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PEOPLE

The 40% Failure

An estimated \$3 trillion in trading volume in Eurobonds was cleared last year through the Euroclear and Cedel clearing systems, but automation in global equity trading continues to drag. Roughly 40% of all international equity trades fail the first time around due to incorrect information being passed on by telexes to investment managers, brokers, custodians or subcustodians. That may soon change. Two individuals attacking the problem with computer automation are **Stan J. Deudney**, founder of Securities Clearing International Corporation in Toronto, and **Geoffrey Heal**, executive director of operations at Financial Telecommunications Inc. (FITEL) in New York, and a professor who has taught at Columbia and Cambridge Universities.

Offered through the I.P. Sharp network, Deudney's INSTANT LINK provides a real-time connection between all parties involved with international trading. His solution is a "single record concept," stored in the I.P. Sharp database in Toronto, which can be accessed worldwide by all parties. A single record means that

information on a trade enters INSTANT LINK only once, and all participants in that trade access and update the same details in real-time. There is no recording or re-recording of information through the life cycle of a trade, the most common present source of error and delay with most communication done by telex or telephone.

The EQUINET system offered by Heal's FITEL differs slightly. While the EQUINET system uses a central database system in London and the GEISCO telecommunications network, each EQUINET terminal uses an advanced PC with 130 megabytes of disk storage which has as much processing power as many mini-computers. This allows users to do some immediate processing without always accessing the central database. The local intelligence also allows users to use their own security and client numbering systems. EQUINET provides broker-to-broker matching of trades, a service provided domestically by most stock exchanges but otherwise lacking in the international arena.

So far, both systems have made inroads. INSTANT LINK is now being used by banks in New York, Chicago, Boston, Zurich, Brussels, Toronto and Melbourne. EQUINET is attracting firms becoming heavily involved with international equities. Heal says that EQUINET has already attracted banks, brokers, and funds such as Wells Fargo Investment Advisors, First Chicago, Salomon Brothers, Shearson Lehman Brothers, Fidelity, Beta Capital (Madrid), and a number of other European institutions. On a test basis, EQUINET is also being used by Bear Stearns, Merrill Lynch, and Warburg.

Heal says the most significant impact of EQUINET could be with international program trading. Presently, U.S. securities houses are rationing their trading in markets where settlement procedures are extremely strict, such as in Japan, where errors can result in harsh penalties and restrictions by the Ministry of Finance. He says international managers are frequently rationed one pro-



FITEL's Geoffrey Heal: EQUINET to facilitate more program trading internationally.

gram trade per week by some U.S. securities houses due to such constraints and the pressure that trading 1500 securities worldwide can put on clerks.

"Let's face it," says he, "these traders are feeling constrained by 1930s technology. There is an opportunity cost, since most international managers are interested in doing more program trading. For a broker, it's not easy to turn down a \$100 million program trade because you are constrained by your systems."

Deudney feels the same about INSTANT LINK's impact and sees history soon to be altered in the global equity markets: "At one point the Pony Express was the only way to get a message across America. And within a month of the introduction of the telegraph system, it ceased to exist as a viable alternative. That's the impact of technology."

The savings could be remarkable. One securities house racked up a \$7 million communications bill in 1986 for telexes and phone calls. Based on estimates given by sources at FITEL and I.P. Sharp, that bill could have been reduced by 40-80%.



Stan J. Deudney, Securities Clearing International Corp.: INSTANT LINK making inroads with custody banks.