

FIX, its not just for equities anymore...



By Scott Cooper, Head of Business Development & Channel Marketing, Asia, BT Radianz (left) and Peter Tierney, Head of Regional Business Solutions for Asia, BT Radianz



I used to have this misconception that FIX was a protocol used solely for equities. But the more I spoke with FIX vendors and institutions, particularly in Asia, I began to realize the number of instances that FIX was already being used in the world of Foreign Exchange and Fixed Income.

From my knowledge of liquidity and access this made perfect sense. But operationally I wondered how much the FIX FX and Fixed Income users had to “man-handle” the protocol to achieve the pricing, trading and requirements associated with these asset classes. Would the structure of the protocol be compromised? How would other electronic messaging efforts initiated with other standards such as Extensible Markup Language (XML) collide, compete or merge with FIX? Would it all fit together with SWIFT messaging for post-trade events, or would there be competition to control end-to-end workflow?

Foreign exchange

A little research showed that FIX has supported FX trading as far back as version 4.0. FPL clearly signaled to the trading community in December 2003 that it was actively working to expand the use of FIX in Foreign Exchange with the formation of the FIX Protocol Limited (FPL) FX working group. The interest in and membership of this group has grown rapidly, and there are now distinct sub-committees working to further define and automate the more complex instruments such as swaps and non-deliverable forwards. Steven Donovan, the chief investment-technology officer at

Massachusetts Financial Services, and Jack Lemonik, chief technology officer at the FX electronic-trading platform FXall, co-chair the FIX Foreign Exchange Working Group. Lemonik and Donovan took an inventory of the current FX space, and created a gap analysis to determine what the current FIX FX-messaging standard permits, and what enhancement would be necessary to support the FX asset class across the range of traded instruments. Lemonik has explained that FX is a challenging area to implement FIX messaging because participants have developed a variety of workflows. "It's different than the equities market, where there is a standard way of doing things, because you're trading on an exchange."

FPL has recognized the prominence of FX in the market place and the importance of this asset class to its constituency. In July 2005, FPL acknowledged the significant role of FX in the evolution of FIX and STP processing by elevating the Foreign Exchange Working Group to Global Foreign Exchange Committee (GFXC) status. The group, co-chaired by Steve Donovan and Bill Specht of Currenex, will further strengthen the collaboration between Transaction Workflow Innovation Standards Team (TWIST) Process Innovations Ltd. and the International Swaps and Derivatives Association Inc. (ISDA) to focus on standardizing FX trading requirements in an industry-led, open, and vendor neutral manner.

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FPL has been willing to help the overall STP evolution by working with other industry protocols to smooth out the seams to increase development in the FX asset class and ultimately counter party fulfillment. The International Swaps and Derivatives Association, Inc. (ISDA), FPL, and TWIST, Statement of Understanding outlines a collaborative approach to develop and use a common industry protocol for the Foreign Exchange markets. In this joint effort, FPL, ISDA and TWIST work together to provide

resources to undertake a product coverage and business process gap analysis with regard to the FX coverage in their respective standards - FIX, FpML and TWIST. The three organizations believe that agreeing on the universal business meaning of information and message scenarios covering the financial trading processing chain and utilizing common messaging standards, will enable and encourage the end-to-end straight through processing of foreign exchange messages between industry counter parties, without regard to the network(s) used, the platforms employed or the operating systems utilized.

Systems providers are rising to FIX's multi-asset trading capability as well. Banks, brokers, asset managers, FX portals, and corporate treasuries to enable a common method of connectivity, to each other and to different liquidity pools, are using the CameronFIX Universal Server. FIX enabled counter parties including FXAll, Currenex, HotspotFXi, and major FX banks including UBS, Barclays Capital, Bank of America, and Dresdner Bank. Clifford Lewis, Currenex CEO said "Currenex predicts FIX will grow as the preferred Standard for FX trading. An important step for us therefore has been to develop a FIX gateway so we can offer the broadest and most flexible connectivity options. We have proactively developed our trading platform and API's to make integration and STP as easy as possible for our institutional customers."

Fixed income

While the equity markets had embraced FIX, a few years ago there was nothing comparable in the cash fixed-income markets. Market participants wanted to see whether systems that are on trading desks like Market Axess, Thomson TradeWeb, The MuniCenter and Bloomberg could put FIX into live environments. "If there are shortcomings with the protocol, how are we going to know it until it's actually put into practice?" asked Dexter Senft, chairman of the Online Bond Steering Committee's protocol/standards subcommittee and a managing director at Lehman Brothers in charge of fixed-income e-commerce. Thomson TradeWeb run the most liquid online bond-trading system used by 13 global investment banks and over 800 buy-side institutions in over 15 countries. Dean Kauffman, Thomson TradeWeb's vice president who leads its STP initiatives, worked with the FIWG to get fixed-income tags into the FIX release 4.3. "I don't think that anybody feared that we'd never have a protocol. We feared that we might have too many," said Senft.

Dwight Arthur, a managing director of the Depository Trust & Clearing Corporation, submitted a comment letter that urges the BMA protocol initiative to leverage the existing standards work based on ISO 15022 that is already taking place on the post-trade side for government securities, European sovereign debt, emerging markets debt, mortgage backed securities as well as corporate and municipal bonds. The letter voiced support for the ISO 15022 XML Working Group (WG10) initiative, "which seeks to create a basis in XML for interoperability and convergence among the various financial services protocols." One of the requirements for T+1 and straight-through processing is that the protocol be compatible with XML-and the ISO 15022 data dictionary. SWIFT is the keeper of the ISO 15022 data dictionary, but ISO 15022 is not compatible with XML yet. "One of the desirable characteristics of this protocol is to be compatible with what's already in ISO 15022," says Senft.

