million dollars traded, whereas Barclays might charge $6-7 per million dollars traded. So to evaluate which credit source to use, you must look at both the leverage, and the fees per million dollars traded. Below is a list of common Prime Brokers:
    - Credit Suisse
    - Dresdner
    - Deutsche Bank
    - Barclays
    - HSBC
    - JP Morgan
- Example - Here, we have chosen ODL as our Prime Broker as well, and thus we pay $50 per million – so given the PIPS to Million Calculator, we add 0.5 pips per transaction.

3. Platform As a brokerage, you offer a trading platform to your customers. For example, when a customer gives you $20K, you open a credit line with, per our example ODL, at 100:1. You then offer that leverage to your customers. The customer trades against you via a platform, per our example Metatrader (service that shows prices and charts, etc. – shows the Forex market), and then you send the same trades up to ODL as their counterparty (you are the counterparty for the customer). So Metatrader charges you, the brokerage, a monthly fee, and then you translate that into a variable cost in pips that is added on to the customer fees.

- Example: here, we have chosen Metatrader as our Platform, and translated the monthly fees to us from Metatrader into a per-transaction customer fee of 0.05 pips.

4. Options You can also add-on options given to the trader. This package of options is chosen by the broker, you, as a business decision. You would basically add in costs to the trader, per trade, as part of your offering.

- Example: here, we added free news, a money manager service, pattern recognition system, and Introducing Broker Incentive Fee for a total cost of 1.21 pips per transaction.

5. Added Margin Then, you add whatever spread you think you can get. As mentioned earlier, a reasonable TOTAL spread is between 2 and 3, and maybe 3 and 4 pips for a developing country.

- Example: here, we add commission of 0.1 pips per transaction, and "spread" of 0.5 pips per transaction. This brings out total cost to our customer to 3.86 pips per transaction. Of course, this would be high for the U.S., but is more reasonable in developing countries.

AS A GENERAL RULE IT IS GOING TO BE HARDER TO SELL WITH HIGHER PIP SPREADS

Technology security and reliability certification
In order to offer a secure environment and become a market leading competitor in the electronic trading industry, the trading platform security and reliability have to be outstanding. In order to achieve such a level of professionalism the following steps need to be achieved:

- **Authentication**. The broker needs to verify the different authentication methods used by the trading platform and to test these authentication methods.
- **Encryption**. The broker must explain the different encryption methods used for the platform and it will demonstrate and test its functionality.
- **Firewalls**. The broker needs to verify the installation and test the functioning of the customer's firewall to comply with the highest standards of security.
- **Authorization**. The broker needs to work with the customers to identify each account that has privileged access to the platform and to provide a list of all the accounts with the list of rights for each account.
- **Administration**. The broker needs to verify the presence of written security charts and the appropriate level of training of the Information Technology personnel.
- **Testing**. The broker should conduct the following tests in accordance and in control of the customer's support team and with the Internet Service provider approval and in conjunction with the customer's datacenter team:
  - Verification of the presence of a firewall
  - For authentication, verification of a dictionary password attack
  - Verification of the password robustness

- Verifications of physical security precautions for employees.
- Installation of a network analyzer or network monitor and use it when needed.
- Verification of a physical security management like closed circuit television for entry areas and restricted zones to the customer datacenter.
- Verification of the presence of Fire extinguishers for fire-sensitive areas
- Verification of the presence of Security guards in the datacenter to help maximize security.

Capacity

General Standard The broker should constantly measure the present capacity of the customer's Electronic Trading Platform and test the present capacity with 2 benchmarks -- execution speed and the number of simultaneous connections

Capacity Reviews The broker should identify methods and indicators to assess the present used capacity which will allow the customer to monitor its used capacity and available capacity at all times.

Customer Support The broker should test and verify the customer capacity to answer end-user complaints regarding access problems and other electronic access problems. The broker should test his capacity to escalate problems it is unable to resolve to the appropriate entity.

Disaster Recovery and Redundancies Broker should regularly verify its Disaster Recovery and Redundancy capacity and its knowledge and control of the fail over procedure. It should conduct disaster recovery and failover exercise with the IT team.

Communication Channels

Broker should insure that IT personnel have the knowledge and control of the following communication channels with the end users :

- Displaying messages on the Member's web site;
- Capacity to e-mails or instant message all the customers;
- A recorded telephone message for customers on hold; and/or
- A recorded telephone message on a line dedicated to providing system bulletins to existing customers.

