There is a point in the life of any core system in capital markets where the continuing dependence on it starts to make IT users and senior management uneasy. This can be for a variety of well justified reasons. It may be built on top of other technologies that are no longer supported. It is very likely that few, if any, of the staff
from the original implementation remain. This can cause significant problems if there is a need to explain the workings of more complicated parts of the system, let alone fix more difficult problems.

An aging system is also likely to have acquired a series of audit points and have other high profile issues, related to information security or supportability. Perhaps worst of all, they typically lack the flexibility to deal with new requirements, and may be harder to integrate into new infrastructure. As regulatory changes hit securities finance, such as the Securities Financing Transaction Regulation (SFTR), the last thing any business or IT department wants are systems that cannot be adapted in a timely manner.

In spite of the very strong reasons to upgrade to more contemporary and functionally rich system, there can be a great deal of organisational inertia. Changing a core system, particular securities finance solutions that are connected to multiple front and back office systems, are often viewed as an expensive process. On the other side of the benefits case, it is likely that the running costs of the core legacy securities finance system would appear to be low, with the investment cost fully amortised. There are also perceived risks involved in replacing any system that has grown to be a fundamental part of a firm’s capital markets infrastructure.

While consideration of the risks and costs is a key part of building any business case, it is not the full story. On the cost, it is necessary to establish the total cost of ownership of the legacy system. With legacy securities finance systems, it is very common for them to develop a rich ‘crusting’ of additional systems and components,
To survive in a future where competition for revenues grows stronger, while regulation may grow more onerous, requires a solid system foundation.

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