

# THE 2014 EXECUTION MANAGEMENT SYSTEM SURVEY

Recognising excellence in the delivery of execution management systems

**Featuring**

- **Market review**
- **Vendor roll of honour**
- **Forum**

Based on 300 buy-side evaluations

# Up for grabs

In its second year, The TRADE's Execution Management System Survey finds users less satisfied with service levels, but not necessarily ready to replace existing providers.

**E**xecution management systems (EMSs) have continued to evolve in response to client demand, market change and broker product development. However, the rate of business growth, as measured by the number of new clients using EMS capabilities, has been modest. Levels of business from existing clients have also remained relatively subdued, with the effect that pressures on costs have been maintained. Much new development work has been conducted in areas outside the traditional

equity and derivatives businesses, focusing on foreign exchange and fixed income trading. These are seen as offering the best opportunities for future growth in volumes and user numbers.

Having conducted its first EMS survey of EMS in 2013, The TRADE is pleased to report that support for the initiative was sufficient to prompt a repeat of the survey in 2014. We can now see how trends in service and perceptions of performance have evolved over the last year and present a



Illustration: iStockphoto

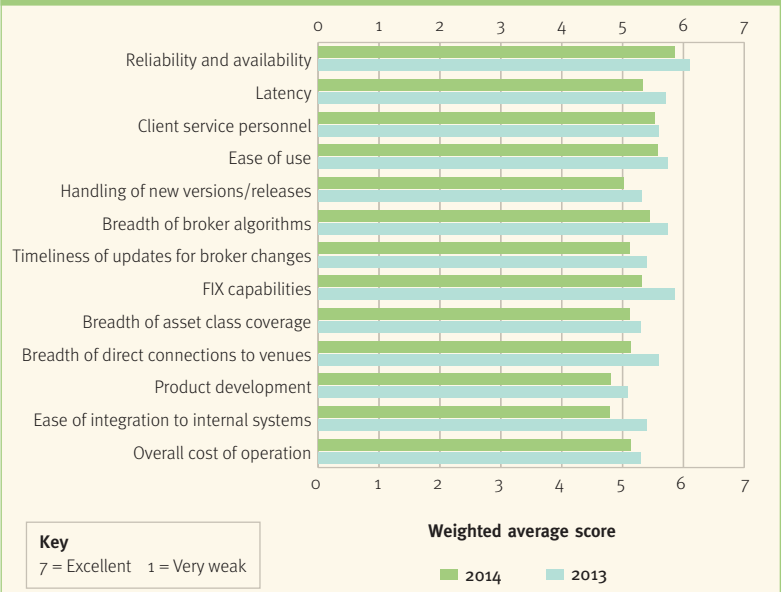
The decline in scores may reflect heightened and indeed unrealistic expectations, or a relative failure to deliver on the part of providers.

comprehensive review of client views regarding individual EMS offerings. The survey once again involved the active support, not only of the EMS providers, but also of more than 150 buy-side firms from around the world. As always, we are very appreciative of the support we receive and hope that readers derive useful information as a result of the contributions made.

#### Client disconnect?

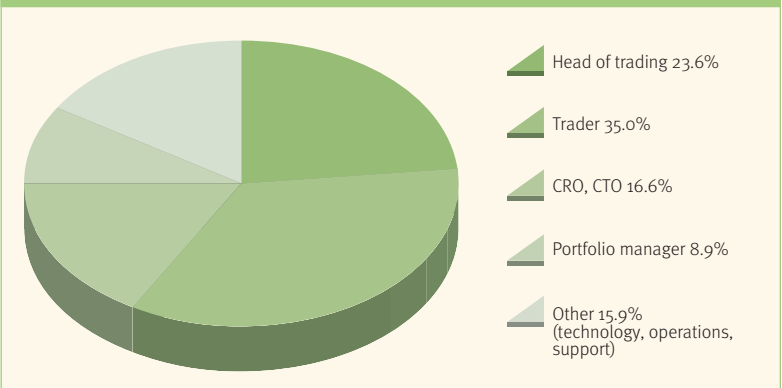
Figure 1 shows the overall average score across all respondents in terms of 13

FIGURE 1: OVERALL SCORES



Source of all charts: The TRADE Execution Management Systems Survey

FIGURE 2: RESPONDENT PROFILE

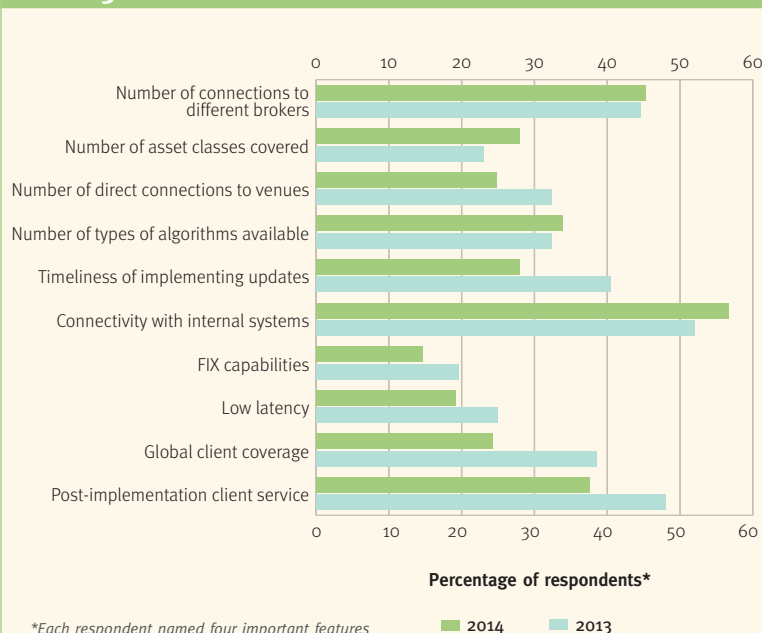


key aspects of service evaluated in the survey. On a scale from 1 (very weak) to 7 (excellent), the average score across all

questions was 5.30. This represents a highly creditable overall performance, but is nonetheless 0.25 points lower than in 2013.

