The Genesis of the Multi-Asset Trading Platform:
How the evolution of electronic trading across asset classes is moving the market toward a new type of trading paradigm

Introduction
As Charles Darwin stated, “It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change.” Just as nature demands continuous adaptation, and industrial societies gradually became defined by their mastery of mechanical technologies, increasingly institutional investing and trading is defined by the seamless adaptation of computer and network technologies.

Where we are in this process is different for the asset classes of equities, exchange-traded derivatives and foreign exchange (FX). Despite the differences, numerous parallels between each market’s evolutionary path and current state of development can be drawn. Technology, of course, is the common thread.

Just as nature exhibits convergent evolution where form and structure adapt to function constrained by environmental conditions, so, too, does market technology. The lines between asset classes are increasingly blurring. As such, systems must provide for consolidated, enterprise-level trading, risk, and compliance capabilities. How much of the credit crunch of 2007-2008 can be traced back to the tactical inability of senior management to view their firm’s integrated risk profile? Quite a bit, as evidenced by the number of global banks that engaged in repeated write-downs of assets after they thought they had done so fully and finally. As these recent events demonstrate, the adoption of an entirely new type of multi-asset trading paradigm is not an option for institutional investors; it is a necessity.

The Equity Market
The equity market has changed considerably since 1933 when the United States’ Securities and Exchange Commission (SEC) established the basic regulatory framework for the equities marketplace and all trading was based on open outcry, primarily within a specialist system. In contrast, today’s equity market is completely electronic. How did we get here from there? It was the advent of competitive market structures in conjunction with the adaptation of technology that paved the way for fundamental shifts.

Bob Fitzsimmons
Managing Director,
ITG Derivatives
bob.fitzsimmons@itg.com
212.444.6300
itg.com
What were some of the key milestones and influences affecting evolution of the equity market?

The emergence of electronic trading
While there were smaller regional exchanges, such as the Chicago Stock Exchange, Boston Stock Exchange, and Philadelphia Stock Exchange, the pre-1997 equities market was dominated by the duopoly of the New York Stock Exchange (NYSE) and NASDAQ. There were vast differences between these two main exchanges; the NYSE was still based on an auction system modulated by specialists, while the NASDAQ was a fully electronic system modulated by market makers.

Change began in earnest when Instinet received its no-action letter for operation as an ECN in 1986. In those days, ECNs were able to “fly under the radar,” avoiding regulatory scrutiny, much like dark pools do today. What’s more, they were closed to the general trading public and remained the province of a select few.

In 1987, the first anonymous electronic trade matching system, POSIT®, was launched by ITG. POSIT not only provided cost advantages – the law of nature in technology is that costs decline, sometimes precipitously – but it leveled the playing field for customers vis-à-vis market makers and opened the door to expanded trading hours.

Competition, innovation, and regulation
One of the more fascinating observations from experiments in computer-based “artificial life” is how quickly pathogens, symbionts, parasites and other regulators of basic artificial systems arise. The original life forms develop immune systems, form defensive networks, etc., and then the process begins anew. Similarly, many innovations in global financial markets arose as responses to changes in regulation and taxation.

This certainly was the case in electronic trading. After the Order Handling rules were enacted in 1997 (in response to concerns about broker collusion and fragmentation), it was easier for ECNs to enter the marketplace as legitimate liquidity competitors. Once it became apparent that ECNs offered better liquidity than NASDAQ, the SEC responded by establishing Regulation ATS (Reg ATS) in 1998. This new regulation helped level the playing field by making ECNs accessible to the general public and made it much easier to register and operate ECNs as liquidity pools under a new set of less-stringent regulations developed specifically for alternative trading systems (ATSS). This opened up the market tremendously—as more ECNs launched, spreads continued to narrow and competition heated up. Both exchange and broker pricing became more economical. The traditional exchanges were put on the defensive; both the NYSE and NASDAQ responded to competitive pressure not only by lowering their prices but also by eventually acquiring their main competition. NASDAQ bought stakes in Instinet (INET), BRUT ECN, Island (ISLD) andStrike and the NYSE bought Archipelago (ARCA). As a result of all of this activity, the market grew progressively more electronic in nature and trades were happening faster than ever.

