

## The Human Factor

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*Despite the rise of algo trading, there are still people in the dealing room, and they need different technologies to support the changing use of their skills.*

**Often overlooked in all the discussion of algorithmic trading, latency, and dark pools is that trading rooms are still full of traders – people sitting in front of screens, talking on phones, using sophisticated turrets and making trades themselves rather than leaving the process to black boxes.**

RBS is building a \$400 million complex in Stamford, Connecticut, that will include a 95,000-square-foot trading floor, and 300,000 square feet of office space for 3,000 employees of RBS Greenwich Capital and RBS' corporate banking operations. It will be next door to the mammoth UBS trading room, one of the largest in the world.

Just as firms have turned to algorithmic trading to capture and deploy electronically the expertise of traders and quants, they are now looking for ways to increase productivity on the trading desk. That means making useful information about markets, clients and previous interaction with those clients readily available to traders and sales traders.

The trading desk is no longer regarded as a cost centre, Peter Grauer, chairman of Bloomberg said at the TradeTech 2008 event in Paris recently.

“Total costs analysis shows that traders, properly empowered and supervised, can add alpha. Bloomberg enables traders to do best execution by aggregating and organising data. Our analytics let them monitor execution and adjust it to get the best execution.”

Jerry Lees, head of alternative execution services at CA Cheuvreux, says that buy-side firms are hiring sales traders from sell-side firms. It sounds counterintuitive – a sales trader at a buy-side firm, but as asset managers take on more responsibility for their own trading, they need the sort of expertise that used to be exclusively in sell-side firms.

Buy-side traders are not used to taking risks, so CA Cheuvreux helps train buy-side traders. Often the buy-side firms are hiring sales trades who work with the fund manager to understand their needs.

“It is more than just a trading role,” he said though even in sell-side firms the trader and sales trader roles are merging.

These changing roles require changes to the technology supporting the trading room, which sometimes means that technologies that had been written-off by some are actually thriving.

“Voice trading is still very much alive and well in major markets, especially in derivatives and more structured and less liquid markets,” says Tim Furmidge, head of product for BT Global Financial Services, “Voice will be here for many years to come.”

All the major turret providers offer integration with PCs, often to provide traders and sales traders with access to a customer relationship management system. Marie Anguera, global head of products, Orange Business Services says the company's Unify product offers click-to-dial and integration with electronic trading. Orange clients are often using voice and turrets for pre-trade activity, such as price discovery and working with clients, and then executing the trades electronically.

“In markets that have gone heavily electronic there is a need for much better communications across the trading floor and the enterprise pre-trade to establish strategy,” says BT's Furmidge. “BT has worked with Microsoft's Office Communication

Server and linked it with Reuters Messenger. We have integrated Microsoft CRM with our Netrix turret platform; one Scandinavian bank has more than 600 users on it. The objective was to bring improved trading staff productivity. Users can integrate with directors, do click to dial and capture the results of calls with clients to provide better service.” Firms need to break through the silos of voice and data and move to network centric communications, he adds.

Computer Telephony Integration has been around for years, says David Sylvester, director of product management at IPC, but it hadn't gained much traction in investment firms until about 18 months ago. IPC has deployed a combination of Microsoft technologies called – confusingly enough – ICP for Institutional Client Platform. The ICP platform uses Microsoft Dynamics for its CRM capabilities, Microsoft Office Communications Server for the integration of communications, and Microsoft Office SharePoint Server, Microsoft Office PerformancePoint Server, Live Search and Microsoft SQL Server for client analytics functionality.

“The driving force here is improved client services,” says Ian Warford, director of securities and capital markets at Microsoft EMEA. “As we see the margins on so many products coming down all the time, the one differentiator for many financial institutions is better customer service so they can sell more to the customer.” Integrating turrets with CRM lets the client service person such as a sales trader, see when a customer called, who spoke to them and any resulting trades.

“What is happening now – over the last 18 months – is that financial organisations are focused on how to drive efficiency on the trading floor. They also want to enable better collaboration between their teams, whether on a single floor, across country or across regions. So they are looking for ways to make applications on the desktop far more integrated.”

Integration produces improvements in revenues. Firms that can tie disparate sets of information together begin to see trends and can draw fresh conclusions that provide benefit to clients. “If you can get information quickly and effortlessly and faster than your competitors, it can affect your revenue and affect how clients see you.”

Voice is also valuable because it is used in the highest margin businesses, such as OTC products.

Raphael Bensimhon, sales director for Europe at Misys Banking Systems, agrees. People are needed to trade the complex products, and those are the products where banks have the highest margins, he says.

“People are looking for more complexity, high margin deals.” Misys, which has technology to support a wide range of banking products including commercial lending, sees a market opportunity in areas like loan syndication, where banks have hit limits in how they construct complex products..

“Now they are turning to the traders in the dealing rooms who have experience with more complexity because they have been doing this for years,” says Bensimhon.

Increasingly firms are using IP for voice and data, but perhaps none more so than IP Trade based in Liege, Belgium: it is entirely IP-based.

“We have got rid of proprietary voice trading switches and redundant technology – separate voice recording, and computer-telephony integration”, says Neil Isaacson, head of products at the firm. Not only does this provide a better infrastructure, it also requires just a single skill set to manage the entire network. Their customers are demanding more lines; one customer wants 60 lines at once. With that many audio channels, traders need a way to find the information they need in the midst of a cacophony so he sees demand for visual and audio alerts.

In trading rooms it is now common for a trader to have eight or more screens. “If you have less than six you are second class.” All those screens have reduced personal communication on the floor because traders often can't see each other.

## .11 New Configurations

The trading floor's appearance and functionality have changed with remote connectivity to PCs. Rather than sticking a number of PCs under a trader's desk, firms are using technology from vendors like ClearCube, HP, and Mightier to put the traders' CPU boxes in a secure and easily-managed location and simply run a cable to the monitor, keyboard and mouse on the desktop.

Mike Murton, chief executive of Mightier, says he has developed the kind of system he wanted when he supported trading floor technology. Unlike ClearCube and HP, the Mightier approach to remote computing design doesn't depend on blades,

which lock a user into a single technology provider. Sun offers a similar approach with its Sun Ray which secures the server away from the trading desk.

In the Mightier approach, PCs are located in a computer room with power and cooling and connected to trading desks by cables. A firm can mix Dell, HP or any other manufacturer, and when a box is rendered obsolete by new technology just swap it out.

Both remote computer systems and turrets now provide traders with the ability to control the look and feel of their working environment to place the information they need where they want it. Mightier simplifies the trader's work area with a single keyboard and mouse to control multiple screens and systems.

"How much space does the trader have on his desk? And when he wants to trade on a price he has to find the right keyboard or mouse, and the price might have gone by the time he locates them. If I can reduce the square footage of the actual trading floor by getting rid of four keyboards and mice and just having one, it can bring a huge savings, not to mention improving the speed of operations." Traders move from one screen to another by hitting a button for Bloomberg, Reuters or other services.

The future will bring more information, along with more sophisticated ways to understand it, says Anguera at Orange Business Systems.

"In the past the problem was a lack of information. In the future we will have much more information that a person can understand. Now firms are working on tools such as colour and sound to make the information more easily understood. The challenge is getting only the flow of information a trader needs and getting it fast."