

Securities Industry News

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JUNE 19, 2006

NEWS DESK

Swift lowers its prices, opens up more to corporations and elects JP Morgan Chase's Yawar Shah chairman; European fund accounting supplier Igefi gets funding from Summit Partners.

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PERSPECTIVES

GUEST COMMENT: Current market trends are pressuring order management system suppliers to aid institutional traders in aggregating liquidity and finding low-cost execution, says Richard Hooke of LatentZero.

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ORIGINAL SOURCES: The SEC must continue its aggressive enforcement in order to ensure the continued health and prosperity of the capital markets, says agency chair Christopher Cox.

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SPECIAL REPORT



As the Securities Industry Association's Technology Management Conference opens in New York, a special package of features and commentary covers key trends emerging there and in the wider world of capital markets technology. Highlights include:

PROPRIETARY TRADING: People with advanced quantitative and technical skills have changed the culture and the workings of Wall Street's trading desks.

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PRIME BROKERAGE: Hedge funds are demanding more technology-driven capabilities from their prime brokers, whose spending in this area is approaching \$1 billion.

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SUPPLIERS: Vendors are upbeat about their sales prospects, even as they contend with Wall Street firms' overhang of austerity that started in the dot-com bust. "If you can offer both savings and growth, you're a step ahead," says Sybase's Eric Johnson.

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DEPARTMENTS

DATA MANAGEMENT: The NYSE launches a free trial of its InfoTools market-transparency product.

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ASSET SERVICING: Credit Suisse is the first prime brokerage customer of hedge fund IT servicer Paladyne.

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Lava's new ECN destination, and EquiLend's contract comparison service for securities loans. See Breaking News at: www.securitiesindustry.com.

JP Morgan Turns to Web 2.0 For a Basket Trading Tool

BY KATHERINE HEIRES

The dot-com bust is a distant enough memory that some hopeful marketers have slapped a throwback label—Web 2.0—on a new generation of high-tech tools. It's hardly hype to JP Morgan Chase & Co., however. The giant bank is applying Web 2.0 technology to one of the most intricate and critical of its capital market functions: basket trading.

JP Morgan is using what is known in Web 2.0 parlance as a "mashup," or combination of applications, to give its traders and institutional clients the ability to handle complex trades in large quantities of stocks—typically 500 names or more at a time—in a smarter, faster and more collaborative manner. Three critical components of trading—analytics, algorithms and real-time optimization tools—come together via a Web interface on a single screen, rather than the six or seven screens that traders might normally be required to view.

Buy- and sell-siders alike get the same look at trading activity in real

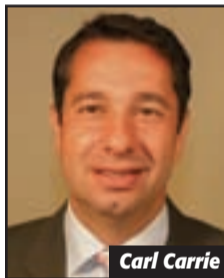
time, simultaneously monitoring portfolio performance on their respective computers—a technological and service breakthrough in its own right—allowing for collaboration and consultation on strategy adjustments and potential next steps.

"It's been amazing to see how much flexibility in the trading process a new tool like this can bring," says Carl Carrie, head of algorithmic trading products and global execution services at JP Morgan in New York.

A "three-in-one" application mashup called TAO, which stands for Trading Algorithm Optimizer, is currently being rolled out to all JP Morgan institutional clients. Carrie sees it as proof for the gradual and growing use of Web 2.0-type technology on trading desks.

Web 2.0 is often used to describe, in addition to mashups, trendy Internet services such as blogs, podcasts and wikis. All are characterized by a greater degree of interactivity than in a previous generation of Web sites, with real-time informa-

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Carl Carrie

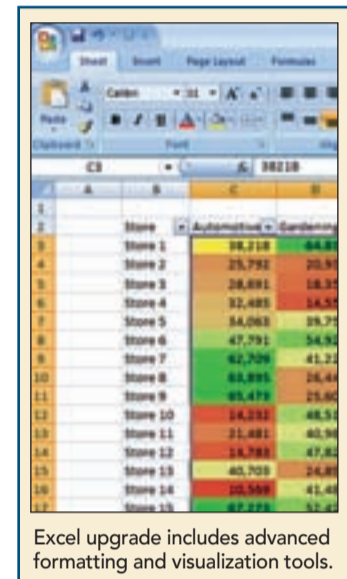
Makeover for Microsoft Excel

Spreadsheet upgrade plus high-performance cluster touted as trading's future

BY JEFFREY KUTLER

Few software products are as widely accepted and ubiquitous, particularly in the securities industry, as the Excel spreadsheet, and now its proprietor, Microsoft Corp., is acknowledging that the technology hasn't kept pace with the demands that contemporary trading and analytics are placing on it. A new version, Office Excel 2007, is on the way that, in conjunction with cluster server configurations based on the Windows operating system, will make Excel faster, more manageable and readily compatible with the high-frequency trading styles that have changed the complexion of securities markets in recent years, according to the Redmond, Wash. software giant.

