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The Future State of Global OMS

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Prepared for:



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Executive Summary

In today's fluid regulatory environment, a functionally rich, robust, and scalable trading and connectivity solution that sell-side firms can rely on to perform key front- and middle-office functions is essential to remain competitive within both regional and global markets. This is particularly true for sell-side firms with large footprints in multiple asset classes (equities, futures, options, and fixed income) looking to navigate shifting compliance and risk obligations across businesses. This white paper examines the state of play for order management systems (OMSs) and the key functionalities these systems must bring to the table in order to drive top lines and manage bottom lines.

The key findings from this paper follow:

Global sell-side firms are beset by significant challenges both regionally and across asset classes: The most often-cited challenge facing sell-side firms with global footprints are regulatory changes and pressures, keeping up with globalization, the current regulatory environment, and further market fragmentation.

Customer needs are growing, and the sell-side is responding through front-office innovation: Decision-makers at sell-side firms cite assistance with global connectivity, regulatory compliance, robust reporting capabilities, and workflow automation solutions as key customer needs in 2023. In turn, sell-side firms cite building out a robust compliance and reporting functionality, workflow automation technology, and global connectivity solutions as key focus areas of front-office innovation.

Brokers report three key metrics for judging trade optimization success: Institutional brokers report three key factors for evaluating the success of bank trading optimization initiatives across all sell-side firms. In order of priority, those priorities are risk reduction, increased scalability, and an increase in revenue.

Introduction

Regardless of asset class or regional trading nuance, global banks of all stripes are staring down a technological fork in the road with respect to front-office innovation. Legacy vendor solutions and in-house-built tools require significant resources each year to simply maintain the technology status quo. Sell-side firms wanting to stay ahead of the curve will need to reevaluate the value proposition of their existing OMS architecture and determine if the solutions they have in place today merit the ongoing cost.

After all, the list and breadth of OMSs sell-side firms once had to choose from was, until recently, limited. This is particularly true with respect to multi-asset-class OMS solutions for futures and options. This lack of vendor optionality has been a principal driver behind a preference among the largest banks to design and implement a customized OMS in-house.

The landscape has evolved, and sell-side OMS vendors today are bringing to market modular, globally focused tools that can adapt and simplify increasingly complex workflows across the spectrum of key front-office functions (high touch, low touch, and portfolio trading) along with compliance, middle-office, and connectivity services within one OMS ecosystem—essentially providing building blocks for firms to build custom solutions tailored to their regional and asset class needs (without having to truly start from scratch).

This white paper examines the current state of play that global OMSs sell-side firms rely on to maintain a trading edge within an increasingly competitive global market. In particular, this paper focuses on regional nuances and commonalities across U.S., EU, and Asia-Pacific markets in terms of the challenges sell-side firms face regarding existing front-office technology, customer demands, key initiatives to satisfy these customer requirements, and key metrics for measuring success in front-office innovation.

Methodology

This report leverages results from a Datos Insights survey targeting 50 senior technology executives and trading decision-makers at sell-side institutions with global footprints (in U.S., EU, and Asia-Pacific markets) during Q3 2023. In addition to the survey results—the demographics of which are broken down in Figure 1 and Figure 2—Datos Insights also conducted several qualitative interviews with senior executives at global banks to gain perspective on key challenges and themes driving decision-making today.

