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GL TRADE

GL NET FORUM

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The One-stop Shop for Financial Knowledge

6th EDITION - LONDON - SEPTEMBER 2006

Editorial

Once again delegates gathered to discuss a whole range of topics at the GL NET FORUM. Linking all the various subjects on the agenda together is almost impossible. Perhaps the one thing they all have in common is that they present challenges at both the micro and macro level to all market participants.

The fact that often there was almost no consensus on how to solve the issues should come as no surprise. Opinions make markets and just as one trader will think an asset is going up, another will think it's going down. Perhaps the only common view expressed across the topics discussed is that technology will be utilised ever increasingly to try and overcome the hurdles that are placed in front of market participants.

And once any technology is in place, those who have rolled it out will naturally look for economies of scale. Increasingly, more trading venues and more assets will all be available on the same platforms, making multi-asset trading a virtual reality at least.

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Cover credits: Stockbyte



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A Drink Up at The Brewery

GL NET FORUM: Growing Every Year

The GL NET FORUM is always the perfect opportunity to catch up with old friends, meet new ones and get to grips with the trends and issues that are current in the financial markets. For those reasons, 2006 very much stuck to the same procedure as every year

Over 700 delegates attended this year's GL NET FORUM, once again held at the historic Brewery in the City of London. The atmosphere was as welcoming as ever as colleagues, friends and partners all came together for the sixth year in succession to discuss and debate the many issues, as well as the new, exciting and sometimes frightening trends facing the financial services industry.

Every year, the Forum is well supported by GL TRADE's partners. This year was no different and with 30 exhibitors displaying an impressive range of services and products, there was something for everyone. It did not take long circulating among the stands to pick up on the positive vibes at the event. The gathering also provided its now traditional informal networking opportunity. As you walked around the main hall, you soon bumped into old friends, many of whom you may not have seen since last year's Forum.

Those who arrived early may have been a little surprised at how quickly The Brewery was filling up. There was

standing room only at several of the round table discussions, where the speakers were upbeat, informative and sometimes controversial as well. This was no surprise, because when markets face the possibility of wide reaching change, it is always hard for all participants to reach a consensus.

Themes discussed at the GL NET FORUM included the looming Markets in Financial Instruments Directive (MiFID), direct market access (DMA), data latency and algorithmic trading. None of these are new and have been discussed at length before at previous Forums. But like the markets themselves, these topics are constantly evolving.

The lively debates suggested that there is still plenty to discuss and learn about these topics. Is MiFID the elephant in the room? There are a plethora of consultants and market participants who think that it is. The regulation could dramatically alter who and how firms conduct their business with. And while there are challenges, there are also opportunities, especially for those who understand

the problems and issues posed and who are bold enough to take innovative decisions to find solutions.

It may be that some financial institutions will take this opportunity to clean out their house completely. They may take an integrated approach to achieving compliancy for their operational systems, not just at the front- but also at the back end. MiFID may become the catalyst for wide reaching change, finally pushing institutions away from their traditional silo based approaches.

But MiFID was not the only topic on the agenda that interested the delegates who attended the Forum from all around the world and all sectors of the markets. There were representatives from the buy side to sell side, from hedge fund to asset manager, from traders to brokers and from exchanges to alternative trading venues. With such a diverse attendance, opinions were bound to be different, but it seemed that everyone was interested in hearing the alternative view. It is hard to imagine such a varied range of mar-

ket participants all congregating in the same location, but that is what the GL NET FORUM once again achieved.

Heetesh Rawal, Managing Director, Sales, Europe at Hyperfeed, summed up what many felt: "Thanks to the conferences, I am learning a lot. I would be glad to have a written feedback of them to go deeper in the contents. Their contents are very useful for my business," he said.

The Forum's real strength undoubtedly lies in the networking opportunities it presents. Marjo Grandell, Client Executive at Swedish SEB Enskilda Securities Finance, said: "The Forum has been completely above our expectations. It's been really good and we've met a lot of prospective clients."

Similarly, Mert Erdogmus, Assistant General Manager at Turkish IS Investment, stated: "We've met some old clients and lots of potentially new ones. We've had a great time here, both from a business point of view and also social."

Michael Kotov, Head of Electronic Trading Services at Russian broker Aton Capital, said: "The Forum gives us a great exposure to the London community and others as well. We've seen lots of old friends and prospects, as well as getting new ideas. It's definitely been worthwhile."

