Reprinted from

AMERICAN BANKER®

THE FINANCIAL SERVICES DAILY

Thursday, December 14, 2000

ELECTRONIC COMMERCE

How Bank of New York Became a Web Forex Force

■ BY MEGAN J. PTACEK

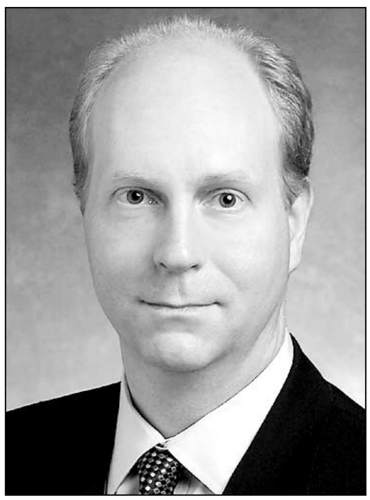
When Bank of New York began building an online foreign exchange trading system for its fund manager clients three years ago, it did not expect to end up being a pace-setter in an industry that is being transformed by the Internet.

Its goal was to better serve its 850 global fund manager customers. When it surveyed them, it learned they wanted a system that could solicit price quotes from other banks — a demand top management found unpalatable.

"The idea to allow our clients to trade with our competitors was not something pleasing to management in 1997," Richard Estes, vice president and global product manager for iFX Manager at Bank of New York, recalled during a recent interview in his office.

Radical though the concept was, it became the groundwork for Bank of New York's pivotal role in the formation of FX Alliance, a 14-bank consortium that is one of many multibank platforms put together recently to facilitate foreign exchange trading over the Internet. Bank of New York said last month that it will give the technology platform it began developing three years ago to the consortium, and become an equity owner of FX Alliance.

FX Alliance reviewed 130 systems before picking Bank of New York's, validating its approach. "It showed us the vision we had was being fulfilled," Mr. Estes said. "There's no one system that you could design that would be so fulfilling that the client would decide to trade 100% of its business with the same bank."



ESTES

Bank of New York's online model mimics the way foreign exchange trades have long been conducted, he said, with clients soliciting prices by phone from a number of providers.

"Fund managers don't want all of their foreign exchange at one bank, because of risk management, and it is a traditional payback for research and IPOs," he said.

Once senior management was behind them, Mr. Estes and his team set about building.

"We wanted to design a system that would automate the way fund managers traditionally do business," he said. "People are only interested in technology if it doesn't change the way they do their work."

Because Bank of New York, like the rest of the industry at that time, was preparing to deal with the year-2000 date switch and the euro currency conversion, the team decided to get help from an outside vendor.

It went to AVT Technologies, a small London company and the only vendor at the time to offer an Internet foreign exchange trading system. After customizing the AVT platform, Bank of New York introduced its iFX Manager software in mid-1999, and began marketing it early this year, once Y2K concerns had petered out.

Though the software allowed other banks to connect into it, enabling them to bid on business from Bank of New York clients using the system, the bank had not yet activated that capability, Mr. Estes said. "We decided that if our clients really liked the system, then we would use that to convince the banks to get on," he said.

But other banks had built or were building their own proprietary Internet-based foreign exchange trading systems and "were not interested in multibank platforms," Mr. Estes said. State Street Corp.'s FXConnect product had been up and running for three years, and Northern Trust was developing its FX Passport, which it rolled out to its North American clients in May 1999 and to its global clients in April of this year.

The focus of other banks changed, however, as they started hearing from their customers. "By the beginning of this year, there was newfound interest in multibank platforms," Mr. Estes said. Banks "ran into the dilemma that clients trade with multiple banks and don't want to use multiple sites."

Then, between April and July of this year, independent companies such as Currenex Inc. and CFOWeb.com, sprouted, with the intention of promoting a broader mandate than Bank of New York's.

They would offer multibank trading, research, and other services to both fund managers and corporations, going a step beyond Bank of New York's system, which had been designed to appeal specifically to its own fund manager customers.

Bank of New York decided then to pursue more aggressively its strategy of offering a multibank platform — and to take its name off the product. The problem was "a general paranoia about sending your data to a bank," Mr. Estes said. "We knew it had to be a separate company, because clients didn't want it owned and operated by a single bank."

The solution was to create a separate firm, MarketMarque, through a joint venture with AVT Technologies. And then other players entered the scene.

In June, as Bank of New York was finalizing the creation of MarketMarque for a July introduction, the FX Alliance announced its intention to build a foreign exchange platform. Soon afterward, Chase Manhattan Corp., Citigroup Inc., and Deutsche Bank teamed up with Reuters Group PLC to create a 50-bank online foreign exchange platform called Atriax. State Street by then had changed its FXConnect product to support use by 22 banks.

Bank of New York realized that the market would probably support only a limited number of foreign exchange platforms. The contenders included banks that had built their own systems and needed providers, and consortiums that had gathered a number of providers but did not have a system.

FX Alliance approached Bank of New York once it started evaluating technology platforms, Mr. Estes said. "It was a great opportunity to leverage our existing technology and add to it." And because Bank of New York would gain an equity position by contributing its technology, it would have a say in how the consortium is run, he said.

Mr. Estes said he believes the market can support two platforms. "It will boil down to the breadth of liquidity on the platforms, because people will go to where there is the widest selection," he said.

FX Alliance is expected to open for live trading in the first quarter, as is its 50-bank rival, Atriax.

Whether FX Alliance, Atriax, or one of the nonbank consortiums, CFOWeb or Currenex, ends up winning the biggest volumes of foreign-exchange trades is anyone's guess. But in any event, Bank of New York has assured itself a place in the evolution of the market.

As Robert Iati, a senior analyst at TowerGroup, noted, "It was a little less expected, because Bank of New York is not a technology company." ■