

# Inside Market Data

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## HSBC Cross-Asset Platform Grows Legs

HSBC is working on technology to price components of multi-leg trades and reduce “slippage” between derived or implied prices and prices at which a trade or hedge is executed, as part of a broader project to develop a cross-asset-class trading and pricing platform.

The firm is halfway through the overall project, using the liquidity management software of French vendor SmartTrade, but is just beginning the multi-leg component, which is expected to continue through 2008, according to Ken Yeadon, enterprise e-trading consultant to HSBC.

Initially, the multi-leg capabilities of the platform support treasury bonds and interest-rate derivatives. Next, it will add the ability to price and trade non-vanilla instances of these instruments and the spread relationship between them, enabling faster trading and hedging, and add support for more complex instruments over time, Yeadon says.

“The ultimate intention is to create a just-in-time process for financial instruments. The big economic gains are about eliminating execution slippage in the basic trading space,” where multi-leg instruments run the risk of markets moving after the first leg has been executed, but before other legs have been completed, requiring the trader to unwind the first leg at minimum cost, Yeadon says. While the engine used by the bank has built-in capabilities for managing all-or-nothing trades, he says that is only possible using “a normalized approach built with the same toolkit, data and logical processes.”

He says this means ensuring prices for remaining legs are generated using executed trades,

then, once a price has been struck, lodging it as an instrument in its own right to reflect changes in the mark-to-market price.

Typically, pricing algorithms for structured products reference various price data elements, some relating to underlying, liquid yield curves, and others of which are opaque, Yeadon says. “For example, if it’s an OTC treasury option, there’s probably a liquid market in the underlying treasury price which you can access. However, the particular properties of the volatility, the level of the smiles and the non-linearities in the pricing formulae are managed by the trader, and there may not be externally available streaming data to support these,” he says.

He says the first users of the capabilities will be the bank’s internal sales trader consumers. “If you think about what this does in a distribution context in the short term, it duplicates the capabilities that people already have.... The really big single difference is to be able to unify the structural relationships between how we create prices in the first place and how we hedge them and internalize the associated liquidity. That doesn’t just result in more people accessing those prices, it results in more prices to access at a fundamental level, and the capacity for those prices to be more competitive in the first place,” Yeadon says.

The multi-leg capabilities should be available in a new release of the platform in the middle of next year, which creates relationships between prices within a rules layer that sits on top of the underlying SmartTrade liquidity server.

*Max Bowie with Rob Daly*