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# profit loss

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With everyone and his brother proclaiming "We are an Internet company", it's difficult to tell who is actually using the medium to conduct business. Julie Ros looks at a few of the banks that have actually begun trading FX over the Net and finds out why they're doing it, what the benefits are, and who's leading the field.

## Who's Leading The Internet Race?

The dawn of the Internet has arrived. These days, if companies aren't changing their names to "dot com", they're seriously considering it. Banks are also looking at Internet solutions for their businesses. But who's leading the move to e-commerce, and how far behind are the rest?

About a half-dozen banks seem to be leading the field, comprising what some call "the third generation" of the e-commerce race. These institutions are sitting as much as 12-18 months ahead of their competitors, sources say, and include both first and second-tier institutions.

"E-commerce is on everyone's agenda, but there is only a small minority of banks who can claim to be the early adopters," says Jas Singh, a director of London-based AVT Technologies, which provides Internet-based trading solutions. "E-commerce or E-business is a rapidly evolving phenomenon, the first generation began offering Web-

based research/analytical tools, while the second generation had an e-commerce ability, albeit largely manual. The third generation is automating the process, linking the client to the institution. We are now entering the fourth generation -

systems from AVT. Credit Suisse First Boston (CSFB) and Royal Bank of Canada have also begun dealing FX over the Internet with clients, using systems developed internally (CSFB) and externally (RBC DS). Sources say Bank of America, Chase Manhattan Bank and possibly CitiGroup are close behind, followed by JP Morgan and Barclays Capital.

### In Real-Time

Earlier this year, Dresdner launched a suite of e-commerce products under the moniker, Global Bite. These include: Piranha, an FX transaction system that enables customers to trade FX spot, forwards and swaps; Niagara, a futures and options settlement and position-keeping system;

Rapid, a system for risk analysis and portfolio inquiry; and Gator, the Global Access to Order Routing, customer order entry system for futures.

Piranha is connected directly to Dresdner's real-time price feed, and

The screenshot shows the iFX Manager interface. The top window displays a list of orders with columns for Order ID, No., CCY Pair, CCY, Total Buy, Total Sell, Total Net, Counterparty, Order, and Status. The bottom window shows a detailed view of Order 68770, EUR USD, with a table of legs and a chat window.

Order ID	No.	CCY Pair	CCY	Total Buy	Total Sell	Total Net	Counterparty	Order	Status
68768	2	USD EUR	EUR	10,518,823.00	1,784,859.00	8,733,964.00	Bank of New York	unfilled	Unopened
68768	5	USD CHF	CHF	37,324,437.00	0.00	37,324,437.00	Bank of New York	forwarded	Completed
68768	3	USD CHF	CHF	5,585,788.00	2,186,285.00	7,689,107.00	What's Your Bank	unfilled	Trading
68768	4	EUR USD	USD	33,924,918.00	0.00	33,924,918.00	What's Your Bank	forwarded	Trading
68771	7	USD JPY	JPY	30,338,682.00	0.00	30,338,682.00	Bank of New York	unfilled	Unopened
68772	5	USD JPY	JPY	48,277.00	22,021,284.00	21,972,887.00	PanAsia Bank	forwarded	Completed
68773	6	AUD USD	AUD	20,016,039.00	0.00	20,016,039.00	Bank of New York	unfilled	Unopened
68774	2	AUD USD	AUD	6,000,048.00	0.00	6,000,048.00	PanAsia Bank	unfilled	Completed
68775	2	USD DKK	DKK	14,597,346.00	0.00	14,597,346.00	Bank of New York	forwarded	Unopened
68776	1	EUR JPY	EUR	1,265,038.00	0.00	1,265,038.00	PanAsia Bank	forwarded	Trading
68777	17	GBP USD	GBP	89,121,808.00	36,427,821.00	31,893,778.00	Bank of New York	forwarded	Placed

Bank of New York's iFX Manager

which is providing institution to client end-to-end integration."