Kotov added: "We're a collecting broker on GL NET and it's always good for us to come to this event. We're ready to start attracting order flow into the Russian markets, and this is a great way for us to increase our exposure."

Brian Sweeney, Vice President Marketing at Marco Polo Network, which specialises in providing cross-border access primarily to emerging markets, felt that he was seeing the benefits

this year of attending the Forum last. "It's been a good day. It's the second time we've been here and there's been a huge difference in the interest this time. We've seen old contacts and met new ones," he said.

Marco Polo has a strong presence in Latin America, and it seems others are now looking to access those markets again. "Latin America is now very much in demand as an electronic trading destination and we are seeing that reflected in the attention we have had at our booth," Sweeney added.

Wim Van Lerberghe, Vice President International Sales at Penson Financial Services, was another who had come from afar. "I travelled 10 hours all the way from Dallas and it is a really great place to network and meet clients. I will be back next year and I was happy with the event this year where I was able to connect with prospects, existing customers and various industry contacts," he said

Gustavo de Camargo Schahin from Brazil's Schahin Securities was also enthusiastic about what he had got out of the Forum. "This is the second time we've been here and it's been very good. It's an opportunity to meet people we already know and new clients as well. Even all the other exhibitors are business prospects. We'll definitely be back next year," he said.

But while the tone was business-like throughout the day, some of the delegates did joke about how they were looking forward to the cocktail reception planned for after the Forum. It would be a slight exaggeration to say that this proved the most popular session of the day – GL TRADE had of course managed to organise an absolutely splendid drink up at The Brewery – but it was noticeable that the attendance remained exceptionally high. All in all, this year's GL NET FORUM was the successful event people have come to expect. ■



Buzz from The Delegates

On September 28th, some delegates expressed their views on the GL NET FORUM ■



Alex FOSTER
Head of Sales, Global Execution Services UK,
BNP PARIBAS Equities & Derivatives

“ It was fantastic for BNP PARIBAS to promote our products here with the exchanges, the sell side and the buy side present, who can all be potential clients. It’s an opportunity to talk about algorithms, DMA and execution services in a nice comfortable forum away from our day to day activity. ”



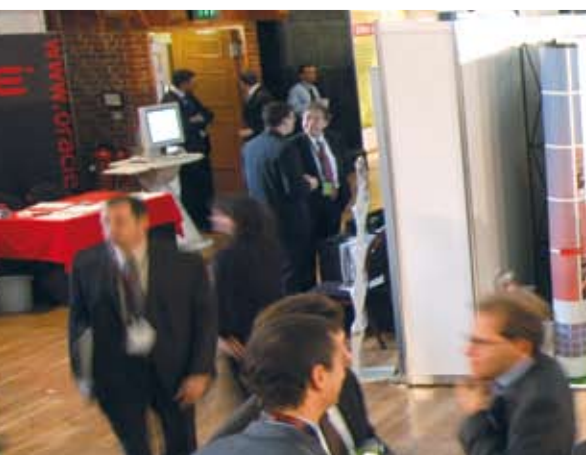
Kazutoshi YAMAZAKI
General Manager New York Office, OKATO
International

“ What we like best at the Forum is the friendly and cosy atmosphere that remains professional to discuss business. ”



Sven ANDERSSON
SEB ENSKILDA

“ Our networking has been very good. We gathered a lot of business cards. My colleagues and I think it has been a very successful event... We appreciate that GL TRADE brings together in fine circumstances a lot of sell side and buy side people and also prospects ... ”





Robert NISBET

Director of International Relations, GAESCO

“ I think it’s a good place to meet people. These things happen 2- or 3- times a year, everybody goes to them. It’s convenient for me because there are a lot of people from the same industry and that we have an entire day to discuss under the same roof. ”



Gustavo De CAMARGO SCHAHIN

International Relations, SCHAHIN SECURITIES (Marco Polo Group)

“ We came here to get to know new clients and meet new prospects and also to show our products and offer our services. It’s a way to expand our market products worldwide. ”



Serkan ARAN, Ozlem TUMMER ELLE

Assistant Manager, Institutional Sales, IS INVESTMENT

“ We are here to meet the trading community and new investment or business partners. We’ve seen a good audience both in terms of quality and quantity... and we have had the chance to meet with some potential new counterparties. ”



Johannes SCHONEGGER

Head of International Alliances, WIENER BÖRSE

“ One of the best things about the Forum is the combination between Eastern and Western Europe. We saw this with the panel discussion on Emerging Markets and also with Eastern European attendees. This is important for us because we are also the bridge to the Eastern European region. ”





MiFID: Many Institutions Find It Difficult

Regulatory change is frequently the mother of innovation and there seems no doubt that the Markets in Financial Instruments Directive (MiFID) will be responsible for unleashing a wave of dramatic change onto Europe's capital markets

Octavio Marenzi, Chief Executive of Celent Communications, discussed the burden the looming introduction of MiFID will place on financial institutions in the first conference session of the 2006 GL NET FORUM. As well as its complexity, Marenzi stressed that much of MiFID remains vague.

