

# One Platform to Rule Them All

While obstacles exist, creating a single platform for trading across multiple asset classes may not only reduce costs, but may actually increase portfolio returns. **By Robert Stowsky**



**Diversify holdings** across different asset types: It's perhaps the most basic tenet of investing. Unfortunately, for many investment management firms, this premise of diversification has been extended to the technology that supports their operations. Large investment management firms have systems and development staffs that are not only separated by business lines—i.e., the equity and fixed income desks—but geographically as well.

At some point in the trade lifecycle, the diverse order management systems are required to either receive information from a common source, such as a security master, or send information to a common destination, such as the accounting or risk system. In each case, the firms that implement their respective trading systems must tackle the same issues of integration into the larger infrastructure. Likewise, the people supporting each system along the trade lifecycle, from compliance to risk to accounting, must also adapt their systems to the multiple subscribers and publishers of trade data. While various middleware products and the adoption of internal standards alleviate the problem of integration

somewhat, firms will need to consolidate their order management systems onto a single platform if they plan on competing in a fast-moving global electronic marketplace.

## More Than Just Cutting Costs

More and more portfolio managers are looking to increase returns using strategies that require the combined buying and selling of equities, bonds and derivatives. In some cases this includes purchase and sale of foreign assets as well. Executing these strategies requires that the trading desks for each asset type synchronize their actions with each other. Failure to do this can result in currency exposures and price differences between the assets that make the strategy less profitable.

The simplest example of this is the purchase of a foreign equity. A foreign equity buy is most often accompanied by the foreign exchange (FX) transaction needed to cover the cost. Both transactions are usually sent to the same broker. Because the broker knows that the FX transaction is required by the buyer, there is little motivation for giving the best rate. If the buyer were able to enter the foreign equity buy into a single system that broke up the purchase into a separate equity buy sent to an ECN, and an FX transaction sent to a liquidity source, the price for the two transactions would likely be better than the price paid by sending both transactions to the same broker. Even for the firms that do manually break up the transaction into its constituents, there is a lack of immediacy in covering the FX exposure because the trades are not being automatically routed from a single system to the sources of liquidity.

The creation of a synthetic convertible bond is another example of a common multi-asset strategy. In this case, the purchase of a corporate bond and a call option are required to emulate the payout of a convertible. If the synthetic is being created for a foreign company, an FX dimension is added as well. The component bond, option and FX trades will most likely be executed on three separate trading desks. Each of these desks will have systems that do not

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know that a particular trade is part of a larger strategy. Extra steps are first introduced to separate the trades for execution on different platforms. Even more steps are required to aggregate the resulting trades for updating the portfolio manager's view. Finally, each system will report separately to downstream systems such as risk and accounting.

Portfolio strategists and traders should not underestimate how these additional steps can reduce a strategy's return. Only trading systems that can support the different asset types involved in these transactions can meet these critical throughput requirements.

### Obstacles and Opportunities

Enabling traders to enter a multi-asset transaction into an order management system and have it disperse the component trades electronically to the appropriate pools of liquidity for each respective asset type could substantially reduce operational costs while improving trading performance. The investment industry, including product vendors and service providers, is making progress toward creating an environment where a single platform for trading all asset classes is becoming a possibility in the near future.

The recently released Financial Information Exchange (FIX) 4.4 specification has extended its equity roots to lay a solid foundation for electronic execution of fixed income, listed derivatives and some simple FX transactions. The announcement of collaboration between Fix Protocol Ltd., the parent organization responsible for the FIX protocol, and the International Swaps and Derivatives Association, the parent of the Financial Products Markup Language

It will take time for all of the necessary parties to move toward a global electronic multi-asset marketplace. Those firms that move early will enjoy advantages over their competitors, as will the product vendors and service providers. Business opportunities exist for investment banks and brokers who create multi-asset trading Web portals, or FIX gateways, that allow their clients to route trades to the sources of liquidity needed for each asset type. By looking at their customers' transactions across business lines, firms can differentiate themselves by reducing counterparty collateral requirements and providing increased advisory services.

### A Single Platform Coming Soon

The ability to speed up the execution of a multi-asset trade will only succeed if the parties involved have first defined how they will work together. While a single platform may be shared across multiple trading desks, it is still the professionals at those desks who will determine the quality of each trade. In addition, only experienced operations and technology staff members with the understanding of the workflows for trading each asset type and can fully maximize the operational efficiencies as those workflows are modified for an electronic environment. As multi-asset systems are implemented, portfolio and trading strategists will take advantage of the speed and flexibility provided by these new platforms to create innovative new investment and trading products for their customers.

The reality of a multi-asset trading platform is only a couple of years away, if not sooner. The first such platforms will likely come from an alliance of ECNs and Alternate Trading Systems (ATs),

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(FpML) will extend this foundation to include over-the-counter derivatives. A number of liquidity platforms for fixed income and FX currently offer proprietary interfaces for direct integration into both in-house and vendor-built order management systems. As these platforms and their client investment firms move to adopt industry standard protocols, the costs of integration will decrease, opening the door for smaller firms to also participate in the electronic trading of these asset types, further increasing trading volumes and liquidity.

like Instinet, TradeWeb and FXall, providing a single point of entry to their individual platforms. Following the widespread adoption of FIX 4.4, vendors such as Charles River and Macgregor could easily adapt their order management systems for electronic execution across asset classes. It will only be through the collaboration of all of these parties that the full benefits of electronic trading can be realized. ■

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