## Market review

**FIGURE 3: MOST IMPORTANT FEATURES**



**Multi-asset class EMS capabilities, while important, are as yet far from essential for commercial success.**

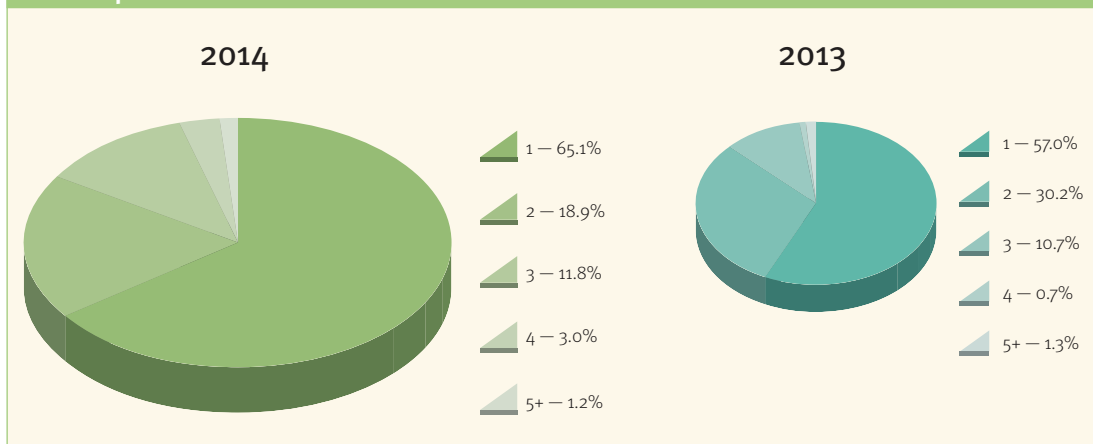
The implication is that this year one in four respondents gave a one point lower score than a year ago. In some cases, and perhaps most disconcertingly in the area of connectivity to internal systems, scores fell by more than 0.50 points. In this latter case, the resultant average of 4.78 was, to say the least, disappointing. The respondents were similar in number and type to 2013 and indeed many of the same individuals took part. The decline in scores may reflect

heightened and indeed unrealistic expectations, or a relative failure to deliver on the part of providers. In a competitive environment however, all providers need to look at the service levels they are providing to see what they can do to improve.

As in 2013, the survey incorporates the opinions of some senior decision makers. Figure 2 shows the distribution of respondents by job title and responsibility. Head traders accounted for almost one quarter of responses (up from 20% in

2013) and another 35% came from their trading colleagues. What is interesting is that chief risk officer and chief technology officer responses were up from 7% of the total to one in six. This represents a small but significant relative shift away from the individuals doing the trading, to those with wider firm-wide responsibilities. That may go some way to explaining the lower scores. It is also indicative of the fact that as EMS capabilities have become more 'mission critical' so the

FIGURE 4: NUMBER OF PROVIDERS USED

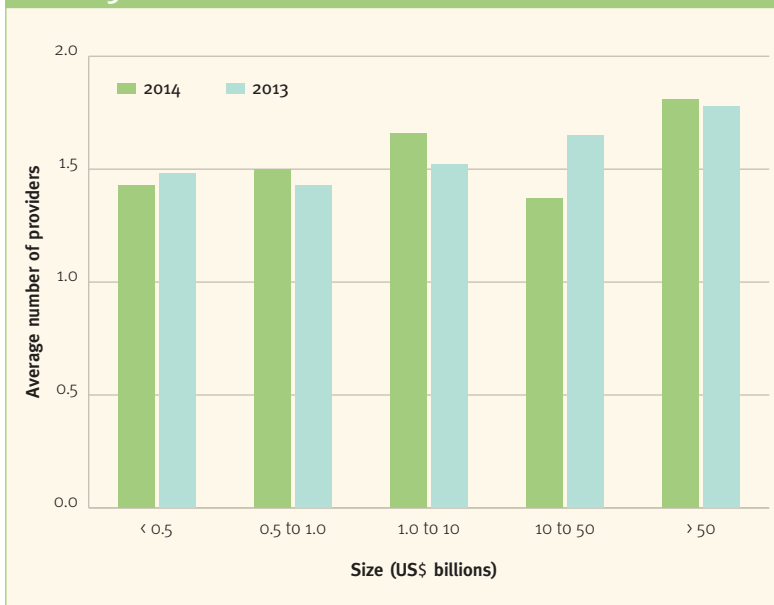


purchasing decision and performance reviews become more broadly based within each firm, rather than being driven solely by traders.