"The Markets in Financial Instruments Directive is probably one of the most profound restructuring of any markets that has ever been undertaken... One of the most interesting things about it is that it leaves so many things open," said Marenzi.

The general impression is that MiFID will lead to higher costs and introduce additional operational complexity. Its key objectives include completing the single market, responding to innovation in the securities industry and protecting investors. But MiFID, the biggest set of regulations ever to be introduced in one swoop on Europe's financial services, provides a lot of options on how to get to its key requirements. It is due for implementation in just 6-months and questions remain about how prepared investment firms are for it.

"I think the sell side is definitely more prepared," said Natasha Bonner Fomes, Head of Execution services in Electronic Trading at Lehman Brothers. "You have got two different approaches to MiFID: Those investment firms, buy side or sell side, that really just want to deal with the regulation and move on to their business; then you have the other type that are looking for innovation, looking for a way to compete outside of where they currently compete and really are looking for that competitive advantage."

MiFID applies equally to the sell and buy side. But the traditional dichotomy between the two will probably remain when it comes to the requirement for best execution. Meeting this obligation will require a heavy information technology spend.

So whose problem is best execution? Bonner Fomes said there is absolutely no consensus on this question. Some large buy-side firms accept that it is up to their in-house dealers to achieve best execution; others want to hand over responsibility to their sell-side counterparties.

"To understand the situation in the industry we clearly need to separate the sell side from the buy side," said Jean-René Giraud, CEO of EDHEC-Risk Advisory. In a recent survey, EDHEC asked both asset managers and hedge funds about their awareness of MiFID.

Some 11% of the buy side said it was not their concern. Incredibly 15% said they were not even aware of it. Taken another way, a quarter of buy-side firms are not preparing for MiFID. Looking solely at hedge funds, 24% do not think it is their problem. The same number was not aware of the regulation. Astonishingly, half of the European hedge funds surveyed have no plans in place to deal with this looming regulation.

Under MiFID, firms will need to create an execution policy. EDHEC found that 26% of sell-side firms had not even started to consider this, probably because execution is not their primary business. Giraud wondered whether these institutions might simply purchase best execution by outsourcing dealing functions.

Fredrik Hjorth, Managing Director of MiFID Consulting, said that a mistake firms were making was to only have their compliance officials or in-house lawyers working on implementing MiFID. Hjorth argued that they needed their business analysts involved as well. Then they could work out how to make money from complying with the new regulations, and making money has a habit of focusing attention.

Hjorth disagreed with Giraud, arguing that most firms do have execution policies. "Institutional sales teams don't necessarily want to formalise this into a paper on how they deal with it, but they have to," he argued.

Data blizzard: Threat or opportunity?

There are real fears that MiFID will result in a blizzard of data. "Yes, there probably will be increases in data volumes, but not at a level that are going to make you want to pull your hair out," said Nigel Matthews, UK Business Development Manager at Oracle.

But data management will be important, because utilizing information efficiently is the only way firms will be able to prove they are meeting the regulations. While firms like Oracle are positioning themselves to fill the technological gap, the assumption that these types of companies will be the main beneficiaries of MiFID is too simplistic. The markets' reconfiguration presents opportunities for others as well.

"The service provided to us by regulators and bureaucrats in Brussels has been very valuable. Because of it [firms have] started to ask questions that need to be asked. 'What is the total cost of execution?' They are saying it's not just the spread and it's not just the market impact; it

isn't just the commissions that are charged. But it maybe the speed that stock exchanges are able to connect to brokers. It may certainly have something to do with what the securities depositories charge for their services. It certainly has something to do with how the central securities depositories charge for their services," argued Peter Randall first Vice President, New Business Development at Instinet.

