



FIXed but hopefully not static

By Bob Shaw, Director- Electronic Trade Communications, FMC



FIX is being positioned by its advocates as a universal standard for connectivity in the securities market. In an attempt to extend its influence outside its equity homeland, it is looking for interoperability with other standards such as ISO SWIFT, XML, TWIST, etc. However, the questions must be asked, “What level of buy-side support does FIX really enjoy in the UK?” and “What does it need before it can become the post-trade panacea?”

In answering the questions, one must first consider the number of organisations that are identified as using FIX. A quick browse at the FIX Protocol website, for example, will show that less than 40 buy-side firms profess to use FIX versions 4.0. to 4.2. Additional research indicates that maybe only one UK buy-side organisation declares that they

are ready to accept version 4.4. confirmation messages , whilst still only a relative few regularly using FIX to submit equity allocations with their Orders message. Of note is that since its introduction in April 2003, only a handful of UK buy-side and sell-side organisations have built to this latest version despite it being hailed as the protocol that will fully

support fixed income instruments in addition to value-added elements such as settlement instructions (refer to the SSIFresh initiative).

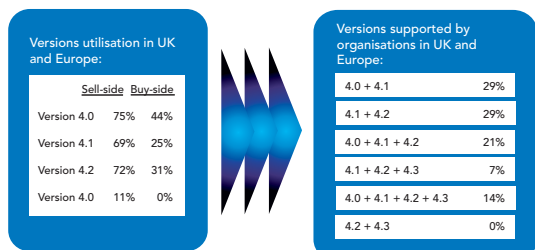


Figure 1: Initial source - CityIQ, Sept 2003

Of the 65 or so sell-side organisations registered with FIX Protocol Ltd., only 4 or 5 of the global houses are believed to be ready to use version 4.4. to its full extent and only then “if there is client demand”. Although a de facto front office standard for Orders and IOIs (Indications of Interest), it has yet to be seen whether FIX will make the desired impact on the post-trade space. With an inherent ability to provide allocations at an Order level, why is it taking so long to adopt when the securities industry urgently demands low cost post-trade alternatives to incumbent solutions?

One recent survey of the North American market produced for the FIX Protocol organisation (62 buy and sell-side respondent organisations) showed that the top 3 stumbling blocks to attaining the full benefits of FIX noted by the buy-side were: Function coverage; breakdown of end-to-end STP, and FIX protocol interpretation differences. Conversely, in the same survey the sell-side stated that FIX protocol interpretation differences were their biggest barrier, followed by function coverage. In equal third place came: A breakdown of end-to-end STP, network coverage, and a lack of buy-side IT experience.

Perhaps surprisingly, cost did not feature highly on the list. Although there are around 50 FIX vendors or service providers with a FIX capability embedded in their products, there will always be some expenditure overheads associated with using FIX. Agreed, FIX adapters can be bought very cheaply, but FIX today is fundamentally reliant on a multitude of bilateral communications. Excluding any

investment in a FIX engine itself the cost associated with maintaining multiple communication links (dedicated line or an extranet solution) means that the sell-side realistically connects only to those clients with high transaction volumes. This justifies the maintenance and license fee whilst reducing the overall intrinsic message cost. It is unlikely therefore, that the small volume players who might make up 75% of the market, but only 40% of the volume, will ever be tempted to use FIX. The result? Faxes will remain.

A favoured method to overcome this communications issue is to establish a 'hub and spoke' model whereby the party has only to maintain a single connection to the hub supplier, who subsequently provides the multiple connections to the counterparts on the other side. Recognising this need, SWIFT has introduced their SWIFTNet FIX hub solution and FMC will be operating a FIX 'hub and spoke' model within its FMCNet™ post-trade matching solution. Historically, the hub 'n' spoke model has encountered the challenge of participants not knowing when the other party has established a session and is therefore, 'on-line'. Fortunately, modern technology has overcome this heartbeat issue and removed that obstacle in at least the two solutions above.

