Crossing Over.
What Matters Most in FIX?

Max Colas, Orc Software's Senior Product Manager for CameronFIX, and Annie Walsh, [illegible] on the path to FIX migration, and interview Edward Strauss, Head of Sales and Electronic Trading for Baader Bank.

While many of the primary users of FIX, among them brokers, fund managers, hedge funds [illegible] propagate the standard worldwide, this has been uncharted territory with many switching engines over time from inhouse-to-vendor or vice versa, vendor-to-vendor, or open source.

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Over the years each FIX solution has presented apparent benefits and its fair share of impediments for the user. An in-house engine can provide full development control, but time spent building and maintaining an engine can quickly detract from core business. Third party solutions leverage the input of a large user base, and open source, whilst unsupported, is freely available. Through the process of trial and error, for some the lessons have been learnt but for others, the task of attaining consensus still remains out of reach.

Interacting global markets brought the financial world closer together, resulting in the development and fast expansionary uptake of the FIX messaging standard. In varying degrees, FIX has enabled market participants to simply and cost-effectively connect to markets since its first release in 1992. Over the years, additional development to the protocol and resulting applications has seen it further evolve to meet emerging market requirements such as speed, consistency and flexibility.

Baader Bank, the European securities trading entity based in Germany, is one firm who has road-tested and switched FIX applications more than once. A convert from the start, the question for Baader was never should it be FIX, instead, which FIX?

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As FIX became more prevalent it acted as a normaliser. Once buy-sides had adopted FIX, switching from one sell-side broker to another would become easy — although not seamless, as layers of FIX dialects and subtle variations hampered the progress of a truly unified FIX. Firms would issue rules of engagement which defined which FIX they would speak. FIX vendors proposed dynamic solutions to cope with those message manipulations, thereby

Edward Strauss, Baader Bank

acting as a protocol lubricant amongst the buy-sides and sell-sides. Meanwhile, newly-emerging ECNs and ATSs would find in FIX the fastest way to attract new liquidity and onboard new participants. This normalization allowed all the protagonists in the electronic trading arena to finally focus on their core business: in essence, the paradigm shifted from "how I connect to my customer", to "what can I do for my customer"?

In a market where survival increasingly demanded differentiation, FIX allowed banks and brokers to lure customers with competitive differentiators — algos, sponsoring services, access to remote markets or dark pools of liquidity — that form the foundation of their unique offer, cumulative skills and expertise.

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"FIX enables us to process order flow much more efficiently as well as build and strengthen relationships with customers," says Edward Strauss, Baader Bank's Head of Sales and Electronic Trading. "So for us it's one of the key contributors to growing our business; if we can speak the same language electronically, we all benefit. Take that another step; if we can detect counterparty capabilities then we can maximize performance between ours and their FIX implementation."

Baader Bank's latest switch in engines was driven by the need to provide a FIX-enabler that would give customers reliable, consistent stability and lower latency for investment strategies:

"With a rising interest in FIX from our European customers we are increasingly working to move them from legacy solutions that slow them down and in some cases take them out of the market. Many years ago when we had no real knowledge of FIX, it was difficult to convince them of the benefits in switching. As our knowledge of FIX has matured, so the process of migration for customers has become a whole lot easier. This process has also driven the decision prompting our latest switch in FIX applications based on the premise: if we sell the protocol to customers on consistent SLP (Stability, Lower latency and Performance) then we have to match the promise with an application that won't let them down."

The volatile buy side client has now perfectly integrated the power of electronic trading and the increasing use of advanced trading tools dictates uncompromising quality of service from their OMS to the final execution point. At the FIX engine level, these new needs translate into additional demand for consistent low latency, increased metrics transparency and more accurate monitoring — factors which some FIX vendors anticipated.

Many other financial firms have at some point come to the crossroads for deliberating yesterday's needs and investment versus tomorrow's requirements, and as a result switched FIX solutions. These include major global investment firms and exchanges. Of course, switching engines may appear daunting for some: a rather large step into the unknown. A sideways glance at other firms can prove reassuring. The larger the user base, the more mileage an engine will accumulate, and the more reliable it tends to be.

With continued advancements in trading, increased levels of participation from emerging markets in Eastern Europe, the Middle East, South America and Asia Pacific, combined with the surge in interest for inter-market trading and the increased automated coupling of buy and sell sides, it's inevitable that market participants caught in the hub of financial exchange will either sink or swim. If you are unable to anticipate the primary electronic messaging drivers of the future and align with or build the advanced FIX application required, the opportunity will definitely pass you by.

Any thoughts on this or other articles?
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