



## FIX and SWIFT standards

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**One of the oldest jokes must be about the driver who was lost in the deepest part of Georgia, and who stopped to ask a local man the way to Atlanta. The reply was, “Well, if I was trying to get to Atlanta, I wouldn't start from here!”**

The same is true of industry standards. In an ideal world we would already have a single global standard to meet all of our financial messaging requirements, but the reality is that we have years of industry legacy that is stopping this happening. How are we going to get to where we would like to be - and soon?

The stage that standards are being played out on is much larger than it might first appear, with a lot of issues and players. Financial messaging standards are ultimately not about ISO or SWIFT or FIX - they are about getting financial messages processed in a cost-effective and timely manner. If standards already existed that met the needs of financial institutions, those financial institutions would not be spending their valuable time working in committees around the world to develop new standards.

ISO and SWIFT standards for financial messaging have existed since the 1970s. When SWIFT was created the Glas-Steagall Act was still in effect in the USA and there was no EU

Investment Services Directive (there wasn't even a “European Union”!). The legal ability for banks to trade in corporate stocks was very limited. It should therefore not be surprising that financial messaging standards created for banking organisations did not meet the full requirements of the securities industry.

The fact that, even today, only a very small proportion of the world's securities messages use ISO standards or SWIFT message formats indicates that those standards still don't meet the full market requirement.

As stock exchanges moved to electronic trading, they did not work together to develop common standards for their trading messages or for their market data. They generally do not use ISO standards or SWIFT messages for their systems. Most stock exchanges still use their own proprietary message standards today.

As new computerised derivatives exchanges were created, and as existing derivatives exchanges started to

computerise, many of them began to buy the same trading systems and to adopt each other's formats for market data. More commonality has been achieved among the derivatives exchanges than among the stock exchanges, but again not generally through using ISO standards or SWIFT messages.

At the time that the first ISO standards and SWIFT message formats were being created, the foreign exchange market was being created too, driven by new legislation, banks and new technology. This market used proprietary standards, and when electronic foreign exchange trading was introduced in the 1980s, proprietary standards continued to be used. Even though foreign exchange trading systems were developed for banks and with banks, they made minimal use of ISO standards and no use of SWIFT message formats for trading.

Four of the key factors that drive the financial services industry are profit, market opportunity, time and technology. The profit goal is obvious: the latter three elements work together to make the difference between profit and loss. Financial institutions must constantly monitor the potential impacts on their business of new market opportunities, changing timescales and innovative technology. They have to adapt their business to the new world every time that a major change occurs. Their messaging requirements change as a result, and if messaging standards can't keep up with the business, then standards generally get ignored.

A key issue for the financial services market today is whether standards are keeping up with the rate of change in the market, or whether the market is being held back by the standards themselves. Part of this issue relates to the "ownership" of the standards - who decides on the rate of change?

Since the introduction of FIX, different paths for standards have developed that run almost in parallel, and that sometimes run across each other. A big question at the moment is - can these paths converge so that we all end up with a single set of directions that get us to where we all want to go?

One path is being created by the broad community of "users", organising their activities themselves. Industry participants are getting together, independent of any

standards bodies or market regulators, and are creating new standards that allow them to carry out their business more cost-efficiently. FIX Protocol Ltd (FPL) is a prime example of this, but is by no means the only example. FpML (Financial Products Markup Language) has been created by participants in the OTC derivatives industry. TWIST (Treasury Workstation Integration Standards Team) is working on standards to meet the business needs of corporate treasury managers in particular. RIXML has been developed for delivering financial research, and NEWSML is a further example of a user-driven initiative.

The members of FPL are working actively with TWIST, FPML and other organisations that create financial standards to try to make sure that the financial services industry has the standards that it needs, and standards that do not duplicate effort and cost. But, perhaps most importantly, it is ensuring that the industry has the standards that it needs now.