#### Window on the world

Figure 3 illustrates the features clients believe are important in evaluating EMS provision. As in 2013, respondents were asked to identify four things that were most relevant to them in setting their perceptions of the service of their provider(s). In fact, many areas received broad

FIGURE 5: AVERAGE NUMBER OF PROVIDERS BY SIZE

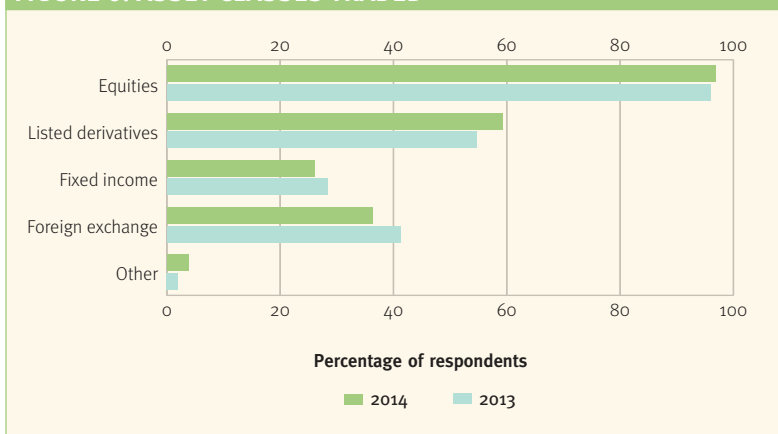


support. However, once again, the single most mentioned element was the ability for an EMS to connect to other internal

systems, which was included by over half of all respondents and a higher percentage than in 2013. Connectivity to multiple

## Market review

**FIGURE 6: ASSET CLASSES TRADED**



**More than 50 different suggestions were made for new features, but most ideas received only a single mention.**

brokers and client service were, again as in 2013, the next most important elements. These figures combine to suggest that priorities now reflect those of a business that is part of mainstream trading, rather than simply a means of gaining access to electronic and algorithmic trading tools from a few brokers. It is also worth noting that FIX capabilities, while necessary to facilitate implementation, are not regarded as a very important feature by clients.

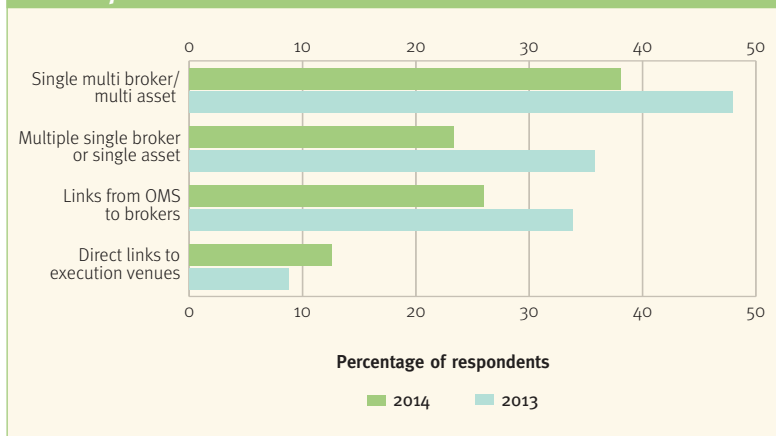
Among respondents this year there was a slightly higher proportion of smaller hedge funds. These firms typically use a single EMS to meet what are often relatively straightforward requirements. Partly for this

reason, the proportion of respondents using only one EMS increased to 65% of the total as shown in Figure 4. However, the number using two EMS providers fell while those using three or more increased. As Figure 5 shows, the actual number of EMSs being used does not vary very much by asset size. The average is around 1.5 for each respondent, with larger clients showing some small propensity to make use of more providers. So at one end of the spectrum are small hedge fund managers using a single system to handle the majority of trading; while at the other end are very large long-only managers who want to use a single system that can handle all their trading.

### In no hurry

Anecdotal, EMS usage has broadened further in 2014 but it remains heavily oriented towards equity trading. Figure 6 shows the type of assets being traded by respondents. More than 95% of respondents use their EMSs to trade equities, a proportion very similar to 2013 and well ahead of all other asset classes including listed derivatives, which showed an increase to 59% from 55% a year ago. The proportion of survey respondents using EMSs to trade foreign exchange and fixed income declined slightly in 2014 compared with 2013. This shift probably reflects changes to the nature of the overall response base rather than a shift in strategic direction. Even so, the

**FIGURE 7: TYPES OF EMS USED**



**Products are far from standardised and there remains significant room for competitive differentiation.**

figures imply that multi-asset class EMS capabilities, while important, are as yet far from essential for commercial success. As Figure 7 shows, use of a single multi-broker, multi-asset class system remains the most common approach to EMS provision. However, its dominance is by no means significant. This may reflect a desire from clients to always have a 'fall back' position or simply that the definitive system has yet to be created. Either way, there remains scope for effective competition using a number of different strategies.

The bias in favour of the status quo noted last year remains in place. More than 80% of respondents do not intend to switch providers in the next 12 months. Of

the remainder, 8% are considering a change while 12% are expecting to change; in some cases moving to an in-house capability. The numbers considering adding a new provider are also small at 18% with three-quarters having no plans to add. Among new features being requested, more than 50 different suggestions were made by respondents, but the nature of demand was remarkably diverse. Most ideas received only a single mention. Among those that featured more prominently were greater multi-asset class functionality and more integrated transaction cost and venue analysis. However, even these attracted interest from less than 5% of respondents.