But only a handful of banks have even moved beyond the first generation. Leading the field are Dresdner Kleinwort Benson and Bank of New York, which have both gone live with

EUR USD		USD JPY		GBP USD		USD CHF	
I SELL EUR	1.0717	I BUY EUR	1.0721	I SELL USD	114.72	I BUY USD	114.76
I SELL GBP	1.6163	I BUY GBP	1.6168	I SELL USD	1.4948	I BUY USD	1.4955
EUR JPY		EUR GBP		EUR SEK		EUR CHF	
I SELL EUR	122.96	I BUY EUR	123.01	I SELL EUR	0.6630	I BUY EUR	0.6633
I SELL EUR	8.7945	I BUY EUR	8.7985	I SELL EUR	1.6023	I BUY EUR	1.6028

Dresdner's Piranha FX Transaction System

trades can be tracked using the system's real-time position blotter.

The Internet system was developed by an "unusual partnership" between the business and IT, explains London-based director of Global Markets, Alex Wilkinson. The team includes Wilkinson; product manager Allan McKenzie; Fabian Somerville-Cotton, who is in charge of deployment; and global IT chief, Al-Noor Ramji. "Without the help of all these people, this project would not have got off the ground. These initiatives are supported at the highest level within Dresdner Bank," Wilkinson adds.

"Dresdner's Internet capabilities evolved from two processes that were coordinated last year," says Wilkinson. "Our ethos is to bring the capital markets directly to the customer's table. It's a service orientated approach."

Wilkinson says the product was developed with the customer's viewpoint in mind. "We're trying to give the customers exactly what we have. Our corporate treasurers now have a much cleaner, faster ability to transact business."

A major enhancement will be to allow clients to leave orders utilizing Piranha by mid-September. "The next step is to allow customers to directly interface deal details with the bank over the Internet. Our aim is STP – we want the entire cycle to be automated wherever possible."

Dresdner launched Pirhana about four months ago. Trading is conducted about 16-hours a day at the moment, and Wilkinson says it should be 24-hours in the next few months.

### Complete Automation

The Bank of New York recently

announced the release of iFX Manager, its latest Internet-based product for fund manager clients. iFX Manager is a completely automated FX trade order management and execution system, covering spot, forwards and swaps. BNY went live with the system in May, but only began actively marketing the system in the third quarter.

Richard Estes, project manager for iFX Manager, says that client demand for electronic FX trading emerged over the past two years. "Before that, there were a few FX dealing systems available for clients, such as those by offered by Citi and Chase. iFX Manager is one of the first systems truly conducive to the trading style of fund managers," he says. "And any solutions proposed by the banks more recently have been single bank solutions, such as State Street's FX Connect."

So what's different today? "We aren't offering an FX dealing system. We're offering a communications

"We would be willing to work with other FX banks to connect them with what we have...so clients could end up with what they truly desire – a single gateway to access any of their banks for electronic FX trading"

tool to enhance the relationship between the FX sales desk and the client," says Estes, "iFX Manager is foremost an order management system, with added functionality to route trade requests to connected banks like BNY and perform real-time, interactive execution. Price quotes offered by BNY aren't pre-configured, black box prices, but rather supplied by the client's FX sales person. And, unlike other systems, iFX Manager allows the

client to contact another counterparty if he doesn't like our price. Our focus is on getting the technology to the buy-side clients as an extension of the relationship."

iFX Manager was designed specifically with fund managers in mind to reduce the time, expense and risk of human error involved in complex multicurrency trading, seamlessly automating all facets of the trade execution workflow.

"Working with fund managers, we learned that other systems haven't accounted for all of the underlying work that a fund manager does before he makes the phone call to the bank. The functionality that fund managers require is much more intricate than that needed by your average corporate. They need a solution that supports block order execution across numerous fund accounts, allows multi-bank execution management, and ideally integrates with their trading or portfolio management systems for real-time data transfer," says Estes.