Advance Disclosure Broker should verify the presence of an electronic trading disclosure information form in the package received by each end-user upon opening a business relationship with the customer. The disclosure form should contain reasonable and clear information on the limits and possible problems of electronic trading.

Credit and Risk-Management Controls

General Standard Brokers should have a detailed written document explaining the different risk indicators and their presence in the platform. This document will explain the functioning of the risk management tools and their meaning.

Account Controls Broker should verify the level of training and knowledge of the customer employees on the risk management and their controls. An exercise will be performed to verify the procedure to be taken in case the amount of risk taken by the customer is above the level described in the customer internal procedures and risk control manuals.

Review Broker should verify the presence, in the organization, of a risk control monitoring system and the presence of the appropriate risk control communication channels.

Recordkeeping

General Standard Broker should have a document explaining the record keeping and redundancy standards of the platform.

Transaction Records Broker should demonstrate and exhibit example of the following details in the record records and will verify that the personnel is knowledgeable in finding and understanding the following information:

- Date and time the order is received by the system;
- Price at which the order is placed;
- Price quoted on the trading platform when the order was placed Account identification;
- Currency pair;
- Size;
- Buy or sell;
- Type of order (if not a straight market order);
- Date and time the order is transmitted to the trading platform;
- Date and time of execution;
- Size and price at which the order is executed;
- Date and time the execution information is received;
- Date and time the execution information is reported by the system;
- Date and time of the rollover;[15]
- Price of the position after the rollover;
- Bid and ask prices quoted on the platform when the rollover occurred;
- Amount of interest credited or debited to the account, if any; and,
- Any other fees charged for the rollover.

Individual Reporting Broker should write a document demonstrating the capacity of the platform to provide information for each individual, for each order and account in real time.

General reporting Broker should verify the capacity and the knowledge of its IT personnel to provide create and maintain daily records containing the following information:

- Account identification;
- Funds in the account (net of any commissions and fees);
- Open trade equity (the net profits and losses on open trades); and
- Account balance (funds in the account plus or minus open trade equity).

Time and Price Records Customer should posses a document explaining and exhibiting the platform time and price records.

Retention Broker should verify its capacity to provide safe and durable retention of all the platform information for a duration of 5 years, including verifying the available capacity for this purpose.

Trade Integrity

General Standard Broker should posses a written document explaining the general capacity of the platform to provide bids and offers that are reasonably related to current market prices and conditions. Broker should verify the presence of redundancy in price sources and the reliability and fail over of the pricing sources.

Slippage Broker should check the configuration of the trading platform to ensure that any slippage is based on real market conditions and that slippage is less frequent in stable currencies than in volatile ones, and prices should move in customers' favor as often as they move against it.

Multi market Availability and Cost

Most platforms were built to work in a given market. For example, in Forex, while the builders usually claim that the platform also works in other markets (Example CFDs) one should perfectly understand the requirements of each particular market.

To enlarge the platform usage to other markets you need to address the following questions:

- Can the platform handle the prices from that market (example: prices with 5 digits?)
- Can the platform handle the symbols from that market (example: ZB 12 for 30 YEAR treasury bonds expiring in December 2012)
- Can the platform handle all the order types needed for a given market?
- Can the platform handle the executions?
- Can the platform handle the number of symbols?.
- Is the platform practical for a given market ? Example : How do you setup for each contract different expiration dates in the Futures market?
- Is the platform legal to be used in United States for a given market? For example for Futures the platform has to be NFA compliant in United States.
- Can the platform be connected to the liquidity providers? For example, for Futures to the eCBOT and eCME and for stock to the New York Stock exchange.

For example one cannot trade Futures (to be differentiated from Futures CFDs) if the trading platform isn't connected to a physical exchange where the transaction are taking place. In order to be connected, a platform needs its API connected to the exchange.

Most platforms go around all these difficulties by allowing Forex only and enlarging their list of available products to CFDs which are in fact treated like over-the counter, off-exchange products very much like the Forex symbols.

5. Initial Cash Burn & Sales Cycle

In order to start this business, you need to have a firm, comfortable handle on what the "sales cycle" is – i.e. REALLY how long does it really start to gain market traction and what does this mean for the REALISTIC CASH BURN in the meantime?

Cash Burn - Keeping cash burn low is crucial and this will likely require a smart manager / sales person who "gets his/her hands dirty"

Revenue – Depending on your business model, you'll need to forecast appropriate expectation on the number of new customers per year and average customer trades/deposits.