Figure 1: Firms' Level of Assets

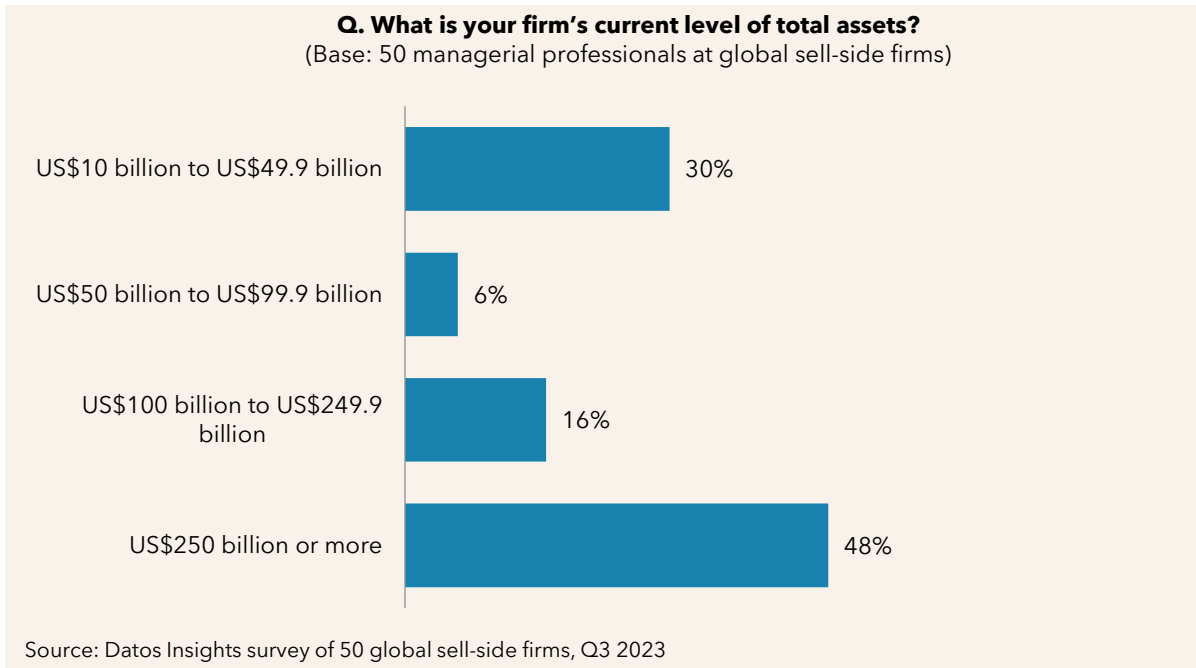
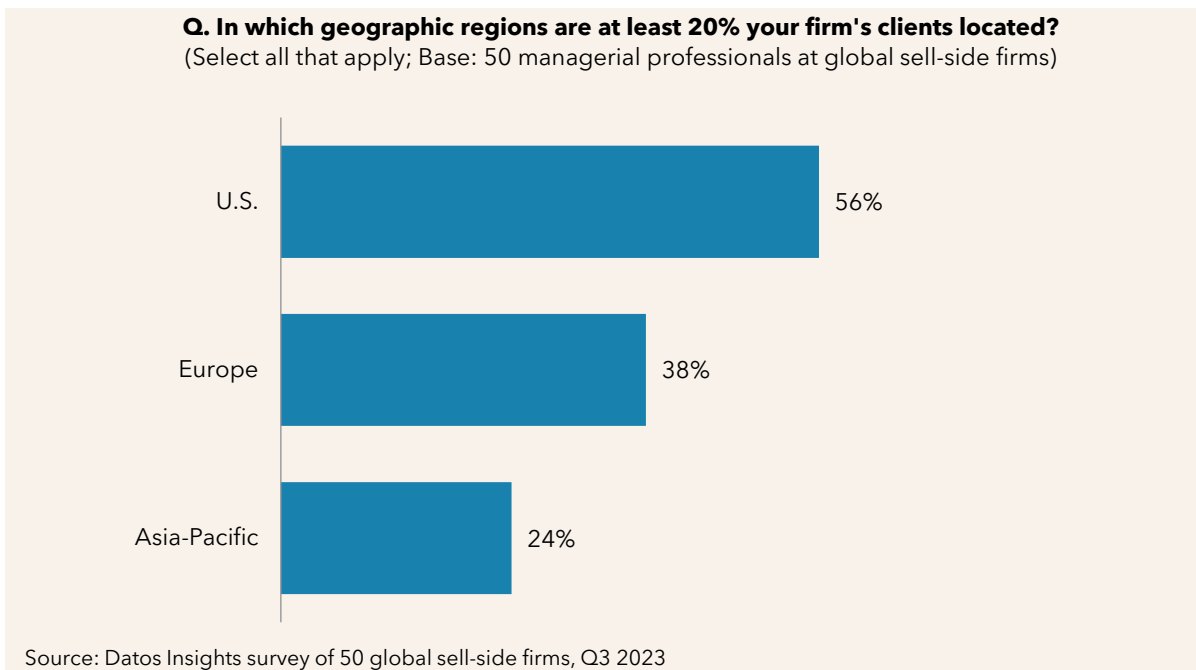


