

Asian FIX Conference, Shanghai 24 June 2005: Event roundup

By Joel Hurewitz, Deutsche Bank

The Asian FIX Conference 2005 was successfully held in Shanghai on the 24th June 2005. This signature event saw the participation of a wide range of speakers who covered the latest issues of electronic trading in China.

Over 160 delegates packed the Pudong Shangri-La ballroom along with representatives from all the leading financial institutions, brokerage houses, solution vendors, asset managers, regulators and, of course, the supporting exchanges. Leading experts from the Asian FIX Committee, domestic exchanges and the regulator came

together to create a day that was informative, interesting and lively for all.



Through a wide range of presentations and showcase exhibitions, the ways in which FIX and STP help in lowering operating costs, enhance efficiency and productivity were explored.

Ms. Yang Shuqin, Deputy Director General, Information Technology Department of China Securities Regulatory

Committee, kick-started the conference with her keynote speech "Standardization of the China Securities Market and the Application of FIX".



Ms. Yang began her presentation by giving a brief review of the standardization process occurring in the China's securities market. This was followed by a discussion of the various industrial standards in terms of both their applications and popularizations. The development of the STEP Protocol (the Chinese protocol that used FIX as its base) and its relationship with FIX Protocol was also discussed. Ms. Yang wrapped up her presentation by sharing with the audience the future plans of the China Finance Standardization Technical Committee.



In his opening address, Mr. Chris Biscoe, co-chairman of the Asia Pacific FIX Steering Committee, welcomed the distinguished guests and delegates and expressed his gratitude to CSRC and the three exchanges for their support.

Bringing his experience and expertise in Asia and Europe, Mr. Marcus Consolini, co-chairman of the Asia

Round Table - Electronic Trading in China: a participant's impression

By Kelvin Leung, Franklin Templeton Investments

The final session of the Asian FIX conference was one of the most illuminating presentations of the day. The earlier presentations dealt with the current state of electronic trading in China from the regulatory and technical perspectives and infrastructure perspectives. The panel discussion was an honest reflection of many of the unanswered questions facing STEP / FIX's evolution in the China market.

The panel consisted of representatives from across the industry. An exchange view was provided by Dr. David Dapeng Li, CTO of the Shanghai Futures Exchange, along with the event's moderator, Dr. Zhongsu Chen, formerly deputy CTO at Shanghai Stock Exchange. Kelvin Leung, senior trader at Franklin Templeton Investments in Hong Kong, offered a buy-side perspective, while Ms. Lu Yisha, VP Sales & Trading for China International Capital Corp and Mr. Gou Yifeng, CTO of SYWG Securities offering their insight from a sell-side perspective.

All agreed that the benefits of FIX and industry protocols were potentially the same in China as it is in other markets around the world. That is to say that more automated processes would free up staff (to add greater value to clients), decrease the chances of trader errors, and generate faster transaction turn around, leading to higher trade volumes; in summary efficiency.

Also, there was consensus across the panelists that the industry evolution in China was increasingly creating an environment conducive to wider adoption of FIX. The work already done by the CSRC, the exchanges and brokerages on STEP and other protocols had provided a foundation on which to build. In the last two years in particular, the level of understanding about both the technical challenges and business imperatives has (and continues) to grow.

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Many challenges still remain however. Through the discussion, it became apparent the challenges as they currently exist, are not so much technical, but business driven. Deployment of technology can be viewed in other markets around the world and valuable lessons learnt, (at little cost to Chinese market participants). However, in China, there is an apparent vacuum when it comes to the key catalyst for FIX automation.

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In the US, it was the buy-side institutions that pushed their sell-side counter parts (and therefore the exchanges) to implement an industry standard and automate processes. In China, the exchanges look to their clients, (the brokers) to act as the key driver of change. However, the brokers look to their institutional clients (QFII firms) to act as key initiators. Currently, the scale of the QFII market is not sufficiently large or diverse to warrant huge pressure from the buy-side. At this point, a combination of pressure from the QFII buy-side, the exchanges and the regulators push

adoption of STEP / FIX forward, albeit at a slower rate than seen elsewhere.

From a sell-side perspective, the cost of implementation is a real hurdle for many Chinese brokerages. Unlike in many other markets, the cost of staff (i.e. traders) in China is relatively inexpensive in comparison to the technology and business costs associated with implementing STEP / FIX. It is much cheaper to have a trader deal with their QFII client's trade, than to automate the process. While the longer-term imperatives driving automation are present, the more immediate 'motivation' is still relatively low.