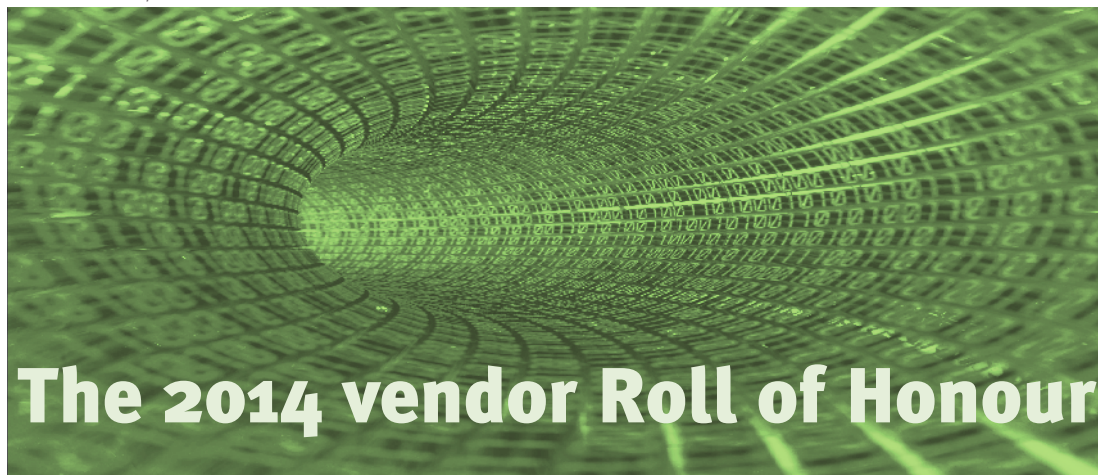
#### Room for differentiation

In terms of number of responses, across the survey as a whole Bloomberg EMSX received the greatest number of evaluations, followed by TradingScreen and Instinet. These three were some way ahead of a further seven firms who received enough responses to qualify for inclusion within the Roll of Honour rankings. Overall scores among these ten providers were quite widely spread with further significant variation among them in the different service areas. It is clear that products are far from standardised and there remains significant room for competitive differentiation among them across the various groups of clients. ■



## Vendor Roll of Honour

Illustration: iStockphoto



# The 2014 vendor Roll of Honour

## Functional capabilities

### MEASURING FUNCTIONAL CAPABILITIES

Survey respondents were asked to provide a rating for each execution management system (EMS) provider on a numerical scale from 1.0 (very weak) to 7.0 (excellent), covering 13 functional criteria. In general 5.0 is the 'default' score of respondents. In total, more than 150 individuals responded; more than 250 evaluations were submitted; and more than 20 providers were evaluated. The evaluations were used to compile the provider Roll of Honour.

Each evaluation was weighted according to three characteristics of each respondent; the value of assets under management; the scale of business being conducted electronically; and the number of different providers being used. In this way, the evaluations of the largest and

broadest users of execution management systems were weighted at up to twice the weight of the smallest and least experienced respondent.

In arriving at the overall Roll of Honour, the scores received in respect of each of the 13 functional capabilities were further weighted according to the importance attached to them by respondents to the survey. The aim is to ensure that in assessing service provision the greatest impact results from the scores received from the most sophisticated users in the areas they regard as most important. Finally it should be noted that responses provided by affiliated entities are ignored and a few other responses, where the respondent could not be properly verified, were also excluded.

### RELIABILITY AND AVAILABILITY

#### ROLL OF HONOUR

Bloomberg EMSX  
Morgan Stanley Passport  
TradingScreen

Arguably any EMS that fails to achieve an excellent score in terms of reliability and availability will ultimately and perhaps rather quickly fail as a business. The importance of electronic trading to a large proportion of EMS users is such that any downtime may be regarded as unacceptable.

It is therefore not surprising that for the second year in succession this question elicited the highest scores across all respondents. In line with

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<sup>1</sup> Roll of Honour recipients are listed in alphabetical order throughout the survey.



## Vendor Roll of Honour

the overall survey results, scores on this question declined from the level of 2013 by 0.24 points. Nonetheless, at 5.86 they were well ahead of scores on all other questions, by at least 0.28 points. Clearly all providers are meeting the necessary required 'zero tolerance' standard sufficiently well to maintain the confidence of clients.

Among the Roll of Honour names, both TradingScreen and Bloomberg EMSX repeat the success they achieved in the 2013 survey. They are joined by Morgan Stanley which like them achieved solid scores across a broad array of different sizes and types of clients in multiple global locations.

### LATENCY

#### ROLL OF HONOUR

Instinet  
ITG  
Morgan Stanley Passport

Latency remains an area of particular interest to some, but by no means a majority of clients. Overall around 19% of respondents included it among their top four priority mentions, well below those areas such as connectivity to internal systems that achieved nearly three times as many mentions. In part this may reflect the fact that low latency is difficult to demonstrate or indeed measure. That makes it hard for providers to assess the real effectiveness. Nonetheless, for some clients it is a key part of the reason for using one provider as opposed to another.

These factors may go some way to explaining the fact that scores are

good but not exceptional and well below last year. The average of 5.33 across all respondents was the fifth highest score, despite being some 0.38 points behind 2013 average levels. This decline was higher than that recorded over all questions. Although the rank was unchanged, this area is clearly regarded less satisfactorily than a year ago.

Among the Roll of Honour names, only Instinet repeated its ranking from 2013, joined by ITG and Morgan Stanley. All Roll of Honour names achieved good scores overall but also tended to rank highly in this area for clients who used multiple providers and who therefore arguably have a better opportunity to compare one provider with another.

### CLIENT SERVICE PERSONNEL

#### ROLL OF HONOUR

Instinet  
TORA  
TradingScreen

Although scores for client service were lower than in 2013, the decline was much smaller than that recorded in the survey as a whole. With a decline of 0.08 points and a score across all respondents of 5.52, this aspect of service scored third highest among the 13 categories covered by the survey. It also ranked third in terms of importance to clients in evaluating service as a whole. Respondents mentioned it frequently enough as a 'top four' priority for it to achieve 37.6% coverage among respondents. The rank is again the same as last year

and it would appear that providers are responding well to client demands in this area, which includes post-implementation training as well as response to particular queries and issues as they arise.