Figure 2: Respondents' Geography



Challenges and Customer Needs

This section provides a breakdown of key sell-side technology challenges and customer needs that drive decision-making with respect to front-office vendor partnership.

Current Challenges

Across all respondents, regulatory issues and keeping up with an increasingly globalized market are top-of-mind challenges—followed closely by concerns about market fragmentation (Figure 3).

These responses were similarly reflected in conversations Datas Insights had with senior sell-side executives this year—all of whom express that meeting regulatory deadlines and supporting upcoming additional regulatory requirements are key factors in evaluating their current OMS and ultimately replacing it with a vendor solution.

Figure 3: Top Three Current Challenges

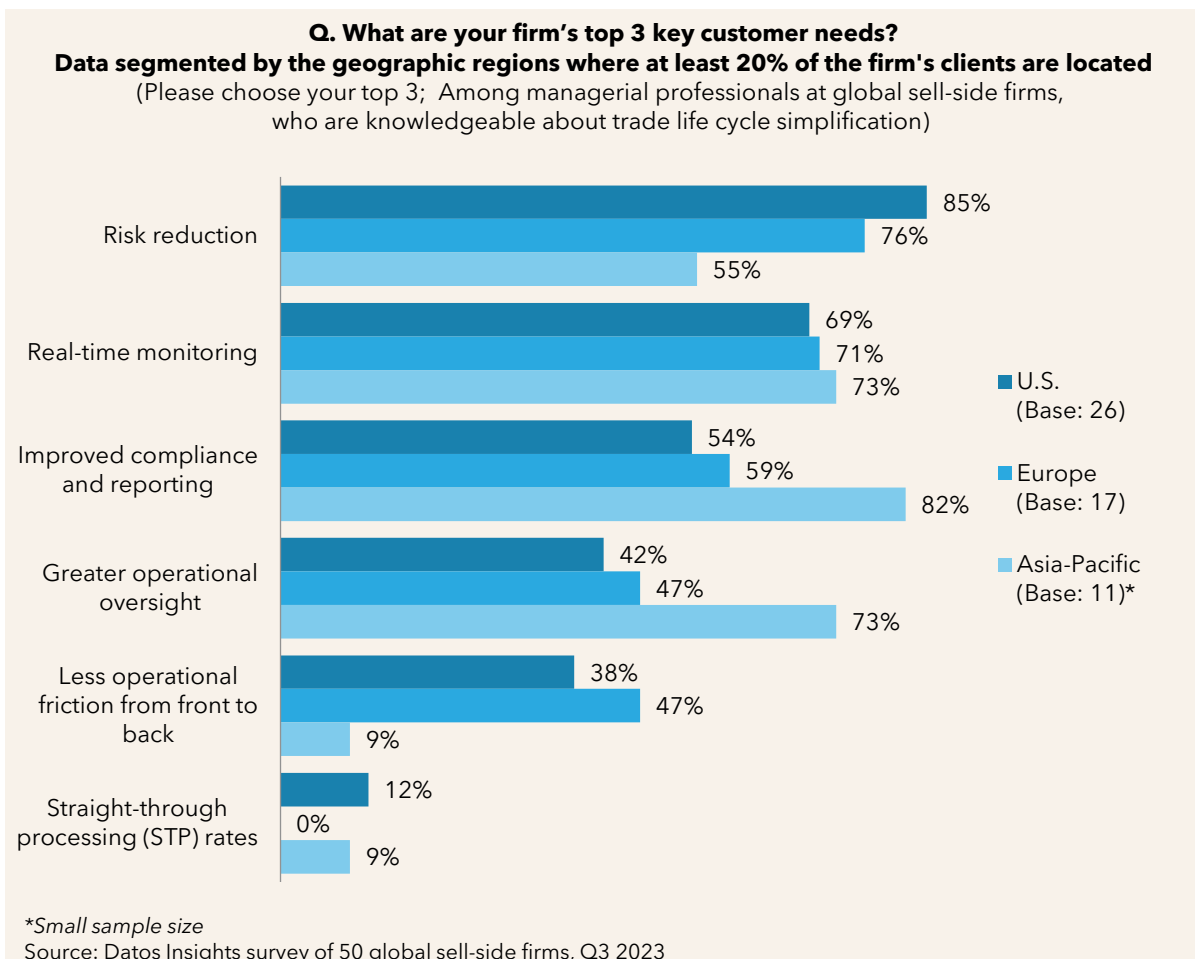


Interestingly, when respondents were broken out by where their majority trading footprints were located (U.S., EU, or Asia-Pacific markets), the top challenges banks listed, as expected, are all related to the current regulatory environment or meeting upcoming regulatory mandates. One important area of divergence in the survey result is a lower prioritization of market fragmentation and an uptick in concern with keeping up with globalization among Asia-Pacific broker-dealers.

Top Customer Needs

When sell-side firms were asked what the top three key customer needs are in 2023, global connectivity was the top response by a significant margin (59% when aggregated across all responses). The second-most-cited customer need was regulatory compliance support (which aligns with Figure 3 responses), followed by the need for robust reporting capabilities and tools to support workflow automation (Figure 4).

Figure 4: Top Three Customer Needs



When the data was further segmented by either main asset class traded (equity, futures, options, and fixed income) or by principal region of trading activity (U.S., EU, and the Asia-Pacific), global connectivity nonetheless remained the significant favorite among key customer needs.

