

Driver Review DR31 “Standards in Computer Based Trading: A Review” by Kevin Houstoun

Discussion by Alistair Milne

The Foresight Report on The Future of
Computer Trading in Financial Markets:
Conference at London School of Economics,
Jan 11th 2013

Overview

- I will offer an academic perspective
 - In agreement with priority for action A4
“Standards should play a larger role”
- I discuss DR31 under three headings
 - What are standards? Where do they come from?
 - Standards, efficiency and competition
 - Implications for wholesale financial markets

What are standards?

Where do they come from?

- What are standards?
 - Describe characteristics for a product, service or process
 - Facilitate communication or joint operation with other products or services; also promote safety or performance
 - Standards are ubiquitous
- Types of standard
 - Spontaneous; proprietary; collaboration by firms or standards organisations; imposed
 - Open versus closed
- Adoption: a co-ordination game
- Standards and “two sided platforms”
 - platform pricing and platform competition

Standards, competition and efficiency

- Communication and process standards essential role in many network industries
 - Competition law and regulation also important
- Static efficiency:
 - promoted by common open standards, reducing entry barriers and market power
 - may require regulatory intervention
- Dynamic efficiency: more nuanced
 - Proprietary standards may help innovation incentives
 - But open standards may be better for adoption
 - First mover advantage? *Weak in financial services*
 - Lock in?
 - A case can be made for government supporting standards development and promoting adoption

Some standards in financial services

- FIX, FpML, XBRL, SWIFT MT messages
 - user maintained
 - not maintained by users, eg exchange protocols
- FIX initiated in 1992
 - Collaboration of Fidelity and Salomon Brothers
 - Did not lock in order flow: rather helped competition
- Obstacles to agreement and adoption
 - US patent system
 - Lock in
 - Free riding on user governed standards
 - Short term focus of governance
- Further issues not in DR31
 - role of standards of securities clearing and settlement
 - Standards and the decline in brokerage income

DR31 recommendations

- Specific proposals
 - A consistent high resolution time stamp
 - Binary protocol for low latency access to all exchanges
 - Process for placing anonymised data in public domain
- General proposals
 - Improved governance of financial standards
 - Promotion of a common financial language
 - eg LEI
- My conclusions
 - I agree standards are important
 - They need conscious support and development