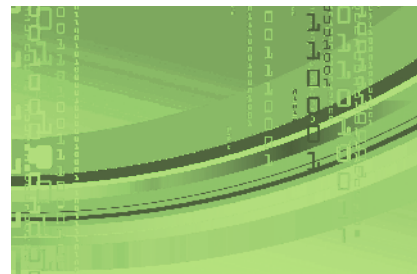
It is perhaps not surprising that two of the three Roll of Honour names reflect a repeat of the 2013 results. Both Instinet and TradingScreen managed to repeat their success of a year ago. Client service is typically an area where perceptions change quite slowly, but can also be personnel dependent as well as process dependent. This year they were joined by TORA whose client base is somewhat more limited, but nonetheless very satisfied with service in support of their activity.

### EASE OF USE

#### ROLL OF HONOUR

Eze Software RealTick  
REDIPlus  
TradingScreen

Over the years, EMS capabilities have been broadened to include more asset classes, richer market data and increasingly analytical support for trading activities. At the same time, brokers have added to



## Vendor Roll of Honour



the number of different types of algorithm they offer as well as the sophistication of each type. The result of all of this is that systems have become more complex to use. For many firms of course, different traders will be focused on using different parts of the system. However, at a firm-wide level complexity is generally growing.

In the context of growing complexity it is important that providers offer systems that simplify to the greatest possible extent and are easy to use. As reflected by the overall scores in the survey, providers generally appear to be performing well. The average score of 5.52 ranked as the second best within the survey and was only 0.16 points lower than in 2013. This compares with the 0.25-point decline in overall scores. The result is that the rank for ease of use was one place better than last year's result.

Among the Roll of Honour winners, TradingScreen with full multi-asset class capability has done well to repeat its success of 2013. This year it is joined by REDiPlus, which in fairness has perhaps less asset class complexity than some systems and the RealTick EMS from Eze Software Group.

### NEW VERSION RELEASES

#### ROLL OF HONOUR

Bloomberg EMSX  
Instinet  
TradingScreen

The complexity alluded to in ease of use is also a factor in the handling of new releases. On the one hand, clients continuously request enhancements, as do brokers.

Brokers want new versions of their algorithms available as quickly as possible, but not all clients use all brokers. Clients want their requests handled in a timely manner, but again some requests may be very important only to a small number of important clients, as opposed to the entire client base. In these circumstances, deciding how to provide upgrades to particular clients is a complex process, not least since it involves potential training and support commitments as well as the technology roll-out itself.

In 2013 this area ranked tenth of 13 areas covered. With scores down from 5.32 to 5.01 in 2014, the rank has dipped a further place. Scores at only a margin over the 'default' of 5.0 are far from convincing. This is

an area where clients, while doubtless understanding of the challenges, are less than fully satisfied with the outcome.

Among the Roll of Honour names, TradingScreen repeats its ranking from 2013. This year Bloomberg EMSX and Instinet also achieved scores some way ahead of competitors. Even among these leading names however, scores are lower than on many of the other questions, suggesting that even the best have some significant room for improvement.

### ALGORITHMIC TRADING OPTIONS

#### ROLL OF HONOUR

Eze Software RealTick  
ITG  
TradingScreen

Repeating its performance from 2013, TradingScreen is joined in the Roll of Honour by ITG and Eze Software. Both TradingScreen and Eze have always focused on multi-broker capabilities and in recent years ITG has been successful in pursuing a multi-broker strategy. This contrasts with providers who began as single broker platforms, most of which have now diversified.

From a client perspective, there is a difference between long-only funds which absolutely need a single multi-broker platform and hedge funds which may be satisfied with a single broker link to their prime broker or a service that only needs to accommodate a small number of prime brokers.

In terms of importance to clients, this element was the second most

## Vendor Roll of Honour

important, with more than 45% of respondents mentioning it as a top four priority. This was one place higher than in 2013.

This question achieved the fourth highest score, at 5.45, of the 13 questions covered. This was 0.29 points lower than last year, a decline which was slightly greater than that seen in the survey overall. Nonetheless providers do seem to be responding to the challenges posed by clients wanting large numbers of connections from a single EMS.

### BROKER ENHANCEMENTS

#### ROLL OF HONOUR

Bloomberg EMSX  
Charles River  
Instinet

It is important to brokers that their clients should have access to the very latest version of their algorithmic trading suite of services. However, from a client perspective the demand is a little less intense. Only a little more than one in four respondents (28%) included this as a top-four priority when considering the effectiveness of their EMS provider. This ranked equal fifth and was well down on the 40% of respondents who included it in 2013. This may reflect a reduction in the number of enhancements being put forward by brokers, or may simply reflect satisfaction with the existing suite of algorithmic trading capabilities.

Among the providers, this was an area where Instinet scored very highly for the second year in succession, joined this year by

Bloomberg EMSX and Charles River. The latter has a somewhat different relationship with its clients than typical EMS vendors which may give it a particular opportunity in this aspect of service.

Overall scores were disappointing, with the average score falling by 0.28 points. Given the relatively low score seen in 2013, this meant that the average score this year was only 5.12. This ranked ninth among the 13 areas of service, a decline of one place from last year.

### FIX CAPABILITIES

#### ROLL OF HONOUR

Instinet  
ITG  
TORA

Based on survey comments and priority setting it would seem that many respondents perhaps do not fully appreciate the key role played by FIX in the development of electronic trading. Either that or it is now so well embedded as to seem rather unexceptional to them. Whatever the reason, less than 15% considered that FIX capabilities were a priority in assessing capabilities of EMS providers.

Scores were generally acceptable, but did fall quite dramatically from the elevated levels recorded in 2013. Then FIX ranked as the second highest scoring category with an average of 5.86. This year the score fell by 0.54 points to a much more modest, though still sound, 5.32. This again suggests indifference and/or ignorance as much as any weakness in provider capabilities. This seems to be the most appropriate interpretation of results.

