

## The business of FIX: BB&T grows its business with electronic trading

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As BB&T grew, the adoption of the FIX Protocol was fuelling an explosion in electronic trading. By 2003, 97% of sell-side firms and 77% of buy-side firms had adopted FIX and electronic trading. The benefits of electronic trading had become so compelling that 93% of buy-side firms confirm that they are more likely to send an order to a broker that could receive it electronically rather than one that could not.

BB&T began routing orders to DOT and NASDAQ late in 2000, but orders still came in over the phone. 'Soon we realised that, if we wanted to continue to grow our business, we needed to expand the scope of our electronic trading', said Chuck Young, BB&T's Senior Vice-President of Equity Trading.

### Going electronic – the objectives and implementation

So in January 2002, BB&T began evaluating order management systems. The firm set three main objectives: 1) institute a trading solution that enabled it to trade more efficiently, 2) strengthen its relationships with the buy-side and 3) improve execution quality. 'It was a long process, over six months', said Young, 'during which time we considered all the relevant vendors'. In the end BB&T selected OMs ASP delivered order management system.

BB&T decided to roll out the system in two phases. Phase One covered the OMS and access to various execution venues. Phase Two involved receiving orders electronically from BB&T's buy-side clients. The reason for

**By 2000, BB&T had a booming capital markets business. In 1999, BB&T, the nation's 11th largest bank, acquired broker/dealer Scott & Stringfellow and combined the two capital markets groups into one.**

**Headquartered in Richmond, Va., the newly expanded unit today ranks among the top-50 firms based on the number of institutional registered representatives and is among the top-75 in terms of capital.**

this approach, Young explained, was that BB&T felt it was essential that its traders become familiar with the functionality of the system before establishing connectivity with their clients. Implementation of Phase One ran 90 days, and Phase Two began a few months later.

Training the traders was next on the agenda. According to Young, 'the traders knew this was the right thing to do, so winning their support wasn't an issue'. The system vendor spent several days in Richmond working with the traders before and after BB&T went live so, 'training was a snap', said Young.

### New business from FIX

So how has this investment in electronic trading affected BB&T's business? Dramatically, according to Young. In 2003, BB&T's first year using the system, the firm increased its business by 25%, while maintaining the same support headcount and reducing overall trading costs.

The ASP delivery model was the key to handling more business with the same support staff. System care and maintenance – including certifying with buy-side OMS systems and execution venues, protocol conversion (i.e. FIX to CMS), ordering connectivity, developing new functionality, and researching the status of trades – became the vendor's responsibility.

In addition, during the course of the year, BB&T decided to take advantage of newly introduced services from various

exchanges: NYSE's InstitutionalXpress, Chicago Stock Exchange's BrokerPlex, and SFTI. Again, the development and connectivity associated with accessing each of these services fell to the vendor. 'Clearly we would have had to increase our support staff considerably if we took on all this work ourselves', said Young.

BB&T's new-found ability to receive orders via FIX was vital to growing its business. According to Young, 'FIX enabled us to do business with accounts that would not have been possible in the past'. BB&T currently receives over 20% of its order volume through FIX connections, a figure that is increasing daily. BB&T's goal is to surpass 50% of its orders via FIX in 2004. To reach this ambitious target, BB&T will rely on the vendor's FIX certification team. 'We don't need, or even want, to have a team of FIX experts', explained Young. 'We're happy to focus on building our business and leaving FIX issues to the experts at our vendor'.

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### **Anatomy of a FIX connection**

When BB&T establishes a new trading relationship, it calls its FIX vendor. It becomes the responsibility of the vendor to ensure a smooth FIX connection. The first step requires the vendor to contact the buy-side firm to determine which OMS they have, the version of FIX they're using, and the networks they're connected to'. BB&T's implementation supports versions 4.0, 4.1 and 4.2 of FIX.

Next are full session and application level tests to ensure that the buy-side firm's OMS can communicate with BB&T. The tests take place on a dedicated certification server that resides outside the production environment. Areas covered during the session test include: sequence number, drop/restore connections and heartbeats. The application test covers all the required FIX fields, such as done for day orders, too late to cancel, and changes. If the buy-side firm uses optional fields such as tag 29 (last capacity), 46 (related symbol) or 62 (valid until time) tests are run for those as well. Due to the open nature of FIX, adjustments at the application layer are usually required before a new buy-side

firm can communicate with BB&T. As BB&T's FIX vendor built its own FIX engine, it is very flexible. Some 85% of the changes that need to be made at the application level can be done in existing configuration tables, with the rest requiring some work by the vendor's development team.

Once the FIX tests are completed in the certification area, the circuit is migrated to the production environment. A production test is performed between BB&T and its new buy-side client and, if everything checks out, the orders start to flow.

One of BB&T's primary reasons for moving to an OMS was to strengthen relationships with its buy-side clients. 'Being able to receive orders via FIX has done that', according to Young. 'In addition, the ability to send and receive FIX-based executions in real-time has helped us to communicate more effectively with our clients'.

### **Risk, compliance and trading efficiency**

Improving execution quality goes hand-in-hand with strengthening client relationships. Electronic order routing not only gave BB&T faster access to markets, but it enabled the firm to expand its network of floor brokers at the NYSE. More than 115 floor brokers at the NYSE receive orders electronically using the Exchange's BBSS system. Because the protocol of choice at the NYSE is CMS, not FIX, the vendor converts FIX into CMS and routes the orders onto the BBSS. As a result, 'we have more execution options on the floor' said Young.

Fully automating its trading desk has helped BB&T reduce its trading risk, enabled the firm to better address compliance issues and improved trading efficiency. Trade breaks, according to Young 'have virtually disappeared. It's rare to have more than a handful on any given day'. Having a fully documented audit trail for orders and executions has helped BB&T resolve compliance issues and better analyse the quality of its executions. 'Quicker and more precise access to markets has reduced our trading risk', say Young.

FIX played a large role in the growth of BB&T's business in 2003 and Young sees more opportunities for FIX in the future. 'A dialogue window linked to orders to facilitate commentary between trading participants would be a natural progression for working more closely with clients' according to Young. He would also like to see post-trade allocations added to their capabilities, already possible using FIX. **FIX**