Fixed income was the main segment of differentiation in customer needs among survey participants. While supporting global connectivity is the unanimous top need, fixed income customers' second and third key ask are better support with workflow automation and efficient liquidity sourcing.

Given the historically analog nature of fixed income workflows, the opaque nature of its market structure (which further varies across major fixed income products), a fragmented liquidity/execution landscape, and a dealer-centric pricing model, these outlier second- and third-most-cited needs come as no surprise. After all, as the fixed income market slowly continues to digitalize, customers will fight an uphill battle to marry a traditionally old-school marketplace with a modernized global trading landscape.

In speaking with senior sell-side executives about top customer needs, the answers given align thematically with survey results. Customers are increasingly concerned with simplifying operational workflows that all fall under the wide umbrella of what a traditional OMS theoretically could support within a single ecosystem. This would include the ability to automate high- and low-touch trading, such as market-making or even systemic internalization out of the box. There is also a significant challenge in supporting large trade volume across many asset classes for firms with global market footprints.

Based on interviews Datos Insights conducted, however, theory rarely aligns with reality. For sell-side firms that have not gone the route of building out major in-house solutions, the other option is relying on a monolithic and rigid solution that provides myriad unneeded functionalities or utilizes a patchwork of vendors to support key business needs—for example, relying on one platform for a majority of use cases but separately using another platform for principal trading and another for FIX connectivity. Alternatively, it may be less of a functionality issue but rather a regional challenge in which a sell-side firm may employ a single comprehensive platform for one regional market (such as the U.S. or EU) and have to rely on an additional platform for the Asia-Pacific clients.

