The future of the trading floor

Jonathan Morton,
IPC Systems

Over the past 20 years, trading floors have undergone a dramatic period of change. Perhaps most noticeably, trading floor sizes in some of the largest financial institutions have more than doubled, in some cases from around 850 desks to nearly 3,000. This growth has been driven both by pressure to improve efficiency and by technological advances to both hardware, software and within the network. These drivers in turn affected much more than just the size of the trading floor, influencing diverse elements from the floor's general appearance, to its function, communication process and more.

The recent recession may have caused firms to re-examine or put a hold on technology investments, but what is happening now that the effects of the recession are fading? What does the trading floor look like now and what will it look like in years to come?

The legacy of the financial crisis is that banks remain under pressure to be as transparent as possible and to improve both their efficiency and productivity. In order to streamline operations and economise as much as possible, many larger banks are consolidating multiple floors of trading desks into one pan-regional floor. Numerous financial institutions across the US and Europe have recently moved their traders onto one trading floor and this consolidation is beginning to be rolled into the back office too.

Despite this trend towards consolidation, there has also been an increase in the number of smaller firms emerging in the financial industry. Driven by the recent recession and related redundancies, many traders in both the US and UK have set up smaller, boutique firms which typically have a trading floor size of fewer than 10 desks. In the US, these boutique firms are often staffed by traders who, as bonuses were cut and salaries frozen, felt that their salary at the larger firms did not adequately reflect the specialised expertise and amount of revenue they brought in as an individual. In some cases, whole teams are jumping ship to set up their own firms because they feel that their ability to operate is being hampered by the increased scrutiny from both inside and outside the larger organisations.

It is not yet clear which trend will ultimately have a greater impact on the market landscape, but it is likely to remain fragmented for some time with some of the smaller firms proving highly successful and others fading away, or being swallowed up by larger institutions.

There has been a great deal of speculation about the future of voice communications on the trading floor, especially since the proliferation of electronic trading. The vast profits being seen from new and alternative electronic venues are giving those on the buy-side a host of different options to consider when making trades and some are convinced that voice trading is finished. On the contrary, I don't believe that we've seen the last of voice trading. Despite the ever increasing volumes of electronic trades, voice trading will still have a place in the future because for some deals people just need the reassurance of speaking to an actual human being. Particularly in more volatile times, those on the sell-side are much more likely to want to have a conversation with an actual person in order to talk through deals and get real-time advice before committing to a trade.

Also worth noting is the fact that with an increase in competition and decrease in margins, the deals traders are creating are getting more complicated. This in turn increases the need to collaborate verbally with other multiple parties, including traders who work in different asset classes, various analysts and economists as well as research. With so many parties involved, regulatory pressure and the drive towards greater transparent requires that the compliance and credit teams remain more in the loop to ensure that internal rules and regulatory requirements are strictly adhered to.

Increased globalisation has led to an "always on" attitude which is reflected in the new longer office hours of many financial institutions. In the future, more and more trading floors will operate 24 hours a day across multiple time zones, in a bid to remain as competitive as possible and to make the most of every second of trading time.

Another trend which we've started seeing of is a move towards increased collaboration and communication between the front and middle office on the trading floor. Traders now loop in analysts, researchers, risk managers, economists, private wealth managers and other off-floor support teams to discuss each stage of the trading process. The higher the level of inclusion, the less likely it will be held up by a compliance issue and the more likely it will succeed.

Since the recession, we have also seen increased levels of regulation and strict compliance measures. The banks are facing pressure to show ever more transparency and effectively manage risks, leading to the need to monitor the actions of all traders. This monitoring is likely to come in the form of recorded video capture of traders' screens, e-mail capture and IM.

Regulation seems to be pulling in two different directions: in Europe increased demand for accountability has led to the requirement to record all voice trading, but in the US markets there is no requirement to record voice trading.

This difference in regulation levels also has a knock-on effect on the type of trading in each country. Whereas in the UK all trading has to take place on the trading floor so it can be recorded and monitored, in the US there is no such regulation and remote working of traders is a real option that many firms take advantage of. Time will tell who will follow whom in terms of adopting more regulation, however, listening to what is going on in the market today, the expectation is that regulation is on the increase. This could either reduce the capability for remote trading in the US or, more likely, require additional regulation to account for, support, and possibly even require remote trading capabilities. The technology is certainly there to support a more regulated form of remote working, and as flexible working seems to be an overarching professional trend, perhaps we will see an increase in remote trading across the board.

What remains clear is that the trading floor is currently being pulled in a variety of different directions by many influencers. One thing that is certain, however, is that technology will be the key to pushing the floor forwards.

None of the changes cited above would be possible without the right technology to support them. It is technology, for example, that allows the trading floors to change in size and shape, that enables the communication between all those in the compliance chain and that will make further recording and regulation possible. Technology will continue to play a key role in the development of the financial trading floor, as it has in its evolution to date. Financial institutions depend on access to both a fast and reliable network infrastructure, and hardware systems which are dependable, flexible and scalable. Whatever the changes that take place, the role of technology vendors is to stay one step ahead and to ensure that these financial firms are equipped with the technology to keep their edge in an increasingly competitive market.

Jonathan Morton is vice president of product marketing at IPC Systems