Randall said Instinet is able to provide a super fast, cheap ability for dealers to swap stock. He claimed Instinet could cut European dealing costs by up to 15 or 20 times. "We want to see the sacred cows that we have had in Europe over many years taken out and (have) asked very difficult questions about why they should continue to exist in a technologically enabled world," suggested Randall.

Hjorth agreed that there are huge opportunities and challenges for the major players. For instance, a firm that traded a substantial volume

in a particular stock might ask why it should pay an exchange to report transactions done internally. Exchanges' effective monopolies on trade reporting may be seriously challenged post-MiFID.

"If I were sitting at an exchange I would take this extremely seriously because it's a huge threat," said Hjorth. Instinet's Randall suggested that the exchanges' current fee structures were unsustainable. He agreed and argued it was incredible that 42% of the London Stock Exchange's revenues currently comes from selling data back to participants. "Can anybody think of any other business that actually charges you to look at its price list?" he asked.

So despite its imminent introduction, MiFID is clearly something that perhaps not everybody in the industry has actually planned for. But once it is in place, there is a growing consensus that it will radically alter the European trading landscape, particularly in equities. ■



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Reports of Outsourcing’s Death Have Been Greatly Exaggerated

Virginie O’Shea, Editorial Director of STP Magazine, started the first break out session of this year’s GL NET FORUM by asking whether outsourcing was dead. Peter Christmas, Managing Director and Chief Relationship Officer at Pershing Limited, rejected the notion.

“I’d certainly say that the outsourcing industry is not dead. I think the industry develops over time... It keeps evolving and as it gets more complex, then the need for more service providers to be involved increases,” he countered.

Christmas said there had been a couple of high-profile outsourced arrangements souring. But when deals went wrong, it was not because the concept was flawed. “Why do some outsourcing deals not go well? I think there are a couple of different reasons. One (reason) is that there’s a breakdown of trust and communication between the service provider and client,” he argued.

Mike Bournes, Head of Vendor Development at the London Stock Exchange (LSE), agreed with this. The LSE has used various outsourced solutions over the years to help its business development. One of the first was to hand its electronic trading development to an outside company, an arrangement which continues. The LSE has extended its outsourcing and now works with companies such as GL TRADE to facilitate connectivity to its trading book. “This dates back 5- or 6-years to when we demutualised and we were looking at how to grow our market,” he explained.

Peter Lovell, Operational Departments Manager at GH Financials, said that there were numerous reasons to outsource. All arrangements should be done with the aim of building a business together with your partner. Lovell did concede there was a potential downside of outsourcing. “With outsourcing there is a loss of control. You have to trust that the people you are using know what they are doing,” he pointed out.

Lovell said a key reason to outsource was not just cost, but also the ability to manage change. “In the environment we operate in, with regulatory and market infrastructure change coming all the time, and market infrastructure change, there is a clear benefit to a client of having that change management outsourced to someone else,” he said.

Interestingly, Lovell explained it was even possible to outsource dealing. “We as a house have outsourced quite a chunk of our liquidity provision,” he said, adding: “I can trade just as easily from Calcutta as I can from London. We do outsource trading to India – and not only India.” Traditionally, firms have taken graduates locally and trained them to become deal-

ers. With globalisation, this can be now done just as easily in locations like India, where education standards are at least as high in Europe, but wage costs considerably lower.

Isabelle Salomone, Head of Business Development at Société Générale in Zurich pointed out that new opportunities constantly cropped up for the outsource service providers, sometimes because new segments emerged or existing ones got neglected. “Medium sized broker-dealers are an opportunity (for Société Générale). These have sometimes been neglected by big outsource specialists,” she said.

So rather than a dead concept, every link of the trading chain can be outsourced. But for it to be successful, it seems the decision must be based on more than cost alone. “We all want to keep our fixed costs down. Just doing it for price is in my mind the fatal mistake to make. You have to create trust and avoid conflict. You can’t outsource blindly, even though you can bring in knowledge. You have to understand what you are doing,” concluded Lovell. ■





You Don't Always Get What You Want

Much has been made about how the buy side wants to take charge of their trading and how the sell side has been forced to respond. But is it delivering the tools it wants the end users to use, rather than the tools they actually require?

If you believed everything you read, you might think the majority of business in today's equity markets was transacted through algorithmic (algo) trading programs. However, after listening to GL NET FORUM's conference on algo trading and transaction cost analysis (TCA), a cynic might ask if the sell side is actually driving the demand for algo solutions to meet its own rather than its clients' business needs.

