


# Financial **IT**

## Innovations in Technology

A portrait of Tim Howell, Chief Executive Officer of Euroclear, wearing a dark blue suit, white shirt, and patterned tie. He is smiling slightly and looking directly at the camera.

Tim Howell,  
Chief Executive Officer,  
Euroclear

### **Collateral Management in Focus**

#### **Building a better securities market**

i2i with Nigel Solkhon,  
Director, Citi

#### **Collateral liquidity**

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B.I.S.S. Research

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Innovation Corner, Michael  
Cooper, CTO, BT Radianz

# Building a better SECURITIES MARKET

Financial IT spoke to Nigel Solkhon, Director, Regional Head Execution 2 Custody (E2C) EMEA, Citi about his views on building a better securities market.

## **What is your view on the future market operating model for financial services in EMEA?**

Over the past decade, the securities market in the Europe, Middle East and Africa (EMEA) region has been in the throes of a complete rewrite of the rules of engagement from front to back. Capital is not only king, but is also vital for the survival of all market participants. The changes really started with MiFID, which drove fragmentation of trading venues with the introduction of multi-lateral trading facilities (MTFs), followed by growth and contraction in central counter-party clearing houses (CCPs) and then, finally, TARGET 2 Securities (T2S), which reversed the consolidation trend in central securities depositories (CSDs). These changes occurred in the face of an operational structure built for high volumes, primary exchange membership and trading, CSD membership and clearing, and an appropriately sized workforce to manage any peaks and troughs in activity. Today, reduced transaction volumes, narrowing margins and spreads, a move to electronic trading and shift in allocation strategies, means that in the future efficiency, product diversification and agility will be all important. We are moving closer to a global marketplace comprising three main aspects – trading, settlement and collateral – with participants jostling to provide services between them.

## **How do you see brokers and banks developing to meet changes in markets?**

As previously mentioned, the market structure will drive change in participants' internal operating model strategies to correct the misalignment of models and reduce costs. Brokers and banks have reduced headcount and merged divisions, while deeper assessment of the current models is also underway in many organisations. The London Stock Exchange is not the only venue in EMEA to see membership resignations as direct participation costs and market visibility give way to sponsored access through ever evolving direct market access (DMA) pipes from the largest players. A beneficial consequence of this is that the move away

from on-exchange trading to over-the-counter (OTC) trades with the DMA provider has reduced the capital cost reallocation of collateral placed with CCPs, so reduced membership costs and capital reallocation possibilities are attracting early movers.

## **Are cost pressures driving change for brokers and banks or regulation?**

Regulation is absolutely the highest priority for any department in banks and brokers. Legal, business, technology and of course the CEOs all focus on maintaining regulatory compliance. It has been argued that this focus has reduced the appetite to spend on internal efficiency as budgets are slashed to bring capital ratios up to new levels. Therefore cost per se is driving change.

## **What is needed to build a new better financial market?**

A better financial marketplace has many elements. A safe and well regulated market desired by all, but a cost effective, liquid marketplace is high on many wish-lists as well. Experience teaches me that change is the only constant in markets, and each time, re-engineering is required. Any re-engineering project, be it at a market level or internal programme level requires the engineer to identify the current and target operating models. Some processes will need to be abandoned in this process, and new processes will come into being. For example, trade confirmation has been much in the news lately. Fix Protocol, SWIFT and Omgeo are all looking at ways to change this process, and it is possible that it becomes redundant in the future as participants move to pre-allocation models and local reconciliation.

## **How important are market practice standards to build a better financial market?**

I have always believed that you need rules to play, and someone to referee, to make sure players are compliant. When governance is managed by a single entity, then it becomes the de facto process, which brings with it, high efficiency and

control. There has been a drop in industry participation in common market practice forums in Europe over the last few years due to a number of reasons but, as a founding member of ISITC Europe and having spent three years at SWIFT, I fully support a collective approach to common issues, as long as there is commitment to deliver and a sensible timeframe for implementation, otherwise it is a waste of everyone's time.

#### How do you see electronic message standards evolving?

As I have already mentioned previously, the move to electronic markets from front to back is moving apace and bearing fruit for those who have invested in the right infrastructure. Standards can mark specific moments in time when the industry changes. In 1993, ISITC Europe brought huge interest from banks and investment managers in SWIFT, resulting in huge growth in securities messaging in the mid to late 1990's. Around 2000, Fix came into its own to support the internet boom. My hope is that standards will further help reduce today's complex supply chain by removing some of the redundant processes. An example of this could be the adoption of Fix for allocations, opening up the possibility of continued adoption of electronic bilateral confirmation exchange and thus removing middle-office intervention.

#### How important is technology in creating a better financial market

Technology has a huge role in translating the data into information and creating efficiency. The middleware explosion in the 1990's saw many companies improve the adoption of multiple standards across legacy systems by becoming a translation device. Eventually the larger application providers developed "loose coupling" technology (effectively middleware layers around applications). Today the talk is about "apps", "cloud" and "analytics", each having a strong benefit to financial services. Technology is vitally important and has been a driver of growth and I do not see this changing. The best use of technology is to swap out manual processes (reducing risk and errors) and provide scalability (elasticity to cope with volatility).

#### What do you see as the most important area for technology and system development?

The main cost in integration comes from the addition of content to applications to fulfil the needs of enhanced reporting requirements for clients and, of course, regulators. This also supports the move to analytical enquiries as well as support for increasingly complex trading strategies. The amount of data exchanged increases year on year and scale is very costly.

#### How do you see firms developing to meet shorter settlement cycles?

Shorter settlement cycles require an efficient and coordinated market place as well as an efficient and integrated internal processing model. The closer the settlement date is to the trade date, the less time there is to correct any errors – which means more cost and risk. There needs to be fewer errors. Therefore, the largest players need to have a streamlined end-to-end process integrated with their client's and, if possible, that of their client's counterparty – with controls to alert issues as early as possible. This is hard enough to achieve in asset and geographic silos, but the coordination of client cash flows, funding and foreign exchange creates the need for a holistic model. I cannot see the level of people employed in the industry rising above 2007 levels very soon, so a reliance on technology, industry cooperation and end-to-end solutions is essential.

#### Can you describe Citi's Execution 2 Custody solution?

Execution 2 Custody (E2C) is a complete order-to-settlement solution for clients across the globe. Citi has combined the largest proprietary custodian network in the world with an electronic execution capability through its integrated E2C platform which gives clients the capability to trade and settle equities, fixed income, FX, mutual funds and exchange-traded funds (ETFs). The platform receives an order from clients via FIX, SWIT CSV or GUI and routes to execution venues (both lit and dark), creates settlement instructions and manages any exceptions with minimal client intervention. We have integrated the flow to the extent that we have straight-through processing (STP) rates close to 100%, settlement rate in the high 90% and typically send settlement instructions to the market within 10 seconds of execution. Clients will also be able to send pre-allocated orders via FIX to automate turnaround trades, releasing them from any settlement instruction support. With our local expertise and visibility of the order, we provide clients with a complete end-to-end view of the trade through a single window. E2C is also flexible enough to wrap around a client's needs by supporting global custody (single account supporting multiple countries), direct custody (individual accounts with local market servicing) and clearing (should the client wish to retain exchange membership in selected markets). We currently support institutional brokers who are consolidating their brokers and moving off direct membership, retail brokers, wealth management platforms, asset managers, private banks and market infrastructures.

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*Director, Regional Head Execution 2 Custody (E2C) EMEA, Citi*