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Online FX industry consolidates in US

WARREN, NJ – The online FX trading market lost another player last week, when Gain Capital announced the acquisition of fellow e-FX trading firm American Traders FX (ATFX) for an undisclosed amount.

“This happens in every industry – bigger, more successful firms tend to merge with smaller firms,” Mark Galant, chief executive at Gain Capital in New Jersey, told *FX Week*.

“Many firms probably thought they could run a mean and lean business in this market, but if they don’t get as many clients as they hoped, they can’t compete with larger, more experienced players,” he said.

A relative newcomer to the online FX trading market, ATFX first launched real-time electronic FX trading one year ago. Now, its client base of retail investors will be transferred to Gain Capital’s trading platform, and the ATFX trading name will be dropped in the next few months, said Galant.

Galant would not say how many clients were trading on ATFX, but

admitted the acquisition would not have a huge impact on the size of Gain Capital’s existing client base. Gain Capital will not take on any ATFX staff, but will cover the increase in clientele using the company’s existing headcount and infrastructure.

More than two dozen online FX trading firms compete in this market in the US alone, but Galant expects only a “handful” of survivors over the next two years.

There are two main obstacles to success in this market, said Galant. Many firms are struggling to comply with new regulations from the Commodity Futures Trading Commission (CFTC), introduced in December 2000, which require online FX trading firms to register as futures commission merchants (FCMs) in order to trade with clients worth less than \$10 million in assets. Firms that fail to meet the necessary capital requirements for FCM registration are likely to sell-out, or drop out of the market, said Galant.

Additionally, firms that do not attract enough clients soon after launching quickly run out of the money they need to operate a viable, competitive business – this will lead to further consolidation in the business, Galant added.

Several e-FX trading firms exited the US market last year, including Currency Management Corporation (CMC), Midlandeuro and Matchbook FX. UK-based CMC continues to trade in the UK and Europe, but pulled out of the US in response to CFTC regulations. Matchbook FX closed down last summer when its parent company, GlobalNet Financial, was acquired by London-based firm NewMedia Spark (*FX Week*, October 15).

Midlandeuro stopped trading FX on October 31, following suspension by the National Futures Association, which alleged the firm does not comply with minimum capital requirements necessary to trade FX on behalf of retail clients (*FX Week*, November 12). ■