As Jean-René Giraud, Chief Executive of EDHEC-Risk Advisory pointed out, in reality very few European buy side institutions are using algos. According to Giraud, many are not even using basic direct market access (DMA). "Lots of people have it (DMA) and not a lot of people are using it," he said.

Giraud said a recent EDHEC survey found that 90% of the European buy side predominantly traded through brokers and only a paltry 3% claimed to use algos. Giraud did add a caveat: "This number is probably under-estimated, as many people may not know they are trading through algorithms. When the algorithms are run by the sell side, they may simply not know it."

So is algo trading just public relations spin dreamt up by the sell side as a cunning plan to reduce costs and maintain margins? Have vendors been forced unnecessarily to launch ever more complex systems aimed at the buy side when there is actually very little need for them?

Fragmentation will lead to greater algo use in Europe

On the whole, the panellists countered this cynical view. They argued that Europe is simply behind the US when it comes to algo use. Once MiFID is implemented, the profound structural change it will bring may result in a fragmented market place. And this will spur the use of algos and also make transaction cost analysis (TCA) a necessity, as equity market participants monitor how their algo programs are working.

John Shaw, Senior Vice President at Jefferies, stated the use of algos in the US was widespread and had gone mainstream. "Usage has exploded through increased access. Access in turn, has fuelled competition." As a result, Shaw claimed that some customers have up to 50 sell-side

provided algos to choose from on broker-neutral trading platforms, such as those from GL TRADE.

The US buy side is now confident in using algos. "This hasn't happened in Europe so much yet. I think we're on the cusp of that change. Europe needs another year or two of development," said Shaw. But once MiFID takes hold, he predicts, "virtually every working order in the future will pass through some algo system."

James Hilton, Vice President of Advanced Execution Services at Credit Suisse, agreed. "Market structure more than anything has meant that the US has been ahead in Europe in terms of usage." But soon European equity players may have to connect to multiple trading venues. And if they want to get best execution, they will need to use algos because they are so efficient at finding liquidity as, when and where it comes up.

Jerry Lees, Head of Electronic Broking at CA Cheuvreux, felt that despite the evidence there was a genuine demand from the buy side for algos, even if it is not really clear how it will

ultimately use them. "I've seen technology tools evolve in the past to solve this type of problem. The rate of change of technology is faster than the rate of change of people. At the moment the lot of resistance to algorithms is not whether they work or do what they are supposed to, but because people are scared of them," he said.

Ultimately algos may become just one of the tools the buy side uses. "Our approach has been slightly different. We came in late and are a bit sceptical about the process. There's a certain amount of bandwagon jumping. They (the buy side) put them in and just look at them curiously, which is why they don't get used. We've been more successful giving people straight DMA. It's not because our algorithms are bad, we use them internally," he said, adding: "I think it's an interim stage because people are exploring; they don't know what is going to happen."

Panel moderator Robert Kay, Chairman of the Editorial Board of The Trade, asked whether algos were a productivity tool or something that improved the trading result. According to Evan Graj, Managing Director at Bear Stearns, they are both.

"On the sell side, we've produced algos to drive down costs. You look at the evolution of direct market access, with commissions decreasing, we had to increase our volumes to keep our profits up. From the sell side perspective, it's about reducing costs and impact. For the buy side, once we've given them TCA tools and liquidity models, the 'how to trade' has been solved and they can focus on the 'what and when'. For us it's about reducing costs; for the buy side it's a productivity tool as they can handle more trades," he claimed.

Kay asked whether the buy side build their own algos as familiarity with them grew. Graj does not believe so as most did not have the resources to

do so. Instead, he feels the sell side and specialist vendors would provide them, as they are already doing, and they would be distributed by companies, such as GL TRADE.

EMS and OMS will become vital for anonymity

Hilton agreed, saying that while some hedge funds used their own models, most buy-side participants would probably prefer not to. Instead, customising broker strategies is likely to prove more popular.

"The OMS/EMS providers' role is important. The key message we've got is that by having a third party EMS where you can access your brokers without the worry of someone in the middle looking and potentially using what is going through it is crucial," said Hilton, adding: "What we're seeing is a start of centralisation of trading with the bigger brokers. Smaller houses will outsource algo capabilities to bigger brokers."

According to Lees, Cheuvreux has started to do this. "Brokers are putting

their algos on all distribution channels... We have a strong focus on broker to broker business. So we are seeing quite a lot of the smaller and mid-sized brokers coming to us and saying they want to license our product out," he said.

