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MARKET PLACE

BEHIND THE GLITZ, THERE'S THAT BACK OFFICE

Why does Salomon Brothers privately admit it makes no profits on its international equity trading operation in New York? Why is there a 40% failure rate on all international equity trades? And why have stock exchanges throughout Europe been forced to suspend trading for sporadic periods over the past two years? Because, according to the financial technocrats, no one has yet addressed a fully automated solution to international settlement and clearing. And manual settlement is costing delays, mistakes and money as mountains of paper build up in the processing rooms of brokers, trading houses and exchanges across the globe.

"The front office is where you find all the glitz," said Michael Espirito Santo de Mello, executive vice president and director of Fitel (Financial Telecommunications). "The guys with the Rolexes and cigars have been given the jazzy systems. But the back office has been neglected."

Until now – for Fitel has developed Equinet, a system that links international brokers with their clients and their banks to provide automated, screen-based acceptance and confirmation of trades.

Any international broker will say that his major worry is "Settlement!" Two of the chief offending stock exchanges are Milan and Lisbon. The latter was forced to close down for a week in March because of a huge backlog of unsettled trades.

"Milan is the worst of a bad bunch," said one disgruntled London broker. "It often takes over four months for settlements to be completed." Alessandro Wagner, spokesman for the exchange, agreed: "Our present problem is the tons of paper going in and out of the banks. There's a waiting period of three months before delivery."

Michael Wills-Fleming, head of the European dealing department at London broker Savory Milln, expressed concern about Lisbon: "The big problem there is in the area of settlements. They are very long-winded."

Is relief finally on its way to the hard-pressed back office with the arrival of automated settlement?

Europe's booming bourses have produced the mountains of paper which are now blocking the smooth passage of a trade. And because most of these exchanges still settle manually, an international trade can become snared in a back office for weeks on end.

Dealing volume in the Stockholm stock exchange has increased twentyfold since 1980, but according to Leif Vindevag, head of international markets, it'll be two years before a paperless system is instituted. The banks, brokers and securities houses have not been any more progressive than the exchanges. Observers accuse Merrill Lynch in London of settling over 70% of international equity trades manually. Others are said to be still worse.

Enter Fitel. "Our goal is to be the premier provider of post-trade processing services to the financial services industry," said de Mello. Running on state-of-the-art on-line, fault-tolerant Tandem hardware, Fitel's Equinet provides a standardised format for entering and transmitting details of an international trade.

The system automatically sends messages to custodians, banks and all interested parties and monitors transactions throughout the trade's life. Fitel has a marketing and technical agreement with Geisco to use its worldwide network, giving it back-up and support advantages across the globe.

Clients will have a database on site which can be tailored to specific needs. "Equinet does not change the way of doing business," said de Mello, "It standardises and automates it." Details of a trade are entered into an IBM personal computer which then appear on the screen of the contra-broker and client. On or before confirmation, these details are sent to the screens of custodian banks. Acceptance or confirmation is handled by one keying-in operation.

De Mello claimed the use of Equinet would increase a broker's volume by 25% and cut down the processing of the trade from 36 steps to five – "and at the moment those 36 steps mean 36 opportunities of something going wrong". The message appears to have hit home. Among those institutions clamouring to get on to Equinet have been Salomon Brothers, Merrill Lynch, Shearson Lehman Brothers and Bankers Trust in New York, and Salomon Brothers and Warburg in London.

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