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Shaking Up The Back Office

In late May, the GlobalTrading journal organised a roundtable examining the current trends and issues in post-trade standardisation and technology. From amongst the delegates, including buy-side, sell-side, clearing house operators and solution providers, a number of key takeaways from the ongoing changing nature of post-trade processing were established.

As with many areas of the trading lifecycle, cost pressures are a paramount concern in post-trade. Everybody is being asked to cope with lower commissions and lower revenues, and technology costs are ever-increasing at the same time. A key question for the roundtable was therefore, where can savings be made? Is it in standardisation of platforms across the trading lifecycle? Is it through a more holistic version of TCA, to allow for greater analysis of costings to see where the money is leaking? Is it through outsourcing, and if it is, what is the wider cost/benefit, and regulatory troubles associated with such a split?

An area of increased analysis by all participants is the value of each respective client. The granularity of data on the value of individual clients, and how that data is used by sell-side firms to calculate high value and low value clients has the potential to change business models for the industry. With some firms looking to capture the larger buy-side and larger flow, and others deliberately looking to target the smaller more niche clients, there is definitely space for differentiation in trading, and in post-trade.

Dr Darryl Twiggs
EVP Product Management
SmartStream Technologies Ltd

"To achieve operating costs reduction, yet meet ever stringent regulatory reporting requirements, automation alone is not the complete answer. Firms must reshape the back office and adopt a utility model providing an internal service to the lines of business. Simplifying and eliminating duplication, putting in consistent best practices, in a utility model to deliver a 30 – 40% reduction in cost. We're driving forward in new initiatives with externalised utility services to multiple clients with truly low operations costs delivered through the economies of scale."

Darryl Twiggs of SmartStream Technologies talks about the potential pitfalls and benefits of outsourcing.

Jean-Remi Lopez
Manager, Asia-Pacific, Sales Planning and Execution
Omgeo

"The key theme was cost pressure being placed upon the operations groups on both the buy and sell-side. While regulation and market dynamics have made processing more complex, lower commissions and asset yields severely limit expenditure. Technology and functional mutualisation were identified as possible contributors towards relieving such pressure."

◀ *Omgeo's Jean-Remi Lopez offers his perspectives on post-trade processing.*

Robert Rooks
Director,
PwC Consulting, Hong Kong

"With the continued drive to achieve ever higher levels of transparency during the post-trade process, the emphasis will continue to be on the effective management of operational risk by regulators and participants alike.

Transactional cost analysis in the front office has been with us for a long time, now as a part of the many initiatives underway to meet with the increased demands of regulators the drive to increase the level of efficiency in operational management will only help to reduce the costs of the post trade process but also raise the levels of visibility now required by both clients and regulators alike."

▲ *PwC Consulting, Hong Kong Director, Robert Rooks moderates the roundtable.*

Lyle Williams
Vice President
Head of APAC Broker/Dealer Operations
Sanford C. Bernstein

▲ *Lyle Williams of Sanford C. Bernstein and GlobalTrading editor Peter Waters discuss cost efficiencies in post-trade.*

"With 65% of the cost of a trade in Asia coming post-execution, it is imperative that all participants engage the Exchanges, Clearing Houses and Depositories to look at ways in which we can reduce these post-execution costs (i.e. clearing, settlement and matching). Doing this, together with encouraging additional infrastructure providers (clearing and houses and depositories), would give investors and market participants more choices of venue to both clear and settle.

As a broker, we strongly focus on being part of a safe and transparent framework where international investors can enter the market in a secure and open manner with little concern about settlement risk.

Software vendors are offering more and more modular processing of trades allowing you to select the parts of the post-trade space that you need to control to run through their system. Attending the roundtable where most of the participants were present allowed a wide exchange of views and viewpoints as to where the industry is in the post-trade space."

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A further consideration of the roundtable related to ongoing trends in outsourcing post-trade services. The conversation soon settled on the different types of outsourcing, namely on-shore and off-shore, and the relative problems that each has. To what extent outsourcing can be used by a firm to cut costs depends on many factors, including monitoring, control, upstream and downstream communication.

By bringing together the range of participants, the debate was able to move between the different elements necessary to cope with ever-increasing regulation, and the constant drive to reduce costs.

The key takeaways – regulation is changing and impacting many areas of the business, and a drive to continually reduce costs is leading to innovative solutions in post-trade, including FIX, outsourcing, and better analytics.

Chris Lee
Global Head Of Market Access and Electronic Brokerage ABN Amro Clearing

It was felt by many at the roundtable that exchanges need to improve the quality of their support in helping the buy-side and the sell-side fulfil their ever changing regulatory obligations. Chris Lee of ABN AMRO Clearing commented "Sitting between exchange/vendor and client is becoming an increasingly hard task. Global regulators are becoming more demanding, but all too often exchanges provide very limited support. There is a lack of standardisation and of comprehensive, quality and timely data. Exchanges have different approaches to pre-trade risk layers and naked access is too often accepted by exchanges as the norm."

▲*Chris Lee of ABN Amro Clearing talks about regulatory challenges in post-trade.*

It was felt by the roundtable that more alignment between exchanges and standardisation is urgently needed. Chris pointed out "Take for example exchange pre trade risk layers. If every exchange offers one, we end up with a screen from each exchange to control the limits. Pre trade risk layers at exchanges are a good thing, and it has taken years of lobbying by the industry in order to get exchanges to provide them (and still many refuse), but having a different exchange risk screens/log on per exchange creates another issue in administering them. We connect to 65 markets worldwide. That is potentially 65 different exchange risk layers to administer, all manually. A standard FIX Risk API from all worldwide exchanges would solve it." The roundtable wholeheartedly agreed.

▲*American Century's Scott Atwell emphasises how the buy-side are requiring the use of FIX in the post-trade arena.*

▲*Alex Medana of Deutsche Bank discusses the drive towards new technologies in post-trade.*

▲*Citi's Endre Markos engages on a need to look at the trading life cycle holistically.*

Open For Discussion
Contact the Author **editorial@fixglobal.com**