As the use of algos grows, more sophisticated TCA will be demanded. But a major problem with fragmented markets is that execution is difficult to measure, as there is no recognised benchmark reference price. Graj said a consolidated ticker tape would solve this, but how that would be achieved is yet to be seen.

How all these pieces eventually fit together will be interesting. Best execution requirements on both sides of the Atlantic suggest the sell side is correct in aligning the business for greater automation. Vendors have had to respond and the buy side is already, albeit slowly, familiarising itself with algo trading and sophisticated monitoring. The tools are now largely in place. How they are used has yet to be decided. ■



Still Plenty to Offer in Emerging Markets

Laurence Davison, Senior Editor of FOW, expressed surprise so many delegates attended the second break out conference on emerging markets at the 2006 GL NET FORUM. It seems emerging markets are still in vogue, despite some recent shocks, and that technology has played a crucial role in this relative stability.

Davison asked whether emerging markets were threatened by a possible ending of the commodity bull market. Mike Cowley, Head of Market Operations at Dubai International Financial Centre, argued that there is little evidence of this harming other assets.

Thomas Kalafatis, Director, Sales and Trading at TSX Markets, went further and suggested that the commodity bull run may not have run out of steam. "We think the commodities cycle has a bit further to run...We are not seeing any kind of slow down in the primary business...even after the corrections we have had in July and August" he said.

Although Canada cannot be classed as an emerging market, Toronto plays

a unique role in channelling funds to emerging markets via the Toronto TSX Venture Market. Between its traditional exchange and the emerging one, TSX has over 60% of the world's capitalization in mining and metals and also the most listings of energy and exploration companies in the world.

"Last year the Toronto Stock Exchange enjoyed the third highest rate of primary financings among global exchanges. But while that capital was raised in Canada it was mostly for emerging market countries," said Kalafatis.

But the emerging market boom is not just about commodities. "Central Europe is not a commodities story...We have an amazing banking sector story because the banking sector in the region was not really developed before," claimed Andrea Ferancova, Director of Equities Sales and Trading at Wood & Company. The Prague and Bratislava-based broker has seen its volumes grow by a factor of 20 since 2002.

Ferancova argued that direct market access (DMA) was one of the most important factors behind this growth rate. DMA allowed investors to execute more quickly, at a lower cost and anonymously: "Two years ago in Central Europe no one had heard of the word FIX. The increase in electronic flow is just amazing," Ferancova said.

Martin Frewer, Cross Asset Class Global Solutions Sales Manager at Fortis Bank, also felt technology was

crucial. "Technology is of complete importance on the execution side... It enables the trader to reduce his cost of trades throughout the world, the cost of clearing, of settlement. And anything that makes the cost of trade cheaper has got to be good," he said.

Mert Erdogan, Assistant General Manager at IS Investment, part of the largest commercial bank in Turkey, agreed on the importance of DMA. He argued it was absolutely vital in attracting liquidity to Turkey. Furthermore, he said investors now analyse how easy it is to access, and presumably exit, a market before making their trading decisions.

Frewer agreed. "Turkey for us was a very strategic place to go. It has very good DMA and GL TRADE have helped with that process with technology that has allowed us to tailor our DMA products to the exchanges' rules," he said.

DMA undoubtedly helps boost interest in emerging markets, but at the moment it is easy to overestimate the extent of demand local players have in sending business the other way. That, as other participants at the GL NET FORUM testified, is starting to happen. But for the moment, the focus needs to be on the local liquidity pools. These have to be built up and sustained. Technology is helping both local and foreign intermediaries, investors and exchanges achieve that. ■



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Multi-Asset Trading, Myth or Reality?

It seems that the ability to trade on one platform, if not necessarily risk manage, multiple assets has already been made possible by technology vendors. Ultimately, is that as far as things will go as banks continue with their traditional silo approach and trading venues continue with relatively narrow product ranges?

To start the final conference of the 2006 GL NET FORUM, moderator Octavio Marenzi, Chief Executive of Celent Communications, asked the four panellists how their institutions were placed within the multi-asset trading and risk management world. Once a definition of sorts had been given, it became clear that really only one, GL TRADE, could realistically claim to offer a true multi-asset class solution.

That is by no means a criticism, but probably more a true reflection of how markets are structured. And markets tend to be populated by experts in their particular fields, rather than Jack-of-all-trades who switch from product to product and asset to asset depending on their volatility.