Decimalization changes the market structure
For many years, American securities markets were the only major markets using fractions instead of decimals. In 1997, the SEC directed all U.S. stock exchanges and markets to convert to trading in decimals by September 2000. Decimalization and the one-cent tick helped to further
tighten spreads and reduce the cost of trading. History is replete with examples of lower costs and greater transparency leading to explosive trade volumes. With decimalization, quote and message volumes surged as well (see Figure 1). In addition, decimalization coupled with the commoditization of ECNs and the ability to route orders to multiple trading platforms led to a decrease in average trade execution size. Institutional investors could—and did—start to seek faster, more cost-effective methods for executing large blocks of stock with minimal market impact.

Figure 1. Growth in Transactional Data

Smart routers help locate liquidity
The ability to route orders to multiple platforms in search of the lowest price was not instantly transformative, and the resulting fragmentation of liquidity was not an unalloyed benefit. Moreover, until the introduction of the first major smart order router by Lava in 2001, the order routing process could be described as slow and costly. Lava’s electronic solution scanned liquidity in all ECNs and exchanges at once, enabling traders to send orders to the destination with the best price—quickly and cheaply.

While technology once again contributed to marketplace evolution, the changing dynamics of pricing in each ECN, and the desire for internalization of trades made the development of
The Genesis of the Multi-Asset Trading Platform

separate smart routing systems by each major broker-dealer inevitable. The proliferation of smart routers made liquidity distribution very non-sticky and price-driven.

Regulation follows innovation
The dynamic feedback loop among technology, innovation and regulation continues, with regulatory responses tending to trail technology-driven innovations in the marketplace. Two of the more recent regulations are a direct result of electronic evolution and include the United States’ 2005 Regulation National Market System (Reg NMS) and the European Union’s 2007 Markets in Financial Instruments Directive (MiFID). As one would expect, both are driving further change.

In the U.S., Reg NMS mandates better transparency and consistent access to market bids and offers regardless of trading center. The ultimate goal is to get the customer the ‘best execution’ on every transaction by forcing all trading entities to protect best bid and offer, and to increase liquidity and the use of limit orders. Similarly, MiFID’s goal is to introduce both a single market and a harmonized regulatory regime for investment services across all 27 member states of the European Union. Brokers will be required to check with all trading centers to ensure that ‘best execution’ has been achieved for each customer order. Market makers also face increased requirements for pre-trade and post-trade transparency. Essentially, MiFID attempts to open up the European market just as Reg ATS did in the U.S. equities market.

Algorithms help achieve best execution
The first algorithms to be developed by market makers and hedge funds were alpha-generating algorithms and their objective simply was to create profit. However, as the marketplace has evolved, so too have algorithms. Alpha preservation algorithms, designed to help institutions achieve best execution and reduce trading impact, have replaced alpha-generating algorithms. Between 1995 and 2000, volume-weighted average price (VWAP) algorithms were designed to achieve average price of the day. Then, between 2000 and 2003 came participation-based algorithms, which were designed to minimize shortfall against arrival price. And from 2004 to the present, opportunistic algorithms have been introduced which enable traders to watch market conditions in real time and quickly take advantage of opportunities and list algorithms, designed to maintain dollar imbalance at the list and sector levels.

Aggregators simplify dark pool access
More than 40 dark pools have emerged since 2004, with one-fourth of them providing significant market share. While Reg NMS certainly makes it easier to start a dark pool, it is the emergence of dark aggregation that has driven the increase in number. Not only did such industry leaders in algorithmic trading as ITG and Credit Suisse enable access to dark pools from within algorithms, they also started their own dark pool aggregators, which made it easier to access all dark pools at once. With access greatly simplified by technology, it is easier than ever to start a dark pool and quickly gain market share.

