

FPL Electronic Trading Southern Africa Conference 2006



By Gavin Borrageiro, co-Chairman, SAEC

The 2006 Southern African Conference set the benchmark for electronic trading events and took the region to the next level within the global securities trading environment.

The second annual Southern African Electronic Trading Conference was a resounding success, which was noted by the marked increase in attendees by more than 120%. After 5-months of meticulous planning and organisation, the event attracted a diverse range of local and international exhibitors, sponsors, speakers and participants.

As a result of the overwhelming interest and financial support by sponsors and exhibitors, the standard conference fee was eliminated with the event being free of charge to securities industry professionals. The 2006 event marked the beginning of a new era for the regional conference as it set the benchmark for FPL-organised and volunteer-based events.

The objective of the conference was to create an educational and information-sharing conduit for the securities trading industry in the region. However, the event deviated from the standard FPL conference protocol, by apportioning time in the program to speakers that addressed macro-economic issues and regional initiatives.

The rationale for the divergence in the agenda was to enable participants to become conscious of governmental and/or extenuating circumstances that will have an impact on the future of securities trading in the region.



The adoption of FIX and membership to FPL within the South African market is steadily growing and a primary focus of the local committee (SAEC) is to ensure that it is actively engaging all market participants, and perceived to be an industry 'change enabler'. It is expected that during the

next 12 months there will be a noticeable change in the adoption and use of FIX in the region, as the market progresses and adapts to international standards

Feedback from conference delegates indicates that there is now a considerable amount of interest in electronic trading. The concentrated nature, size and investment focus of the South African market has not been a significant driver toward electronic trading. Nonetheless, the recent changes to the competitive landscape and international regulation/legislation will undoubtedly become a precursor to reform in business practices and increase the usage of electronic trading technology and FIX.



A key take-away for attendees was to understand that the global capital markets, in particular securities trading, are rapidly changing due to regulatory/legislative reforms and the progression of technology. Therefore organisations are increasingly faced with process-change and the 'tried and tested' methodology is no longer a guarantee for its prosperity.

Finally, Mr. Barry Marshall, co-chairman of the EMEA Regional Committee, thanked distinguished guests, key-note speakers and delegates. Mr. Marshall also expressed FPL's sincere gratitude to the event coordination team, the SA Executive Committee and the sponsors for their support.

A Sell-Side View

By Wendy Dickson: Member - SAEC

Client-facing technology continues to be an important focus for sell-side firms active in the South African market. Broker-dealers have been actively building and enhancing their electronic trading platforms. From the SA FIX Conference it is evident that brokers are increasing investment in analytical infrastructure that is aimed at

transforming data and improving efficiency. Last year the focus was on enabling high touch electronic trading, while this year brokers showed an appetite for progressing to low touch electronic solutions such as direct market-access and algorithmic trading.



The ongoing uptake of FIX as a standard for equity trading in South Africa is freeing the local adopters from some of their geographic boundaries and stimulating their participation and growth in the global community. This has already been proven in respect of high touch solutions. While the order flow directed toward low touch channels has been nominal in regions, there has been a significant increase in the past 2 years and the indications are that this will continue to increase. Predictions are that figures will more than double. It will be interesting to watch the implementation and effectiveness of low touch solutions locally, over the next 2 years.



An undeniable fact is that survival depends on the quality of technology solutions and the ability to have a common means of interpreting cross company messages. Brokers are offering their clients assistance in the adoption of FIX and FIX related products as part of their service offering. Their vast knowledge and proven track record of implementing electronic trading solutions, if tapped into, can greatly assist buy side firms in transitioning to electronic trading platforms with relative ease.

Ultimately, the reason for using advanced electronic platforms is to reduce costs, enhance performance and increase efficiency. In order for the full potential to be realised it is important for more local buy and sell side firms to enter into the electronic trading community. If the high attendance of buy side firms at this years FIX conference is anything to go by, then we can expect to see a higher uptake during the next year. Firms not already tapping into the power of these electronic services will find themselves further behind the curve and missing out on the cost and efficiency opportunities.

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Apart from using FIX for indications of interest, order routing and allocations in respect of equities, there is potential for FIX to be used on a wider range of instruments such as futures, forex and debt. Given the high equity activity locally, coupled with many parties still needing to enter the electronic trading scene, it is likely that the greatest growth will be seen in this arena before progressing to other instruments.

Vendor Perspective

By Ashley Mendolwitz: Member – SAEC

In comparison with Europe and the US the South African financial market is small. By way of example there are less than fifty equity sell side firms, and no more than twenty-five medium to large sized buy sides. Aside from the traditional buy sides and banks, the emergence of hedge funds and niche asset managers is mirroring the current global trend. The size of the South African market and the 'virtual' absence of legacy systems have resulted in the exponential adoption of electronic order routing, and the FIX protocol, since 2004.

