

FPL Canadian Electronic Trading Conference 2005

Toronto Ontario Canada - June 7, 2005



By Robert Smythe, eClientscope Inc. and Andrea Blackman, FIM Consulting

The first FPL Canadian Electronic Trading Conference was held at the Board of Trade in Toronto on June 7th, 2005. The event was a huge success with over 350 attendees, 46 speakers and 30 exhibitors/sponsors. The enthusiasm from Canadian market participants for this, the first FPL educational forum, was unprecedented and resulted in the need for delegate and exhibitor waiting lists.

Conference Overview

The objective of the Canadian Conference was to bring together leaders from the Buy Side, Sell Side, Market Infrastructure and Solution Provider firms to consider the implications of electronic trading for the Canadian marketplace, and the use of FIX as a key enabler in achieving securities transaction processing efficiency and ultimately straight through processing. Considerable effort went into ensuring a balanced discussion that included all asset classes, and addressed the subject from the

regulatory, infrastructure, trading, and operations perspective. This resulted in a day of concentrated and comprehensive discussions that surfaced some key messages for the Canadian securities industry, notably:

- Electronic trading and straight through processing are competitive imperatives for the securities industry and the Canadian capital markets;
- Automation can transform an organization and deliver substantive performance improvement and

commercial opportunities but is a major challenge for most organizations

- FIX message protocols and sophisticated vendor services can accelerate the automation process.
- The time to act is now as the required building blocks and knowledge are readily available to achieve positive business results from electronic trading and FIX.

The conference provided delegates with an overview of the commercial rationale for electronic trading and the value of FIX as an enabler. Experts from Canada, the United States and Europe identified how electronic trading and the use of the FIX messaging protocol were needed to address margin compression, performance improvement, and compliance and risk management requirements by facilitating best execution, global market access, direct market access and algorithmic trading.

A key take away was for attendees to recognize that the securities trading environment is faced with a sea of changes and that tried and true processes may no longer ensure the viability of an organization. Through presentations and networking delegates were given the opportunity to compare their strategies with worldwide experts and bring the latest ideas back to their organizations.

The Canadian Condition

The conference revealed that Canada is in the early stages of electronic trading. Given the proximity of Canada to the United States and the volume of cross market investment, Canada's relative immaturity may seem unusual. The explanation lies in the concentrated nature of the Canadian financial markets. There is one dominant equities exchange - the Toronto Stock Exchange (TSX) and one dominant derivatives exchange the Montreal Exchange (M-X).

The TSX and the M-X are electronic exchange leaders but to this point only the Montreal Exchange supports FIX.

Other sources of liquidity involve internal, or 'upstairs' trading by a few large institutions as well as US exchanges where Canadian securities are dually listed. Liquidity is concentrated in the hands of a few exchanges and dealers. Although there has been little success in creating alternative liquidity pools in Canada, the launch of Markets

Inc. to support an automated 'upstairs' market and ITG's TriAct which is an electronic communications network set-up to compete with the TSX may increase the number of viable trading alternatives.

The most significant use of electronic trading and FIX in Canada has been in the trading of foreign securities. At the time of the Conference the bulk of Institutional investments were subject to a 30% foreign investment content limit. However, with the passing of the Federal budget on June 29th, 2005, Canadian pension funds and registered retirement savings plans and can now invest up to 100% in foreign investments. The conference made clear that the pending change in foreign content limits coupled with performance pressure and regulatory requirements make electronic trading not only imminent but inevitable.

Another explanation for Canada's relative immaturity in the adoption of electronic trading and FIX is the limited number of completed order management system implementations. From a show of hands at the conference only 10%-15% of the Canadian firms represented had implemented order management systems but in the last 18 months more firms had implemented order management systems than in the previous 5 years.

Further progress is expected as a result of new Canadian securities regulations that foster competition for Canadian securities transactions while minimizing liquidity fragmentation. This should accelerate interest in electronic trading and FIX.