Today, many traders are now using third generation liquidity-seeking algorithms, also known as dark aggregators. Due to the proliferation of ATSs, traders need technology to help them locate and maximize access to dark pool liquidity.
Equities: The only constant is change

Technological innovations continue to fuel the development of the U.S. equities markets. Just around the corner, for example, are fourth generation “hedging algorithms” that automate trading in multiple instruments simultaneously to hedge risk. Although this type of trading occurs today, it is a complicated process involving multiple steps and different people.

Other changes are happening as a result of the blurring lines between asset classes. The equity and equity option markets are a good example. The equity exchanges have entered into the options arena with NYSE’s purchase of Arca Options and NASDAQ’s creation of its own options exchange, as well as its purchase of the PHLX. In response, exchanges such as the CBOE will attempt to “internalize” their equity flow through facilities such as the CBOE Stock Exchange (CBSX). The result could be a more fragmented marketplace, rather than a more consolidated one, over the next three to five years. This transformation will fuel demand for new technology that accommodates access to these multiple venues.

The Listed Derivatives Market

Although there are many structural differences among them, many of the same factors that have influenced equities have had a similar effect on the evolution of the futures and equity options markets, including competition, regulation and algorithmic trading. As always, technology played an important role in changing the course of the market as traders sought competitive advantages.
Technology leads to electronification

The electronification of the futures market, for example, can be traced back to when the Chicago Mercantile Exchange (CME) first conceptualized and initiated the development of Globex, an electronic trading platform introduced in 1992. As the CME was owned by its seat holders, most of whom were floor traders or who derived their income by leasing their seats to floor traders, Globex initially was confined to after-hours trading.

The pivotal event for the marketplace, however, occurred in 1997 when the all-electronic futures exchange, Deutsche Terminborse (DTB), overtook the volume of the London International Financial Futures Exchange's (LIFFE) open outcry-traded German Bund contract. The following year, after a brief experiment with side-by-side trading, the Marche a Terme International de France (MATIF) migrated from open outcry to electronic trading with breathtaking speed. The message for futures exchanges was clear—they would eventually have to become electronic in order to survive.

The key word was “eventually.” Each futures exchange had its own clearinghouse and many futures contracts, particularly those such as S&P 500 or Dow Jones Industrial Average stock index futures, were proprietary products. The clearinghouse advantage was simple: A contract opened on one exchange could not be offset by trading a contract on another exchange. The futures exchanges’ businesses, unlike those of the stock exchanges, involved very specific and very valuable property rights. While competing stock exchanges were front-end execution venues for a fungible underlying product cleared through the National Security Clearing Corporation, futures exchanges were both execution and clearing venues for non-fungible products. This bought them time.

The equity options markets were far closer to the stock exchanges than to the futures exchanges. With the exception of certain licensed products, e.g., from Standard & Poor’s or NASDAQ, they also were the execution venue for a fungible product cleared commonly at The Options Clearing Corporation. Dual and multiple listings of equity options on different exchanges were common and the only competitive advantage exchanges could provide were cost and speed. Both depend on technology to achieve, but the same technology resources were available to all after a very brief first-adopter advantage. As the options exchanges were faced with paying more for technology to achieve narrower margins, they took to paying for order flow to maintain their market shares.

The key event in the history of electronic equity options trading was the launch of the all-electronic International Securities Exchange (ISE) in May of 2000. Its quick success presented major competitive challenges to the CBOE, the American Stock Exchange and others. The traditional options exchanges’ competitive advantage lay in their few, but significant licensed index option products—and in the ability of floor market makers to price and execute complex option orders.

A confluence of factors spurs market growth

In concert with the events above, processing speeds for computers continued to grow exponentially, the cost of bandwidth became remarkably cheap, and more and more model-driven hedge funds appeared on the scene. This represented the intersection of system capacity with demand for high-speed electronic trading. Volume predictably exploded apace.
The Futures Industry Association (FIA) reported more than 15 billion contracts traded globally in 2007, up 28% from the previous year. That came on top of growth rates of 9%, 12%, and 19% in the years 2004, 2005, and 2006, respectively. Similarly, the compound annual growth rate for equity options volume was 25.2% between 1995 and the first quarter of 2008. (See Figure 3)

These figures would have been impossible to achieve in the absence of technology. It spurred volume, which in turn created demand for more technology. The evolution led to tighter markets and lower transaction costs, but also presented new challenges for accessing liquidity.

