# Harnessing the benefits of automated FX trade lifecycle operations

Partner Content *(CME Group)* – FX markets are unique not only in their scale but also in their complexity. There are multiple trading paradigms and venues where trades may be executed.

The FX ecosystem is highly fragmented and the case for more automation – more automated FX trade-lifecycle processes and procedures – has been clear for some time. And yet, automation hasn't happened yet. Why not? When will it happen?

To answer these questions, Steve French, Head of Product for Traiana, discusses the challenges to automation, its benefits, and the key steps that firms should take on their journey towards implementing automation.

## Fragmentation exists on many levels

Inefficiency is an ever-present risk factor in FX trading and post-trade processing. This isn't as surprising as it seems. FX markets are complex ecosystems in which the complexities arise from three main areas:

- The challenges associated with the need to support post-trade processing across the whole of the fragmented eco-system,
- The established practice of using multiple vendors and/or internal systems to support individual areas of the wider FX market, and
- The related established practice of using multiple vendors and/or internal systems to support discrete aspects of the overall FX trade lifecycle.

## These fragmentation challenges have been matched by fragmentation in vendor solutions

This lack of cohesion adds up to a diverse matrix of processes and procedures that has evolved to handle anything that the FX market can throw at it. To cite just a few examples that illustrate the challenges facing the back office, some clients still book trades manually, and resort to fax and/ or email confirmation. Some clients have no agreed upon protocol or method for responding to significant events, which is problematic for derivatives if not so much for cash markets. In cash, some bilateral trades are still manually settled. While there is widespread automation in FX, it falls significantly short of being universal.

The maxim, "if it ain't broke, don't fix it," applies here as well here as it did to stagecoach technology when the first Ford Model T rolled off the production line. What should be done?

## Shifting from front to back

"Historically, investment has been focused on front-office activities. Since the financial crisis, regulatory conformance has taken a huge slice of IT budgets," says Steve French. Back-office and supporting post-trade services have only received a small percentage of the IT spend.

But the benefits of automation are increasingly being acknowledged: lower operational risks and avoidance of settlement failures, and lower support and operational costs. Automated matching, confirmation and affirmation processes with a greater number of counterparties will also lower costs for intermediaries and execution providers and will provide a more streamlined flow of trades into settlement and clearing services.

How, then, do we move forward?

## Moving forward: The role of regulation

Regulation facilitates automation. "There's an indirect impact of regulation whereby the costs associated with maintaining bi-lateral agreements with counterparties – and having to post VM for some FX instruments under UMR – are pushing more firms towards clearing, which will force standardized processes to emerge. We're seeing an expansion of the number of FX instruments supported by central counterparties as well as the introduction of listed FX instruments, which some are using as alternatives to pure OTC FX market trading," says French.

There's also some pressure from other asset classes. "Messaging standards that have been adopted in other asset classes are now gaining traction in FX," French continues. "This will benefit firms which have systems that support these standards. The increased adoption of messaging standards like FIX and the implementation of FX affirmation and allocation workflows between suitably equipped market participants has created a degree of conformity for some scenarios in the FX markets that we have seen in the equities space."

## Will demand for automation be met?

In terms of moving forward, there are signs that FX-market demand for universal automation is beginning to be met. One of the main criticisms of existing post-trade processes is the need for multiple connections with multiple vendors and multiple vendor processes. "Being able to access multiple trade lifecycle management services through one connection is advantageous, as long as the vendor providing the consolidated solution has an established network of market participants and provides an open platform capable of supporting industry standard messaging protocols, third-party vendors and industry utilities such as clearing houses and trade depositories," says French.

With single-connection services now available, vendors have a significant role to play in driving automation. This goes far beyond providing simple connectivity.

## Intelligent solutions

In fact, vendors can be crucial in facilitating change. According to French, "vendors play an important role in their interaction with regulators and industry bodies, most importantly with respect to longer-term structural changes. They work hard to understand and interpret new initiatives and industry-body best practices – and regulations – and play a critical role in ensuring that market participants are aware of what is expected of them as part of any change." As French emphasizes, change-driving solutions are often the result of a vendor's interaction with their client base.

Historically, vendors and clients have paid little attention to post-trade platforms across the FX market place, but today, they are closely focused on making processes more useful and efficient through the application of business intelligence. “We’re now in a position where we can centralize a lot of the decision-making that has previously been managed independently by each market participant and realize intelligent post-trade processing,” says French. Trades can be automatically routed only to those services required to conclude each given post-trade process and the cobweb of “if then else”-style decision-making logic can be replaced.

## Looking to the future

To end on a pragmatic note, firms with the most efficient pre- and post-trade processes are likely to appear more attractive to those clients who are increasing automation within their own systems. So, it’s important to choose a vendor with an eye toward the future. “Vendors must have a track record of delivering solutions that work and which solve real-world problems as opposed to simply presenting concepts that don’t benefit a firm and that have not actually been delivered,” says French.

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