



Nomura Securities expands FIX access through an open FIX hub in Japan

野村証券、日本の
OPEN FIXハブ接続による
FIXアクセス拡大



By Daniel Burgin,
CEO, MetaBit

Nomura Securities, Japan's largest securities broker, not only has a strong tradition in Japan's financial industry, but has also engaged in embracing the FIX Protocol strategically in its domestic and global infrastructure since the very early stages of its introduction.

Part of Nomura's global strategy is to provide external buy-side clients with standardised technology access points to its execution capabilities. In the latest development of their FIX strategy, Nomura has been expanding external FIX access points for its clients through hub solutions such as MetaBit's FIX enabled Market Liquidity Hub (MLH).

Why has Nomura decided to connect its FIX engine to a FIX hub in Japan?

野村証券はなぜFIXエンジンを日本のFIXハブに接続したのか？

Nomura's global infrastructure allows internal and external order flow to point directly to access execution

capabilities in global markets via FIX engines. However, with focus on Japan in particular, Japan's number one broker has recognised value added synergies. If they link their internal order management systems (OMS) to a product neutral hub via the FIX protocol, it would increase ease of access to their electronic trading capabilities for a large number of hedge funds and asset managers, domestically and internationally, that are presently not placing their orders electronically with them. Such access points were to act as a FIX concentrator into Nomura's internal trading architecture. It was critical that such a concentrator would not offer closed access - via a specific proprietary trading tool - to Nomura's buy-side clients. Access to such a FIX concentrator should be neutral

of any order management system, trading application, FIX engine or other Application Programming Interfaces (APIs).

The FIX hub satisfies all of the above and increases FIX enabled electronic order flow into Nomura for Japan's equities markets. By using the FIX hub Nomura gains the value added factor of representing a neutral access point for FIX order flow that is physically located in Tokyo. The FIX hub plays a novel role in capturing order flow, as Nomura's existing and prospect buy-side clients can connect to them via the hub regardless of their respective OMS and regardless of whether or not they are FIX enabled. Specific APIs grant buy-side institutions the right to convert their proprietary protocols into FIX messages.

Due to the MLH being located in Japan, it not only caters for international flow across borders, but also satisfies the need of Japanese domestic institutional buy-side clients that are not FIX enabled.

Generic access to algorithmic strategy engines via the FIX Protocol

FIXを使いアルゴリズム戦略エンジンのサービスを提供

Nomura Securities will shortly release its algorithmic strategy engine. Its analytic models looking for trading opportunities will be accessible via the FIX protocol. Hence, the importance of the hub as a FIX concentrator gains further importance to provide rapid connectivity to Nomura's strategy engine. buy-side institutions can place their trading strategies via the FIX hub into Nomura's new algorithmic strategy engine by utilising specific FIX parameters. As for other strategy engines, Nomura placed emphasis on third party vendors to build generic access from their broker neutral trading tools to their strategy engine shortly to be released. As an example, the XiliX multi-broker trading tool will connect to the FIX hub providing a Japanese language user interface that will help Japanese asset managers register trading strategies with Nomura's algorithmic strategy engine. As Nomura's clients will eventually have a choice on the user interface to access the strategy engine, products that ensure high performance market access and are able to cater to high transaction volumes will likely succeed. Whilst the FIX protocol eventually processes all such orders, the performance and scalability of the FIX engine transferring orders to Nomura's strategy engine will be one of the key success factors for

traders to execute selected strategies. Algorithmic trading engines have recently become a buzz word in Japan's domestic buy-side industry. Despite this, traditional buy-side institutions have limited access to such trading engines in the Japanese financial market. Large domestic asset managers generally continue to use traditional order management systems that have not yet implemented generic FIX access to brokers' black box strategy engines. However, awareness in the domestic institutional client segment is increasingly rising, combined with the awakening ambition to take control over their own trading cycles - as it is so common with hedge funds and other buy-sides in the US and Europe. For the Japanese domestic buy-side segment, there are tools that satisfy these needs. These tools are compliant with Japanese domestic requirements, and buy-side institutions can license its generic access to Nomura's algorithmic trading strategy. During the next twelve months, large domestic asset managers in Japan will be on the search to access the various existing black-box strategy engines through vendor neutral, multi-broker trading GUIs that are customised for local demand and compliance needs, and provide access to market liquidity.