Among the Roll of Honour names, none of the 2013 winners repeated their success in 2014. Rather, three new names were added including TORA, which has a strong Asian footprint, and established global providers Instinet and ITG.

### ASSET CLASS COVERAGE

#### ROLL OF HONOUR

Bloomberg EMSX  
REDIPlus  
TradingScreen

Equities remain the key asset class for EMS providers, allied increasingly to derivatives trading. However, the importance of other asset classes, most particularly FX and fixed



## Vendor Roll of Honour

income, continues to grow in line with efforts to improve automation, transparency and reporting. Even now however only 28% of respondents placed multi-asset class capabilities among their top-four priorities. Like latency, it is important to some key clients, but for others it is much less of an issue. The key for providers is to have the capabilities that particular clients want, rather than believing that every asset class is equally important.

This approach may explain the inclusion of REDIPlus in the Roll of Honour despite a more limited asset class coverage than some competitors. The key to its success is obviously having what clients want and need when the demand exists. Doing that consistently well over a period of time results in client satisfaction, whatever the apparent competitiveness of the product.

Overall scores in this area suggest that this may be changing. Scores averaged a modest 5.11, down from the already weak score of 5.29 seen in 2013. So the message is that clients are becoming more demanding and while limited functionality may be fine for now, that may not be the case in 2015.

### DIRECT VENUE CONNECTIVITY

#### ROLL OF HONOUR

Charles River  
Fidessa  
TORA

Respondents primarily use their EMSs to connect to brokers who in turn interface with the actual venues on behalf of clients. However, there is a growing use of EMS capabilities to allow clients to directly access the various alternative execution venues in North America and Europe. This is particularly the case with clients that have developed their own execution algorithms or who have complex execution strategies that require direct exchange interaction. These clients are likely to be most interested in low-latency capabilities.

Among the Roll of Honour names, Fidessa repeat their position from 2013, this year joined by Charles River and TORA. These names are in some ways unexpected, since they do not include many of the larger, more traditional providers. Nonetheless, all scored highly in this area across a range of different client types.

Scores declined markedly compared with 2013. Last year the average score was 5.60 which ranked as equal sixth among the 13 categories reviewed. After a decline of 0.46 points the average 2014 score across all providers was 5.14 which still ranked seventh, but some way below the comparable position a year ago.

### PRODUCT DEVELOPMENT

#### ROLL OF HONOUR

Instinet  
REDIPlus  
TORA

EMS vendors face continuous pressure from both clients and brokers to deliver ever-increasing functionality and sophistication. When the market as a whole was growing rapidly, most providers had sufficient commercial flexibility to be quite accommodating. They maintained a level of development spending that allowed them for the most part to keep up with the demands of their two constituencies. It is clear that in recent years pricing pressure has meant that maintaining product investment is less attractive commercially. There is no easy answer for providers as a whole to this particular challenge.

In any event, given the background, it is perhaps not surprising that scores here remain disappointing. At 4.80, the scores this year declined by 0.29 points from the already weak level seen in 2013. The rank of this question improved from last to next to last. Nonetheless, whatever the answer



## Vendor Roll of Honour



to the business dilemma may be, it is clear that many providers have not yet found it.

Among the Roll of Honour winners, Instinet and TORA repeat from 2013 and are joined by REDIPlus, whose recent independence from Goldman Sachs may have helped them clarify investment priorities for clients. Even among these names however, scores were short of being much better than above average.

### EASE OF INTEGRATION

#### ROLL OF HONOUR

Instinet  
REDIPlus  
TORA

EMS capabilities began as stand-alone services. However, as they were increasingly adopted by larger hedge funds and then by long-only managers, demands to have them integrate more effectively into other systems grew. That trend has continued and sharpened as more long-only firms have adopted EMS services. As a result, fully 56% of respondents included this among

the top four priorities when looking at EMS vendors. This proportion was higher than in 2013, when this was already the most mentioned capability.

Unfortunately for providers this is also the area which saw the greatest fall off in scores in 2014. Scores were lower by 0.61 points across all respondents. The result was that this became the lowest-scoring question in the entire survey, having ranked ninth a year earlier. Whether the lower scores reflect bad experience or higher client expectations is not clear. What is apparent is that this is an area of great importance where most providers are failing to deliver what the clients want. As such it is an area that is ripe for competitive exploitation by firms who can indeed deliver easy integration.

Among the names that performed at a creditable level two, Instinet and TORA are repeat Roll of Honour mentions from 2013. They are joined by REDIPlus. It is important to recognise that some clients may be less demanding in terms of integration than others. We have not made any attempt to allow for

this in calculating the scores, but it may be a factor that potential users of different systems need to take into account.

### OVERALL COST

#### ROLL OF HONOUR

Bloomberg EMSX  
Morgan Stanley Passport  
TORA

In the current environment, no system can be assessed without consideration of costs. For many buy-side providers, some of the cost of an EMS may be borne by the brokers. However, regulation and market practice continue to move against that model. Long-only firms in particular, especially those in Europe, are most likely to end up paying the bill. Also there are costs other than simply fees for connections or users; whether costs of integration or ongoing internal support. Even if brokers do bear some cost, they do so in anticipation of order flow, which may or may not be available at all times and in all markets.

