

# FINANCIAL TIMES

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## INTERNATIONAL CAPITAL MARKETS and COMPANIES

Alexander Nicoll on efforts to computerise the securities markets

### Firms seek benefits of automation

A DRIVE is under way to computerise the nuts and bolts of the international securities markets.

In the Eurobond market, a new price quotation system for the secondary market is under close consideration, and there have been experiments with a computerised system which would inform primary market participants simultaneously of new issues. Several plans for trade confirmation services are also under way.

In international equity trading—increasingly the focus of attention for securities houses—pilot links have been established between the clearing houses of stock exchanges. New services are being launched which would reduce the costs of international dealing, as well as the extraordinarily high level of cross-border transactions which go wrong.

Ms Graciela Chichilnisky, chief executive of Fitel, a company providing a new trade confirmation system for international securities, estimates that 40 per cent of international equity trades fail to be completed because incorrect information is passed — or is claimed to have done so — between one of the many parties involved: investors, brokers and custodians.

Underlying the current trend is a desire to reduce the overheads for securities firms associated with the time-consuming

tasks such as telex or telephone calls, which precede or follow a trade. In addition, automation should stimulate liquidity of markets not only by cutting dealing costs, but also by making them more transparent.

The Eurobond market already has a technologically advanced underpinning in its clearing systems, Euroclear and Cedel, which between them last year cleared virtually all the over \$3,000bn trading volume of the Eurobond market. In addition to clearing, services available to the Eurobond market include custody of securities, trade matching and stock lending.

#### Greater depth

Many in the market have felt, however, that secondary trading needs to have greater depth. The creation of a reporting dealer system under the auspices of the Association of International Bond Dealers, which took effect last Friday, is an important step in this direction. The 128 dealers have undertaken to report by computer to the AIBD each day their closing quotations for all bonds in which they make markets, and from March they will report high and low traded prices.

More controversial, in a market which traditionally likes discretion, are proposals for a screen-based price quota-

tion system, dubbed AIBDO. Mr Stanley Ross, a managing director of Deutsche Bank Capital Markets and long-time advocate of automation, is heading the project and holding presentations of a planned system, which follows a study with the National Association of Securities Dealers, operator of the US Nasdaq over-the-counter share market.

At its December meeting, the AIBD board decided to seek proposals from several organisations on joint development of a system. It expects to present final proposals at the AIBD's annual meeting in Oslo in May.

One of the most tiresome problems for the Eurobond market is the need for telex confirmation between the parties to each individual trade. Though such telexes are routinely sent, they are often not read until too late. A trade may then fail because two parties had differing impressions of what they had done, or simply noted the details incorrectly.

Several initiatives are under way to eliminate this. The AIBD has decided to develop a trade confirmation system which could be incorporated into the quotation system. Under the AIBD plan, a trade would have real-time confirmation that details of a trade just done matched those recorded by the counter-party.

Separately, Euroclear and

Cedel are holding discussions which could lead to a joint trade confirmation project. The International Commodities Clearing House, which clears London and international futures and options markets, is also working on a trade confirmation system for the Eurobond market.

#### Streamlining

Fitel, which has its central computer in London, began commercial operations yesterday with Wells Fargo, one of the largest US fund managers, on line to its Equinet service, after a pilot project involving Salomon Brothers, Bear Stearns and First Chicago. It does not provide clearing or settlement, but streamlines the information flows between all the participants in a trade, including brokers and custodians of securities.

The London Stock Exchange, following its recent infusion of new blood from international securities houses, which are keen to develop a new, technologically based international equities market in London, can also be expected to have an impact on the new trend. Its clearing systems, Talisman, has pilot links with US clearing corporations, including the National Securities Clearing Corporation, which are due to be expanded.