

The numbers game – adding value to contributed executable prices

Richard Gissing of Gissing Software looks at how executable pricing has speeded up and improved the accuracy of transactions carried out by banks and their brokers

Getting prices out to market is simple providing you have the right technology in place. However, manipulating and updating that data in a real-time environment is not so easy. Gone are the days when Reuters screens simply indicated price movements in the market and little else. Back then, these screens were little more than shop windows displaying a bank's wares to the market. If you wanted to act on that information, you needed to go into the shop and deal with the chap behind the counter.

For the banks and brokers using these 'shop windows', there was nominal value in getting their name and prices to market via combined contributed pages such as the famous Reuters FAFX page or EFX=[CHAIN] displays.

However, as this was an indirect marketing exercise, it was extremely difficult to put any kind of value on the worth of this kind of indicative price data contribution. Nevertheless, banks, ever-keen to look after the pennies, did just that, seeking to gain a slight market advantage by advertising themselves in such a manner. And the bigger the institution, the more of it had to be done.

Unsurprisingly, the more of this that went on, the keener those involved became to increase the efficiency with which they conducted price contributions. While some banks made do with the standard mechanisms offered by the information vendors (customised to work with their market data platforms), others sought more profitable avenues. Today, banks employ market data platforms in order to automatically sort and contribute this data, allowing them to constantly update the information and ensure their prices are timely and accurate.

This 'executable pricing' data came of age around four years ago when Bloomberg increased their volumes of contributed data. Rather than simply pushing data towards Bloomberg for display purposes, banks now employ the information giant as an executable information channel. Using this channel, banks can advertise their prices while customers can 'click and trade' in real-time. The trade is then either executed automatically or

goes to the dealer before being confirmed as a done deal. Either way, the prices being pushed out are tradable prices.

The next step

It goes without saying that this represents a significant difference to the value of contributed data and puts greater pressure on those supplying the data to ensure it is error-free and consistent. Don't forget, this data is now being traded on, so mistakes are simply unacceptable. Secondly, this information must get to the customers' systems quickly, because if the price is behind the market the contributor can make a loss on the trade.

With contributed data now a commodity in itself, banks and brokers are embracing new technologies that ensure the timely delivery of accurate data. Banks can clearly see the value of systems which provide this functionality, particularly when they can demonstrate the exact number of trades being completed based on the data, for example with contributions to Bloomberg.

It follows that a direct correlation can be made between the contribution effort and the money generated from the trades. This represents a major shift in the perception of contributed data systems. Rather than being simply conduits for information, they have become business generators in their own right.

The present situation

While indicative pricing is still popular, the vast amount of growth in contributed data over the past five years can be attributed to executable pricing contributions in terms of both volume and breadth of data. The contributed data process is now seen as a profit centre rather than a cost centre and this paradigm shift means that banks are increasingly confident in investing in market data contribution systems.

While it was Bloomberg who led the change in the perception of market contributed data through the contribution of executable prices, Reuters too has introduced functionality on their standard terminals to allow for trading activity.

This points to the growing importance and value of tradable price contributions and suggests even more growth in the volumes and breadth of market data contributions in future. Today, these systems are an integral part of the money making machine within financial institutions, far removed from their 'shop window' origins.

As the markets experience ever-larger volumes of contributed data being made executable, it is natural that they should also demand new methods to access real-time prices.

The MarketAxess, an electronic trading platform, provides such functionality. Prices are contributed as indicative, however, if a customer is attracted to the price, they simply have to click on it to set in motion an Request For Quotation (RFQ) process which goes about securing the trade. The system ensures that the prices clicked on are accurate, timely and on the market.

The benefits are almost immediate. For example, when a large investment bank bought the Gissing ConteX MCS market data contribution system, it confidently declared that the system had paid for itself within six months. It is now keen to expand the market data contribution system further as it is considered an integral part of the entire trading operation.

Looking to the future

As the market matures, we are likely to see an increasing demand for well-established contribution systems. The business benefits are becoming clearer and the costs involved in implementing such a solution are quickly negated by rapid return on investment.

Tier two financial institutions are well placed to take advantage of market data contribution systems. They are discovering that their existing contribution solutions are simply not up to the task of contributing executable prices, and increasing manpower and attention is required as the volume and breadth of instruments grows.

Adding to their dilemma, Bloomberg has introduced a policy whereby executable prices must be contributed via the Bloomberg MPF to assure pricing reliability on its systems. It is up to the financial institution to interface its own in-house systems with Bloomberg or use a specialist solution like Gissing's ConteX MCS.

Smaller institutions see much value in this new market but are understandably reluctant to invest in an in-house solution. Instead, they will benefit from installing a tried-and- tested platform that frees them to focus limited resources on trading rather than maintaining complex systems.

To a large extent, the more a financial institution contributes prices, the more impressive its returns will be. Prior to installing the ConteX MCS system, one of

Gissing's clients employed two people to work full time managing contributions to Reuters and Bloomberg. They dealt with internal system breakdowns and complaints from traders. This was a time-consuming, labour-intensive process that, owing to the human element, always had scope for potential errors.

After the implementation of the ConteX MCS system, the client was able to reduce the team to a single employee who was able to focus exclusively on increasing the depth and breadth of indicative price contributions.

At another client site, following the installation of the system, they went from contributing one million updates a day to around 11 million prices a day. Ultimately, it was able to achieve more return from their contributed data simply because greater volumes were being contributed. The client has seen volumes continue to grow because there is so much pent-up demand from different departments.

If a financial institution is prepared to invest the initial outlay in technology, it will rapidly maximise the amount and breadth of indicative and tradable pricing that can be sent to as many information vendors as possible. As a consequence, the return on this activity is greater. It's a game of numbers – the more that goes out there, the more banks are likely to make. But they need to invest in order to minimise internal resources and maximise output in an efficient and effective way. ■