In this context scores are generally reasonable. The scores in the survey, an average of 5.13, are higher than might be expected. The decline from 2013 levels was only 0.17 points, less than the overall survey decline. The question ranked eighth in terms of scores received, up three places from a year ago. It would appear that in general providers are seen as doing a reasonable job. The Roll of Honour names, two of which repeat from 2013, are considered to be delivering very good value by the vast majority of their clients. ■

## Vendor Roll of Honour



# Overall performance

### LONG-ONLY CLIENTS

#### ROLL OF HONOUR

Bloomberg EMSX  
Charles River  
TradingScreen

The survey received responses from many of the largest users of electronic and algorithmic trading in the world. These included firms based in Europe, North America and Asia; many of the largest household names in the global fund management business responded. For long-only users, the reasons for adoption of electronic trading generally and hence EMS usage and priorities are different from those of hedge funds. For the former, the EMS is an integral part of a seamless construct linking their portfolio managers, risk managers, traders and often a large number of their brokers in ways that allow for real efficiency.

The overall scores for this group take account of their different priorities in determining the weight attached to each individual question. As in 2013, it is worth noting that Charles River has a

client base drawn exclusively from this group, many of whom use its services in ways that match its capabilities, explaining its inclusion in the Roll of Honour. Bloomberg achieves excellent market penetration and good scoring from this group of clients, as does TradingScreen, which achieved Roll of Honour status in this area for the first time in 2014.

### HEDGE FUND CLIENTS

#### ROLL OF HONOUR

Instinet  
Morgan Stanley Passport  
REDIPlus

Hedge funds were the early adopters of algorithmic and electronic trading and as such the first target for EMS providers. They remain probably the key client group because of the extent and diversity of their trading activities and hence the commissions and order flow that they generate. However their number has been growing much less rapidly in recent years and market share is now highly dependent on winning

### MEASURING OVERALL PERFORMANCE

As well as considering the functional capabilities of providers, the survey also assessed overall performance as measured across all capabilities. This analysis took account of both un-weighted and weighted scores based on the different levels of importance attached to the various aspects of service covered in the survey.

business away from incumbents. Hedge funds are demanding clients, especially in respect of adding functionality to meet changing opportunities in trading. This means that they will offer opportunities to EMS providers who can demonstrate relevant capabilities within an attractive commercial structure.

Morgan Stanley and Goldman Sachs (which owned REDIPlus until last year) were the first and largest prime brokers in Europe and have adapted their products in response to market changes. As a result, they continue to be highly regarded by this client group. Instinet has also evolved to meet the needs of this particular client group. The scores achieved by these firms from this group of clients again fully merit a distinct category and its own Roll of Honour. ■



# THE 2014 EXECUTION MANAGEMENT SYSTEM SURVEY

The TRADE forum

# RESHAPING the system

## The participants



*Alfred Eskandar*  
CEO,  
Portware



*Neil Joseph*  
equity trader,  
J.P. Morgan Asset  
Management



*Rishi Nangalia*  
CEO,  
REDI



*Anna Pajor*  
lead consultant,  
GreySpark





## ALFRED ESKANDAR

CEO, Portware

“You don’t want to be going to five different stores on five different streets, you want to go to a mall.”

“Institutional investors need custom technologies because they have a unique workflow and need to trade a range of asset classes under one platform because they don’t have the budget to buy five. You don’t want to be going to five different stores on five different streets; you want to go to a mall.

For FX, the systems challenge is to consolidate feeds, streams, capabilities and analytics, and then put these into a single screen, without taking for granted the relationship between the dealer and the institution.

For institutional investors, there is a purpose to FX dealing beyond speculation and profit. It is part of an investment strategy which

creates an exposure and needs a hedge. The fact that the buy-side is no longer outsourcing FX is helping to fuel this multi-asset play. More importantly, risk officers are saying they can’t track risk appropriately in five systems. If trading is conducted in one system where you are able to manage exposure, monitor, measure etc. then risk management is much easier. For the first time, risk officers are voting on a EMS selection decisions.

FX is a bear in hibernation, but low volumes and volatility levels will wake up soon. Ultimately, volatility will return. Interest rates are very likely to go up either at the end of this year or next.

That will spur speculation and volatility, and you will get some turnover and volumes back in the market.

There is a truth behind ‘removing friction increases transactions’. Automation removes one friction point after another, thereby facilitating more and more trading. The lower the friction, and the costs, the more calls, you can make. We could be set for an exponential growth in volumes, very similar to what you had in the equity market. You can look at equities and see that the electronification resulted in a massive ballooning of volumes from 2000 to 2007.

This is the calm before the storm. Everyone is huffing and puffing about low



## NEIL JOSEPH

equity trader, J.P. Morgan Asset Management, and co-chair, EMEA regional committee, FIX Trading Community

volatility and volumes. But if the Federal Reserve makes a rate adjustment and equity volumes pop, you will see a massive trend upwards on FX volumes. Are you going to be prepared for it?

Nobody should ever buy a piece of software technology that is just perfect for their exact needs today, because your needs will change over time. You always want to buy things that will grow with you. You should buy more than what you need right now because your needs are going to grow without question. The most expensive business decision you can make is buying something that is just fit for purpose right now, without looking to the future.” ■

“We are focused on system stability, timeliness and accuracy, while never forgetting cost.”

“Because we run equity trading desks across the globe, we require our execution management system (EMS) provider(s) to offer both flexibility and consistency. We try to use similar systems globally and where there are differences we look to align functionality as much as possible.

An EMS needs to be flexible enough to be adapted to the needs of desks in different jurisdictions and with different mandates. Most of our trading might be in equities or equity-linked instruments, but the needs of a single-stock, mid-cap focused desk in one part of the world will be very different from a program

trading desk in another location trading highly liquid names. The same applies to enabling individual users to set up their screens according to their personal preferences, albeit within parameters. Another reason why we need our systems to be flexible is the ever-changing pipeline of developments we’re looking to make to improve our execution performance.

