

SECURITIES INDUSTRY NEWS

VOLUME XIII, NUMBER 48 • SECURITIES OPERATIONS/TECHNOLOGY/PROCESSING WORLDWIDE • MONDAY, JANUARY 1, 2001

FpML Group Seeks to Expand Derivatives Franchise

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FpML.org moved forward with its plans to make FpML the messaging standard of OTC derivatives last week when it began seeking suggestions for additional asset classes that should be FpML-enabled and for which functionality should be added in succeeding versions of the protocol.

The whispers heard at last year's user symposiums pushing this move have turned into a buzz about an aggressive timetable that would move FpML from version 1.0 to 2.0 in the next six to 12 months. An industry source said Swift BIC codes have been chosen to identify counterparties, in a move that would likely lead to the speedy rollout of 2.0. Sources close to FpML.org suggested that the merger between J.P. Morgan and Chase might affect its progress at some point. The J.P. Morgan group working on FpML is intact but there's no guarantee that it will remain immune from effects of merger.

FpML.org chairman Phillippe Khuong-Huu said the drive for new asset classes comes from suggestions made in the New York and London symposiums last October and November. "Clearly, there is a

tremendous interest in expanding the standard beyond the interest rate domain," he said. "To quickly move forward, we're ask-

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ing interested parties to tell us where we should be focusing our efforts."

"The current broad focus is on agreeing on the business and reference framework and on the priorities of FpML 2.0," said Neil Wright, SVP at Chase Manhattan Bank, at the New York user symposium last October. "We want to extend beyond FRAs [forward interest rate agreements] to include swaps, floors and options."

FpML is a freely licensed XML-based standard. FpML.org was established to develop FpML as the communications standard for streamlining the process of supporting e-commerce in the financial derivatives domain. Khuong-Huu said asset classes being considered include FX

options and equity, credit and commodity derivatives. However, he said, FpML.org might not stop there.



Vendors have begun to build to the new protocol. Cygnifi, a New York City-based software provider and J.P. Morgan spin-off, is using FpML to transmit messages for interest

rate swaps on its systems architecture. London-based Kronos Software has built a Java toolkit designed to work with FpML and FinTrack Systems Corp., a New York City-based developer of secure, real-time, Internet-based trading systems for equities, fixed income and IR derivatives, is building an FpML interface for Morgan Stanley Dean Witter's derivatives business.

"The call by the FpML organization seeking suggestions for additional asset classes and functionality is a smart way to handle the current situation," said David Carey, vice president of fixed-income solutions at FinTrack. "FpML needs to expand the specification for additional instruments and functional

coverage in order to gain larger support.”

SunGard Trading and Risk systems is making its Network Trade Model (NTM), a trading and risk integration product unveiled before 1.0 appeared, FpML compliant in what was described at the New York symposium as a “rush out and then adopt strategy.”

“We participated in the definition of the FRA and the IR [interest rate] swap. Most of our active developers are in London,” said Pamela Trendell, a product manager at SunGard Trading and Risk Systems. “We completed the NTM before FpML was launched and we’re active in the derivative groups. At SunGard, we are currently working on a [message] converter, so an NTM user will be able to accept an FpML message.” The converter will include a pre-processor and a post-processor and will be able to convert FpML to the NTM format, allowing it to accept FpML-based messages. Trendell said it will be available in the next release of NTM. She declined to

say when it would rollout.

She did say, however, that “expanding the asset classes will give FpML the critical mass that it now lacks.” She said a concentration would be on defining messages that would make them more easily accessible to users, and would come out in steps over the next six to nine months.

However, the industry source who said the merger between Chase and J.P. Morgan might be a problem, also said “things have slowed with the development of the message in the last couple of months.”

Without saying specifically what problems might occur, the source said whether or not FpML.org can meet its ambitious weekly meetings of the Interest Rate Derivatives Product Working Group and the Business Message and Architecture Working Group over the next three months could determine what progress can be made during the rest of the year. “You might see a lag for the first couple of months” because of fallout from the merg-

er. “There may be personnel changes that will have an impact.”

An FpML.org source acknowledged that Swift’s bank identifier code (BIC) would be used to identify counterparties using FpML for derivatives. The source said surveys were done to determine what identifier would be best suited for FpML messages, with Dun & Bradstreet and Thomson Financial being two firms with identifiers that were considered. It was not clear why FpML.org would choose BIC to identify counterparties rather than build a new identifier, although the time it would take may have played a large role. No one at Swift could be reached for comment.

“Using Swift counterparty codes within the FpML spec is a very good idea,” said FinTrack’s Carey. “These codes already have an industrywide acceptance, making it one less piece of an otherwise complex puzzle to be concerned about.” ■