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Auerbach Grayson virtualizes itself

With the creation of AXES, Auerbach Grayson is transforming the brokerage landscape by combining its agency brokerage service with Crossborex's electronic platform.

What is AXES? More than just another dreary corporate pun, it seems. "AXES is a truly electronic cross-border brokerage product," says Frank LaSalla, president and COO of BNY Clearing in New York. "Going forward, I think it is going to be a model a lot of people in the brokerage industry are going to follow, because they are using technology to leverage a business that has been highly successful in generating order flow. It is simple, but it is solid." The dot.com bubble may have shrunk to a singularity, and Al Qaeda probably has put paid to the idea of a revival in emerging markets investing for a generation, but the founders of AXES are proving that, even in the most difficult conditions, not everybody has given up either Internet technology or putting money into foreign economies. Jon Auerbach and David Grayson, who have created AXES in conjunction with technology partner Cross Border Exchange (Crossborex), are actually co-founders of something even more old fashioned: an agency brokerage firm called Auerbach Grayson. They neither underwrite securities nor make markets in them, and they high-mindedly eschew soft dollar business but, since 1993, they have run a successful network of local brokerage firms spanning 82 markets around the world. Now, Auerbach and Grayson are turning that network into a virtual global agency broker by putting the existing network onto a borderless electronic platform, and giving all the local brokers they use a stake in its success—through shareholdings geared to the size of the business they contribute to it.

Auerbach Grayson has thrived by giving local brokers direct access to US institutional order flow, not only in major markets like Germany and the UK, but especially in emerging markets such as Argentina, Botswana, Chile, Palestine, the Philippines, and Turkey. The AXES network aims to capitalize on this strength by broadening the reach of its research, execution, and settlement services beyond the 250-odd US mutual funds, asset managers, and pension funds that use the firm today. Establishing an Internet-based model will allow the firm to extend the offering to second- and third-tier, retail, and e-based broker/dealers, enlarging the flow of US institutional orders being passed to the local brokers. For local brokers, the chief appeal of AXES remains the prospect of additional liquidity. "We are delighted to be part of this network," says Richard Taylor, director of institutional stockbroking at GNI Limited in London, part of the global equity division of Man Group. "It opens up a client group and a geographic area we are currently not particularly exposed to." However, if the business plan unfolds as expected, the local brokers in each country later will be able to send orders to each other, and eventually offer global execution services to their local clients on a white-label basis. "The plan is that AXES will gradually become completely independent of its parents at Auerbach Grayson, and pursue a much broader clientele," explains David Grayson, managing director at Auerbach Grayson and now an AXES director.

Enabling local brokers to take ownership of the AXES network is integral to this ambition. Indeed, Jon Auerbach says their Moroccan broker, Upline Securities, already is planning to white-label the AXES platform to offer foreign investors access into the Kuwaiti and Saudi Arabian markets as well. Another local broker, Ata Invest in Turkey, is offering a software application to other local brokers needing one to connect to the AXES network. The trade execution technology, by contrast, is being supplied by the New York-based Crossborex securities technology company headed by Graciela Chichilnisky, which has had a stake in the AXES platform since the idea was first conceived two years ago (see "Rush hour," Global Custodian, Summer 2002). Its GeoTrades software application, which entered pilot tests with Auerbach Grayson local brokers in mid-October, is at the heart of the plan to standardize order execution and trade management across the 82 markets. "GeoTrades enables a local broker to enter, track, and settle transactions, and to monitor their status continuously in real time," explains Peter Eisenberger, the director of strategic planning at Crossborex, who doubles as an AXES director. "The ultimate solution to the cross-border trading process is to have an all-encompassing, global approach, and that is what we will help AXES accomplish."

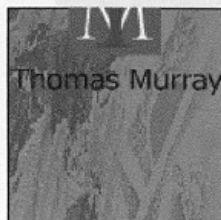
Execution, of course, is not enough. Settlement services are being supplied by BNY Clearing, the Bank of New York correspondent clearing subsidiary that has acted for Auerbach Grayson since the mid-1990s. Importantly for AXES, BNY Clearing now provides clearing and settlement services to broker/dealers not only out of New York, but also out of London and Melbourne as well and—

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thanks to the recent outsourcing deal with ING Barings—Hong Kong and Singapore. It will settle inbound and outbound trades in all of these financial centers and—for clients that need them—provide custody services at Bank of New York as well. BNY Clearing also has agreed to channel orders through AXES in any market where it currently lacks a correspondent, helping to enlarge the liquidity of the platform. "With the launch of AXES, we are looking to bring our cross-border capabilities into play to provide the clearing apparatus for trades executed with their correspondent brokers," says LaSalla. "We like the model, and we think we can bring a lot of added value to it. By making cross-border trading more efficient for them and their clients, we will help it become a more competitive model, and so help to persuade more clients to jump on board."

What may help persuade people in New York to jump is, paradoxically, the weakness of current markets. The contraction of head count at major broker/dealing firms is heightening interest in solutions such as AXES, as Marco Polo Network has found (see "Direct connection," *Global Custodian*, Summer 2002). "We do very little business for rival brokers in foreign markets now, but it is definitely growing, and we have been asked by a number of people if we would do it," says Auerbach. "The reason is that, when the global firms contract, they cut at the softest point in the structure, and that is typically the far-flung branch system." The harder part will be finding inbound business for local brokers in the lesser markets, for emerging markets are scarcely booming. However, John Auerbach has been here before. He set up Auerbach Grayson precisely in order to give local brokers an entrée into the US institutional market under the marketing and regulatory umbrella of an SEC-registered broker/dealer. One of his earliest successes was in South Africa in the years immediately after sanctions were lifted, which is a reminder that history, particularly in far-flung parts of the earth, can alter its trajectory quite suddenly.—DSH



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