



Bearing the fruit of FIX

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At Barings Asset Management, (BAM), we went live with FIX version 4.2 in August 2002, using it in conjunction with the Order Management and Dealing system installed in 2001, to link us to our major brokers for global equity trading. We are in the process of extending use of the protocol, again in conjunction with developments to our OMS, to bonds, foreign exchange and money market instruments.

The initial implementation delivered us something approaching state-of-the-art straight-through processing of investment transactions, but also the possibility of a revision of the respective roles of ourselves and our traditional counterparties, with BAM able to repatriate some dealing functions that have long been assumed by the sell side on our behalf.

The core of the order placement and dealing environment is the "Minerva" order management and dealing system of which Barings was a development partner with London-based investment management software company LatentZero. It uses an event-driven architecture with message-based XML publish-and-subscribe middleware for high performance. We chose to connect it to Financial Fusion's FIX engine, in our case using version 4.2 of the FIX protocol, but can tolerate version 4.0 to accommodate certain counterparties. Transaction Network

Services currently supplies connectivity through its virtual private network to 14 counterparties.

Our FIX counterparties comprise major full-service brokers, such as Merrill Lynch, CSFB, UBS Investment Bank, and some crossing networks such as ITG POSIT. This gives us the ability to automate the trading cycle all the way from dealers placing the order to the receipt of real-time updates as orders progress, while providing real-time viewing of our orders by dealers, investment managers, internal compliance staff and others, backed up by detailed audit trails. It is no surprise that over time we have moved to trading more than 90% of orders (based on value of executions) with FIX-enabled brokers using the protocol, representing more than 65% of all equity trading. The next step is likely to be the extension of the range of FIX-enabled brokers by communicating with a FIX "hub", an option that was not available to us in 2002 with the "heartbeat"

response that we required from counterparties. In the meantime, we will add point-to-point connections to counterparties where necessary.

Real-time feedback allows us to go into the market as soon as the proceeds of a sale become available, and reinvest at the best prices using the ability to see and aggregate liquidity demonstrated by broker-provided "indications of interest". Previously, buy- and sell-sides of orders were often given to the same counterparty. Now we can manage the buy and sell halves of a set of linked transactions from within our own dealing environment, taking advantage of the best liquidity pools available at a given time.

Real-time feedback also means that BAM has a far better idea of how orders are progressing in all markets globally. For any trade being worked by one of our FIX-compliant counterparties anywhere in the world, we know exactly how much stock has been bought or sold in real time. Our dealers and investment managers can then speed up or slow down execution progress on an order as news breaks or price volatility is observed. This means that our London- or Hong Kong-based dealers don't have to spend time on the phone working out where their attention is needed, and instead can concentrate their efforts on those trades that require special attention.

As in many investment-management houses, 80-85% of equity trading actually represents around 15-20% of the value traded. These smaller orders are prime candidates for automated trading in the new environment. Aside from the timing issue of when to put them into the market (we use various third-party TCA products to help us with this), these trades are often just "noise" to both sides of the market. Larger orders (the ones that can move the market if not handled carefully) are the ones that dealers should concentrate on in order to give a better service to clients and investment managers.

While everyone is aware that the selection of execution venue is critical, so too is the ability to reach sources of liquidity quickly and efficiently. Our FIX environment allows us, in a few key-strokes, to get large multi-stock orders into the market much more quickly than before, and in our case this has been a significant contributor to increased efficiency. FIX has been an important contributor to our ability over the

last 3 years to offer an enhanced dealing service, whilst reducing the number of trading centres and dealers.

In a FIX environment, the role of the broker in the eyes of the investment manager begins to change: the broker becomes a connectivity hub, providing links to and between pools of liquidity, real-time market information and feedback on trading progress.

The use of FIX 4.2 has not only allowed us to automate global dealing, but also to improve our trading STP process. Occasions when manual intervention is necessary have reduced significantly and, whilst this is due to a combination of process improvements, FIX has definitely been a major contributor. FIX gives us a checkpoint earlier in the matching and settlement process, as brokers acknowledge executed orders in FIX Execution Reports and both parties are able to investigate discrepancies earlier.

In the future, benefits for BAM will come as we add other asset classes and automate allocations. Automating allocations using FIX will reduce instruction time-to-market and bring a further reduction to the already diminishing error rate. The potential for this is already there within FIX version 4.2 and there is an eagerness amongst the community to maximise the benefit of this functionality.

Post-execution functionality within FIX 4.4 supports confirmation messaging. It is therefore not only existing processes that might be enhanced, but also any future new processes. FIX is enabling the buy side to think creatively in the confirmation and matching arena, offering the possibility of achieving more efficient cross-border STP at minimum cost to participants. The success of STP throughout the trading process, including the post-execution part, relies on FIX interoperability between parties, taking advantage of the ISO15022 standard. Progress is being made by the industry and, as users of both FIX and ISO15022, we take a keen interest in progressing developments in the use of these new environmental enablers. **FIX**

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