

SPONSORED STATEMENT

As the regulators worldwide move closer to mandating that derivatives be handled electronically rather than by hand, the markets are adopting new systems, such as RFQ-hub, to ease the administrative burden on their teams and reduce the risks embedded within the manual trading process.

SAME SAME, BUT DIFFERENT

RFQ-hub[®]
natural evolution

A new platform

RFQ-hub was launched in 2009 and carried its first request-for-quote in April. It was developed by ex JP Morgan MD David Sagnier, ex Aviva head of derivatives trading Jez Bezant and IT team from Natixis Brann Joly and Idriss Farhat to address issues with manual processes they found in their own businesses.

Most buy and sell-side dealers and traders use email, IB chat or the phone to obtain competing quotes for vanilla and complex derivatives. The creation of the quote request by the buy-side dealer is often a manual process. Similarly, when the quote is received by the bank, the price is typed in by hand. By the time the quotes have been received and compared they are often no longer live. The quoting process can take a long time and involves high degree of manual processing for both sides giving rise to unnecessary levels of operational risk. The results for the manager are also not in line with the manager's need to demonstrate best execution. Using RFQ-hub allows both sides to send and receive tradable quotes on a bi-lateral basis, just as is done now, with the transaction (quote and trade) completed electronically in just a few minutes.

Electronic trading

RFQ-hub has enabled its clients to improve efficiency whilst carefully preserving the nature of the market, allowing buy and sell-side dealers and sales people to trade electronically in an operationally robust way. Many of their clients now enjoy straight-through-processing (STP) from the portfolio manager, to the bank's pricing system and back to operations for trade booking without the need for re-keying the quote or trade.

But RFQ-hub is more than a simple electronic trading platform. It was also developed as a tool, for dealers and sales people to interact with their trading counterparts, keep track of their deals and post/receive trade axes and indicative bid/offers (derivative IOIs).

It is also used internally within buy and sell-sides for communicating quotes between fund

managers and dealers, or trading and sales/execution.

While RFQs are directed to selected banks as agency or principal, orders can also be routed directly to counterparts. Additional tools have been developed, for example, an ISDA/give-up documentation internal check functionality.

There is more to being on RFQ-hub than the workflow automation. Competing quotes and trades are captured for audit purposes helping managers demonstrate best execution. And sell-side clients are able to review their performance against the RFQ-hub peer group split trade type for example sector or geographic region. They can also see their anonymized peer group ranking and hit ratio giving a truly external view of their operation.

Cross asset coverage

Starting with equity options, RFQ-hub expanded to cover a wide variety of asset classes across listed and OTC derivatives and other instruments. The team responded to client demand and added more option strategies, futures strategies, forwards, ETFs, variance swaps, forward variance swaps, total return swaps and convertible bonds and recently commodity Linked Notes. Quotes for listed or OTC instruments can be created over a wide range of global underlying indices, securities or tailored baskets. Clients started trading CDS on the platform last month.

Geographical coverage

RFQ-hub was launched in Paris and Frankfurt in early 2009. Later that year it was introduced to London-based clients. Again, following clients demand the business is expanding into Asia in 2011 with other potential markets on the horizon.

Interfacing with Existing and New Systems

The team adopted FIX early and used it initially to transmit RFQs and trade instructions for listed options and futures for buy-side clients. This allowed the client to very quickly integrate RFQ-hub with their in-house

systems. Making use of FIX for other instruments also allows the team to integrate with the major third party systems quickly. For OTCs, it is a different story. Whilst many third party systems support listed derivatives, OTCs are often managed using internal systems or manual processes. RFQ-hub can also integrate with these systems via its Webservice API or replace them giving a seamless electronic process from instrument setup, quoting and trading to administration.

For its sell-side clients, the team follows the same approach and integrates wherever possible to offer the same benefits to each side. RFQ-hub's developers have worked with their major sell-side clients to integrate with internal systems via FIX for auto-quote and price streaming.

Awards for innovation

In December 2010, RFQ-hub's achievements were kindly recognised by FOW in their awards. RFQ-hub won three awards for its work in automating RFQs and trading in options, offering innovative connectivity services and a silver award for trading and execution

Independence ID's

(Investors Derivatives' solutions) is an independent company owned by its founders. In November 2010, the Deutsche Börse Group acquired a minority stake in ID's.

Being independent means the team has the ability to deliver innovative solutions that meet the needs of both sides equally.

Future developments

"RFQ-hub is a natural evolution, not a revolution" as one client put it. It is their aim to assist clients in automating their workflow and derivatives trading to achieve a lower risk and more efficient environment. This puts the team in a good position to help create market standards and best practise by building the platform according to the feedback of their clients as a community of derivatives practitioners.

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