The whole unbundling debate that has been coming out of the UK has brought this to the fore because traditionally, this business has been built around a bundled commission

Another challenge is the evolution of the market in China, which is happening very rapidly. Whereas markets in US and Europe have been able to evolve over time, China is playing catch up in many respects. Technologically, the hardware and software in Chinese firms and exchanges are "certainly no worse" than their counterparts in the US or Europe, but many of characteristics of these global markets (such as the variety of products available) will require time to fall into place in China. Of course, this same challenge also provides the opportunity for China to 'leapfrog' other markets and to take a leading role globally in shaping the future of electronic trading.

China's potential to show other markets the way, will be shaped by all the parties involved, (buy-side, sell-side, exchanges, regulators and government) and driven by increasing market sophistication underpinned by market performance over the next few years.

In closing the confirmation of additional US\$6bn of QFII Quota by the CSRC and what looks to be the bottoming out of the A-share market will be a bigger reason for local brokers in China to start thinking of FIX. ■

Pacific FPL Education and Marketing Committee, provided a "Historical Review of FIX". In his presentation, Mr. Consolini outlined the growth of the FIX Protocol over the last ten years and how it has helped the industry improve the global trading process. Mr. Consolini also touched on the application of FIX on the more advanced electronic trading applications such as Program Trading, Algorithmic Trading and Direct Market Access (DMA).



Following Mr. Consolini, Dr. Zhongsu Chen, Former Deputy Chief Technology Officer of Shanghai Stock Exchange gave a presentation entitled "The Historical Review of STEP". In his presentation, Dr. Chen focused on the driving factors of adopting the FIX and STEP Protocols in China with specific focus on the initial strategy of adopting FIX. Dr. Chen also shared with the delegates the principles behind STEP, the drafting process, and why these developments have been significant.

Mr. Roger McAvoy, Regional Director of Thomson Financial, started the Diamond Sponsor presentation by sharing with the audience the latest trends in Electronic

Trading. Important trading trends hitting Asia such as Order Flow Allocation, Algorithmic Trading, and Direct Market Access were touched upon by Mr. McAvoy who used charts and figures to outline the case. Mr. McAvoy ended his presentation with an overview of the integration of various trading technologies - including an OMS, Execution Management Systems, Compliance, Allocation and Settlement systems.



The afternoon session focused on the technology issues of FIX with Ms. Grace Lin, Director, Asia Pacific Equity Electronic Trading of Citigroup Global Markets Asia, providing a comprehensive introduction to the technology of FIX. In her presentation, Ms. Lin discussed the core components of implementing FIX in conjunction with some of the more common issues.

Following Ms. Lin's presentation, Mr. Kelvin Leung, Senior Trader of Franklin Templeton Investments in Hong Kong, shared with the audience the case study of Franklin Templeton's drive for Straight Through Processing and their adoption of the FIX Protocol. Mr.

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Leung ended his presentation with Franklin Templeton's future plans for the FIX Protocol while highlighting the expected advantages.



Ms. Emily Yu, Deputy Director, Computer Engineering Department and Head of IT Strategy and Planning Task Force of Shenzhen Stock Exchange provided an overview of the technology of STEP.



Ms. Yu's presentation was followed by a case study of STEP, conducted by Mr. Ding Hua, Senior Executive Manager, Technology Center of Shanghai Stock Exchange. Mr. Hua provided an overview of the Shanghai Stock Exchange New Generation Trading System (NGTS) in his presentation.

Following the presentations, Dr. Zhongsu Chen chaired a Round Table discussion on Electronic Trading in China. The panelists included Dr. David Dapeng Li, Chief Technology Officer of Shanghai Stock Exchange, Mr. Kevin Leung of Franklin Templeton, Lu Yisha, Vice President of China International Capital Corporation and Mr. Guo Yifeng, Chief Technology Officer of SYWG securities.



The panelists discussed a wide range of issues such as the benefits of FIX, the current market conditions in China, the technical and regulatory conditions, and the challenges that lie ahead in the World's fastest growing economy. Through the lively and interactive discussion, the panelists shared their experiences on electronic trading and how it's been helping their businesses.



Mr. George Molina, co-chair, Asia Pacific FIX Steering Committee, thanked the delegates, supporting organizations, (especially The CSRC), and the three exchanges, in his closing remarks. The event was officially closed having provided an excellent opportunity for delegates from China, Hong Kong, Singapore, Australia, Tokyo, Europe and the US to exchange ideas on their experiences in Electronic Trading. **FIX**

Any thoughts on this or other articles?

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