

Profits

in the currency & derivative markets

Vol. 2 / Issue 17

www.Profit-Loss.com

Dec 00 / Jan 01



Richard Estes - Visions of a Networked Economy

A degree in Romance Languages & Literature from Princeton University may not be the usual qualifications of someone working in the financial markets, but it is the background from which Bank of New York's Richard Estes made his start.

"After graduation, my first taste in business was in performing translations of documents for a consulting firm in France. Upon conclusion of the assignment, I returned to the States where I simultaneously applied to business school and was hired by JP Morgan into its Operations Management training programme. Shortly after starting at Morgan, I was accepted by New York University and began my MBA at night."

This step was the first in what now looks to be a somewhat cyclical career path. After he completed the management consulting programme 18 months later, he got his first job in IT. He was given an assignment in the technology planning group of JP Morgan's treasury division, which was planning the migration of the sales and trading businesses into what was to be the bank's cor-

porate headquarters at 60 Wall Street.

During the two years he spent in this group, he was assigned to the foreign exchange group where he planned the technology desktop needs of all FX front and back office staff, including those of new trainee Phil Weisberg, the current CEO of FXall.

Shortly after moving into the new 60 Wall Street headquarters in 1990, Herve Huas was transferred from Morgan Toronto to New York to run FX and Foreign Securities sales. Estes says his French-speaking ability and facility with the new trading room technology helped Huas' adjustment to his new responsibilities at head office. In return, Huas offered him a sales position on the FX desk in 1991 as he completed his MBA.

"McKinsey had just conducted a review of Morgan's FX business and concluded that FX profits could grow if knowledge could help maximise profits on the small ticket, high volume middle market desk," he says.



On the middle market desk, Estes created a spreadsheet system to calculate daily individual sales margin and trading P&L for the desk, which validated that the labour intensive group writing a few hundred paper tickets per day was indeed highly profitable. "My sales margin methodology was then transplanted to the larger corporate and institutional sales desk for measuring profitability of all sales clients," he adds.

After a year, Huas reassigned him to the larger sales desk, where he began covering a mixture of corporates, fund managers and hedge funds. Three months into the new post and he was indoctrinated into the craziness of the FX market by the ERM crisis of September 1992.

"The methodology I had previously created was incorporated into the development of a new front office FX deal input system called Feirworks, which allowed us – following the ERM crisis of Autumn 1992 – to calculate the P&L on specific trades entered by the sales desk. This greatly enhanced management's ability to meas-

ure client profitability. Also included in the sales module was a facility to enter fund manager splits after inputting a block trade," he says.

This was of particular importance in managing the bank's fund manager clients, which were in and out of the markets many times a day during this period, recalls Estes. "Working on the institutional desk, I witnessed daily how fund managers were getting out of the securities markets and putting FX hedges in place," he says. "This meant writing scores of tickets – all of which needed to be allocated to numerous accounts. This was my first experience of the headaches associated with booking FX trades with fund managers, as opposed to corporates."

He took a three-month hiatus in 1993 to attend Morgan's Global Financial Markets training course. In January 1995, Estes transferred to the bank's custody arm, to do product marketing to fund managers in FX.

At the time, JP Morgan operated its FX and custody businesses separately, so Estes' primary task was to convince Morgan's custody clients to trade FX in-house, and to develop additional third-party FX businesses from those initial custody-related activities. He worked in this capacity until JP Morgan sold its custody business to BNY at the end of 1995.

It was at this time that Estes nearly encountered his future e-commerce colleague, Jas Singh. At the time of the sale, Estes tried to return to JP Morgan in an IT capacity, but was told the job had already been filled. The man slated for the post was Singh, who is now director and founding partner of AVT Technologies.

At BNY, Estes says it soon became very clear that "here was a bank that highly prized the FX business that it derived from its custody client base." BNY shortly entered a joint venture with derivatives boutique Susquehanna Partners, and Estes took a sales assignment doing options marketing for about a year.

Estes had his first brush with e-commerce upon his arrival at BNY, which was poised to upgrade its FX capabilities to meet the needs of its growing custody client base – much of it obtained in acquisitions from Morgan and Bank of America in 1995. Aside from the Susquehanna venture, management decided to create a research capability with the arrival of Jorge Rodriguez in mid-1996.

