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TRADE CONFIRMATION

WE CAN, CAN YOU?

The confirmation of trades is an area that, perhaps more than any other, has lagged behind in the rush to automate securities trading. Dealing systems capture trades in real time, computerised settlement interfaces with the computers of major clearing organisations such as Euroclear, CHAPS or CHIPS, but actually confirming the deals with the correspondent securities houses and clients can be onerous.

'It doesn't matter how automated a bank's system is, it still has to communicate with the outside world,' says Michael Espirito Santo de Mello, executive vice-president of Financial Telecommunication (FiTel). 'The correspondent bank may not be as automated as you are, so this means generating a telex.'

FiTel's Equinet system aims to automate the post trade confirmation services up to the point where the securities firm has to communicate with its counterparty. In essence it is similar to the I.P.Sharp 'Instant Link' network (see *The Banker*, September 1986, page 60) which automates the trade confirmation process for securities houses which log into the I.P.Sharp IPSANET international communications network. Although there is no difficulty logging into the network (all is needed is a modem and there is direct dialling in 600 cities), Instant is essentially a closed user group system.

Equinet, however, communicates outside the network if need be. Members of the network are linked through a terminal (which can be the user's own PC, although FiTel recommend a dedicated terminal, and they will provide a PC free of charge) to FiTel's central Tandem non-stop II computer which generates the payment messages in which ever way as applicable, ie if the counterparty is on the network the message will appear on the PC, it will interface with Euroclear, CEDEL, Talisman, CHAPS, CHIPS, Fedwire, etc, or it will send out a computer mail or telex message in the appropriate format (SWIFT for instance).

The system has its own dedicated software that is run on the PC provided. This software captures the deal (which can be inputted with only 20 keystrokes), then presents a menu of the deals for the settlement manager to decide whether to send them down to the central computer to be relayed to the counterparty, thus allowing the manager to withhold actions on deals if there are problems with the counterparty. Both the ability to check up on the status of deals, and the ability to generate telexes, helps in markets where settlement has proved difficult, for instance in some European equities. Last year James Capel pulled out of dealing on the Milan stock exchange and limited the levels of trading in Europe, because of problems settling deals and so monitoring exposure.

FiTel's networking capabilities have been improved by a link into Geisco's Mark III packet switching network which will also give Equinet logistical back-up through Geisco's international network. The next step is to interface Equinet with a real time dealing system such as COLT or Instinet so the deal is immediately captured for settlement once the dealer acts. Mr Espirito Santo de Mello says this is around two or three years off, adding that such a system in

a securities firm would lead to the sacking of half the settlements staff.

Perhaps the smartest move that FiTel have made is to charge for trade confirmation on a deal by deal basis, and only charge the broker. Therefore the client, be it a corporation, bank or institutional investor, has its trade confirmation automated free of charge and FiTel are banking on major clients forcing the brokers to use Equinet. This is already working on Wall Street, where Wells Fargo Investment Advisors, one of the largest institutional investors, has pressurised brokers to take it.

Salomon Brothers, Merrill Lynch, Bear Stearns, Goldman Sachs, Shearson Lehman and Drexel Burnham Lambert have all bowed to this pressure, with Salomons and Merrill Lynch also taking Equinet in London where Warburg Securities and First Chicago are also on line. With this intelligent method to marketing, and a newly opened office in Tokyo, FiTel is confident that Equinet will soon grow to a global trade confirmation network.