The other main barrier alluded to in the survey is version control and the interpretation of the FIX protocol within that version. Whilst most data fields are largely backward compatible, the later messages will clearly contain new data that did not form part of the earlier protocol. Unless both counterparts mutually agree on the FIX version to be used and which data fields within those different versions are to be exchanged, successful communicate is unlikely. Given the improbability that all FIX users will one day consolidate on a single agreed version, this situation will continue to exist and inhibit FIX growth for the foreseeable future.

Not directly mentioned in the survey is another common obstacle i.e. the lack of an STP infrastructure around FIX. This aspect has historically slowed down the growth of SWIFT in post-trade too. At a basic level, FIX is simply a message protocol; SWIFT a secure message network (although it carries ISO 15022 / 20022 format messages and SWIFT is the guardian of those standards). These solutions alone are not able to, for example, match a trade nor interface directly to a central SSI (Standard Settlement Instruction) database without the aid of additional client-site

middleware to achieve it. Unfortunately, this adds additional costs to the initial equation.

A convergence of the FIX and ISO standards is certainly to be applauded and will undoubtedly benefit the industry. Until the introduction of the SWIFTNet hub, few of the lower volume organisations were able to justify both SWIFT membership and the relatively high transactional message fees unless they were able to piggyback off the back of a super-tier pricing structure afforded to them by some of the global banks who make up a sizable majority of the SWIFT membership. Should an internal STP infrastructure be put in place and, with the bulk of the SWIFTNet fees aimed at the sell-side, the average small buy-side organisation now has the opportunity to improve their connectivity and subsequently, that of their counterparts too.

However, without significant buy-side support for post-trade FIX, the sell-side enthusiasm remains just that - enthusiasm. Whilst a single FIX connection to a hub provider will reduce the cost and maintenance overheads for the sell-side when linking to their smaller trading counterparts, without that FIX-based STP infrastructure on the buy-side, there is no ROI. Without the perceived ROI, FIX 4.4. will not get the exposure it rightly deserves. Traditionally, STP progress has been delayed by a lack of agreement on standards at all levels. Over the years this has given rise to a number of proprietary protocols that have subsequently proven difficult to interface without the need for additional translation and routing middleware. If the industry is to progress more rapidly in STP terms, it must accept that proprietary protocols and legacy systems will remain despite a transitory convergence of standards in some areas. Similarly, given the pressure to migrate to ISO 15022 by November 2002, how many people realised then that it would be followed by an ISO 20002 standard a short while later as a replacement for SWIFTML (also permitting migration to a standardised use of XML)? Whilst not as arduous to convert as was ISO 7775 to 15022, it shows that any so-called industry standard can ultimately prove to be a moving target.

Consequently, the ideal way forward for those wanting to use FIX will be to take advantage of the growing number of commercial 'STP enablers' that can take FIX data from the originator in one version and translate into the version format that the recipient wants to receive it. This not only

eliminates the pain of the organisations having to undertake this themselves for each individual client they communicate with, but it also reduces the need to continuously invest in new technology every few years because this now becomes the responsibility of the FIX hub service provider. A single STP pipeline solution using one consistent messaging format (as seen by the end user) is a persuasive ROI argument for any organisation. A compelling business case means that the buy-side is more likely to 'play ball' and the sell-side gains connectivity to a host of clients that may otherwise remain fax based. Meanwhile, the growing US zeal for FIX for fixed income instruments is bound to transit the Atlantic in the near future. We can only hope that a consolidation on version 4.4. by this community persuades the equity FIX users to upgrade rather than perhaps waiting to see what a version 4.5. might bring.

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Will FIX benefit from a SWIFTNet FIX or an FMCNet type messaging hub? Undoubtedly, yes. Growing competition in this space can only mean a positive result for the industry. Regrettably for those organisations eligible to use it, as a pure connectivity option, SWIFTNet FIX still requires an up-to-date STP infrastructure wrapper at either end; again, one of the very same barriers that has previously inhibited post-trade FIX and SWIFT growth. As has happened historically, it is the vendor community that as a clear commercial incentive to continue to grow their products and solutions. Therefore, longer-term, the buy-side may well become disposed towards offering their support to any FIX-enabled 'one-stop shop' STP solution rather than to an answer that is just part of the puzzle. Only time will tell. **FIX**

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