Margin - Your startup forecast should also include cost estimates for your partnerships with Prime Brokers, technology platform(s), the counterparty you'll use, etc. to estimate the total price you will have to incur to service and support your customers and the resultant profit margin that you can expect to achieve on each transaction.

- **Marketing costs –** You'll need estimates of the leads and conversion ratios as part of a your expected marketing costs.
- **Capital costs** – Don't forget the capital and ongoing support costs for your chosen. The capital costs should flow into the overall startup costs for the company on a monthly basis, plus ongoing technology support costs.

6. Marketing

How are existing companies selling/marketing to retail clients? From being in the industry, we know many of their models from working with their technology.

Marketing has three dimensions:

1. Marketing - generate leads of people who might potentially be interested in the products of your brokerage.
2. Sales - convert the leads into accounts, or actual customers.
3. Customer support - keep the present customers happy by answering their needs, questions and any concerns they have.

Marketing Options:

- Purchase leads from leads resellers. Example : www.salesgenie.com
- Internet marketing by setting up a website
- Advertisement via different means(radio, TV, paper media, posting boards, or many other ways).
- Targeted trade shows like: http://www.moneyshow.com/msc/lvfx/main.asp
- Network to find potential customers by becoming part of different organizations

To give a sense of the marketing costs we have seen in this industry, we put together the following table to show one view of the efficacy of different marketing methods:

			Monthly Sales and Marketing								
	Monthly cost	Number of leads expected each month	# of staff needed to convert	Expected success rate	# of accts.	Account average size	Account average number of trades per month	Profit STP	Profit Dealing Desk	Cost	Net
Leads purchased	$5,000	5000	5	0.10%	5	$15,000	43	2150	$22,500	$15,000	$7,500
Internet	$15,000	300	2	10.00%	30	$15,000	43	12900	$135,000	$19,000	$116,000
Phone	$10,000	100	5	1.00%	1	$15,000	43	430	$4,500	$20,000	-$15,500
TV	$100,000	1000	5	10.00%	100	$15,000	43	43000	$450,000	$110,000	$340,000
Newspaper	$15,000	300	2	10.00%	30	$15,000	43	12900	$135,000	$19,000	$116,000
Event sponsoring	$10,000	100	2	5.00%	5	$15,000	43	2150	$22,500	$14,000	$8,500
Trade shows	$30,000	300	4	2.00%	6	$15,000	43	2580	$27,000	$38,000	-$11,000

This marketing overview should be incorporated into your startup model, giving a sense of how you might think about marketing dollars in your startup period.

One rule of thumb for finding potential customers is that those who think alike can be found together. This translates into the fact that you can find Forex traders and Forex investors in many predictable places:

- Other trading industries (stock, futures, options…)
- Betting industry
- Investment industry and banking
- People comfortable with risk and looking for quick profits
- People interested in the financial industry (economics)

- People aware of foreign exchange solutions and problems like business owners with an international component (import/export, purchasing of raw materials in foreign currencies…)

Sales

Conversion from marketing leads into actual sales involves a combination of the following:

- The quality of the product sold. The better the spreads, the lower the commission, the faster the execution, the bigger the liquidity of the FOREX products the better.
- The availability of a broad array of product. The more symbols to be traded, the more likely that you will find the product everybody is looking for.
- The capacity of the contact person to convince. This is tied to the conversation skills, the convincing capacity and can involve friendship-bonding, self suggestion, conversation directing, step-by-step approach and other convincing techniques. As one might guess, a big factor is cultural and thus setting up an in-person office can sometimes be effective for reaching certain populations.

For lead conversion the following techniques can also be used:

- Special offers and deals. For example one can offer double leverage during some time to sign up new accounts;
- Special commissions during some particular time frame;
- Smaller spreads during a specific time frame, on a given currency.

Customer support

As you might expect, customer support is very important in this industry. Being careful to monitor trade activity, respond to questions quickly, and solve electronic / online, and other technology issues quickly is crucial to your business. See the Technology Section on “Technology Security and Reliability Certification” above.

7. Competition

Who are the Forex Brokers (FCMs) out there, what business model do they use and how do they market?

The following information has been garnered from conversations with sales staff at various FCMs (ACM, Saxo, PFG, Gain and Currenex, among others.)