Alex Foster, Head of Sales, Global Execution Services UK at BNP Paribas explained what she believed many participants really want when it comes to multi-asset class trading. BNP Paribas, she said, offers pretty much every product available. "What we try and do in global execution services is provide ex-

ecuting services for clients, whether that's electronically, DMA, algo or as a hybrid."

Foster added: "Like many firms, BNP has invested heavily in trading systems over the last few years and we are now trying to leverage on that investment across other assets to benefit both internally and externally with our clients...In this electronic world, you can zoom from one market to another and one product to another. But whether those all come together under one true, multi-asset platform is another matter.

Andrew Gooch, Chief Executive at Nymex Europe, echoed comments made by Neil Banks, Director of Exchange Development at the London Metal Exchange: "To a large extent, exchanges tend to be very much single product but can look to develop new products which offer correlations against other assets," he said.

Electronic dealing the key to multi-asset trading

In Gooch's opinion, which seemed shared by the rest of the panel,

screen-based dealing played perhaps the key role. "The way that you can trade multi-asset in a far simpler way is to offer product electronically," he stated, adding that after some delay Nymex was starting to do this.

Foster disagreed to some extent, saying she did not believe it was simply about providing a multi-product electronic front end. Banks agreed but added that the day was approaching where exchanges and other trading venues would be linked by common platforms. And ultimately end users probably would not even care about which exchange they were trading on.

Christine Rolland, Head of Marketing & Research at GL TRADE, argued that multi-asset trading was very much being driven by technology and a major factor was that market participants were looking for cost savings across their business lines, something also stated by Foster earlier. "Clients say: 'I have a big platform which costs a lot to maintain, why not put more on it?' They can get economies of scale that way and that's a trend we've been seeing. We've have had requests for that

from some of our clients," she said. Gooch tried to provide a definition of multi-asset class trading. "It means different things to different people. At the micro level, it can be cash versus futures, or Nymex versus LME. On a macro level, it will be something like Alcoa versus aluminium. The possibilities are endless," he said.

"Everyone has something to offer, whether a vendor, broker, exchange. It's really to do with delivering opportunities to the customer and letting him leverage on discontinuities he might see in the (different) market(s)," Gooch added.

Marenzi then asked whether the buy side really wanted the ability to trade across assets, or whether it was something that the sell side pushed so they could streamline their organisations.

Foster said that hedge funds and bank proprietary trading desks have asked for the facility, but that at the moment the traditional buy side was still some way away from it. However, she said she believed that they will also look for synergies across product lines as they increased their IT spend. "The buy side has competition. They have to look at ways to generate more alpha and boost returns... they would have greater advantages by having a multi-asset platform," she argued. "You'd be able to rebalance your portfolio much more efficiently, much more effectively and be able to look at more strategies than you can do at the moment," she added.

Alpha, not beta

Whether that would lead to one central, multi-asset dealing desk in sell-side institutions was not so clear. "One of the challenges is that you have to get all of the historical silos working together," Foster reasoned.

Banks said exchanges had to be careful about rushing into mergers in

an attempt to deliver multiple asset classes. Instead, he said, exchanges had to ensure that they were offering the products end users required in the way they wanted; increasingly that was electronically. As a result, the LME was poised to offer screen-traded, cash settled products, which removed the problems associated with physical delivery, such as where to store loads of non-ferrous metal.

Gooch said despite the hype, multi-asset trading was not so much about reallocating across beta, although having single trading platforms made this simpler to do, but still really about obtaining alpha. In other words, the core focus would remain where it always had, but traders and asset managers would look to strip out the components of the deal they did not understand, such as currency, and perhaps even outsource its management to try and gain extra performance.

He added that while it was becoming largely irrelevant where a trade was done, whether on this exchange or that or in the over-the-counter mar-

ket, people were much more concerned about what occurred at the clearing and settlement end of the chain. "At the clearing house level they want the offsets and elements of risk management," said Gooch.

The consensus was that while in theory it was possible that the exchanges and other venues would adopt common protocols, with FIX among them, different rates of adoptions by different trade outlets and users slowed the process down. And it was very much agreed that it would be far more difficult to come up with a simple solution to risk manage and cross-margin different asset classes.

"It's definitely a challenge to handle the technology of this. When you do multi-asset, it needs to be worked on. The answer starts with a common platform and then a centralisation of risk," said Rolland.