**Figure 3. U.S. Equity Options Growth**

**Growth demands technology**

The rapid growth of electronic derivatives trading has benefited hedge funds, proprietary trading shops, and buy-side institutions—all of whom had to adopt technology to stay in the game. Even those who were not latency-sensitive have found it significantly easier and faster to trade, but at the cost of focusing more resources and energy on technology in an effort to remain competitive.
The process does not always run smoothly. To continue the evolution metaphor, there are some harmful mutations every now and then. The CBOT, for example, had developed its own technology before it joined with the CME to form Globex in 1992. It left to develop Project A, migrated to the Eurex a/c/e platform, and then to LIFFE Connect technology before its absorption into the CME Group in 2007. Everyone facilitating electronic trading at the CBOT had to keep changing and updating its exchange application program interfaces (APIs)—above and beyond the normal and never-ending cycle of software updates for reducing system latency, and expanding scalability and network throughput capacity.

Recently, the options markets have seen an increase in the need for smart order routing and blotter “sweep” technology. Moreover, numerous broker-dealers are now offering liquidity in addition to the six major U.S. options exchanges. Equity options markets are fragmenting once again.

**Derivatives: Approaching fragmentation**

One of the dominant struggles in futures markets is the centripetal pull of consolidation into the CME Group, a consolidation that could raise trading costs if it devolved into a monopoly, balanced against low barriers to entry in the business.

New exchanges have included Cantor Financial Futures Exchange (CFFE), Broker Tec Futures Exchange (Btex), and the U.S. Futures Exchange (USFE), a successor to Eurex’s U.S. operations. Other competition is arising in the form of customer-to-customer networks. While none of these separate pools have posed a major threat to the established exchanges, history says they could lead to a fragmentation of liquidity. Such fragmentation will drive the need for technology to locate liquidity at the best price. Historically, liquidity has not been an issue with options, but with the recent fragmentation and emergence of smart routers, more algorithms are beginning to appear.

---

**Figure 4. Electronic Evolution of Exchange-Traded Derivatives**


- CME Globex launches
- CBOT Project A launches
- CBOE Direct launches
- DTB overtakes LIFFE German Bund volume
- MATIF fully electronic
- CME Globex launches
- CBOT selects LIFFE Connect
- MATIF fully electronic
- ISE formed
- ICE acquires IPE
Systems developers have to cope with the growing complexity and demand of increased functionality of various exchanges. Message traffic is one such concern. And, with the Options Price Reporting Authority’s (OPRA) price feeds approaching one million messages per second, latency and the constant exchange-related maintenance updates are becoming serious issues. This will only get worse as algorithms, sub-tick pricing, maker-taker pricing algorithms, and the trading of complex spreads take further hold in the derivatives world.

The Foreign Exchange Market

FX has followed the lead of other such financial markets as equities when it comes to electronic trading, and its evolution has resulted in increased transactional volumes. The FX markets have been particularly difficult to penetrate; the banks who dominate this spreadsheet-based business have valuable market share at stake. A number of client-to-dealer and client-to-client electronic trading platforms are changing this paradigm, however, and FX trading continues to evolve.

While there are evolutionary parallels between FX and such other asset classes as equities and derivatives, there are considerable differences as well. With the prominent exception of the exchange-traded futures, the market is—and always has been—decentralized and comparatively non-regulated. However, the increasing capacity of FX trading platforms is leading participants to create their own evolutionary path as evidenced by history:

A new free-floating system

The Bretton Woods Agreement of 1944 pegged major currencies to the U.S. dollar to promote stability in financial markets. However, the system collapsed following the United States’ suspension of convertibility from dollars to gold. It wasn’t until the similar Smithsonian Agreement and European Joint Float also collapsed, however, that the official switch to today’s free-floating currency system occurred. This tectonic shift in monetary policy paved the way for actively traded foreign exchange. As such, the first enduringly successful currency futures contracts were launched at the CME in 1972.

