

Financial IT

INFORMATION TECHNOLOGY IN FINANCE

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Since 2000, a number of industry and proprietary XML standards have emerged, raising concerns that there were too many XML vocabularies being developed. This has led to a general misconception that the market is full of competing XML standards, causing many participants to adopt a wait-and-see approach

To boldly go

Martin C Sexton, IT director, London Market Systems Limited, explains how XML arrived on the marketplace and the benefits it can bring businesses worldwide. So why are companies still cautious of this new technology?

As with many new technologies, XML received so much hype that one could almost believe it could solve all an organisation's ills. XML is not a programming language, network protocol or a database that magically replaces critical applications. Standing for Extensible Mark-up Language, XML originates from the publishing industry, where a manuscript was annotated (marked up) with layout instructions from the typesetter. XML is a common 'human readable' data format for organising information and is perfect for data interchange.

The strength of XML lies in the fact that it is a truly universal cross-platform data-encoding language. Before XML, creating a data standard meant defining a comprehensive binary format and/or a network protocol, a task that only elite IT staff could participate in. With the advent of XML, business analysts started to play a more active role in defining content, this has resulted in the creation of standards that reflect the needs of the business as a whole and not the requirements of an individual system's interface.

Standards roadmap

Since 2000, a number of industry and proprietary XML standards have emerged, raising concerns that there were too many XML vocabularies being developed. This has led to a general misconception that the market is full of competing XML standards, causing many participants to adopt a wait-and-see approach.

The financial sector has developed a set of industry standards each specialising in its own niche. Driven by the need to produce results in 'internet time' rather than by direct competition, each standard has kept its scope narrow and specific. This is not to say that there are no overlaps, however, where there have been identified they are being actively addressed by the bodies concerned.

At the end of 2000 ISO 15022 Second Edition was initiated, its goal being to encourage convergence of industry-wide standards to create a single financial repository. The initial challenge was to

merge SWIFT (post-trade and settlement) and FIX (pre-trade and trade) into a single XML standards framework. Discussions are now under way on the integration of MDDL (market data pricing and reference data, including corporate actions), FpML (derivatives trading), and TWIST (FX, money markets and commercial payments). The original delivery date for the ISO 15022 XML standard was December 2003, though to ensure the standards are properly integrated, tested and agreed this date has moved to mid-2004.

Given the scope and plans of each standard is publicly available, one should not be concerned about committing to industry standards. Fears of being an early adopter should be balanced against meeting the needs of your organisation. Taking part in defining the standards will ultimately ensure the needs of your organisation are met.

Financial standards landscape

The working group behind ISO 15022 Second Edition produced an initial roadmap that is summarised in the diagram on the next page. It shows the Trade lifecycle and the scope of the existing 'non-XML' standards that are planned to be reverse engineered to produce the XML variants. Since its inception, ISO 15022 Second Edition has been expanded to include the other XML standards, FpML, MDDL and TWIST.

Drivers and challenges

The principle driving force behind the creation of these standards has been the impending T+1 regulations. The SIA and GarnterG2 conducted a survey (July 2003) on the industry's efforts toward STP, and one of the report's recommendations was that industry leaders should, 'work with the Securities Industry Association and industry bodies to establish a consensus on STP standards'.

Deploying global XML standards offers the opportunity for improvement in trade automation, resulting in tangibles benefits such as reduced staffing levels and shortened trade life cycles, as well as savings in hard currency.

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**STANDARDS, THE
 WAY FORWARD**

It is generally agreed that the way forward is by adopting industry standards, though at what point does one make the decision to grab the bull by the horns?

What is important for XML standards to succeed is business involvement, it should be seen as a benefits enabler and not something to be passed over to the IT department to look into. Or does one decide take the easy route and do just that?

This is reflected in the findings of the survey: of the 184 respondents, 33 per cent anticipate a reduction in the cost of doing business and 39 per cent a reduction in labor costs from implementing STP.

A major concern expressed has been the size of XML messages when compared with the binary equivalent. However, with increased bandwidth and the advent of XML compression techniques and software, the size of the message should not be considered a major stumbling block.

Through better message design and compression, it is possible to reduce the size of XML messages by up to 80 per cent.

Trade automation should not be seen as just the networking the front, middle, and back office systems together. The biggest challenge to STP is consistent reference data, without which incorrectly identified transactions will continue to need to be repaired through manual processes.

The Market Data Definition Language (MDDL) is addressing this reference data challenge. MDDL was founded in 2000 by the Financial Information Services Division (FISD) of the Software and Information Industry Association (SIIA) and in 2002, worked started on defining the scope for the debt domain. London Market Systems was hired by the FISD to integrate the Bond Markets Association's (BMA) bond new issue data requirements into MDDL. Subsequently, the FISD founded the Reference Data Coalition (REDAC) to provide business oversight into the standard. To ensure that MDDL has global coverage, REDAC has been working closely with the UK/European-based Reference

Data User Group (RDUG).

According to Anthony Coates, co-editor of MDDL: 'Previous approaches to reference (static) data required making a common reference database available to all applications. Even within individual companies this is a challenge, due to the need to unite multiple sources of reference data. Trying to share a reference database across company borders so that your reference data is aligned with that of your trading partners, is an order of magnitude more difficult again.'

The MDDL solution is simple and pragmatic: to allow systems to send reference data along with quote or price information, thus ensuring the sending and receiver applications are working with the same information. This removes the silent processing errors that come from the belief that reference data is the same everywhere.

Real benefits

Deploying XML standards should not be viewed only from an IT perspective, though these benefits can be easily quantified. It has been proven that XML standardisation can result in the reduction of application development time, the numbers and complexity of interfaces and reduced data conversion costs which, in turn, reduces the maintenance and support requirements and ultimately staffing levels. Other benefits include the ease of deployment and integration of new systems and greater flexibility in phasing out legacy systems. It can also enable the business to network effortlessly with its clients, partners and data vendors.

XML allows an organisation to adapt quickly to the needs of the business, enabling it to expand into international markets and outsource business units.

By being a major component of the trade automation equation, XML can also bring ancillary benefits such as improved internal information flow, faster query resolution and opportunities to cross-sell to existing customers.

XML success stories

In April 2003, at the *Defining the Reference Data Standard* conference in New York, Keith Berry announced the success story of XML integration projects at Barclay Global Investors.

By deploying XML, over 60 market data flat file interfaces were replaced with nine XML interfaces and a further 320 application interfaces were replaced by 75 XML equivalent.

Other initiatives include the London Stock Exchange Sedol Master File and the FT Interactive Data pricing files projects; both have opted for MDDL as the delivery format.

Conclusion

Potential users should not be concerned about possible standards 'turf wars' or whether or not to use standards in a prescriptive manner. If real business benefits can be identified, one needs to ask 'why are we not using XML standards to solve part or all of our data management needs?'

Given the benefits of using XML within the enterprise, there seems little point in duplicating the months of effort these standards represent without taking a good look at what they can offer – why reinvent the wheel?

Trade lifecycle

	Pre-trade	Trade	Post-trade	Settlement
Market pricing & reference data	MDDL	MDDL	MDDL	MDDL
Equities	FIX	FIX	SWIFT	SWIFT
Fixed income	FIX	FIX	SWIFT	SWIFT
Mutual funds/ unit trusts	FIX	FIX	SWIFT	SWIFT
FX and money markets	TWIST	TWIST	TWIST	TWIST
	FpML	FpML	SWIFT	SWIFT
Exchange-traded derivatives	FpML	FpML	Not applicable	SWIFT
OTC derivatives	FpML	FpML	Not applicable	SWIFT



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