"iFX Manager assists the user through each step, from preparation of trade requests, to order management, trade execution, reporting and trade ticket input," says Jorge Rodriguez, senior vice president and head of BNY's global risk management services. "Before the development of iFX Manager, there wasn't a tool available to automate this trade execution process, especially not one specifically

designed for fund managers who have had the burden of using a different proprietary system to trade with each of their FX providers."

"Ultimately, as the marketplace drives us, we would be willing to work with other FX banks to connect them with what we have. So clients could end up with what they truly desire – a single gateway to access any of their banks for electronic FX trading," says Estes.



## No More Installation Headaches

CSFB launched Prime Trade about seven months ago and already, officials say the bank has more than 400 users of the system globally. Demand for the system is coming from a wide range of customers, including CTAs, hedge funds, fund managers and small banks – and the business accounts for a large percentage of overall daily volume.

Philippe Buhannic, managing director, at CSFB in New York, says he's never seen anything like it.

## "Everyone is a customer...whether it's our own branches or outside clients"

"When we started showing clients the product two years ago, they couldn't see how it would fit into their strategy. But over the past six months to a year, we're finding it hard to keep up with the demand," says Buhannic. "We recently travelled back to New York after demonstrating the product to a client and when we walked into the office, a signed contract was sitting on the fax machine."

Installation is a breeze. The bank just sends a CD-Rom (or even downloads) the system to the client, who can begin trading as soon as the system and security agreements have been signed.

While trading can literally begin within hours, the legal agreements can take anywhere from a few days to a few weeks to sort out. Service also depends on how sophisticated the client's Internet connection is, and what types of firewalls exist at the client site.

CSFB's system is based on a single platform, which handles currencies, futures and other fixed income products, and Buhannic says emerging markets (most likely in the form of an NDF module) would be a logical next step for the currency module.

"Clients can trade any currency they want from virtually anywhere in the world," says Buhannic.

When a futures version was first released two years ago, Buhannic

says most people wanted the ability to trade over both a direct line and the Internet, but now, he says that 95% of customers have opted for the Internet-only option.

Different clients like different aspects. "The CTAs and the hedge funds are very interested in the hedge arbitrage opportunities, while the global macros are less interested in that aspect, but like the back office side. Meanwhile, the traditional asset managers are very interested in the system, but less so in the back office function," says Buhannic. "And for small banks, it allows them

important distribution tools for the fixed income product.

It is a complete straight-through processing (STP) solution. It has prices, limits, and order and position management, all of which can be exported directly to the back office.

"It is an overall risk reduction system, providing complete STP from beginning to end – a high-quality audit trail. There is no manual intervention, so there are fewer errors, and the onus is on the customer to input his own trades," Buhannic adds.

"The balance of risk is shifting. The customer has to be more careful inputting trades because there's no longer a middle man to double check the details," he says.

## The Preferred Channel

RBC Dominion Securities, the investment banking arm of Royal Bank of Canada, has been conducting Internet-based trading since May using Cognotec's AutoDealing system. It is executing automated trading of large FX transactions through RBC DS DealSecure on a worldwide, real-time basis using unique, high security encryption and proprietary software, says an official.

Jamie Barton, vice president of commercial FX at RBC DS, says the main advantage of Internet dealing systems is that the client drives them.

to quote a wider range of currencies, backed by a very good name."

Buhannic has been involved in the development of Prime Trade since he joined CSFB five years ago from Societe Generale's brokerage arm, Fimat. He oversees three business lines: Fixed Income Futures, Prime Brokerage and Electronic Trading. The internal development of Prime Trade stemmed from an existing Internet-based order trading system at the bank.

Buhannic says that he and Philip Vasan, global head of FX for CSFB, foresee that these types of systems will eventually become the most

CSFB's Prime Trade

"You're putting clients in the driver's seat, offering them a new channel and the choice as to whether they use it or not," he says. "And because the customer controls the input, it really causes you to examine the business in ways you didn't previously."

