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MORGAN STANLEY, MERRILL ON TRACK WITH FINTRACK

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FinTrack, which builds Internet-based trading solutions for financial institutions, is moving into FIXML for equities in a collaboration with Merrill Lynch while it also develops an FpML interface for Morgan Stanley Dean Witter's derivatives business. While the derivatives project is in its early stages, it is one of four FinTrack products that sits on a common framework—which includes Java, Cobra and HTML—and is part of the company's eCharm product line.

The relationship is part of Morgan Stanley's plan to become FpML-enabled for its derivatives business. David Wong, a principal in the derivatives trading division at the firm, indicated that the adoption of FpML was critical for the derivatives market and is the only option. "There is no competing standard waiting in the wings," he said.

"FinTrack for derivatives essentially allows our customers to project their services" on the Internet, said David J. Carey, VP of fixed-income solutions at FinTrack, at the FpML User Symposium in New York City in October, in describing the project. "We went out and talked

to a lot of people, including Morgan Stanley, and found that there was a lot of interest in FpML."

Carey indicated a lot of groundwork had to be laid first, some of which involved the way data would be exchanged. "We decided to exchange data on the server side because our application adds value to Morgan Stanley," he said.

Then there were the messages themselves. "We had to be concerned about the size of FpML messages and with trades that large going over the Internet," Carey said. "We also had to be concerned with how we are actually going to exchange this data between FinTrack...and Morgan Stanley" and other users. "Are we going to do it between clients and servers? We decided to do it from the server side," he added.

Carey also said a determination had to be made about what they were going to exchange and regardless of what came along, they had to be prepared to handle complex data. "We took a staged approach to solve the problems as they came along," Carey said. Between the

Interactive Data Language—a program used in the exchange of data—and IBM's MQ Series, Carey said, "we chose MQ Server because we wanted to maintain a high level of de-coupling."

The complexity of the data—an inherent problem with derivatives—also influenced FinTrack's decision to use FpML. "As we started entertaining complex data, we found that a lot of attention was being paid to FpML," he said. "The speed and size [it could accommodate] was important. It didn't cause problems for us on the server side."

FinTrack performed an analysis, which Carey said, "made sure that we can handle everything that FpML defines as a swap. We needed to make sure that FpML can handle everything in our system, and we had to know that a swap in our system would be represented the same way at Morgan Stanley. We found out that when we looked at the different components on how the swap was structured, writing to FpML structure was fairly straightforward. Our object structure and the one implied by FpML wasn't a problem."

The next object was parameter mapping. "Can you handle all the parameters that are defined by FpML and where the gaps are?" Carey said. "Once you identify these gaps, how important are they? How do you deal with instruments outside the current FpML spec? This is a big problem. The FpML spec currently deals with simple instruments."



Packer

Once a move is made beyond the plain-vanilla swaps in FpML 1.0, Carey said, "it's unclear how you deal with this."

Carey said a call is out to form a swap options working group within FpML.org. He indicated FinTrack created its own server to enable a user firm to trade swap options.

Morgan Stanley's Wong pointed out that the current version of FpML, 1.0, is there to handle plain-vanilla [interest rate] swaps. "Fifty percent of the market is in plain-vanilla [interest rate] swaps. Twenty percent is in caps and floors, 10 percent swaptions. Right now, we're going after the ones that account for the most volume. Coverage will not be 100 percent, but the ones we're leaving out account for 3 percent of the market." In his presentation at the FpML symposium, Carey said other instruments that will trade on eCharm for derivatives include caps, floors and options.

Ultimately, Carey said, there will be a need for "lots and lots of testing. To FpML, through the DTD [document type definition] and into FpML to determine if the deals match."

Merrill's Direct Markets—the firm's corporate and institutional e-commerce[CQ] effort—first looked at FinTrack's derivatives products in January and on the basis of what they saw, encouraged FinTrack to build to equities, said Michael Packer, managing director of Direct Markets.

Merrill Lynch Direct Markets introduced a FIXML-based platform for U.S. cash equities last spring. What Merrill had then may have been collapsed into FinTrack, once they recognized FinTrack could do it better and move more quickly. In September, Merrill announced that eCharm for equities had been integrated into Merrill Lynch's e-commerce portal for institutional clients, called MLX.

The FinTrack system sits between the Web server and the application server and is able to integrate with legacy systems. eCharm's trading application allows broker-dealers to interact securely with their institutional clients. Its Push technology provides real-time updates of indications of interest, orders, quotes and executions with a Web-based order management system.

"We've got a large and complex set of e-commerce initiatives across multidealer platforms," said Packer. "The Web strategy is just one arm of Merrill's e-commerce strategy and FinTrack is just one arm of that, trading on one set of products."

While Merrill bought a stake in the New York City-based company last sum-

mer, it was done with a view that FinTrack could remain flexible as a vendor. "They are not just creating a product for us, but for other users as well," Packer said. "We want to cultivate a deeper operating partnership, that includes co-technical and co-business development. We co-built the platform after they joined with us last summer."

"Up to 30 percent of Merrill's order flow come from computer-to-computer connections," said Packer. "Big firms usually order management systems, but some second-tier firms don't have computer-to-computer connectivity, and with a browser-based system they can connect more effectively."

"Our client connectivity application is our FIX connection on the buy side," he added. "We thought it appropriate to have an internal trial for FIXML to connect the front end to our client connectivity application. It has worked well on the buy side."

Packer acknowledged that the firm was involved in the FIX certification process, but so far they haven't seemed to miss what never arrived. "We were involved with TradeAssure," he said of the company formed to oversee the development of certification. "We have many FIX counterparties—not just in cash equities—and the question of certification did come up. You'd love it to have the process of establishing FIX connections be a little cleaner and we'd love to get our clients up a little faster, but FIXML has not gotten to the stage where certification is an issue." ■