

# Driving FIX in LATAM

## Buy-side buy-in and infrastructure improvements key to FIX success

Extending from Mexico in the north to the southern tip of Chile, the LATAM region is home to 31 countries and dependencies and almost 570 million people. In its main urban centres, Mexico City, São Paulo and Buenos Aires, the FIX revolution is making gradual inroads. Compliance and trade order systems' experts, Charles River Development, look at what LATAM needs to do to bring its electronic trading into the international arena.



**FIX: Looking at Latin America over the past five years, have you seen a marked increase in the interest and adoption of FIX, or has it been a more gradual process?**

**Alfredo Milera:** The adoption of the FIX Protocol in LATAM has been, and continues to be, a gradual process. If you look at the adoption of FIX trading globally, it has – more often than not – been driven by the buy-side. However the opposite is true in many LATAM countries, since the infrastructure – telecommunications, computerization, internal expertise, etc. – has not been in place for local firms until now.

What we see is that local buy-sides are slow to relinquish their long-standing ‘comfort zone’ with current workflows and manual ‘over the phone’ execution, despite FIX advantages of error reduction, best execution and market transparency.

This slow adoption of FIX by the buy-side has prevented LATAM brokers from being able to receive order flow from their own region, causing them to focus their services on the international community. If you look at order flows to LATAM brokers at the moment, much of it comes via FIX from international players (hedge funds, UK buy-sides, etc.) seeking to access local liquidity. To date, equities have been the main source of electronic liquidity via FIX, followed by futures. In Mexico, there is some electronic trading of options on Mexican Derivatives Exchange (MXDR).

For LATAM to take the next step, we need to see the LATAM buy-side community joining their sell-side counterparts.

**FIX: This is a huge and economically diverse region. How widespread is adoption across LATAM?**

**AM:** Brazil and Mexico have certainly taken the lead in FIX adoption, infrastructure investment and demand for new tools, such as algorithms. Judging from our experience, we expect Chile, Argentina, Colombia and Peru to follow, as global demand increases for these markets’ local instruments.

**FIX: What have been the key drivers for adoption?**

**AM:** As we are seeing in other markets, FIX demand and investment in local infrastructure are the two main drivers for FIX adoption.

Looking at the demand side, this is originating both internationally and locally. There is certainly an appetite from international players wanting to invest in emerging markets, and this has led many LATAM sell-side firms to adopt the FIX Protocol. Looking at Brazil’s heavily-regulated market as an example, the new Comissão de Valores Mobiliários (CVM) compliance rules now allow local traders and portfolio managers to invest outside the country. In practice, this means local firms are now increasingly looking for international liquidity, competitive market quotes and best execution – all via FIX networks. This is affecting the adoption of electronic trading and the rapid development of tools, such as transaction cost analysis (TCA) analytics.

It’s important to look at investment and adoption not only in FIX, but in other enabling technology, such as the automation



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solutions are already in production with the local exchange, and much of the Brazilian sell-side community is already connected to multiple FIX networks, receiving order flow from international players.

Mexico is not far behind, and both of its exchanges are already FIX-enabled. The Mexican Derivatives Exchange (MexDer) has promoted FIX in the region, drawing

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of trading workflows, which is an area where we have seen a dramatic increase in buy-side demand. Firms are also moving away from ‘home grown’ proprietary systems and beginning to investing in world-class Order Management Systems (OMS) to enable FIX adoption and access multiple broker destinations for increased liquidity. At Charles River, we’ve certainly seen a direct correlation between the implementation of the FIX Protocol and the demand for pre- and post-trade TCA analytics.

**FIX: Which countries/markets are acting as FIX front-runners?**

**AM:** In LATAM, Brazil is the clear front-runner. Black box and algorithmic trading

international order flow directly to its markets. The MexDer has also worked with service providers to offer FIX platforms to the sell-side community.

**FIX: What are considered the barriers to further FIX adoption?**

**AM:** FIX will not become a widely-used solution in LATAM until the local buy-side increases demand for electronic trading, has the proper infrastructure in place, and fully understands all of the protocol’s benefits. Many LATAM firms still rely on manual processes and homegrown solutions that cannot support multiple asset classes and/or new regulations. Leading international Execution Management (EMS) and OMS

## LATAM at a glance

<b>Population</b>	569 million
<b>Countries</b>	21
<b>Dependencies</b>	10
<b>GDP</b>	\$3.33 Trillion (exchange rate) \$5.62 Trillion (purchasing power parity)
<b>Languages</b>	Spanish 58%, Portuguese 40%, French 1%, Quechua, Aymara, Nahuatl, Mayan languages, Guarani, English, Haitian Creole, Papiamentu, Dutch, and many others
<b>Time zones</b>	UTC-2 (Brazil) to UTC-8 (Mexico)
<b>Largest urban centres</b>	1. Mexico City 2. São Paulo 3. Buenos Aires 4. Rio de Janeiro 5. Lima 6. Bogotá 7. Santiago 8. Belo Horizonte 9. Caracas 10. Porto Alegre

systems incorporate access to regional and global FIX destinations, and ensure that all FIX orders comply with international and local regulations, such as Brazil's CVM rules.

Cost and resources have always been major barriers to the adoption of FIX in Latin America. Virtual private network

connectivity management – allowing buy-side firms to focus internal resources on investment management activities.

Further education regarding the FIX protocol will increase LATAM's buy-side adoption. We help our clients in LATAM, and worldwide, to identify their specific challenges and

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(VPN) capabilities are allowing firms to use the internet, instead of dedicated telecommunications infrastructure, to trade electronically via FIX. VPN connectivity for FIX is particularly attractive to firms in emerging markets, because they can quickly get up and running with little investment. So, for firms that prefer a dedicated teleco infrastructure, VPN connectivity provides a good temporary solution during extended teleco installations.

Network providers, such as Charles River, offer complete services for FIX software administration, testing, certification and

solutions for accessing liquidity. We also offer training and participate in industry forums, such as the FPL Latin America Electronic Trading Conference in Sao Paulo, to educate buy-side firms on the benefits of FIX in automating workflows, ensuring compliance and gaining seamless access to global liquidity.

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