Model

The model employed by many FCMs is to have accounts trade as frequently as possible as the FCM (Broker) usually participates in the spread (unless they charging a commission only).

Where Does This Mentality Come From?

- The retail Forex industry has been brought up on the fact that FX is worth $4 trillion in volume every single day (in reality only a fraction of this comes from private speculators, the vast majority is generated by large banks and multinational corporations). This is attractive especially when we are reminded at how this figure completely dwarfs the stock market. Now add the statistic that between 90% and 95% (GFS claims 70% due to their focus on Straight Through Processing) of all retail speculators lose money with a gambling mentality, and there are a bevy of firms to gain these customers.

How do Retail Brokers Position Themselves vs. The Competition?

- To answer this question we need to briefly explain some market dynamics. The Forex market is completely decentralized. This means that, unlike centralized exchanges such as the NYSE and LSE, there is no central location where each transaction can be traced and recorded nor do currencies have specialist market makers responsible for providing quotes for the entire market. Instead, the entities that act as market makers for the currency market are the world's largest banks. These banks carry out transactions between each other on a regular basis, hence the term 'interbank market'. In order for you to deal directly with these large banks you need to establish credit relationships with them which takes a vast amount of money and consequently most people cannot afford to do this. So this is where the retail brokers come in; they connect customers with the large banks. Because they are representing many clients they have enough equity to establish credit relationships and deal with these banks, on the customer’s behalf.

- However, this position is open to exploitation. Retail Forex Brokers are the middleman between customers and the interbank market so every time a customer places an order to buy EURUSD for example, their broker alters their currency holding positions with their large bank partners to reflect this. Rightly so your broker charges a fee for this service which usually comes in the form of spread (the difference between the bid and the ask). The spread they offer you is slightly larger than the spread they are offered in the interbank market so your broker can make a small profit on every trade you make.

- With this said, this model allows brokers who know who is losing and who is making money to profit more on each trade. The broker can now take the other side of the trade of those clients who are known to be consistent losers thus making money for the “house”. Not every broker out there is guilty of these 'bucket shop” tactics (rest assured that every brokerage will deny it however) but it is common.

How do Brokers Market themselves?
All FX brokers follow a similar sales model in attracting clients.

Online advertising

- The larger brokers employ more capital to online advertising. This makes sense given that retail FX is all online. Sites like www.thestreet.com and www.fxstreet.com charge heavily for banner advertising based on the demographic they attract to their website. Ads typically start at $5,000. To be effective, multiple ads on various sites would be needed. Small Brokers often use this resource as well, though with smaller investments.
- While all brokers use this source, none of them were able to quantify the revenue from this source of advertising despite the technology being available for them to do so. Most when pressed on this issue, claimed that at least they got their names out into the market.
- It seems that those brokers who don’t have STP tend to spend more on advertising as they are able to take the other side of the trade. As a result of this, advertising costs for all FX brokers have gone up dramatically in the past few years.

Introducing Brokers
By far the most tangible source of gaining clients is through Introducing Brokers (IB’s) – which are essentially sales people. These take on two forms, in-house and independents.

- Typically, in-house IB’s earn half the commissions that independent IB’s do. Commissions are typically paid from the spread from the round turn and at some brokers are standard and at others are based on volume traded. The more that is traded the more the IB shares in the spread. In-house IB’s sometimes earn a base salary. In all cases where this is the case, the IB’s earned less in commission. The cost of having a sales force is very low as they are only paid on a per trade basis.

<u>Examples</u>

Saxo: Saxo is one of the largest and oldest retail Forex brokers around. In the retail market, Saxo is among the top three FCMs (FXCM is the oldest, and the biggest retailer). Saxo is headquartered in Denmark and registered with several regulatory agencies.

- **Marketing**: Saxo employs a lot of capital in online advertising. They cannot divulge an exact ad budget, but do pay $3-$10k for online ads – and more than $100K per month in online advertising (this is likely the same as competitor FXCM and any other large player). Almost all online ads are banner ads and flash advertising. Their goal of course is to generate as many leads as possible. Their ads are designed to first take a customer to an online demo site, where they can demo trade for free for 30 days. To get this ability, the customer has to fill in all their details on their location and personal information. Approximately a week after the customer has started the retail trading, they get a call from the Saxo sales staff in order to try to convert the lead to become an actual customer. Saxo’s goal, of course, is to get the customer to open an account, and trade it frequently.