In Europe, we’ve had the same main EMS provider for almost a decade. This means that the functionality we require has been set up for some time and we are now focused on system stability, timeliness and accuracy, while

## The TRADE forum

### NEIL JOSEPH

continued

never forgetting the cost we're paying for ongoing service. Flexibility and ease of integration were important selection criteria initially. And these factors have continued to rank highly, due to our need for the EMS to interface in different ways with different systems as our trading requirements and technology infrastructure have evolved over time.

Indeed, the ability to handle new inputs and integrate with multiple systems is probably more important than the inherent functionality of the EMS itself. As trading desks look to make use of a wider range of inputs, increasingly in real time, as well as exploring data visualisation tools, the EMS must be able to accept these feeds with minimal effort.

But there is a need for consistency too. It is a considerable advantage if connectivity to other external and

internal systems is effected using standard methodologies and protocols. It is interesting to note that FIX capabilities are not ranked especially highly in this year's Execution Management Systems Survey, perhaps because it is seen as a 'given' rather than an area of differentiation. But I cannot stress too much the importance of FIX in ensuring smooth work flows on the trading desk, in terms of ensuring access to the latest algorithms or connectivity to new trading venues.

Another reason why consistency is so important is that the projects we implement to improve trading performance tend to be rolled out globally and as such it helps if we're on the same platform, or at least on platforms that can communicate in a fairly seamless fashion. This need to collaborate across desks will only increase in the future." ■



### RISHI NANGALIA

CEO, REDI

“The buy-side is facing some significant challenges today: the direct and indirect effects of increased regulation, competition from passive management funds and a market that is tough to outperform, to name three.

As a result, our clients are looking at costs more than ever, and technology costs in particular. Beyond discussing product functionality, we are now having a more substantial discussion with clients around the total cost of ownership (TCO) of their trading infrastructure. Clients are aware of the explicit transactional costs they incur, but increasingly they are also looking at the

■ “We are rapidly moving to a world where there is no delineation between ‘enterprise’ and ‘consumer’ technology.”

more opaque charges, which their brokers had previously bundled but now are less willing to do in the current low-volume market environment.

For example, some clients who use an order management system (OMS) and execution management system (EMS) in tandem are finding themselves being charged multiple ways for the same order: the OMS transactional fee, annual licensing fee, connectivity fee, hosting fee, business continuity planning fee, multiple market data charges and an EMS fee. And given that virtually all brokers have engaged in some level of client profitability exercise, these charges are all allocated to the client, resulting in fewer services.

At REDI, we’ve focused since day one on aligning our business model with both our partners and clients and being fully transparent in our pricing. We are not only providing functionality to the

clients across all their brokers, we are providing it with a low TCO, via software-as-a-service implementation.

For almost a decade, the industry has debated true OMS/EMS convergence. Some argued that integration was happening, while others said full integration was unnecessary, given that technology knits them together. At the end of the day, most folks were just talking their books.

This debate needs to shift as the buy-side is no longer looking for one monolithic ‘system’, requesting instead only the specific capabilities that they require and a platform on which those can be delivered. This is being driven by several macro technology trends – such as cloud computing and the ‘app’ model – but the biggest factor is the move to a user-centric rather than product-centric world.

Clients increasingly demand the ability to fully

customise every aspect of the user experience, from look and feel, to the controls on the dashboard, to the capabilities available to them. They are also beginning to expect their EMS or OMS – perhaps trade management platform will be a more apt name in the near future – to offer a library of integrated third-party trading applications. In 10 years, when our clients are people who’ve known only a world with ubiquitous mobile technology, they will expect their platform to seamlessly transfer data and functionality from desktop to device.

We are rapidly moving to a world where there is no delineation between ‘enterprise’ and ‘consumer’ technology, and since the real innovation from a user experience standpoint has most recently occurred on the consumer side, the pressure is clearly on us in the enterprise space to keep up.” ■



## ANNA PAJOR

lead consultant, GreySpark

“The supply of multi-asset capabilities is there but the demand from the buy-side has not quite caught up yet.”

“The buy-side is getting more sophisticated in how they are using tools to execute and this is being exploited by vendors who are very keen to offer multiple asset classes on their execution management systems (EMSs).

From the buy-side’s perspective, the more functionality and capabilities each EMS has, the better. Also, the fewer screens, platforms or systems involved in the execution of their trades, the better it is for the typical buy-side trader.

Two years ago, many of our clients wanted to reduce spend. There was a lot of pressure to save as much money as possible, but that is no longer the case. There has also been a shift in the areas of functionality that clients are interested in, from reporting and compliance modules to multiple-asset classes and cross-asset capabilities.

For the buy-side, the benefit of using a multi-asset system is that you can do pretty much all your executing and reporting from one system, so long as you are sure that the functionality is good enough.

Many vendors are pushing multi-asset offerings. Typically these are focused on futures, options and equities trading, but several vendors are now entering FX trading. At the moment, I feel the supply of multi-asset capabilities is there but the demand from the buy-side has not quite caught up yet.

If a buy-sider is only trading options and only needs to hedge occasionally, they will typically have one system for their core capabilities and will use banking platforms or voice trading for the other activities.

For those who trade across asset classes, let’s say cash equities and FX, it is more likely that they will have their

own platform, with an asset-class-agnostic EMS.

Despite the multi-asset class push, there remain a few vendors, particularly in the futures and options space, who are established providers and want to continue to specialise within their niche.

The level of competition between EMS vendors is very high, not least because the buy-side is becoming more aware of functionalities and services available from rival firms. I would say that those with ambitions to grow their business are growing their asset classes, but there remain a few who want to stay as specialists, either in terms of low latency or core execution capabilities.

Somewhere along the line, many firms on the buy-side may need these multi-asset services, but perhaps it is not essential right now as they focus on particular asset classes the majority of the time.” ■