On the efficiency front the Canadian Securities Industry and the Regulators are working together to facilitate trade matching and confirmation on Trade Date +1. Targets have been set that require market participants to increase the number of trades reported on T+1 from 73% today to 100% by July 2006. Trades confirmed on T+1 are to increase from 51% today to 75% by July 2006 and to 95% by noon on T+1 by December 2006. By July 2007 the objective is for 100% of trades confirmed/matched by end of T vs. 8% today. For Canada this may be early days for institutional electronic trading but the market is mobilizing on all fronts.

Conference Organization

The conference was organized by Robert Smythe of eClientscope Inc., Toronto, and Andrea Blackman of FIM

Consulting. The guidance of Ross Hutcheon, Bill Hebert, Alan Schwartz, Kathy Ball-Tonic and Brian Nathan of the FIX Protocol, Ltd., Americas Education and Marketing subcommittee was invaluable in the successful development and execution of the program. Experts in the area of Canadian and International capital markets, electronic trading, straight through processing and FIX provided valuable input to the conference program both in its design and as speakers throughout the day. While not wanting to overlook anyone we would be remiss if we did not acknowledge the ongoing input provided by Phil Wright (CanDeal), Carol Penhale (Cutter Associates), Deana Djurdjevic (E*Trade Technologies), Nick Thadaney (ITG), Steve Pesner and Gary Dandridge (Stratix Consulting) and Cheryl Strong (UBS). This broad global and local knowledge allowed the conference to deliver a comprehensive view of FIX and electronic trading on a global basis that was structured to address local needs and interests.



Canadian Organizing Committee (from left to right) Robert Smythe, Andrea Blackman, Cheryl Strong, Phil Wright, Steve Pesner and Gary Dandridge. Missing (Deana Djurdjevic, Carol Penhale and Nick Thadaney)

The conference was attended by a mix of delegates from the buy-side, sell-side, traditional and alternative Exchanges, infrastructure and solution providers, financial consultants, industry associations, and the financial press. The delegate breakdown was as follows: 20% buy side, 27% sell side, 27% Infrastructure (e.g. Exchanges, ECN's, Custodians, Depository, Regulators), 19% Solution Providers and 7% Consultants.

There were 30 Exhibitors/Sponsors from Canada, the U.S. and Europe providing Delegates with a wonderful

opportunity to meet with the major suppliers, exchanges and service providers active in the global capital markets and the world of electronic trading and FIX. The interest of Canadian based firms was significant with approximately 40% of the Exhibitors/Sponsors being Canadian. All exhibit space was sold out and was very active

Conference Presentations

The conference was opened by Bill Hebert of Fidelity Capital Markets who provided an overview of the FIX organization, the focus of the Conference and the presentation agenda. The quality of the presentations was rated very high by conference attendees. We are indebted to the speakers for their efforts in sharing their knowledge and experiences with the conference attendees.

Scott Atwell from American Century provided an overview of FIX messages and the evolution of the FIX Protocol. He pointed out that FIX Protocol, Ltd. (FPL), is a pragmatic organization consisting of members who are responsible for maintaining and promoting the use of FIX in electronic trading applications to facilitate efficient trading connectivity and communications, direct market access, and algorithmic trading across the range of asset classes. He sees FIX as a key enabler that allows the markets to respond to evolving trends including: performance pressure, compliance demands, commission pressures, best price execution, growth in trading volume and increasingly sophisticated investment strategies.

FPL also announced that the Tower Group had been engaged as part of the re-launch of FPL's 2005 FIX Global Survey. Canadian firms on both the buy and the sell side were urged to contribute FIX usage information and to participate by responding to the survey. This survey will provide a benchmark on the use of FIX internationally that will also include information on Canada for the first time.



Bill Hebert



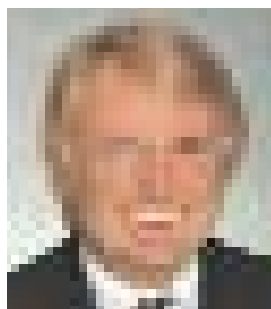
Scott Atwell

Full versions of the conference presentations are available at http://www.edientscope.com/confPresentations_2005.asp but to provide further information on the Canadian securities environment we have summarized some salient points from a few presentations.

Gerry O'Mahoney, Chairman of the Canadian Capital Markets Association (CCMA), and Randee Pavalow from the Ontario Securities Commission (OSC) stressed the need to improve the efficiency of the Canadian securities industry.

