



FIX - aiming to improve the FX trading process

By The Global Foreign Exchange Committee, FIX Protocol Ltd

Most people know that the Financial Information eXchange (FIX) Protocol started off in the Equity sector, and then expanded into other asset classes including Fixed Income and Derivatives.

But the way that FIX has been used for these asset classes has also been applied by many firms to automate their foreign exchange (FX) activities in one way or another. Initially, these firms saw what FIX could do for other asset classes, and used the same principles for their FX messaging. However, because FIX was not yet developed to deal specifically with FX, there has been an element of "shoe-horning" involved - making the shoe fit even though it was not exactly the right size, but at least a shoe is better than no shoe!

There are some areas of FX activity that today are either not handled by FIX or that could be handled more effectively. As a result, the members of FIX Protocol Ltd set

up an FX Working Group to address the specific issues involved. The work that this group has been involved in can now be expanded into a wider initiative of forming the FIX FX committee, showing how the inclusive nature of the FIX community can be leveraged with other standards associations, to enhance automated trading for the industry. This initiative of the Global Foreign Exchange committee, (GFXC), was officially formed at the end of July, headed up by Bill Specht of Currenex and Steven Donovan of Massachusetts Financial Services

Following the creation of this committee came the announcement of a statement of understanding between FPL, ISDA (International Swaps and Derivatives Association,

Inc), and TWIST Process Innovations Ltd, declaring an initiative “to join their efforts in developing and using a common industry protocol for the Foreign Exchange markets”. ISDA develops and maintains Financial products Markup Language (FpML), which is the business information exchange standard for electronic dealing and processing of privately negotiated financial derivatives instruments. FIX, of course has focused much of its effort on the asset manager space while TWIST has its presence in the corporate sector focusing on FX and payments.

This statement of understanding promises much for the FX industry with the three groups stating their aim to “enable and encourage the end-to-end straight through processing of foreign exchange messages between industry counterparties, without regard to the networks used, the platforms employed or the operating systems utilized”. The statement of understanding was developed on the basis of meetings and discussions involving various industry leaders, including representatives of the three standards bodies.

Scott Atwell of American Century Investments and FPL Global Steering Committee Co-Chair commented, “Through the collaboration of these three standards bodies, we will now be able to more clearly define and articulate the 'spaces' each standard serves, to leverage the unique capabilities each provides, and to attempt to avoid the appearance of duplication.”

“By supporting the individual standards and building on the XML expertise of all three organizations, we aim to achieve greater efficiency of transaction processing in the foreign exchange industry to the benefit of all its participants,” adds Robert Pickel, Chief Executive Officer and Executive Director, ISDA.

Tom Buschman, chairman of TWIST, said, “Processing Foreign Exchange transactions involves transacting counterparties and many service providers. Where counterparties may differ but processes are the same, it makes sense for likeminded standard organisations to work together to deliver harmonized standards. This accelerates the ability for the market to obtain benefits from high degrees of automation and enhanced low-cost market access. TWIST is firmly committed to make the collaboration with FpML and FIX a success and a major stepping stone in effective harmonization of standards for financial service processing.”

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It is expected that this initiative will continue to support the FX trading capabilities released in FIX for standardized FX transactions and we can expect enhancements to the specification and additional content specific to foreign exchange securities.

As per the development of the protocol for Equities, progress of a protocol for the FX industry cannot rely on the slow process of calling quarterly face-to-face standards

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development meetings. With input from a number of global sources from the buy-side, sell-side and vendors too, it has to work at Internet speed, using email, instant messaging, Internet telephony and web publishing - solutions that work fast at minimal cost. As is the case currently for the FIX Protocol, progress and usage can start within days of an individual firm identifying and registering a new requirement with FPL. These individual changes are then reviewed after the event to see how they should impact the next release of FIX. All of this user input helps to build each further release of FIX into a more powerful and all-embracing solution for the industry.

Over the last year the FX Working Group has identified four priority areas for the FIX standards process to address:

- General order flow for FX
- FX Swaps
- NDFs (Non-Deliverable Forwards)
- Streaming prices

In order to speed up the process of new standards development, four sub-groups have been set up to work in parallel and to focus on these priority areas. Each sub-group is made up of several FPL members that have subject-matter expertise in the specific area involved. Overall, the GFXC has set itself the goal of providing a defined set of deliverables.

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The extended FIX standard will clearly have to be able to handle the main FX message types. As always with FIX, its aim is not to re-invent the wheel but to re-use the existing functionality of FIX as far as possible without adding unnecessary elements. But the acid test of any standard is how widely it is adopted. To ensure that "FIX for FX" is adopted as widely as possible, the GFXC is also developing a "business-speak" document to explain how FIX can work and benefit the user in the FX environment, so as to encourage users to request that their own departments,

their service providers and their customers use FIX for FX. The GFXC has been following an approach used by the Global Fixed Income Committee, of producing plain English documents that specify the business requirements and then conducting a separate technical gap analysis and recommendation phase. In May the four sub-groups completed their plain English documents and the group is now in the midst of the technical gap analysis. Another part of the deliverables will be documentation of usage procedures and how to deploy FIX to the best advantage in the FX environment.

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In the collaboration with ISDA and TWIST, FPL can work towards completing the piece of the puzzle that is missing today; creating a common business-oriented protocol, to make it even easier for banks and corporates to do FX business directly and to automate FX trade processing for the industry. The collaboration will enable change and increased efficiency within the FX industry to a degree that has not been seen since electronic FX trading was first introduced over 20 years ago.

If you would like to get involved with the GFXC please visit the FPL website at www.fixprotocol.org.

Any thoughts on this or other articles?

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