The emergence of electronic interbank platforms

The Reuters Monitor Dealing System (RMDS), known today as Reuters Dealing, launched as the first conversational interbank platform and is now the market leader in Commonwealth dealing. For the first time, foreign currency dealers were able to conclude trades electronically over video terminals. But with only one electronic dealing system, the market was ripe for competition. In 1993, twelve broker-dealers joined forces to develop a second interbank platform—the Electronic Banking Systems (EBS). Today, EBS is the leading electronic platform for trading major currencies and the largest global interbank platform.

The first generation client-to-dealer trading platforms

Although the electronic interbank platforms catapulted the market forward, they also strengthened the banks’ existing monopoly on currency trading. Asset managers using direct access electronic systems in other markets pushed for the same in FX. In response, the first true client-to-dealer electronic solution appeared in 1996 when State Street launched FXConnect, paving the
The Genesis of the Multi-Asset Trading Platform

way for price transparency and electronic liquidity. The system was revolutionary because it was designed to give asset managers direct access to liquidity. However, due to the dominance of major banks, State Street struggled to build critical mass as a single bank FX solution. It wasn’t until other dealers realized that by contributing liquidity they could profit from the flows that they truly embraced the technology. Not only did FXConnect start to garner market share, but its launch marked a fundamental cultural shift in the FX marketplace.

Until this time, buy-side traders were unaccustomed to dealing electronically and preferred calling sales representatives who could walk them through a deal. Because it required a fair amount of education, widespread adoption of electronic access was slow at first. But by the time Currenex, an electronic platform targeted at corporate clients, launched, there was a great deal of market acceptance; buy-side traders were now willing and able to deal electronically with dealers on the other side.

These new multi-bank platforms provided liquidity to customers in a unique way by allowing banks to leverage price and speed to capture business electronically with an established customer base. What’s more, these systems facilitated price discovery across multiple currencies and products, enabled STP with clients’ order management systems, and provided a mechanism for analytics and post-trade reporting. Once the market got a taste of the advantages of electronic trading, more competitors, such as FXall, emerged.

ECNs emerge to offer new pricing models
FX broker-dealers were rendered theoretically unnecessary by the advent of a new generation of FX ECNs, which served as a destination for buy-side clients. Hotspot Fxi was the first such FX ECN. Designed as a low latency, client-to-client system, Hotspot was an attractive alternative to the traditional Request for Quote (RFQ)/streaming model offered by multi-bank platforms. To participate in Hotspot Fxi and deal anonymously on live prices, clients only needed to establish prime broker relationships; however, it wasn’t until the major banks started to provide flow that the platform gained traction. Other competitors appeared soon thereafter, including Lava (now part of Citibank). These FX ECNs offer a centralized anonymous trading platform with competitive pricing and are targeted at hedge funds and CTAs.

Banks retaliate with single-bank platforms
In an effort to take back market share and reclaim the FX spot market, a proliferation of single-bank portals have sprung up and are beginning to challenge the multi-bank portals and ECNs. The main objective of these platforms is to provide the banks’ customers with aggressive rates and build a book that can be managed by artificial intelligence with risk profiles that vary from bank to bank. These portals are often bundled with other products the firm may offer—from research and analytics to algorithmic trading—and, as such, offer clear client advantages over multi-bank platforms and ECNs. With single-bank platforms, the banks have swung the pendulum back into their favor by beating the multi-bank platforms at their own game—low-latency electronic trading and price transparency, with the added benefits of derivatives trading and research bundled into one comprehensive product suite.
FX: A market still in flux

Client-to-dealer electronic trading is still in its infancy in foreign exchange. The progress made to date has provided price transparency and has decreased the operational risk of dealing in FX across time zones. Indeed, many of the major currency pairs have become commoditized in the past 10 years due to these platforms. This process has narrowed FX margins and eliminated a bulk of the spread-based business from FX broker-dealers and has forced them to change their strategy. Today, the multi-bank providers and ECNs are facing stiff competition from the bank portals that have a monopoly on the credit and risk-taking spheres. By pricing out their technology competitors and properly risk-managing the inflows, the banks have found a way to regain electronic market share. The result is a fragmented electronic market that, at times, provides extreme market liquidity to the buy side and at other times only “phantom liquidity” as aggregated liquidity sources falsely promise to deliver. EBS Prime has been one effective solution that taps into EBS’ depth of market, but is cost prohibitive for most funds to justify. The multi-bank platforms and ECNs are likely to hit resistance now due to aggressively priced single-bank solutions that are free of charge and offer multi-asset features.