- **Model**: Saxo bank uses a combo of the STP and Dealing Desk model. They, like many FCMs, do not necessarily give customers the best pricing at any given time. Even places like FXCM, who try to follow the letter of the law, still take the other sides of the trades. However, to maintain their reputation, Saxo goes the extra step and insures clients’ accounts up to $50K Euros, in the case that something major goes wrong – i.e. a catastrophe or Saxo going bankrupt. (Over the last ten years, there have been lots of retail bankers going down. Refco went down about three years ago, and took down about $40B of assets. At the time they owned a big portion, 41%, of FXCM.)

- On the prime broker front, Saxo has an alliance with Dresna, UBS, and particularly DeutscheBank. If they have three prices coming in from DB, UBS, and Dresna, they buy at the lowest price, in pips. However, for Saxo's own clients, they have software that check what the fee is, say 20 pips, but then purposefully price the client at another banks' higher bid, say 22 pips, and then the order is executed. So the back office executes at 20, but the front office charges 22 to the customer, gaining 2 pips on that transaction. They also frequently do this when there is market volatility—charging customers the higher prices at peaks, but then locking in better prices for themselves, and taking the spread as margin.

GCI: GCI is run out of Belize and has been around for about 10 years (as a comparison, FXCM is about 15 years old and GFS is only 6-8 years old…the other ones that were around in the beginning of this industry did not have a model that was competitive.) GCI has a very unique model in that they allow you to go long and short on the same position, without opening additional leverage. They are not regulated at all. They are profitable, however.

- **Marketing**: their marketing model is very similar to other big firms in the industry – they do a fair amount of online ads. Unfortunately, like many others, they also do not focus on client retention. It used to be that a customer needed $5K to start an account, whereas now a customer can start with $100. A customer can now fund with a check, wire transfer, Paypal, etc. and so anyone can basically get access to accounts, now. This means that the firm has higher turnover because of lower-tier customers. On the other hand, the ability to market to absolutely anyone becomes a lot bigger – if anyone can be an investor, marketing can be more broad-based. In the end, the gambling mentality usually wins over for their customers. And, unfortunately, like many others, GCI does not appear to be in the market to establish an ongoing client base.

- **Commentary on GCI**: Unfortunately, without much regulation, customers have no recourse when something goes wrong. GCI has been around for 10 years. In 2003, they had $57 million of client assets. Refco was talking about buying GCI at that time. And GCI is probably at $100 million in assets, now. But if one was to look at their business model now, and ask whether they should ascribe to a regulatory authority, what would be the point? As of now, GCI is kind of an "untouchable", and in a jurisdiction where they are not required to be highly regulated.

- If you're running a business out of the U.S., by not regulating yourself you are opening up yourself to competitive attack. However, if your target market is Pakistan, Bahrain, and the Middle East, things are different, and often just regulated by the banking authority. For example, the business can be centralized in Pakistan, and as the FCM you only accept client deposits from there, and the banking regulators will oversee it. From the get-go you could attract assets that would make clients feel comfortable. [Although if you want to market in Bahrain, you do need to register there from a marketing point of view. When you're marketing, the business itself does not have to be registered with the Bahrain. But the business that is working in Bahrain will have to go to the Bahrain authorities and work out an agreement].

New Models

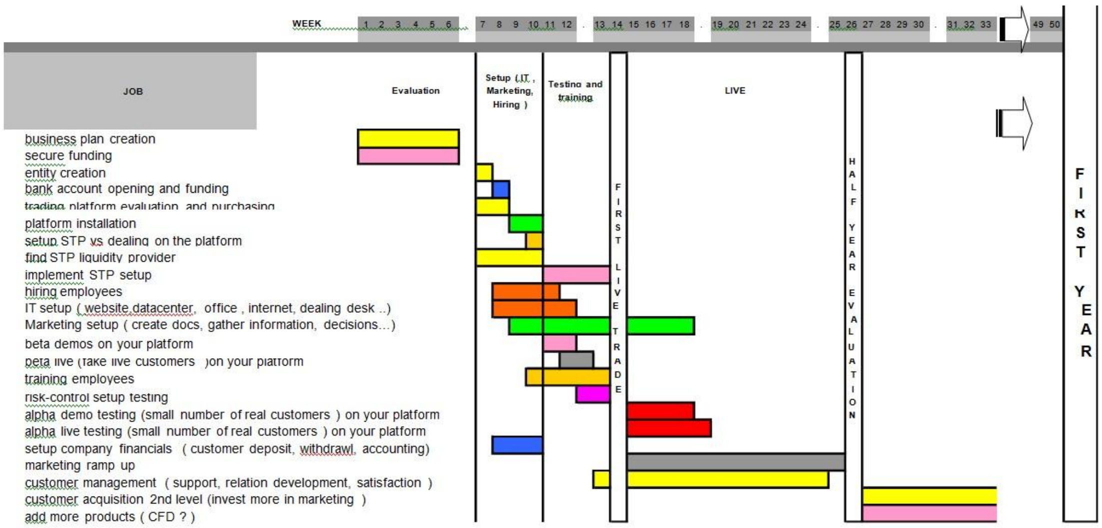
Customer Retention GFS, ACM , and FXCM are starting to change their mentality by looking for successful managers that can help the retention client base. They start by having professional traders that aim to help a customer make 20% in a year, rather than the 'big' promises of 100% in a month, by many retail FCMs. This has been a shift in the mentality of these larger firms, who have realized that if your customer retention year on year is 10%, you're doing a lot of work to find new customers, and not much to retain them. There also may be some saturation occurring in certain markets, such that the rate of new customers is slowing.

