



Completing the puzzle: When STP really does mean a straight through process



By Michael Wyne, Managing Director at Fischer Francis, Trees & Watts

Michael Wyne, Managing Director at Fischer Francis, Trees & Watts, explains how using the FIX Interface to Omgeo Central Trade Manager has delivered a completely automated process, from execution right through to settlement.

Background

Fischer Francis Trees & Watts (FFTW) is a specialist manager of US, global and international fixed income portfolios for institutional clients with US\$39.7 billion in assets under management. We provide global fixed income asset management services to 161 clients from 37 countries, using a 24-hour platform that is serviced by our London, New York, Singapore and Tokyo offices. Global investment at FFTW began in 1988, shortly before we opened our London office. Today our aim is to offer exceptional service to clients irrespective of their location. Cross-border fixed income trading is the foundation of our business and the processing and settlement of those trades must be error-free to best serve our clients.

The challenge

The equity buy-side has traditionally been ahead of the fixed income asset management community, particularly when it comes to back office operations. It is simply a given with the exchange-traded market. However, FFTW has never been the type of firm to follow tradition. In fact, over

30 years ago, the firm's founders aimed to start a company that would specialize solely in the active management of fixed income portfolios for institutional investors, a business concept totally unique at the time.

Because our business has continued to grow so rapidly over the past few years, we decided to embark on a project four years ago to automate all aspects of our trading platforms, from front office execution right through to settlement. We knew removing the manual element from executing and processing our trades would mean fewer errors and a decrease in costs associated with failed trades. The automation initiative was carried out in a number of stages: firstly by implementing FIX in the front office via TradeWeb.

By mid-2005, we had achieved automation across most facets of our trade lifecycle; however, there was still a missing piece of the jigsaw puzzle – trade confirmations and allocations. We had been using Omgeo OASYS Global to process our fixed income cross-border trades, but since we

were using it with a manual workstation which meant using a dial-up connection and limiting the number of uses, we weren't taking advantage of the solution's fullest potential. We lacked the flexibility we needed to achieve true end-to-end straight through processing. Trade information had to be taken from our order management system (OMS) and then re-entered by hand into our OASYS Global terminal for trade confirmation. The manual element was still there, which countered the progress we were making with automation in other areas of our operations.

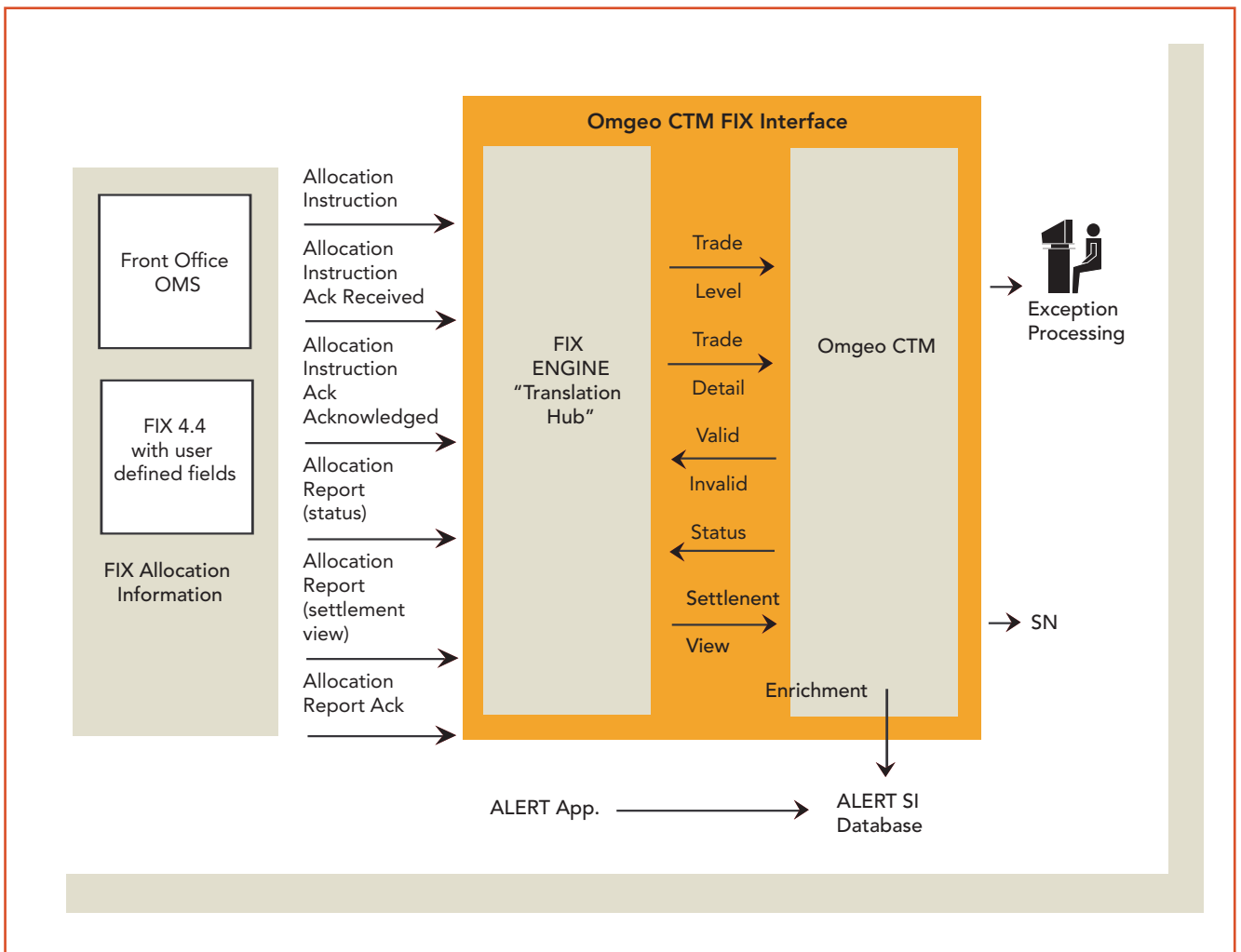
While our FX trades were whizzing straight through from execution on to settlement without any manual intervention, our cross-border fixed income trades were getting stuck in a bottleneck. We could not afford to upload files and manually input trade information into our OASYS Global workstation, as it caused considerable delay and left significant room for error. With fixed income trades, the volume may not be as great as equities, but the stakes are much higher if a trade fails.