Figure 5. Key Events in FX Electronic Trading

- 1972: CME first introduces FX futures product on its floor
- 1981: Reuters Money Dealing System (RMDS) launched
- 1993: EBS launched
- 1996: CurrenEx founded
- 1999: FXConnect launched by State Street
- 2001: Hotspot Fxi founded
- 2004: ICAP acquires EBS
- 2006: CME Globex market share reaches 91% for FX; FXMarketSpace
- 2007: CME FX futures more than double since inception
- 2008: Proliferation of aggressive Single-Bank portals begins to challenge the multi-bank portals and ECNs

*The need for real liquidity aggregation and algorithmic trading in the marketplace arises
The market will now likely go through another round of consolidations where ECNs will combine and multi-bank platforms will do the same. And similar to the equity market, fragmentation is creating the need for aggregators of real liquidity and algorithmic trading. The few aggregators that exist have become the solution for some institutions and banks alike as the need to reunify liquidity is at a premium. It makes sense then for the market to combine liquidity and smart-trading tools in the foreseeable future in order to provide real value to its clients.

![Figure 6. Electronic Trading Adoption Across Asset Classes](image)

A New Multi-Asset Paradigm

As each asset class continues its evolution and the markets begin to mimic each other, it is no longer enough for trading technology to simply keep pace with developments in each individual market. Success in tomorrow’s electronic, fragmented, multi-asset marketplace necessitates the creation of an entirely new type of multi-asset trading paradigm.

**Need for technology consolidation**

Trading institutions want to execute trades simultaneously in the options and equity or bond markets with the possibility of trading one leg in the futures markets. Intermediaries—whether exchanges, ECNs, or prime brokerages—have a positive incentive to capture as much of the trade as possible via internalization. For purposes of execution, the lines across asset classes are becoming blurred. The combination of these incentives and the steady advance of technology will produce a more fragmented, not a more consolidated, marketplace as the “where” of the trade diminishes in impor-
tance. Moreover, trading firms themselves, and very large hedge funds in particular, trade numerous different assets across multiple markets and regulatory regimes. All of this combines to produce a greater demand for a multi-asset class electronic trading solution—one where the consolidation occurs at the broker level instead of at the exchange level.

In the last few years, the industry has witnessed the slow, steady breakdown of global trading silos. In an effort to improve or maintain performance, many asset managers have expanded their geographical remit, and demanded comprehensive, centralized solutions to improve their workflow and risk management capabilities. What was once the sole domain of specialized regional trading desks has morphed into a plethora of new applications offering global trading capabilities from one consolidated platform.

When it comes to multi-asset trading, however, the silos still exist. Due to the complexities of derivatives trading, for example, there is still a need for experienced asset class specialists and distinct derivatives and FX desks. But at an enterprise level, it is becoming more and more critical to have risk management and real-time compliance capabilities that span all asset classes and provide a realistic picture of current portfolio status and performance.

What does a multi-asset platform look like?
Ultimately, the platform of the future will provide the connectivity, data, and functionality to allow traders to efficiently trade multiple asset classes with ease. As automated trading continues to grow, the need for low-latency, high-throughput APIs for both market data and order submission will become more critical; lesser systems will buckle under the load. Any new multi-asset platform will need to maintain low-latency, high-throughput message transfer in a completely scalable manner. Scalability is a crucial component of a viable electronic trading platform. As traders become more automated, their message traffic increases and their systems need to be able to keep up and do so in a manner that does not tolerate latency. Scalability is also important with respect to asset classes. The electronic brokerage environment today is largely segmented by asset class as if still limited to trading in a physical pit. The trend of today's trading environment is moving rapidly toward relationships between asset classes both for profit exploration and risk diversification. In fact, many of today's traders—and many more of tomorrow's—will need the ability to access multiple asset classes from a single stable system.