"Excel is the trading platform of today," William Hartnett, general manager of strategy solutions in Microsoft's U.S. financial services group, said in an interview last week. "What we are talking about is the trading platform of the future."



Excel upgrade includes advanced formatting and visualization tools.

Several firms active in the capital markets are said to be testing Excel 2007, which is expected to be formally on the market by November. But a demonstration version is available on Microsoft's Web site, and it will be on view this week at the Securities Industry Association's technology conference in New York, running on a Hewlett-Packard Cluster Platform 4000.

The end users who have made Excel a de facto standard for trading strategies, models and simulations are continually looking for enhancements, which may come from Microsoft, from the numerous independent software vendors that develop add-ons for spe-

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Compression Ban Is On Hold

E-traders still have reason to be wary

BY JOHN HINTZE

A proposal by the National Securities Clearing Corp. (NSCC) to eliminate trade compression, a technique that electronic communications networks (ECNs) use to lower their clearing and settlement costs, won't be taking effect July 1 as originally stated in the proposal. The plan caused such a ruckus—including arguments that the efficiencies ECNs fostered in equity trading since the 1990s would be squandered and that higher transaction costs would ultimately be passed on to investors—that NSCC decided at the end of May to give the electronic trading community some breathing room.

As it stands now, compression of trades will have to end on the first day of the fourth month following the Securities and Exchange Commission's approval of the change. That also would be the effective date of NSCC's new fee schedule, which tiers trade-recording fees to favor smaller trades and introduces new fees based on processed trade value

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Reuters Stakes Derivatives Position With Application Networks Buyout

BY JEFFREY KUTLER

Reuters Group's trading and technology businesses have been active across asset classes, accelerating its market data feeds to keep pace with algorithmic trading, expanding desktop transaction capabilities around the world and recently announcing a joint



Andrew White

venture with the Chicago Mercantile Exchange to launch a centralized electronic foreign exchange marketplace next year. Last week came a significant move in complex structured instruments with Reuters' acquisition of Application Networks, a specialized software house with a highly touted system for cross-asset derivatives trading, for \$41 million in cash.

Application Networks, with offices in London and Palo Alto, Calif., becomes part of Reuters Trade and Risk Management, a \$150 million-in-revenues business unit

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TECHNOLOGY

Web 2.0 — Continued from page 1

tion access and collaboration features that weren't available on older, static Web pages.

Technologically underpinning any Web 2.0 offering—what makes the interactivity so vivid and robust—is asynchronous JavaScript and XML, or Ajax for short. It allows for the exchange of small amounts of data between a browser and Web server, hence the look and feel of a dynamic software application that one might download to a personal computer.

Web 2.0 technology has gained popular prominence at Web sites such as Google Maps, a mapping and location service that utilizes live satellite video feeds; the Flickr photo sharing service; and the Wikipedia interactive encyclopedia.

Down to Business

Where Web 2.0 has yet to become commonplace is in finance, and particularly on the hyperactive trading desks of Wall Street. Security concerns, compliance issues and wary IT departments that require a technology to be dutifully double, triple and quadruple tested to ensure “industrial strength” performance and reliability are

among a host of reasons slowing adoption.

“Even though we see a lot of technology innovation in the backrooms of institutional trading firms in terms of grid computing, messaging and super computing, on the front end most firms continue to use conventional systems,” says JP Morgan's Carrie. “When it comes to desktop-based systems used by traders, it's a challenge to change those systems.”

Nevertheless, analysts and industry players say that the financial services sector's Web 2.0 migration is beginning in earnest. “Ajax is all the rage this year,” insists Kevin Hakman, senior product marketing director with Tibco Software, a Palo Alto, Calif.-based business-integration systems company that counts many of the world's stock exchanges and brokerage houses among its customers and offers its own brand of Ajax development tools.

