

Minimizing

LATENCY FOR FINANCIAL INSTITUTIONS

By Christine Damboise

Time is money. Big money. And the slightest delay in executing orders and trades can cost the clients of financial service providers millions of dollars. For this reason, today's broker-dealers, trading firms and hedge funds are continuously looking for improved electronic trading systems that exceed customer's expectations for performance while driving costs out of their operations over time.

One of the major trends impacting these trading systems is the sheer volume of trades being executed. According to The TABB Group¹ in its October 2005 report, *Financial Connectivity: Creating a Frictionless Global Marketplace*, "Algorithmic trading and direct market access are the biggest disruptors in modern-day markets going from virtually 0% to 31% of institutional order flow over the past five years. To manage technology in this environment, firms need a massively reliable, scalable, and real-time platform with virtually zero latency as firms now have to cope with market data speeds of 70,000 ticks per second. To capture, analyze, and take advantage of data moving this fast latency becomes more critical as each millisecond really matters."

A typical trading platform has several key elements including:

- Data network infrastructure (dark fiber, Gigabit Ethernet links, SONET networks, etc.) between the trading firm and the exchange,
- the exchange's storage and computing servers placed in a private data center or managed colocation facility, and
- connectivity for clients to connect to the trading firm.

With so many elements to the trading system, what should financial firms focus on?

The logical strategy is to attack the areas of the network that impact latency the most. Let's start with the data network. The underlying data network is either provided by a service provider or built and managed by the electronic communications network (ECN). ECNs built on service provider networks run

the risk of relying on a service provider to ensure high network availability and live up to their service level agreements (SLAs). One way to mitigate this risk is to bring multiple providers' networks into a data center at the exchange's location. A more efficient approach, however, would be to design the trading network within a carrier-neutral colocation facility that offers the largest array of connectivity options.

With little tolerance for latency many financial institutions are taking a presence in carrier-neutral colocation facilities, many of whom operate a meet-me-room (MMR). A meet-me-room is a physical location within a colocation facility where carriers and enterprise customers locate their equipment for the purposes of interconnection.

The MMR offers a significant advantage in that it is often the fastest and easiest way for financial services firms to line up suppliers of network services to negotiate the best terms and prices. In addition, it's easy to acquire services from multiple providers for redundancy, route diversity, and network performance. But more importantly, if you're not satisfied with the level of service you're receiving, it's very easy to connect to a new supplier.

In the carrier-neutral meet-me-room, financial services providers get the control over their networks as well as leverage over suppliers they need to maintain their competitive edge. As a result, the best network service providers will earn their business by offering a winning combination of low-latency connectivity along with the best price.

¹The TABB Group is a financial markets research, advisory and crisis management firm.

Christine Damboise is the Marketing Manager at NYC Connect, 212-704-3894; email: cdamboise@nyc-connect.com; web: www.nyc-connect.com.