ASK FPL

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How has algorithmic trading changed the industry?

Algorithmic trading has gripped the industry – radically changing the landscape and the demand for technology and data. When machines trade against machines speed is strength and latency is weakness. An entire sub-industry has emerged delivering low latency full tick order book data, development frame works for execution engines, markets connectivity, proximity hosting services, all to build the execution factory.

Automatic execution has delivered a whole new way for brokers to offer differentiated services and change cost profiles. Software is quick and easy to change, and so these services can be tuned and tweaked to continually improve the way the machines interact with an increasingly automated market. A limiting factor on this evolution is the readiness for the OMS and trading screen vendors to deliver changes to their order entry capabilities and the support for messaging to handle 'algorithmic' orders.

So what is being done to reduce the time to market for brokers algorithms on independent vendor platforms?

The critical technology gap is the ability for brokers to describe their order types in terms of the fields that need to be passed over FIX, and the way those fields are represented to the user. There has been discussion within FPL, and a number of XML based prototypes exhibited that do exactly this. The use of XML means that the ticket does not need to be known when the user software is compiled and that it can readily be changed to reflect new or updated algorithms. Given this, tickets can be quite rich; the order ticket can contain significant supporting information to help the user understand the algorithm that is being used. Reuters has already implemented such a scheme and has given brokers the ability to update their order tickets, and the supporting information, in Reuters Trading for Exchanges. Although this single vendor initiative is broadly in-line with the concepts discussed within FPL, the lack of an industry standard XML schema limits the re-use of order types across multiple vendor systems, and presents challenges when building automation engines to feed the automation engines.

Aren't there difficulties about supporting different order types and execution styles for different markets ?

Yes. There is definitely a need for conditional logic within the order type definition for this. For example, our XML schema allows for IF.. THEN type constructs that allow presentation and pre-population of fields based on data that is sourced from the market data.

Where do you see this going?

We are on verge of a new era of electronic trading – where the machines manipulate the machines – an electronic description of the brokers execution algorithms will be read and understood by the automatic trading engines, and so improvements in the execution engines are immediately absorbed and exploited. We now have machine-readable ways of expressing order types and efficiently delivering orders via FIX. Perhaps the next step is to find a machine-readable way of expressing the execution algorithm to the buy-side trading engine – so that the trading machines can learn the capabilities of the execution engines without the need for programming.

Any thoughts on this or other articles?
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