David Gibbins, head of global foreign exchange at RBC DS, adds, "We're seeing a solid and growing core of clients using the Internet as their preferred channel for trading. We began with commercial users in Canada and have extended its reach to corporate and institutional clients."

### New Initiatives

Meanwhile, BofA is expected to shortly announce a new initiative. The bank has been involved in automated trading in one form or another for the past 10 years, says Christiane Mandell, global head of FX sales in New York.

"Trading technology is a very dynamic thing right now. We currently have a limited number of clients trading all vanilla products on a Web-based trading system, but we expect to release a more comprehensive version to a wider audience in 2000."

The bank has automated trading technologies for a number of other products and services available in limited release as well, and will expand its payments, prime brokerage and fixed income services online in the near future.

"The way we service clients in this industry has always been tailored to what we perceive the client's individual needs to be. The same applies to our provision of research and analytics via the Web. Rather than a single universal product, it is meant to be a system flexible enough to meet the information and analytical needs of several different customer segments efficiently," she says. "The power of the Internet is really in its ability to allow for collaboration."

"We don't want the technology to divorce the client from his bankers," she adds, "We have done a lot of training for our sales force and

trading team designed to allow them to engage the client interactively. It is representative of the fundamental change in the speed and power of communication that the Internet has brought to our market."

### The Benefits

Strangely, cost saving is rarely cited as a factor in counting the Internet's many advantages. The quick and easy installation process, the ability to reach a wider range of customers and spend more time servicing larger clients are among the main benefits cited by users.

"What is amazing is the capacity to expose yourself to your customer anywhere in the world, and do so over the same infrastructure," says Buhannic. "In terms of new business, it opens you up to customers you wouldn't previously have been able to reach. But most importantly, it's unavoidable. The market is asking for it, so you have to be there, and you have

**"A lot of banks are talking about the Internet, but most of them are at the e-commerce committee stage"**

to be among the first to provide it."

Wilkinson adds, "The Internet enables you to service your customers at a higher level, because it reduces the clerical nature of the job, freeing the sales dealer to start providing customers with added value solutions."

But the biggest advantage Wilkinson sees is the increase in flows. "We're seeing a real increase in business from customers we used to service in analogue fashion, but now service digitally," he says.

### The Drawbacks

Disadvantages are few and far between. Not only do users say security, reliability and capacity have not been a problem, but they also believe the Internet is a very good means of delivering prices quickly and efficiently. The systems are just as valuable as external marketing

tools as they are internally. "Everyone is a customer," says Wilkinson, "whether it's our own branches or outside clients."

"I've found the Internet to be a very stable and efficient delivery mechanism. We've experienced a few outages, the longest being about six minutes in the last four months. The Internet is only going to become more reliable," Wilkinson says, pointing out recent announcements by Telewest and British Telecom, which are both planning to introduce broad band Internet connections by early next year.

But some sources say the Internet will begin to take a toll on sales desks. While these systems do free dealers up to focus more on customers, they also eliminate the need for scores of dealers quoting prices for clients.

While the leaders acknowledge that it is only a matter of time before their competitors bring similar systems to their customers, each feels they are a few steps ahead of their peers, because they are doing what the others are only talking about. "A lot of banks are talking about the Internet, but most of them are at the e-commerce committee stage," says Buhannic.

Wilkinson, whose trading system now covers a product range of FX, futures, options and stocks, says he hopes to soon add money markets and cash bonds to the system, followed by credit derivatives, in order to keep ahead of the pack. "A failure to connect to your customers on a broad range of products shows that you are not interested in being in that particular marketplace anymore, because you won't be in a position to compete in three years time," he says.

"The success and overwhelming numbers attributed to the Internet and e-commerce have been largely consumer driven. We're really just beginning to see the tip of the iceberg when it comes to business to business applications. The numbers that are going to come out of it will dwarf anything we've seen so far," adds RBC's Gibbins.