Another path is that of de facto industry standards. These are the proprietary standards that individual service providers and financial institutions have developed in order to deliver their own services. These standards have been vital to get the financial services industry to where it is today. Without major companies making massive investments in software development at their own risk, the world's markets would not exist as we know them today. This applies as much to the front office as it does to the back office - market data, foreign exchange trading, electronic broking, trade confirmation, settlement, etc.

One of the benefits that standards can deliver is that they can allow users to change from one service provider to another more easily. That encourages competition and avoids users being locked in to individual service providers. Clearly this is not necessarily in the interest of all providers, which is one reason why "proprietary standards" continue to be developed.

Back in the early 1970s there were no financial messaging standards, global networks were few and expensive, and the data communications capabilities of computers were pretty limited. That resulted in the banking industry getting together to agree one set of messaging standards, to build a single data network and to run a unique and private messaging application service. The solution that

has been built - SWIFT - is a commercial vendor that charges for its services as any other commercial vendor does. Thirty years on, the three elements of that initial solution - standards, network and application - have become so locked together in the industry's thinking that it can be difficult to see which role SWIFT is in at any particular time.

The confusion that results also leads to misunderstandings across the industry about what is the standard - ISO, SWIFT or FIX, and are they not all the same thing anyway? ISO standards define some, but not all, of the terms used in financial messaging. SWIFT, FIX and any other body can define business processes in detail and create message formats to reflect the needs of those different business processes. These message formats can be based on the ISO "dictionary", which can make sense if that "dictionary" covers all of the terms that are needed to define the process. But if that "dictionary" does not include all of the terms that are needed, the industry has a choice to make: wait until ISO extends its standard to meet the market requirement at some point in the future, or create its own standard to meet market requirements now?

Who decides if and when ISO will extend its standards? A key player in this decision process is SWIFT, which is now the registration authority for ISO standards for financial messaging. As the registration authority, it does not create or own ISO standards - it only registers them.

ISO 15022 does not provide all that the industry needs, and it has gaps in important areas that effectively stop STP happening. The industry is already looking to the availability of ISO 20022 as a more comprehensive standard. But concern is being expressed in the industry that the timescales involved in specifying and introducing ISO 20022-based message formats may be too long. This will not only delay the industry take-up of ISO 20022, but it will delay the ability of the industry to improve its STP performance and reduce its costs.

Participants in the development of industry standards are also beginning to ask whether the right approach for the financial services industry is for one of the largest messaging solutions vendors - SWIFT - to act as the standards registration authority. The industry as a whole benefits from the use of standards, but it is important that the work of the industry as a whole in creating these standards is not then used to create a standards-based monopoly.

FPL is working to develop more comprehensive definitions of standard business processes in order to generate standard message formats that allow those business processes to be executed more cost-effectively. FPL understands the importance of ISO standards and seeks to apply them in principle where they meet the related business requirements. SWIFT is a very pro-active and constructive member of FPL, contributing to the development of FIX standards and using the knowledge that it gains from this interaction to further develop SWIFT's own message formats. FPL is not working towards the convergence of the SWIFT and FIX protocols, and its members would be concerned if the financial services industry was given the impression that FIX-related services were only available from SWIFT. The members of FPL include dozens of providers of applications, solutions and network services which compete against each other to provide FIX-related services to the market.

FIX started from an idea that "one day might fly", and then had to prove time and again that the FIX standard could be further developed and enhanced. The members of FPL have surprised the financial services industry by doing this continually for the last ten years. It is now possible for a new version of the FIX Protocol to be developed, published and implemented in a matter of months - not years.

FPL is continuing to enhance FIX, using the "kaizen" approach of making continuous improvement in stages, rather than going for a "big bang" release once every few years. The global financial services industry will not stand still waiting for standards to catch up with the needs of the industry. The work that the members of FPL are doing with other standards bodies, including FPML, TWIST and MDDL, is leading to better standards delivered earlier. As this work proceeds, it is likely that these new industry standards, developed by users, will become the de facto industry standards for the processes that they define. This should lead to an interoperability of financial messaging standards, rather than convergence of standards, as being the practical way ahead over the next few years. **FIX**

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