

The Importance of Standards; a long and winding road

Ever since SWIFT opened up their network to the securities market there has been an enormous amount of effort by the banks and huge investment by software vendors to produce standardised messaging. But it's fair to say despite the massive workload already undertaken; there is still a long way to go before the objectives will be met.

Many people that were working in the securities markets in the late eighties when SWIFT opened its doors will have long since left the industry, others still around, will have now achieved veteran status. It is those people joining the securities markets in the mid nineties that have benefited from the early pathfinders and are carrying the baton to the next generation, who have to take standards onto the next stage, moving to the end objective.

What was the original objective all those years ago and how relevant and important is it into day's securities markets?

The origin of securities standards was born from the settlement crisis in 1986/7 after which the 'Group of Thirty' specified the need for global standards in the post trade processing arena. Shortened settlement cycles were the original driver and this led directly to the need for immediate electronic trade confirmations (ETC) and the closing of gaps between market participants in the processing chain that was heavily weighted to communication. To a large degree this is still a challenge.

It was in the nineties that the market quickly realised that SWIFT ISO7775 messages that grew from the legacy payment messages were inadequate for the securities market. Groups like ISITC were formed and worked with ISO and SWIFT to eventually design a new messaging standard, ISO15022.

However, during this decade and the new millennium, the global markets moved into more complex derivative financial products and even more complex trading and investment strategies. Added to this explosion of new products was the atomic bomb that was the World Wide Web.

The implementation of ISO15022 in 2003 was a watershed development for the world's securities markets. Almost immediately STP rates increased and costs came down. For the first time the original objectives for standard messaging in the securities markets had a chance of being met.

But having glimpsed the *Promised Land* through ISO15022 the markets demanded further development of messaging to match the burgeoning needs of a hungry investing global community and the eruption of trading volumes which were hitting new heights, as the internet allowed direct market access.

All this would be taxing to the markets in any age but when in addition politicians and regulators got together to change market structures and regulations through Directives like MiFID the market participants came under massive duress.

Once again standards hold the solution but now the messaging standard needs less structure and more flexibility in construction. XML has been widely used in other industries for decades and is now gathering acceptance in the securities markets as a solution for its messaging problems. The new solution available is a combination of ISO15022 and XML, which has created ISO20022.

However, although not exactly back to square one the global securities markets need once again to all agree a common way forward.

Over the last fifteen years the development of FIX via FIX Protocol Limited (FPL) has brought huge efficiencies and cost reductions in the order management flow between fund managers and brokers. And FPL has continued to widen the FIX capability to cover most of the highly traded asset classes and derivatives; now it has OTC in its sight.

FIX has also been extended into the middle office and has a very valuable role to play in trade allocations. With FIX moving towards the middle and back office and ISO15022 and ISO20022 moving towards the middle office the convergence is being managed by SWIFT and FPL.

The outcome of converged SWIFT and FPL message standards will be close to the end game, finally meeting the goal of electronic messaging set in the late eighties.

Today many of the world's wholesale markets have achieved direct exchange of electronic ISO15022 messages, gaining cost and risk benefits as their STP rates increase, but the retail markets are still mainly proving elusive and outside the SWIFT network. Connecting the retail and wholesale markets remains an important target for the industry to achieve but with converging standards and XML flexibility being introduced, one that is entirely feasible.

It's been a very long and winding road and there have been errors made along the way but the vitally important development of new standards has been one of the great success stories in the securities market. The great

need is for financial services firms in the retail and wholesale markets worldwide to all invest in the latest technology to bring about connectivity through message standards and begin projects examining ISO20022 as the next step towards industry wide STP.

There has been hard fought political positioning and enormous costs born by the industry but finally through co-operation and standards the end is before us.

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