Retail Storefronts None of the FCMs right now have retail storefronts, like a Scottrade. All of them have centralized offices, a trading desk, sales desk and back office, and run these very aggressively. It's all computerized and centralized. However, consultants in the industry have never heard of any FCMs that have storefronts. Many thinks it would be a great idea, but the capital constraints and investment may be too high to sustain an FCM.

Big Banks Entering Retail Interestingly, the big banks that want to enter retail are not doing so by building up their own retail operations from scratch. Instead, many are making alliances. For example, Saxo now has an agreement with DeustchBank (DB) where DB is using Saxo as a counterparty—sort of as a retail "front" for them. FXCM has a similar arrangement with Citibank.

- In the view of some, the favorites in this industry are Saxo, FC Stone, PFS, etc., all who are older companies, and who are moving toward a model of more retention, rather than "churn & burn" Dealing Desks.

8. Implementation & Timelines



Below are details on each step of the suggested implementation:

1. First do a business plan to evaluate the situation
2. Then start by registering the entity.
3. Open a bank account in the entity name. Make sure you can do payments online, receive wire-income notifications by email or some other ways each time a wire arrives.
4. In parallel, work on choosing the platform. Test it, demo it, and verify that it is what you need . Ask for a free two week demo. Negotiate the price.
5. Once the platform is chosen, see what you need to for delivery (hardware and other requests).
6. You should, nearly always, be prepared for two types of customers: “A” book (the ones you will STP to the liquidity providers to lower your risk) and “B” book (the ones you will keep on your dealing desk).
7. Once the platform is chosen you should know how to implement these two groups of customers. See which liquidity providers you can connect to. You are mostly looking for reliability, not low price. A tested existing solution is preferable then a new cheap one. Once you have the list of compatible liquidity providers approach them (try to go with an ECN, with a cheap prime broker, with a small bank, with another large broker, many choices are available). Ideally you should have at least two liquidity providers to have a backup, and some competition. A liquidity provider could cut the line of credit at any time if the market is unstable or if you get in a fight. Be prepared!
8. It will take time to find an agreement with the right liquidity provider. This is normal. Ask for a free demo.
9. In the meantime you should start to hire your employees and train them to their tasks.
10. The first employees you need are: 1 IT personnel to take in charge the platform, 1 manager to help you with the organization and the relationships and the purchases. He should be also trained on the platform back office. The IT should also be trained on the liquidity provider connection.
11. Get a sales-marketing manager who already knows the industry. This is the key to get started fast and well. He will bring you relationships and know-how. He should start selling your products as soon as possible. Give free demos…

12. Do some tests. Put in some demo customers, get used to their questions, the platform, how everything operates.
13. Open a live account for yourself, place some test trades. Make sure you understand how everything works, especially the reporting and the risk management.
14. Test the execution prices. Test the margin requirements. Test the reporting. You should know your positions at ALL times, day and night, down to 1 cent. Make sure that you capture the markup if you do STP.
15. Put in some “Beta tester” customers. These customers should be aware that they are testing a new product. They should also be ok with small problems and they should let you know each time they have a problem. Work with your IT contacts and the liquidity provider to solve them.
16. Instead of hiring an accountant (expensive in some countries) rather invest in Quick Books and have a certified accountant that knows the rules inspect your Quick Books once a trimester. Keep a track of the money in, money out.
17. Now you can roll out the large marketing campaign. Do your best to bring in customers via all available means.
18. Invest in customer support. Customers need to be kept happy. Having customers that stay means you will have a steady income for long time. Invest in customer support.
19. At this time you might want to invest in a CRM tool (a software that will keep track of your customers - who wanted what, when, what they said and what they were told and where they are right now).
20. Then go to level 2, offer more products …. Grow…