In many ways, a market like South Africa can provide vendors with a rare opportunity to build and implement

community-wide offering that can be deployed in a relatively small emerging market before being rolled out elsewhere. The abnormally high cost of bandwidth due to a monopolistic telecoms landscape is challenging but if overcome enables a vendor to compete very effectively in the distributed solutions space offshore, where competing offerings don't have to be as bandwidth efficient.



The initial catalyst for routing orders electronically in the South African equity market was from the buy-side, which wanted to achieve internal (end-to-end) straight through processing (STP). Conversely, three years ago the buy-sides in SA were relatively advanced in automating their post-trade processing, (contract notes and settlements), through SWIFT, OMGEO and other software-based solutions, that combined the automation of in-house business practices and procedures.

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Vendors operating in the 'STP' space, noticed the opportunity to facilitate pre trade, trade and post trade automation through the adoption of a global messaging standard. The utilization of the FIX protocol was crucial in the new vendor solutions obtaining local acceptance and adoption, as well as gaining electronic access to international wholesale investors. In terms of asset class, equities has always been ahead of the curve in South Africa, and today a number of investment firms have fully automated their transaction processing, from indication of interest through to allocation/settlement.

However, the local derivatives market is utilising the 'equities connectivity model' as a base for adapting FIX-based products into a fully automated transaction processing solution for the trading of single stock futures. The automated processing solution is from order routing through to trade reporting, which is already prevalent in the SA equities market.



In terms of connectivity, firms saw the benefits of a network-neutral approach (working with international providers like BT Radianz, TNS, Reuters Order Routing and Thomson's Autex). This approach was based on the principle that an emerging market vendor or sell side firm would not be able to choose the type of connectivity it has with offshore counterparties.

FIX has enabled South African sell side firms to become globally competitive, specifically in the sourcing and obtaining of electronic order flow from the US and European clients, who only traded in South African stocks exclusively - through offshore offices. The empowerment of local sell sides has recently extended into algorithmic trading and transaction cost analysis, with South African vendors setting up strategic affiliations with international vendors such as Flextrade and Traderforce.



One increasing trend in South Africa is for vendors to supply a FIX enabled web-based front end, with execution

and/or order management capability for hedge funds and/or smaller buy side firms to 'get into' the FIX space. However, some of these solutions would require an upgrade to the larger front-office systems, as justified by the business requirements.

A light EMS and OMS product are available from the majority of vendors. As described above, the high cost of bandwidth has led to the proliferation of light, fast and easy to deploy web-based support offerings.

Another part of the market which has seen an increasing use of FIX is Fixed Income, whereby the Bond Exchange of South Africa (BESA) partnered with Peresys to build a new trade capture, matching and price discovery system that was FIX-based. The solution created a messaging layer between the Exchange and its members. Furthermore, the Fixed Income solution has been in production for over a year, and since its inception the OTC platform now includes an option for market participants to report Fixed Interest transactions and match them at the exchange (BESA).

“Good combination of users and vendors. The interaction between local and international users added a fresh dimension and increased users network / contacts”

Alphonso Raats, Head of Equity Dealing, Stanlib Asset Managers

An API that encapsulates FpML messages within FIX is currently under development and will facilitate the integration and automation by BESA to European trading counterparties. Consequently given the current rate of take-up it is expected that by 2008 pre trade, trade and post trade processes in South African equities, fixed income and derivatives will be conducted electronically using the FIX protocol as the message delivery mechanism. Individual Equity Futures and OTC instruments such as CFDs are creating a competitive environment for FIX. As a result, the associated efficiencies and cost savings that will be gained by leveraging the various asset classes, ensures that undoubtedly some participants will use FIX for post trade messaging of Money Market and Securities Lending transactions within the local market over the next two or three years.

In conclusion, and from a vendor perspective, the opportunity and justification arises for the building and/or offering of a multitude of services or products to the market, which will accelerate the deregulation and fragmentation of international trends.

Buy-side Viewpoint

By Johan de Bruyn: Member - SAEC

Like many buy side firms, Stanlib have some challenges in terms of getting its OMS connected and integrated to use the FIX protocol. Stanlib have been focusing on extending the functionality to other business areas and it has been challenging to obtain the necessary 'Executive' buy-in to enter this space.

Looking back, we have been successful in the IOI space, by replacing the standard method of obtaining the information. But the challenge remains to extend this methodology into the trading space. The networking opportunities and educational value to the buy-side of events such as the Southern Africa conference should not be underestimated. By talking to the various attendees during the conference breaks as well as attending the sessions, a lot of important lessons and valuable tips were exchanged regarding the use of available solutions and to assist with future endeavours.

The end result is that the team that attended the event is now committed to the value of what FIX can offer, and created a business justification for the firm's executive to endorse the organisation's quest to begin exploiting the dealing capabilities of in-house applications. **FIX**



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