



eForex



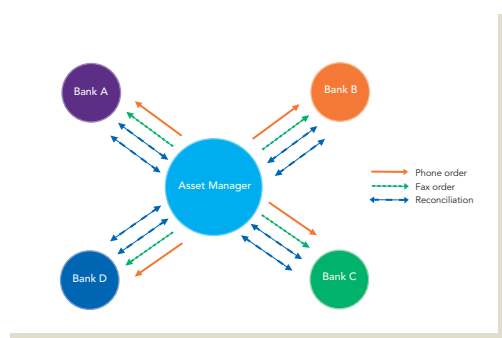
By Susannah Quirion, Marketing Director, Linedata Services

In terms of technology, foreign exchange has long been the 'forgotten' asset-class. For many asset managers, it has simply been viewed as the cost of doing business, a back-office necessity resulting from international equity and fixed income trading activity. Considering that foreign exchange is the largest market in the world it is surprising that it has been the most operationally inefficient and technologically disadvantaged.

Traditional foreign exchange processes have been entirely manual, thus prone to error. Fortunately today, the course of foreign exchange trading is evolving from a back-office risk to a value-added front-office business.

Less than ten years ago, conventional foreign exchange practices were completely inefficient - both economically and operationally. Asset managers had two options; they could either negotiate and process foreign exchange trades in-house, or send (via fax or phone) their foreign exchange requirements directly to their custodian.

Manual calculation and generation of FX orders



Due to operational inefficiencies, many asset managers were driven to the latter. The resulting trade-off was reduced settlement risk for mediocre execution and increased currency risk. Over time, increased competition has led asset managers to view their currency trading in a different light. Asset managers soon realized that poor foreign exchange execution was forcing them to leave valuable basis points on the table. It became clear that what they were gaining in settlement risk mitigation, they were losing in execution. Finally, in an effort to increase performance, asset management firms began to manage their foreign exchange transactions in-house, like the other asset classes, but without the technological support.

The traditional in-house processing of foreign exchange was wrought with obstacles, allowing for a multitude of re-keying errors and processing inefficiencies. The foreign exchange process would begin early in the day as portfolio managers itemized trades for what could be hundreds of accounts for multiple currencies on paper, of course, followed by faxes or emails (for the technically savvy) to numerous banks for execution. In general, at the end of the day, the portfolio manager would receive fill information, at which point, the

funds would be allocated to the appropriate accounts - a task which was tedious and time-consuming at best.

Following allocation, the order status was manually tracked through paper reports and cash movements between accounts were verified. The cost of operation, opportunity for re-keying errors and settlement risk were enormous. In time, the risk associated with in-house paper pushing created the demand for an alternative solution. The obvious result was an increased focus and investment in technology for the foreign exchange market.

Towards an automated environment

At last, the insurgence of technology and electronic trading that first captured the equity and fixed income markets years earlier began to filter into the foreign exchange market. The demand for more efficient technologies drove execution systems and order management systems to develop technology solutions to better serve the foreign exchange markets. In the last ten years, the industry has moved from paper pushing processes to a more sophisticated and automated environment. Technology developments have transformed foreign exchange processing and brought it to a new level of efficiency. The days of waiting by the fax machine and re-keying thousands of orders are for most, a thing of the past.

The tremendous growth in cross-border investing has made electronic foreign exchange a must-have. Electronic trading automates the bid and fill processes and allows asset managers to easily consolidate order flow and take it to market. The bottom line benefit is speed to market, better execution prices through block trading and reduced third-party fees. Buy-side firms have embraced electronic FX trading with increasing speed as technological advances result in more efficient and cost effective currency trading. TowerGroup estimates that approximately 44% of all foreign exchange volume is executed electronically, via either multi-bank or single-dealer platforms. Further, they project that this penetration will continue in the next few years, peaking at a rate of 74% in 2007.

Seamless integration

As the electronic foreign exchange boom expands, so does the development of customized workflow solutions geared at reaching true STP. Real-time pricing and information delivery, combined with single data entry,

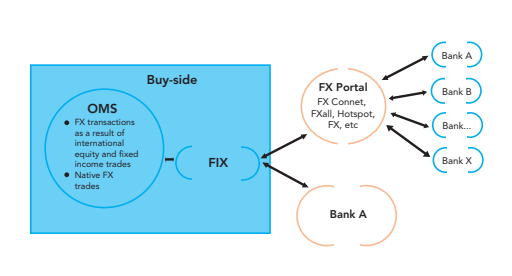
reduce risk and improve workflow. As FX trading processes are now more automated than ever, it is essential for order management system (OMS) providers to understand the importance of providing customers with seamless integration from the OMS to the electronic trading vehicles that their clients choose. The new, efficient electronic workflow provides asset managers with significant efficiencies and benefits. The technology challenge for OMS and other electronic solution providers is to develop tools that allow for customized workflows with a flexible architecture to support the unique operations of FX desks.

The birth of electronic execution systems has further driven order management systems to expand functionality to provide customers with direct access to multiple sources of liquidity from a single location. OMS vendors needed to develop seamless integration points with both the multi-bank and single electronic FX platforms to improve workflow and reduce operational issues for their clients. Through tightly integrated multi-asset type order management systems, multi-asset class and multi-currency portfolios can be managed, trades can be routed and positions can be allocated automatically from a single location. Portfolio managers and traders are no longer required to use different systems depending upon the asset type or function. Through robust order management systems, asset managers can stop the “swivel chair” action from one desktop to another and manage multiple portfolios simultaneously throughout the trade process. Today's technology provides asset managers with the tools to automatically determine consolidated currency needs by reviewing cash holdings against outstanding currency payables and receivables and automatically calculate currency gaps and overflows - by day and by account.

Today's efficient electronic foreign exchange workflow

Integrated order management systems offer the following benefits and functionality for foreign exchange: automatic generation of orders to cover currency shortages for each account, auto-hedging tools to manage currency exposure using foreign exchange forwards and automatic consolidation of orders by currency pair. All of these result in improved price and reduced time to market.

Last year, Linedata Services' LongView Trading was the first OMS to build integrations into the premier multi-bank



foreign exchange platforms, FXall and FX Connect,. Following in Linedata's footsteps, other OMS providers are challenged with developing similar integrations for clients. Today, many order management systems have drag and drop functionality that allows the user to generate orders easily to their chosen destinations. With a single click, asset managers can place orders either directly with a given bank or through a multi-bank portal. Order and account level details are communicated directly to the broker, using the FIX protocol, ensuring correct cash movements occur to credit and debit appropriate accounts, creating a true STP environment.

Conclusion

As technology and e-commerce developments continue to emerge to support foreign exchange, integration between order management systems and FX banks and portals will undoubtedly deepen. More and more organizations are using FIX to automate the trading communication process. In the near future, asset managers should expect to see a complete automation of the FX process, with more deeply integrated OMS technology and functionality, including such features as streaming pricing and real-time currency rates on the OMS blotter. As each client has a different workflow, the OMS vendor needs to be flexible and able to accommodate varying workflow requirements. Integration with electronic foreign exchange is no different. It is the goal of OMS providers to deliver the best solutions for asset managers to improve their performance. This is accomplished through more efficient workflows, which ultimately help to deliver better pricing, bidding and rates. As asset managers continue to embrace the OMS, the migration of foreign exchange from a back-office risk to a value-add front-office business will be complete. **FIX**

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