

Buy-side Driving Allocations And Confirmations

Examining the latest developments in post-trade, with Darrin Vallone, Vice President Investment Operations, Capital Group.



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Vice President Investment Operations,
Capital Group

Status Quo

At Capital Group we have a proprietary trade processing system that we've developed internally. We've always done local matching both for non-US, as well as US equities. For the past 10 years, we have been using FIX on the trading side and as well as to send allocations for non-US equity transactions to our brokers. For the US, and other regions within the Americas, we would use domestic OASYS to send the allocation. Everything is traded over FIX. For confirmations, we've used OASYS Global for all of our non-US confirmations and we have a pipe directly into DTCC for DTCC confirmations. We match at the allocation level. Today, we don't do any block-level matching.

But that's just the current landscape. What drove us to this project was Omgeo's decommissioning of OASYS Global.

Going forward with FIX

Though we can see some of the benefits of what Omgeo is trying to do with CTM and central matching environment, we decided to look at other alternatives in the market for how we can confirm trades and that led us to FIX. FIX has been in the market for many years. We were already doing allocations via FIX, so after a lot of analysis on our side, we said a natural continuation of the FIX execution and allocation would be the confirmation space. Then in speaking with some of our peers, there was, for different reasons and actually for different markets, a further push for FIX allocations and interest towards FIX confirmations. Where we are today is we are

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slowly putting some brokers on the CTM, that are still in an allocation-based workflow, but we're not doing blocks. Our big push with our bigger broker dealers, is to have them on FIX confirmations. We have a project that has been going on since summer 2012, where we put a lot of emphasis on trying to develop a FIX specification that would be used across counter-parties, by many investment managers, trying to put a common specification playbook

out there that everyone could use to create consistency in the marketplace. We've been developing to that specification since. We completed our development last month and in May and we went live with our first broker.

As we were going through the specifications within the FIX Trading Community working group, we benefited from the participation from other investment managers and the sell-side, as well as some vendors that would be supporting this as well.

There was a lot of work being done in various meetings to bring everyone together and really try to harmonise the specification. The

goal being that the sell-side didn't want to have a lot of customisation and were looking for a standard.

Any sticking points?

I would say it wasn't necessarily an easy task; as there's already been investment put into the existing systems, so there was a bit of a sticking point in that this working group was introducing another way to confirm, and it was going to require a build for every single broker. But

that said, the brokers saw the value of having another means to confirm, leveraging what's already part of the infrastructure and the allocation and the trading as part of a cost-effective model. The value proposition was there. The push is towards harmonisation, standardisation, with many buy-sides using it so there is scalability, and now it's actually gone the other way where we're starting to see more people interested in it. It went from being a problem of "How we get people on board?" to now people saying, "How do we get on board?"

The timeline was also a factor since we were using OASYS Global and when a decommission

date was indicated, we had to strive to meet that timeline. As much as we expect this to go smoothly, we anticipate a few bumps. Right now, we are solely focused on the non-US markets. However, there's some traction in the fixed income space and we know that some of our peers are looking heavily at the US equity space.