- CFDs / Stock / Futures are all possible securities, among other possibilities for growth

9. Appendix - Definitions

For the purposes of this document, and for an understanding of general industry terms, we have put together a list of terminology definitions:

- Brokerage = legal entity allowed to open customer accounts and collect customer money.
- Broker = an employee of the brokerage that is working with the a customer.
- Introducing broker = independent company that is bringing customer to the broker in-exchange of remuneration.
- (usually 1 PIP).
- Prime Broker = an entity that is willing to represent the brokerage in all its trading transactions and settle the trades in your name. Usually requires a security deposit. Could be automatic or manual. Examples: Barclays, FC Stone, JP Morgan, etc.
    - For example: In a model where you have a VISA credit card from your retail bank, like Bank of America, and you go to do a transaction in a restaurant and you have a line of credit of $2,000 from Bank of America (you had to deposit $200 to open the account) then this is comparable to Bank of America being your prime broker, VISA being the ECN, the restaurant the seller and you the buyer in the transaction. You could use a different ECN, MasterCard, with the same Prime Broker (Bank of America). But in sum, Bank of America is charging you a fee, the ECN is charging you a fee and if you can resell the meal for more then you paid for you will make profit!
- ECN = electronic trading system which pairs offer and demand without a middle man (in this Case Forex). Example : Currenex, Hot Spot. See another definition of ECN here: http://www.goForex.net/Forex-basics.htm#ECN
- Forex = foreign currency exchange.
- Customer or client or end user = a private or commercial entity that opens an account with the brokerage.
- Wire = electronic money transfer.
- Self traders = customers that direct the trading of their own money.
- Managed accounts = customers that open an account, deposit money but who give power of attorney to 3rd party to initiate trades in their account.
- Dealer = a human or computer software that will monitor the risk taken by the brokerage.
- Trading platform = a computer software that gives access via the internet to humans or other computer programs to the information they need to monitor trading information.
- Trades = (Forex context) the action of buying or selling one currency in exchange of for another.
- P&L = profit and loss
- Deposit currency = currency of the money deposited in his account held at the brokerage by the client
- Margin trading = allowing the customer to borrow money automatically when he is placing a trade (this involves
- MUCH HIGHER RISK , and a customer could POTENTIALLY LOSE MORE MONEY THEN HE HAS).
- Margin currency = currency used for the margin
- Pair = (Forex context) a symbol one can trade
- Front end = the part of the trading platform that seen by the brokerage client
- Back end = part of the trading platform only seen by the brokerage employees
- Rates = exchange rates
- Counterparty = entity that will take somebody's account, money and will allow the account opened to trade against the deposit

- “Rates” and “Quotes” = (for Forex purposes) exchange rates
- “Symbols” and “Instruments” = the different exchange rates a counterparty is monitoring and could offer to its customer for trading
- Marketing = the action of attracting interest from people and collecting their contact information for commercial purposes
- Product = (Forex context) a type of service the broker can offer
- Sales = the action of selling a product to a customer
- Base currency = in a pair like EURUSD the 1st currency (in this case Euro)
- Lot = (Currency context) usually 100 000 or 10 000 of the base currency
- Open P&L = the potential P&L of a trade if the trade was to be closed IMMEDIATELY but which is still open
- Balance = total amount in the client account NOT including the open P&L
- Equity = total amount of a client has IF the trades were closed IMMEDIATELY
- Pip = the smallest amount a currency will move by. Either 0.0001 or 0.01 if a pair involves Japanese Yen.
- Margin call = when a customer equity is not enough to cover the margin he used to borrow money to trade. At that time typically all brokerages close the customer position automatically.
- Bid = price at which one can SELL
- Ask = price at which one can BUY
- Spread = difference between bid and ask (spread = ASK-BID), calculated in pips. This means that if you buy and you sell RIGHT AWAY before the price changed you WILL lose money. Example: you typically can buy at 2 pips higher then you can sell on the EURUSD.