"Although it seems the penetration of DMA and algorithmic trading in Japan is about 5 years behind the US, it has reached a stage of rapid growth," says Toshihiro Kunimune, Managing Director and Head of Sales Trading & Agency Execution, Nomura Securities. "Nomura Securities is strengthening their value added trading services with the addition of electronic and automated execution capabilities, offering DMA which emphasizes speed and anonymity, access to algorithms rationalizing manual execution capacity, and execution propositions and execution analysis along clients' benchmarks. These services have been added to traditional execution methods offered by sales traders, who provide extensive trading services."

Bridging FIX to non-FIX standards in Japan through the FIX hub

FIXハブを通して非標準FIXとFIXの橋渡し

In Japan, most asset managers have not yet embraced the FIX protocol and trade with their executing brokers by traditional means. Only slowly are they recognising the benefits of taking control over their trading life cycle. We see MetaBit's MLH™ playing an important role, initiating the

first contact to FIX for Japanese buy-side institutions and smaller brokers. Domestic buy-side institutions and smaller brokers can test the water for the FIX protocol by accessing the FIX engine inside the hub via a JAVA or .NET API from their existing Order Management Systems that already comply with local market rules. In principle - as first level of engagement with the FIX protocol - such Japanese clients outsource FIX services entirely to the hub. They experience the value of the FIX protocol and its effect on their business indirectly, without being forced to make initial investment decisions for a FIX strategy.

This set-up represents an opportunity for Japanese firms that are hesitant to engage with FIX, to participate in the FIX community and leverage execution capabilities across Japan's exchanges for equity and commodity products. Eventually it is a starting point that should help Japanese clients to become FIX 'native.' Once the value of the FIX protocol is recognised and Japanese firms wish to extend the technology to different product areas, the natural need to build an internal FIX architecture becomes unavoidable. However, it does not reduce the need to continue to utilise the FIX hub for reasons of efficient support and maintenance of FIX connections (technically) and finding best execution capabilities and market liquidity in Japan's markets (business).

FIX-hubs - a move towards future global FIX concentrators

FIXハブ - グローバルなFIXコンセントレータへと前進

Nomura Securities has recognised that it can widen its access to Japanese and international buy-side institutions by obtaining order flow via the FIX hub. Connecting their own FIX engine to the hub provides a low cost access to clients that provide cost efficient electronic order flow to Nomura both domestically and internationally.

Strategically, it offers opportunities for Nomura to leverage the hub for outbound order flow to other independent hubs globally or for its order flow to Mainland China. Passing order flow through vendor and broker neutral FIX hubs represents the future of efficient order management across the globe. FIX hubs will increasingly become concentrators and access points for managing cross border order flow, and represent more cost and performance efficient technology compared to traditional order routing technologies. It reduces dependency on software vendors for

brokers and buy-sides alike and results in reduced support and maintenance costs inside their internal IT departments.

Competitive positioning on the FIX hub in Japan

日本のFIXハブ接続による競争力の向上

The Japan FIX hub offers buy-side institutions market liquidity for their required markets and the choice to select their executing brokers. Yet the FIX hub does not compromise the role of the sell side broker. On the contrary, firms such as Nomura Securities know that leveraging FIX hubs and FIX technology will increase their competitive position. Eventually, buy-side clients will select their executing brokers by quality and services provided. As important as FIX is to the technical departments supporting their businesses, it none the less remains a support for business strategies, going by the old saying that 'business drives technology' and not vice versa.

Today is the advent of FIX for Japanese financial institutions. The appetite for FIX in Japan is growing. In Japan, signs that FIX will entrench itself as a standard over traditional technologies during the next few years (as in other parts of the world) are increasing. The number of non-securities related exchanges (such as Tokyo's Commodity Exchange and the Tokyo Grain Exchange) and their broker members that engage in FIX are on the rise. For the commodity market and soon Japan's traditional rice market, FIX is about to become a standard.

Nomura - a leading example for FIX in Japan's domestic industry

野村証券 - 日本のFIX業界における先導的役割

We believe that Nomura's commitment to FIX and their leverage of the FIX hub is a prominent statement that encourages Japan's traditional securities firms and their buy-side institutions to build a growing trust in FIX. A trust that FIX not only adds value to cross border, international business flow, but also efficiently and successfully combines internal and external order flow front-to-back for Japanese domestic businesses for any exchange and product. **FIX**

Any thoughts on this or other articles?

Please send any comments, referring to this article as Vol 1 Issue 6 JP1, direct to Edward at edward@fixglobal.com