



# Asset International

## Interview

### GEOFFREY HEAL

## Linking the globe

Geoffrey Heal is executive director of operations for Financial Telecommunications (FITEL), a UK-based company that provides computer systems to expedite the settlement of international securities trades. Heal, an academic and financial consultant by background, helped found FITEL in 1985.

If you had to pinpoint one factor responsible for the settlement and clearing problems that now bedevil international equity trading, what would you choose?

"The real problem is that the methods of processing trades in the international operations area are extremely volume sensitive and volumes are growing rapidly here. That's where difficulties begin and end."

Why are they so volume sensitive?

"The processing is overwhelming manual. A lot of brokers have manual inputs in their main offices, and then there is manual processing at the other end. Places like Italy and Spain are notoriously bad in that respect, but the same is true even in New York, Tokyo and London. Manual processing has to go, and Fitel's plan is to replace at least part of that manual processing."

Why don't you walk us through a typical international trade from a back office viewpoint?

"Let's say on Monday afternoon, New York time, a US pension fund calls and asks to purchase a Japanese security. The trade is executed by the broker, and late Monday that trade will be manually entered into the broker's in-house client accounting system. The next day the

broker will produce a print-out on all trades in Tokyo, and that print-out will be taken to the broker's international operations area. The people in the international operations area will then be responsible for sending out the client confirmation, broker confirmation and the settlement instruction to a Tokyo bank. So they have to manually send out three telexes for every single trade, and they have to worry about validating securities numbers and previous trades that haven't settled. That's hardly an automatic process."

So where does FITEL come into this?

"You can simplify the process by taking the computer that initially generated that first printout and making that feed FITEL directly. Then our system (called Equinet) does the rest, including checking the securities numbers and doing the confirmations. So the trading desk enters the trade onto the in-house computer - that goes to FITEL, from FITEL to the brokerage's client and the broker on the other side of the trade. It they all agree on the trade, it goes to the custodian. All of that happens without any manual intervention on the part of the operations staff."

Can you name some of your current users?

Amongst brokerages, Merrill Lynch and Salomon Brothers use Equinet in London, New York and Tokyo. Shearson Lehman Brothers has been testing it for some time and will start commercial use shortly, and Prudential-Bache Securities is starting to test the system in New York and London."

And on the buy-side?

"The next stage is for us to bring on-line the banks and principal institutional investors. Fidelity is using

Equinet to communicate with brokers already, and so are Wells Fargo and Northern Trust. We have been making good progress in getting agent banks on-line from New York to Melbourne. Soon we expect to have agents banks signed on in Paris, Geneva and Hongkong. Clearly, the more participants the system has, the more effectively it will work. I think our users here are very committed to expanding the use of Equinet. After all, there are not an enormous number of key international players in the US - perhaps six brokers that do most of the international business, and 10 to 15 fund managers."

What about worries over confidentiality or failed trades?

"On the question of confidentiality, people who use a system such as ours are obviously concerned that we keep trade details strictly secret, and of course we take pains to do that. In fact, all of our employees have as part of their contracts the requirement that they keep client information confidential. As for failures, in principle we could be held responsible. So we carry quite heavy liability insurance - up to £2m (\$3.2m) per occurrence, just in case we are held liable."

Presumably Equinet has a particular applicability in program trading, where speed of settlement is a paramount consideration?

"We handle a lot of international program trading - that's often what brokers think of first when we explain what Equinet does. For instance, we handle all the program trades for Salomon in London. If you normally handle some 60 trades in a particular period and then suddenly because of a program you have to do 300, with manual processing the results can be pure chaos."

## Linking... *Cont from page 8*

**Apart from tidying up the operations area, do you think you give your brokerage users an edge over their competition?**

*"We think we give them a competitive advantage. The sophisticated fund managers know that however competitive the bidding on international business, the advantage can be lost through inadequate settlements. They are very conscious indeed of the need to deal with brokers who can deliver the securities when settlement day comes."*

**Once you establish electronic linkages with the buy- and sell-side, isn't there a motivation to provide more than only settlement services?**

*"There is a strong economic incentive for us to offer several services once that initial link has been made. Already we are providing a product called **Equiloan**, which is an international securities borrowing and lending service, and **X-Net**, a product which expedites the settlement of foreign exchange deals."*

**Aren't the leading global custodians quite far advanced in setting up their own global communications systems with the investment community?**

*"A lot of global custodians have been trying to do that. But they appear to have found resistance because most of the institutions deal with many banks and thus don't want to have terminals for all of them. One of the things that we can offer a broker is a single point of contact with all outside entities."*

**Do you think that the present inefficiencies in international settlement restrict US investor participation?**

*"We have been told by fund managers and brokers that they would operate much more extensively in the international field if the costs of getting these trades settled were lower. The number of daily trades that a single employee can handle is 200 in the domestic area - internationally, you need one back office employee for every 10 trades. Once better systems are in, volume will jump sharply. In an ideal world, a fund manager should feel that he can trade **Toyota** or **BMW** as easily as he can **Ford** or **GM**. That's clearly not the case now."*

The *Acquisitions Monthly* league table of takeover activity ranks merchant banks in terms of the value of the deals they have advised on. It has wasted no time in revealing the running for the nine months to the end of September this year.

For the first time in the three years since the rankings began, Morgan Grenfell has been pipped at the post - but only just. Warburgs moved from fourth to first position with 24 deals worth **L4.23 billion (\$6.89 billion)**. Morgan Grenfell was a mere **L6m (\$9.78m)** behind with 26 deals worth **L4.22 billion (\$2.66 billion)**.

Moving up into third spot, from sixth, was **Schroders** (22 deals worth **L3.4 billion (\$5.54 billion)**).

**Goldman Sachs'** apparent plunge from grace merely reflects the fact that last year's numbers included one very large deal, which pushed the bank a long way up the rankings.

In fourth, fifth and sixth spot were

the children of the big clearing banks - **Royal Bank of Scotland**, **Midland Bank** and **Barclays** respectively. All have moved strongly up the lists.

The relative positions of **Hill Samuel** and **BZW** may have something to do with the desire of the former's corporate finance department to be sold to the latter.

**Hambros'** fall from grace is the result of its recent concentration on its international business [A].