Speed is another key element of a viable electronic trading system. A millisecond can make the difference between a successful trade and a failed one. Therefore, this new platform will need to offer fast, secure, and reliable electronic trading solutions that are easily integrated into existing technology.

And lastly, the software must avoid getting too heavy. A multi-asset platform should stay modular, allowing managers to turn on and off pieces according to their evolving needs. For example, if a trader needs to run an equity optimization, he should be able to turn off the Dynamic Implementation Shortfall algorithm, so it doesn't weigh them down. Not only is this a benefit from a performance and throughput perspective, it is a huge plus for compliance.
If you build it, will they come?

Technology alone will not be enough to take the market to the next level; a cultural shift is required as well. Highly efficient and effective multi-asset class trading requires a centralization of knowledge, process, and technology. Therefore, to be successful in using a multi-asset trading platform, firms with specialized desks to deal with different asset classes may need to make considerable changes to their setup or process.

Is it feasible to think that one trader will expertly trade numerous asset classes simultaneously? It is more likely that traders will migrate toward trading certain asset classes together. For example, taking on equity derivatives for an equity trader may be a natural extension and having capabilities for both asset classes on one platform greatly eases workflow. But if a trader is trading FX and equities, it is a different relationship. So too, with equities and fixed income—today the two asset classes are really only traded together by managers who are handling portfolio transitions, and even then, the desks are typically split.

The human element

The real challenge in building a multi-asset platform is the human element. The brokers and vendors can certainly get the functional intricacies of each asset class correct in the software, but will one trader expertly understand the nuances of these markets and be able to deal effectively in all simultaneously? It is more likely that four traders will each continue to work four parts of the market, as experts in their respective asset classes. But if they were able to do so with one consolidated system, the benefits would be considerable. For example, the firm would be able to track all of the positions that relate to each other concurrently and implement risk and compliance controls at a level yet unseen.

The challenge for the marketplace will be to balance the multi-asset evolution with the desire to maintain trading specialization.

Resigned to “swivel chair” technology?

Most institutional managers have accepted the current reality of having an equities system next to a derivatives system and having to swivel back and forth between the two. Despite the fact that most would rather deal with one system and one vendor and migrate away from “swivel chair” technology, most managers do not see a consolidated enterprise platform as a viable option—not only because such a solution does not exist today but because consolidated global trading applications have largely failed to meet expectations.

That said, many asset managers are still hopeful and looking forward to an enterprise multi-asset platform that facilitates liquidity access, execution and order management, integrated risk analytics, and pre- and post-trade compliance. The trading segment of their business has evolved beyond a necessary cost center to an actual profit center; as such, they understand that not only can a multi-asset system reduce errors, improve workflow, and simplify administration but the right system can actually add alpha to their trading.

The development and implementation of such a platform may, in the end, fall to those who have deep insights and capabilities across the full trading spectrum—and are able to balance enterprise needs for consolidation with distinct asset class workflow functionality. What’s more, a successful multi-asset trading system must address the needs of both the front and the back office equally well.
The evolution to a multi-asset trading system continues
The benefits of multi-asset system are undeniable—reduced possibility for data entry error, consolidated compliance, enterprise-wide risk management, and standard benchmarking for trading—not to mention seamless integration of data and workflow.

Eventually, the market will force financial institutions to seek just such a solution. And when it does, the combination of technology and culture will evolve to include such progressive tools as hedging algorithms and enterprise multi-asset class platforms that preserve the nuances of trading each market.

Through the years, our financial markets have been shaped by regulation, competition, and both technological innovation and necessity. Going forward, the only certainty is that change will occur. As technology advances and markets change, there will be pioneering firms waiting in the wings with new technology. Thus, the next type of algorithm and technology platform always will be right around the corner.