The CCMA stated that Canada is ahead of the US in cross-border settlements, dematerialization and electronic payments but lags in institutional trade matching.

To further market efficiency the OSC has developed ATS rules that facilitate competition by creating a regulatory framework for multiple markets while minimizing the negative impact of fragmentation on the markets. The CSA has also established electronic audit trail requirements for all dealers to enable more effective and efficient monitoring of market activities.



Gerry O'Mahoney



Randee Pavalow

Ken Hight of ITG pointed out that US experiences can provide some assistance as Canada firms proceed with electronic trading. Canada faces regulatory, best execution, compliance and performance pressures that create demands for direct market access, anonymity, access to electronic markets, integrated OMS capabilities and pre and post trade analytics. These are the same issues that have resulted in the growth of electronic trading in the US and other international markets. He predicted that black box trading will approach 60% of all trading in the next few years, and that there will be an increase in the use of pre-trade tools and integration of portfolio management and trading systems.

Doug Steiner from Perimeter Financial identified that the Canadian sell side has limited technology depth to address margin squeeze. Traditionally the Dealers have leveraged their capital rather than value added content to dominate the domestic markets and have not become global players. The US sell side has responded to the margin squeeze with considerable technology and value added content which they have leveraged effectively in both domestic and international markets.



Ken Hight



Doug Steiner

As an example of where progress is being made, James Garcelon and Peter Conway from National Bank Financial Group along with Gary Dandridge from Stratix Consulting presented a case study reviewing NBF's efforts to develop an integrated trading platform that would facilitate ongoing development of product and service content, greater operational efficiency to address margin compression, while at the same time respond to straight through processing demands.



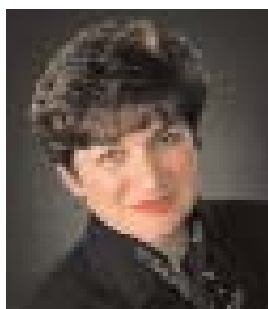
Gary Dandridge and James Garcelon

Their presentation highlighted the fact that implementing an integrated system is not only about technology, but involves changing the processes,

workflow, and trading culture. Key challenges include client interfaces, connectivity, and integrating current trading systems. NBF will use FIX for client, sell-side, and 3rd party systems interfaces.



Barbara Amsden



Savie Fiorini



Dave Sexsmith



Kathy Ball-Toncic

Barbara Amsden from Canadian Depository for Securities (CDS), Savie Fiorini from CIBC Mellon, David Sexsmith from FMC and Kathy Ball-Toncic from Omgeo addressed electronic trading in the wider context of end to end straight through processing. In the Canadian market there continues to be challenges relating to confirm/match/settle processes. These middle and back office activities are an integral part of successful electronic trading in the front office and must be addressed as part of the market's electronic trading initiative. Challenges include trade notification delays with counterparties, multiple modes of communication including fax, client and custodian block allocations, cross-border settlement, impacts on downstream processes (e.g., securities lending), trade instruction repairs, reference data integrity and the number of hands involved in each trade, as well as a decision on central vs. local matching. Resolving these challenges requires a number of things to happen, notably: commitment to STP at the corporate and industry levels; a cultural change in the way people think; and consultation between trading partners and service providers.

Some areas of focus involve CDS' real-time messaging, accommodation of matching on trade date, conversion of all institutional transactions to real-time or intraday batch and definition of end of day. Other industry challenges include broker-to-broker matching, central settlement instructions database and ISIN access.

Conference Learning's

Feedback from conference delegates clearly demonstrated that there is significant interest in electronic trading and FIX in Canada. Until now, the concentrated nature and investment focus of the Canadian market has not made electronic trading a matter of urgency. The recent changes to business fundamentals, regulatory requirements, government legislation that will stimulate greater interest in accessing foreign markets will drive electronic trading, and the use of FIX as a key enabler, forward in the minds of industry leaders in Canada. It is anticipated that the Conference will act as a real catalyst and expedite the implementation of electronic trading capabilities using FIX in Canada. It is expected that noticeable progress in the use of electronic trading and FIX in Canada will become evident during the next 12 months. **FIX**

Any thoughts on this or other articles?

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