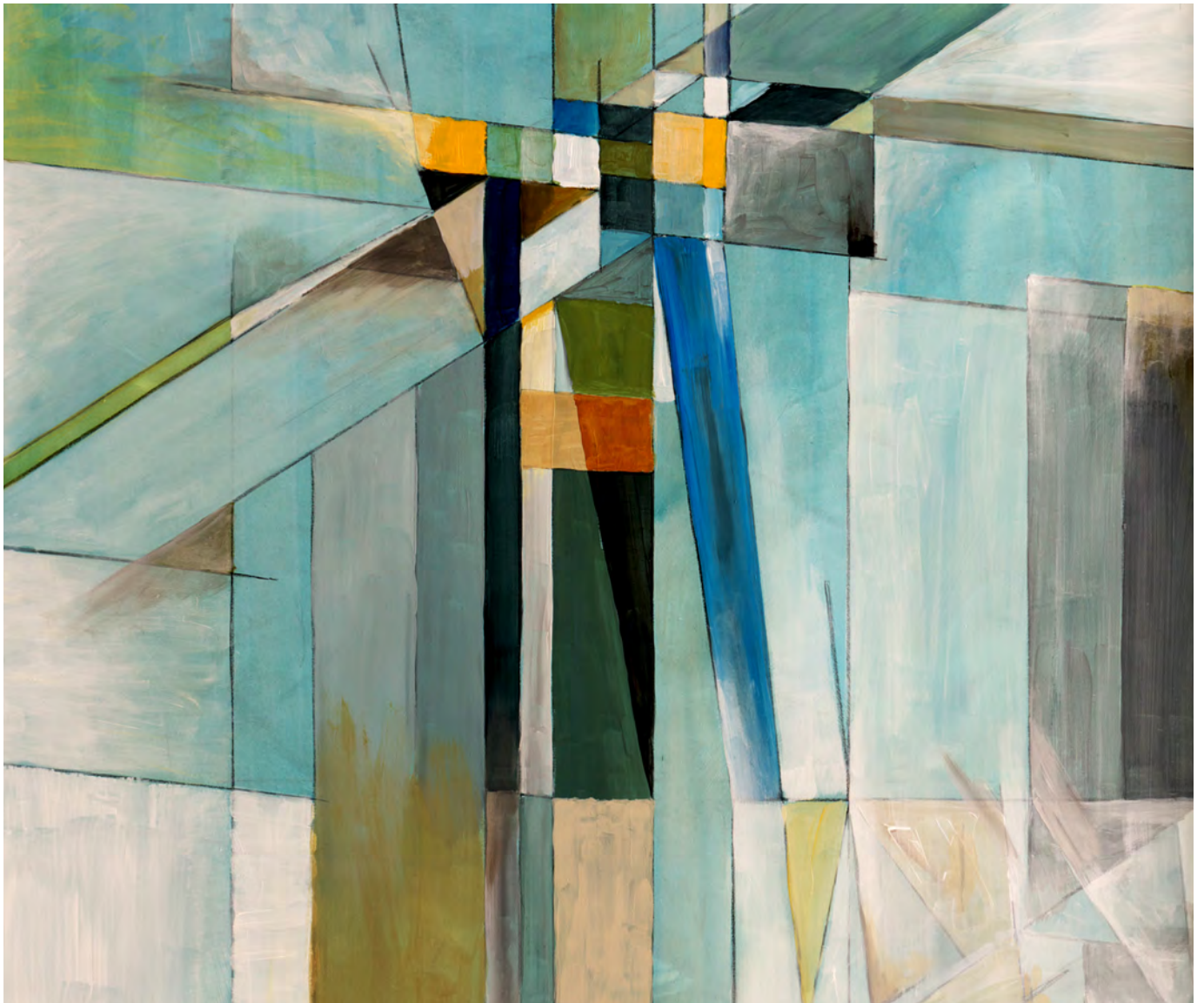
And the reaction from fellow buy-sides?

The buy-side has been growing receptive to it; just trying to have something different, a cost-effective solution and complementing the existing lines that they have today within FIX. They've been really supportive in joining the efforts to

meet some of the timelines as well. The convenient part is that it should achieve a smooth flow. If you're getting the allocation, all those tags would be populated to help populate the confirmation.

Our focus is global; we're rolling out across the globe for all locations. One of our requirements to the sell-side is that we wanted to have global coverage.


Contact the Author editorial@fixglobal.com



What's the next frontier for post-trade processing?

By Bill Hebert and Ignatius John of Alpha-Omega Financial Systems.

Multiple Asset Classes

As with many other initiatives involving FIX and electronic trading, equities has paved the way for the development of innovative post-trade solutions. With the adoption of FIX based post-trade that is now gaining significant momentum in the industry, the questions looking forward are: "Which markets and security types will follow suit, and how much of what has been developed for equities is suitable for other asset classes?"

The newly organised Global Post-Trade Working Group and other involved committees within the FIX Community are now addressing these issues. For starters, fixed income is receiving a lot of attention. With its legacy of manually intensive processing and limited options for front to back automation, fixed income post-trade is ripe for new solutions. Several buy- and sell-side firms have also expressed interest, or are currently engaged in pilot programs for enhancing FIX post-trade for foreign exchange, derivatives and even commodity-based instruments.

Expansion of FIX Post-Trade Workflows

Trade allocations have been provided for in FIX since the launch of v2.7 in the 1990s. The enhanced workflow in v4.4, with the addition of comprehensive affirmation and confirmation detail, has driven much of the more recent focus and led to the development of complete FIX post-trade solutions for the industry.

So where do we go from here? Cross border trading may add some complexities to post-trade. These will need to be addressed and any necessary changes incorporated, especially with regard to local regulatory mandates and operational practices. Fortunately, FIX has anticipated much of what will be needed and is also capable of working and coexisting with other established standards to gain greater traction in the post-trade space.

Communication with custodians and the management of settlement instructions are also an integral part of post-trade. With recent enhancements, FIX is now capable of accommodating settlement instructions that can be sent to the custodian banks, thereby providing a comprehensive FIX-based solution for the post-trade process.

Achieving Straight Through Processing

With the advanced adoption of FIX beyond the more traditional equities and front office usage, the post-trade process will soon become more tightly integrated with that of trade execution. Order and execution management systems will further collaborate with post-trade solution providers in order to deliver seamless, accurate and timely messaging from pre trade indications, to order routing and execution, to post-trade. This will increasingly eliminate the processing barriers between front, middle and back office and result in a fully automated lifecycle from pre-trade to trade settlement.



Bill Hebert,
Co-Chair, Global Education & Marketing
Committee,
Managing Director,
Alpha Omega Financial Systems



Ignatius John,
President,
Alpha-Omega Financial Systems

 **Open**
For Discussion
Contact the Author editorial@fixglobal.com