

Fund managers demand single platform to handle all assets

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Multi-asset strategies are putting providers under pressure

Fund managers expect to be able to trade a range of assets on a single electronic trading platform within the next two years. That was the surprising finding of a survey of buy-side firms conducted by the Securities Industry and Financial Markets Association, which was published in February.

Of those polled, 85% said they wanted to use a single platform, and 55% expected to have one installed within two years.

The pressure is now on technology and systems providers to meet such demands. Although many are developing multi-asset trading platforms none can claim to have a single platform catering for all strategies.

Platforms already exist that allow buy-side firms to trade securities alongside derivatives. But, according to Steve Grob, head of derivatives at Fidessa, a UK-based trading systems and market data systems supplier, the goal of being able to trade equities, derivatives, fixed income, bonds and foreign exchange together on one platform "is probably a bit further away".

According to vendors, one of the difficulties is identifying exactly what is meant by a multi-asset trading platform.

Richard Jones, founder and chief executive of Fidessa LatentZero, a developer of front-office trading systems, said: "Buy-side firms define multi-asset as everything – equities and fixed income and all the derivatives related to these, listed and OTC – as well as money markets and foreign exchange. The sell-side are very stove-piped into equity and fixed-income divisions. For them, multi-asset will be a combination of equities and equity derivatives, or fixed income and fixed-income derivatives."

However it is defined, there is little doubt fund managers are increasingly using multi-asset strategies.

There are several factors driving this, including optimal execution of trade strategies, cost reduction and global trading, according to the Sifma survey (see chart).

Jones said increased understanding of derivatives among buy-side traders was an important driver: "Buy-side traders realise they can use derivatives not only for hedging, but also as an efficient way of gaining exposure into markets. Regulators have also recognised this and are loosening regulations around the use of derivatives, which has given derivatives a big boost." The rise of 130/30 funds and the increasing convergence of traditional investment managers and hedge funds reflects the trend.

Bertrand Rassaat, head of the London operations of FlexTrade Systems, a developer of multi-asset execution management systems, said market volatility would fuel the use of derivatives. "The downturn in the markets has reinforced the importance of trading in multiple-asset classes, using derivatives to reduce risk," he said.

In such a rapidly evolving trading environment, building platforms that can support multiple-asset strategies is no easy task.

Paul Miller, a partner at Morse Management Consulting, a London-based IT and strategy consultancy, does not expect to see true multi-asset class trading platforms in the immediate future.

He said: "There are a number of challenges in developing such systems, including at what point in the trade life cycle do you integrate the technology? If you look at building one platform because you do not want to go down the integration route, the system has to be very flexible and that is difficult to achieve."

As the requirements have become more complex, large order management and execution management systems have longer update cycles, in some cases moving from between four and six months to every nine to 12 months. Miller said: "New instruments are coming through all the time and the buy-side firms cannot wait that long for a system that will cover these."

Large fund managers need to work out how best to deploy multiple trading platforms, despite it being complicated and expensive. Although a single platform could reduce overheads, Miller warned that vendors would struggle to keep up with rapidly evolving instruments and products. He believes there will always be the need for niche components for particular instruments to be developed externally or in-house.

FXall, operator of a foreign exchange electronic trading platform, last month agreed distribution with agency broker ITG under which ITG clients can trade foreign exchange through the FXall system. Jim Kwiatkowski, head of sales for the Americas at FXall, said that although there were products that enabled trading in multiple assets, integration would become tighter.

He said: "Tools are always evolving as people figure out the inter-relationship between assets. FXall's focus is to integrate with the tools traders want to use."

Jan Birkmanis, head of product management and customer services for SunGard Front Arena, a cross-asset trading system, said that to be successful, developers had to start modelling a system from a very low level and realise they were building across asset classes: "This all depends on the data model and how it is set up."

This approach, called normalisation, will enable all products to be hooked together to provide trade capture, order management, confirmation, valuation and position management. Birkmanis said the different features hung together within one piece of software rather than being spread across different systems and, crucially, in a normalised system, each piece of data looks the same, no matter which asset class it refers to.

Grob agreed that the only way to build multi-asset platforms was from the ground up. Fidessa spent two-and-a-half years developing its platform, using developers with expertise in each asset class.

Lee Olesky, president of Thomson TradeWeb, an online fixed-income market, said developers of multi-asset class systems must have a good sense of the underlying dynamics of the market.

He said: "You have to analyse the underlying market structure, the participants in the market and how it works in order to offer electronic trading and straight-through processing services."

Parent company Thomson Financial announced in January the completion of a partnership with nine global dealers aimed at developing TradeWeb into a global, multi-asset class execution venue. Under the terms of the deal, Thomson Financial contributed its equity trading-related assets, including AuEx and the Thomson Order Routing network to TradeWeb.

Thomson and the dealers agreed to fund additional investment to expand the TradeWeb platform to new asset classes, including equities and derivatives such as interest rate and credit default swaps.

The FIX protocol, a messaging standard developed for the real-time electronic exchange of securities transactions, has been critical in the exchange of information needed for multi-asset platforms, said Rassaat. "Until recently, Fix had not supported fixed-income transactions, but that is changing. As soon as Fix is mature enough, we will see more electronic fixed-income trading platforms and then vendors will be able to offer true cross-asset platforms."

For Grob, single platforms are inevitable. He said: "Through consolidation, exchanges are setting up as multi-asset supermarkets and this has driven traders to think in cross-asset ways. Technology vendors with single-asset platforms will find themselves increasingly marginalised."

Graphic