"The issue though, was how to disseminate our research in a cost-effective manner. I remember a managing director at Morgan telling me in 1995 that Morgan spent \$50 million per year on research, and was wondering if it was worthwhile. Much of that cost was presumably due to printing and mailing expenses. So we took

advantage of the bank's newly launched Web site to establish a BNY FX research site, whereby we could post our research 24-hours a day, instead of creating a costly publishing and distribution function."

In 1997, a number of things came together for Estes. "We received enquiries from a number of major fund manager clients, who were asking for online FX trading. I volunteered to help develop a system that would meet the needs of these clients," he explains.

Estes was placed in charge of the joint project between the FX and custody groups. "The challenge we faced was that we had to develop a system based, not on how we thought clients would like it to work, but by finding out what their needs were in terms of efficient workflow and how they conduct their trading business. Then we had to come up with a way of automating this," he says.

"Our conclusion was that we couldn't just provide a dealing system – it had to be able to be completely automated, able to handle high volume transactions and allocate across numerous accounts," adds Estes. "We needed two elements – a dealing system that would allow dealers to quote and interact with a client-side order management system. But what would make it really successful would be a multibank capability – but how it would work, we didn't know."

"At the time, this was not a popular idea," recalls Estes. "I was asked why we would want to invest in a platform that would allow our customers to trade with our competitors."

His response? "If we don't provide this capability, they won't use this platform."

"For a cost-conscious firm like Bank of New York, once we were given the go-ahead, we then faced the question of whether to buy or build the system," says Estes. "At the time, most of the vendor offerings were based on client/server architecture, which involved installing costly software on client desktops."

So it was at this stage that Estes first met with Singh, who was still working at JP Morgan in early 1998. Singh and AVT's Mark Redwood, were marketing an Internet-based system they developed with funding from JP Morgan called EchoFX. Dresdner Kleinwort Benson was the first bank to license the system, which now forms the basis for its Piranha FX dealing platform.

"Interestingly," says Estes, "I saw the first demo of Echo-FX on the 10th floor at 15 Broad Street, which is the space currently occupied by FXall."

Although he was impressed with EchoFX, Estes said it needed three key

features to be incorporated to suit BNY's purposes: the ability to feed trades electronically; the ability to allocate trades across different accounts; and, should it become necessary, a multibank connectivity feature.

So in the spring of 1998, AVT and BNY began work on the prototype for iFX Manager, which launched in May 1999. Since November 1999, Estes has championed the concept of multi-contributor portals for the FX market, going so far as to set up a joint venture earlier this year with AVT called MarketMarque in an effort to attract counterparties. But somewhere between the launch of iFX Manager in May 1999 and November of this year, as many as seven multibank initiatives were announced or launched – none of which had BNY's name attached.

But with last month's announcement by FXall that it would use the technology behind iFX Manager as the basis of the multi-contributor FX trading and research platform, Estes' vision has been realised.

"We spent 1999 launching our platform and marketing it as our proprietary trading system. We knew from speaking with AVT that no banks were interested in a multibank platform in 1999; however, that sentiment abruptly changed in November 1999 and the year 2000 has been a different story. Many banks that launched their own Web sites in 1999, found the sites were not as well-received as they would have hoped. Clients were asking for a single point of access to the multiple bank offerings, and banks were beginning to warm to the idea of multibank platforms."

"So as AVT continued to sell its EchoFX system to a number of major banks, it reiterated to us the need for a multi-contributor portal," says Estes. "And by now, we've seen success in other markets with ventures such as TradeWeb – which provides the seed for initiatives such as FXall."

So what's next? Estes says BNY will continue to work on enhancements to iFX Manager. "Now that we have announced to management and the world our participation in FXall, we will be expanding iFX Manager to other segments of the market. In January or February, we will make a more streamlined version available for our corporate clients," he says.

He adds that there are also a number of B2B opportunities that were not pursued over the last two years because of the focus on iFX Manager, for which he will now devote more of his time.

Besides dabbling in technology, Estes enjoys spending time with his family, travelling and cooking. Estes lives in Short Hills, New Jersey with his wife Kathleen, and children Gordon, 6; Olivia 3 1/2; and Spencer, 8 months. ■