Bringing EMS and OMS together may be a goal but challenges remain to blending the two. Heather McKenzie examines the prospects.

Two sides of a coin

he integration of order management and execution management systems has been a hot topic for the past few years but it is not an easy task. Each organisation has to forge its own path and look at the different options on the table. In the end it might not be for everyone.

An OMS is an electronic system developed to manage securities and listed derivatives orders in an efficient, centralised and cost-effective manner, from pre-trade, through execution, to post-trade processing. Users can manage the workflow and track the progress of each order throughout the system. An EMS, on the other hand, was developed to manage and optimise the processing of securities and listed derivatives orders on organised markets. They are used to access electronic markets and achieve the best possible executions, increasingly using advanced and automated trading strategies.

Frederic Ponzo, managing partner at London-based consultancy Grey Spark Partners believes that EMS only bring value to certain types of buyside firms, "EMS are not for everyone – if you are an extremely intensive fund, coming out of positions on short cycles or are a sizeable asset manager with a centralised trading desk within the firm, then EMS are appropriate. Otherwise, for traditional long-only funds and boutiques doing exotic leveraged buyouts etc, EMS are of limited value because an OMS will be sufficient." However, according to a recent research study of 118 buyside firms, The Buyside OMS and EMS: Integration, Expansion and Consolidation, US-based financial markets research and advisory firm Tabb Group said the integration of order management and execution management systems was a "driving force in streamlining the buyside's desktop".

Tabb forecast a 5% and 1% increase in spending on OMS and EMS technology respectively between 2010 and 2012. All of the participants surveyed by Tabb had either an OMS or EMS (or both) and the focus had now shifted to integration. While most buyside firms received their systems from their brokers, the appetite for brokers to provide trading platforms free of charge would shrink during the next few years, said Tabb. This trend has already started, with 3% fewer buyside firms using broker-funded EMS in 2010 than in 2008.

Tabb says EMS and OMS vendors will have to ensure intersystem connectivity is seamless and quick to implement. Messaging technology and protocol standards may enable disparate systems to communicate without the need for expensive integration exercises, the firm adds.

LACK OF STANDARDS

Standards can help with certain elements of integration but not all, says Ponzo. Use of the FIX protocol means that posting orders between the two systems is fairly straightforward. However, he says, it is more difficult to integrate reporting and



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compliance for risk management and pre-trade functions. "There is no standard for risk reporting – firms can't plug and play. Everything is bespoke to the organisation or to the system."

Mark Wright, global head of product management at agency broker and technology provider ITG agrees compliance is a problem when it comes to integration. While the firm has taken a "staging" approach to integration that enables EMS data to be fed into the OMS, once the trades are in the OMS the trader cannot act on them. This means that compliance issues – such as whether an order can be placed with a particular broker – cannot be addressed. Wright says standards are slowly evolving for this.

Allen Zaydlin, chief executive of Inforeach, a provider of electronic trading solutions, says the technology aspect of integration is very simple. The challenges, he says, come with the business and human factors. "Most integration results in a buyside firm buying an EMS because they have worked with the same OMS vendor. Some of this comes about because OMS vendors view EMS vendors as competitors, although the systems do different tasks."

Ponzo identifies three typical EMS implementation scenarios in the buyside: as a primary system that typically has been built in-house; a package from a vendor that is integrated with an OMS from the same vendor; or where an in-house legacy system no longer meets requirements and an EMS is identified as the solution. It is the final category that Ponzo says presents the most challenges when it comes to integration. "Buyside firms that are integrating in this scenario tend to do so because the OMS was developed in-house and they don't have the expertise or appetite to develop an EMS themselves."

According to Zaydlin, integration of EMS and OMS into one screen or desktop doesn't make sense. "A buyside firm doesn't use the functionality of both systems all day. Typically, an OMS is needed only at the start and at the end of the day. So why compromise trading performance during the rest of the day?"

Moreover, traders with heavy transaction volumes don't want to be distracted by compliance and P&L analytics modules while they are trying to trade. An OMS window appearing on the EMS screen cuts down visibility of the blotter, order screen, data and analytics. Conversely, buy and hold traders don't want to see a list of algo configuration options on their OMS screen. Zaydlin says, "The idea of a two-in-one view is not realistic. Traders need separate screens to do pre-trade and real-time analysis of their executions as well as executing and routing those orders. The pace of trading today means that you need separate screens."

Zaydlin adds consolidation of broker-supplied EMS, then integration with OMS is the answer. But this is a scenario only

for buyside firms with both heavy compliance and efficient trade execution needs. "These firms want to consolidate the number of EMSs on the desktop, many of which are provided by brokers."

Given Tabb's assertion that brokers will have less of an appetite to provide EMS free of charge, this consolidation may have a forced element to it. Broker-neutral EMS are emerging as an alternative to the broker supplied platforms.

BEST OF BREED

ITG's Wright says the trend towards integration is driven by a desire for "best of breed" among buyside firms. "As much as I would like to see a single OEMS, the reluctance to compromise at buyside firms means there is take-up of EMS that are integrated with OMS."

In June, ITG announced a link between its EMS Triton and its Macgregor XIP OMS platform. The next step beyond the initial integration will be to give the EMS virtual access to the OMS, removing the staging element. "This will be a deeper integration but the lack of standards makes it very difficult to do industry wide. We are putting a lot of functionality in one wrapper so traders can do 95% of their activity on the EMS without having to go back to the OMS to take action."

OMS and EMS integration requires long-term investment, says Alex Wolcough, a senior product manager for markets connectivity at Thomson Reuters. "Execution management capabilities do exist in most OMS, but some of these capabilities are relatively basic and connect to order routing networks. There is a greater need for hand-off between the order management system and sophisticated EMS." The best way to do this, he says, is via FIX.

"If you look at how buyside firms' use of EMS evolved, many started with systems supplied by the sellside. Today there are more broker-neutral EMS like ours, which provide a generic interface around the FIX protocol."

Wright says while buyside firms continue to want the best tools for each of their constituent groups then a multi-window approach will remain. "In reality a single vendor cannot supply all of the technology a buyside forms needs. Solutions will continue to be delivered via a combination of vendors using open standards and protocols to allow this. This is why FIX is such an advantage."



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