Gooch agreed: "It (risk) needs to be centralised. (It) Sounds easy, but it is not because it can compromise order speed," he concluded. ■



Data: The Hidden Cost of Today's Markets

The final break-out session of the 2006 GL NET FORUM, moderated by Elizabeth Lumley, Editor of Inside Reference Data, addressed a wide range of issues concerning the management of market data.

Anne Ambrose, World Wide Director Financial Services Industry Vertical at HP, mentioned the impact automated trading was having. "Obviously algorithmic trading is a big driver simply because of the need to be the first out the door to execute and participate in a trade... I think the huge volume and the

ability to handle all of this data is calling for faster systems," she said.

Scott Harrison, Strategic Account Manager at Red Hat, agreed: "I'm seeing massive growth in algorithmic and black box trading." This posed a dilemma to market participants. "The fact that the volume of messaging is going up, which doesn't necessarily correlate with the growth in trades, so the technology infrastructure and network has to cope with the volume of messages that's being generated but it's not necessarily driving volume to the same extent," he said.

Ambrose provided anecdotal evidence of just how much it can cost to reduce latency. One undisclosed HP client spent around \$2 billion to shave just 2 milliseconds off its trade turnaround time, she asserted.

Harrison said banks had developed larger and larger High Performance Computer clusters in an effort to cope. "That pushes into another area...we're getting to the point now where people are having to build new data centres to cope for the demand and then you get to Canary Wharf where there simply isn't enough electricity to store another server... all of that cost has to be taken into account," he pointed out.

To an IT outsider, this looks like a true nightmare scenario. The demand for more and more data, delivered ever more swiftly, is literally sucking all the electricity out of the system. For those not familiar with it, Canary Wharf is the modern, supposedly high-tech business area of London.

Kevin Houston, a consultant to HSBC and co-chair of the FPL Global Technical Committee, said market participants needed other responses than just increased computing power. The Fast protocol from FIX was one initiative; another was proximity hosting. "People are putting their boxes in exchanges' premises. That can reduce cost. We're seeing that in a number of exchanges."

But Ambrose pointed out a potential flaw. Having a bank of servers outside of an institution's control potentially increased operational risk and introduced concentration risk.

As for the future, Harrison highlighted the dilemma. "You have to spend as much as it takes to stay competitive, or get out of that market." He believes data management can only get more complex. "The good news is complexity gets cheaper...but it is then very enticing to build more and more complex things on top of it."

Ambrose believes there will always be an ebb and flow in the number of trading venues, but the amount of market data will never decrease. "I don't think we'll ever see less market data, especially with the growth in multi-asset classes and complex instruments...I think technology is going to solve problems and (also) create them," she said.

"The problems will still be there, but they'll change shape and form, change colour and some will be more difficult to solve," she concluded. ■



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Change Your Exchange

Peter Randall, Director of Instinet Chi-X, claims domestic exchanges are not providing the right services for their client

Chi-X is the first pan-European equities 'Alternative Trading System' or, in MiFID terms: 'Multilateral Trading Facility'.

Authorised and regulated by the FSA, Chi-X offers an alternative equities order-driven market. Over the years, clients have become disillusioned with trading on domestic exchanges, frustrated with round-trip speed, legacy technology, limited capacity and high fees. They view exchanges as constraining their ambitions to execute high volume trades, and the expected continued growth in algorithmic trading should only exacerbate this frustration. As we see it, if the European market

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* Source: Chi-X internal benchmarking statistics

A Drink Up at The Brewery

A twist of music, a pinch of magic, a handful of drinks, GL TRADE created a new recipe for its cocktail

There's an English phrase that says incompetent people couldn't organise a drink up in a Brewery. So it was perhaps a brave decision by GL TRADE to change the format of previous years' and hold the after event cocktail party for the 2006 Forum at the venue where the event had been held, The Brewery!

The tone was very different from previous years. In the past, delegates have travelled to a trendy venue to have a party. If anything, hosting

the party at the same venue as the Forum encouraged more of the delegates to hang around. Even the exhibitors, who normally have a habit of packing up their stands as fast as they can, were in no rush to leave. So it seems that GL TRADE had, once again, got it absolutely right.

As soon as the lights were dimmed at 5pm, people headed for the bar. But then a funny thing happened. Against a soothing jazz background, delegates moved around and some

even went back down into the exhibition hall to take another look and hear about the services provided by the exhibitors.

But with a drink in hand, it was all very much more relaxed and frenetic than it had been during the official opening hours. All in all, it was a great way to end another successful Forum, and GL TRADE was right to have been confident about its competence! ■



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