We decided to speak with Omgeo about how to resolve these issues and asked how they could deliver us a solution that would provide greater efficiency and connect our front and back offices.

The solution

When we learnt about Omgeo Central Trade Manager, the global central matching platform, it seemed like the only available solution that would meet our needs for real-time trade matching in the cross-border marketplace. This would help us remove the last remaining manual piece of our trading and settlement puzzle.

However, we also knew we wanted to communicate the trade details via FIX 4.4, which we already used so successfully for our broker communications in the front office. If we chose a different option, we would have had to recode to a new, non-industry standard interface. We were pleased with the efficiency that FIX afforded us in the trade and pre-trade space, so it made sense to use it as the



communications bridge to the back office. However, at the time, such a ready-made solution didn't exist. We consulted with Omgeo to see if they could accommodate our needs, and they were happy to do so.

The result is the Omgeo CTM FIX interface, which allows us to utilize our existing FIX 4.4 infrastructure to link our front and back offices. With this new infrastructure, we can now send trade allocations via FIX 4.4 from our OMS directly to Omgeo CTM, and then on for settlement. The settlement piece out of our OMS is finally automated; every time a cross-border trade matches through Omgeo CTM, it triggers our OMS to format and send out a SWIFT message to our global custodian. Previously, this had been a manual process. We've eliminated the manual intervention and have completed our automation project.

The Omgeo CTM FIX interface offers FFTW a 'best of both worlds' solution: the ability to leverage industry standards while receiving all the benefits of a fully serviced central matching environment, complete with real-time settlement instruction, enrichment and settlement notification messaging, all in a secure and scalable environment.

Implementation

The nature of the project meant we were essentially combining and upgrading two existing platforms and we knew each had particular strengths that we were eager to incorporate. We also knew that our automation project had already taken four years, so we aimed for a quick implementation to complete our task. It was critical that we went live with the solution by the end of the year. Since we began working with Omgeo in October, this meant we had fewer than three months. What's more, we learned that the DTCC, where many of our fixed income trades are settled, freezes their code at the end of each year, and this was set to begin in mid-December. That gave us even fewer precious weeks to work with.

Together with Omgeo, we were able to overcome a few obstacles. The first was the frustrating dial-up connection we'd been relying upon and our lack of a lease line to which we could upgrade. Normally, it takes between six and eight weeks for set-up, and we were afraid that this would impede our ability to go live within the timeframe we needed. We opted to leverage one of Omgeo's lease line providers, TNS, which seemed to be a reliable option.

Many technology projects within asset management, particularly those in the back office, run over budget and

over time. Not in this case. The product team for Omgeo CTM coordinated with the integration team to ensure all the stars were aligned. Through this harmonized effort, we came in a week prior to the DTCC code-freeze. All in all, we were able to go live on the interface well within the two and a half month time frame, and we were under budget!

The results

Today, the new interface means Fischer Francis Trees & Watts has complete end-to-end automation throughout the trade lifecycle. The average time to confirm and allocate trades has decreased from hours to minutes in many cases. We can identify and rectify any trade exceptions on trade date, rather than scrambling to make corrections days later.

In addition, unlike other solutions in the global marketplace that can only offer T+1 affirmation, the Omgeo CTM FIX interface enables us to affirm all our cross-border fixed income trades on trade date, as well as settling them on time. In fact, the interface has allowed us to achieve same-day affirmation rates of upwards of 70% – a drastic improvement marked by a significant decrease in risk and costs that can arise due to failed trades. We are hoping to get to our target of 100% same day affirmation in the next few months.

FFTW's matching rate has also increased significantly, with approximately 90 percent of our bond trades matched on trade date. Our fails have fallen dramatically and our claims are correspondingly lower. Equally important is the fact that we've been able to leverage industry standards to duplicate the success we've had in the front office in the back office.

We have lower trade fail costs, a lower risk of unconfirmed trades and the whole process demands fewer resources in terms of head count, which means we are now faster, leaner and more accurate in our trade processing. This is a great result with clearly tangible benefits. Our automation puzzle is finally complete and we have fully realized the potential of STP from trade execution right on through to settlement. **FIX**

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