Hakman notes that in addition to that Ajax offering—General Interface—there are currently 135 different Ajax libraries or development tool kits on Wikipedia for developers to choose from. The trading tool mashup at JP Morgan, for example, was created by

in-house developers using a form of Ajax to help weave the applications together.

“For single-stock applications, portfolio analysis, settlement and the like, we are seeing a growing use of Ajax,” says Hakman, who anticipates that in five years Ajax-enabled applications will be so prevalent that there will be virtually no traditional, desktop-installed software.

David Mitchell Smith, a VP and fellow at Stamford, Conn.-based research firm Gartner, is less optimistic about the general rate of Web 2.0 enterprise adoption, especially in security- and compliance-conscious financial services. Nevertheless, Gartner projects that by 2008, the majority of the Global 1000 companies will have adopted some aspects of Web 2.0. There will be lingering reluctance, Smith says, where the technology requires or results in a major alteration in the communication systems and social structure of an organization.

“This technology can mean changing business models for many firms, and we don't see that happening in a big way anytime soon,” Smith explains. But he adds that firms that quickly understand how to exploit the new tools and business models and make the right organization adjustments could reap substantial benefits.

Taking the Plunge

It was last year that the algorithmic trading team under Carl Carrie at JP Morgan decided that it was ready to exploit Web 2.0 technology. “Our algorithmic group is quite literate with Java and JavaScript, so it was quite natural to get involved in Web 2.0 to improve our workflows,” Carrie says.

His team had a seemingly simple goal in mind: Create a mashup or hybrid Web-based application that would allow for greater efficiency in large-scale portfolio trading. The mashup would allow pre- and post-trade analytics and portfolio trading via algorithms, viewable on a single Web page.

According to Carrie, the effort began as a “skunkworks” project initiated by his team of eight algo traders. The entire de-

velopment process took about seven months, with the firm's internal risk groups getting involved in the final product review. “The key thing for us was making sure that our new tool could handle a very large portfolio with several hundred names, and that meant making sure that the product was fully industrialized,” says Carrie.

The algorithmic portion of the mashup, TAO, analyzes the entire portfolio on such measures as market impact, timing, risk and difficulty of trading to arrive at how the given portfolio strategy should be executed. Carrie calls this “a huge productivity tool that saves a massive amount of time,” not to mention manual labor. Pre-trade analysis in the traditional manner often takes 20 to 30 minutes. Configuring algorithms for each symbol in a portfolio takes time and, in lieu of that, many traders would employ a volume-weighted average price algorithm as an easy way out. As a result, trading costs were often higher than they should have been.

Instead, the TAO mashup handles the pre-trade analytics and suggests a trading strategy for each stock, based on optimization criteria selected by the trader. During the course of the day, traders can employ real-time analytics to assess the progress of the strategy. If they think adjustments need to be made, the trader can override the optimizer. The TAO mashup will often identify six or seven names in a large portfolio as high-complexity or high-risk trades for that day. Traders are thus free to work these trades in a more thoughtful, manual way.

So what are traders doing with all the extra time that the combination of Web 2.0 and algorithmic technology allows? According to Carrie, they attend classes on algorithmic trading and read helpful tomes like “Optimal Trading Strategies: Quantitative Approaches for Managing Market Impact and Trading Risk,” co-authored by quant trading expert and JP Morgan VP Robert Kissell. And so traders can credit Web 2.0, at least in part, for their continuing education. ■

Microsoft Excel — Continued from page 1

cific purposes, or from in-house programmers who are called in when the commercially available packages are deemed insufficient for a given task. When Microsoft undertakes such a sweeping initiative to refresh one of its fundamental products, the user community tends to pay closer attention than it would to, say, a periodic version upgrade, and according to Stanley Young, worldwide director of financial markets at Hewlett-Packard Co., “we are already seeing traders talking about” the next-generation Excel. “This

is an example of the real-time, low-latency performance that everybody in the industry is looking for, and we are pleased with the direction Microsoft is taking.”

William Harts, managing director and head of strategy for equities at Banc of America Securities, said he could not fully judge Excel 2007 and its services and infrastructure improvements without seeing them in action. But, he noted, “Microsoft has been a good partner with BofA. Our direct-market access platform InstaQuote sits on top of Microsoft Windows and inte-



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