Where does this lead in the STP world? "I don't think I want to use half my stuff SWIFT and half my stuff FIX," says a bond e-commerce executive who would like to see XML emerge as a common standard. But given the unique requirements of fixed-income securities, some doubt that one standard will emerge for fixed income. This is where FIX will (again) be tested, for potential overhead as a unified protocol that can cater to a range of asset classes and how well it addresses the pre-trade, execution and post-trade nuances associated with each asset class.

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One problematic area that the protocol can address is sending allocations from the buy-side to their sub-accounts that are maintained on the sell-side's systems. Right now each dealer has to keep track of the same buy-side institution's sub-accounts, "and they're adding and closing accounts every day of the week," notes Senft. "We're always dealing with the complications of having to do that manual entry of what each sub-account is going to," says

Senft. Cleaning up a mess on the allocation side can take two days, he adds. The ability to send allocations electronically hinges on the dealer's ability to load allocations electronically, the buy-side's ability to communicate to the electronic trading systems and the buy-side's ability to get confirmed trades back from those systems' web sites.

Crossing the market

While the majority of the initial e-commerce portals focused on specific asset classes, Cross-asset-class trading is coming. HSBC has brought in a top-notch team of e-trading experts that will navigate the various technological divisions that separate its multiple asset-classes. Not to be outdone, Deutsche Bank (DB) has reformed its global IT management team in order to consolidate its IT infrastructure across asset classes.

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HSBC is radically overhauling its trading technology infrastructure to create a cross-asset-class messaging platform to support its electronic trading operations globally. Kevin Bourne, has taken on the role of global head of electronic trading for HSBC's investment banking arm. At Deutsche Bank, COO Hermann-Josef Lamberti has overseen the changes that not only concern asset convergence, but also the bank's retail arm integrated with the investment bank's infrastructure. The HSBC team has been given responsibility for building a global transaction management architecture, which supports multiple messaging standards and asset classes in a single environment.

The desire to move to a cross-asset-class trading infrastructure appears to be driven by increasingly challenging client requirements. Hedge funds in particular are leveraging arbitrage opportunities across asset classes. "I see a point where you are given five minutes' notice by a client to undertake a cross-asset-class trade on an over-the-counter basis," says Bourne. From a messaging standards perspective, there is nothing preventing this from

happening. "FIX can already do it. The messaging standards are ahead of the industry," he says.

But it looks like there could be conflict on the way as trading desks fight for control of their own activities. The barriers to achieving a cross-asset-class trading infrastructure are more political than technological, Bourne says. "The sell-side is struggling, not because of any inability of the individuals at the investment banks, but specifically because of the historical political infrastructure that exists," he says.

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Bourne and other HSBC officials expect new business opportunities to arise as a result of the new technology architecture. "I don't view building a global DMA platform as anything exciting," says Bourne, who offered direct market access (DMA) services to institutional clients during his days at Fidelity. "To me, it doesn't pass the 'so-what' test. But, if I can offer clients an algorithmic engine that lets them do an FX (foreign exchange), derivative and cash algorithmic trade simultaneously, and I use one piece of architecture to do that, now that's a bit more interesting."

Similarly DB has set out an operating model that promises rewards after some short-term pain, officials say. "Last year, we set out a new business model," says Lamberti. "We apply the structured operating model consistently throughout every business division." He points to the bank's stated aim to centralize, standardize, and outsource, or what DB calls "smart source" all of its operations. The structured operating model resulted in the restructuring of the IT team, he says. For other banks, it may be a painful process to begin pursuing these cross-asset-class trading opportunities, says Bourne. All in all, he says he is confident. "We think this cross-asset-class model will prevail."

So where are we now?

By all accounts, efforts to extend FIX across multiple asset classes are progressing well. And STP elements are also making progress. Tom Buschman, treasury development manager at Shell International and Chairman

of the TWIST initiative says: "The success of CLS makes clear that significant efficiency and exposure improvements can be gained with well-designed standardization and exposed its lack thereof at the buy-side of the market. The result is that in this market one can learn from the mistakes made elsewhere and can avoid the same pitfalls."

The normal paradigms and platitudes start to surface. With extendibility comes inefficiency; with conformity comes loss of nuance and identity. FIXML, like any extendable markup language (ML), gets used to do more abstract tasks, which ends up creating more protracted dialects (with significantly increased bandwidth requirements) that almost starts to take more of a guideline or best practice form rather than a standard, like SOAP.

But the financial community continues to give support to process definition and participation in industry groups to pursue standards for processing practices. As a service provider linking the global institutional community BT Radianz envisage that some of the future steps associated with the automation of workflow with points of multiple reference data to support the required data definitions.

Standards are the foundation for practical business-to-business communications however only be the starting point as FIX grows across asset classes and across the STP chain. The next step - automating the processing and workflow around these interactions is critical for widespread adoption. The onus is on the system vendors and connectivity service providers such as BT Radianz to continue to create high performing systems and services around these standards. **FIX**

Any thoughts on this or other articles?

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