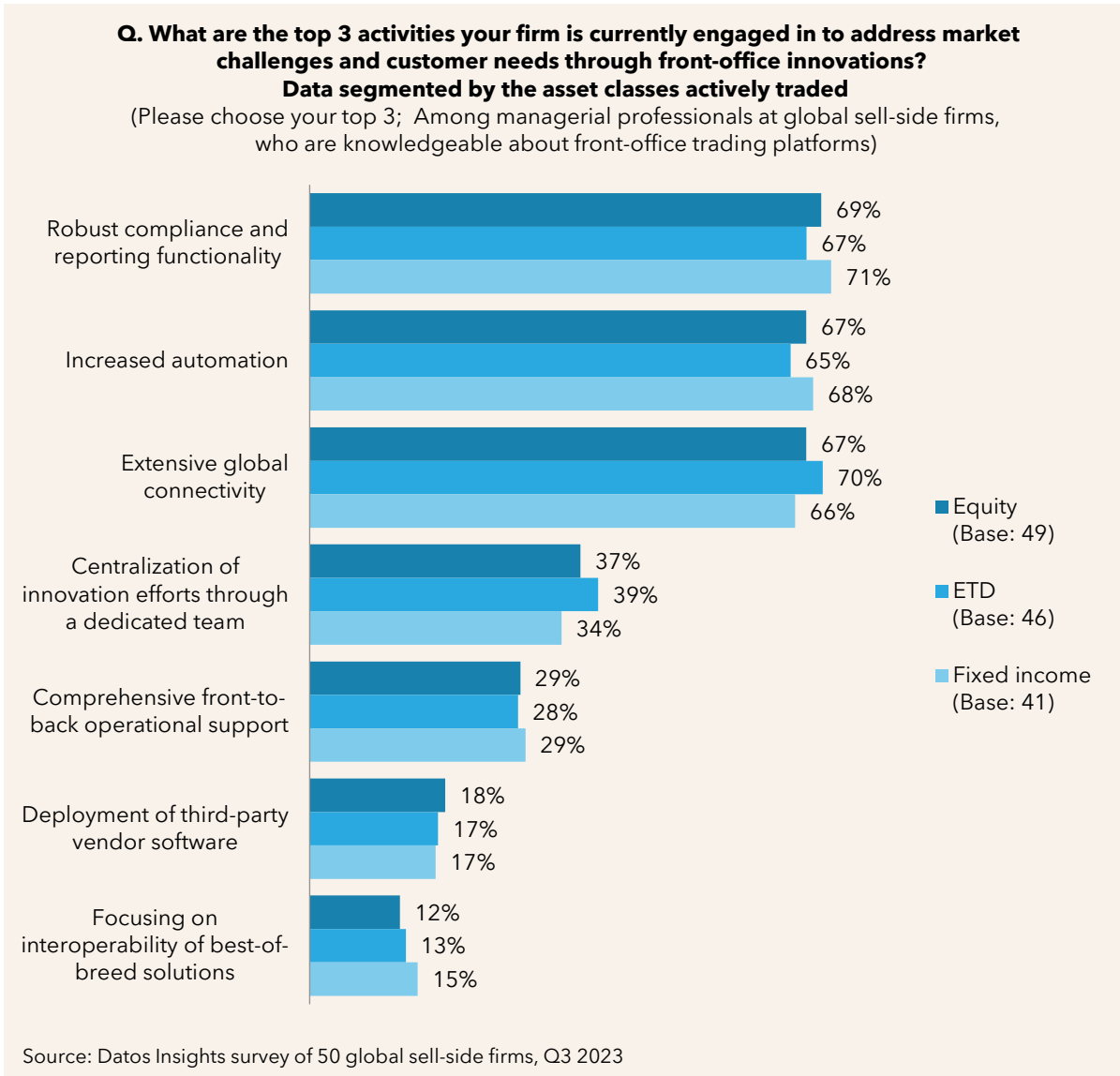
Capturing Opportunities

Global sell-side firms are focusing on both front-office innovation and meeting the evolving needs of customers and challenges they face across regional markets and asset classes. This section provides quantitative and qualitative insights gleaned from both survey responses and interviews of those firms.

Front-Office Innovation

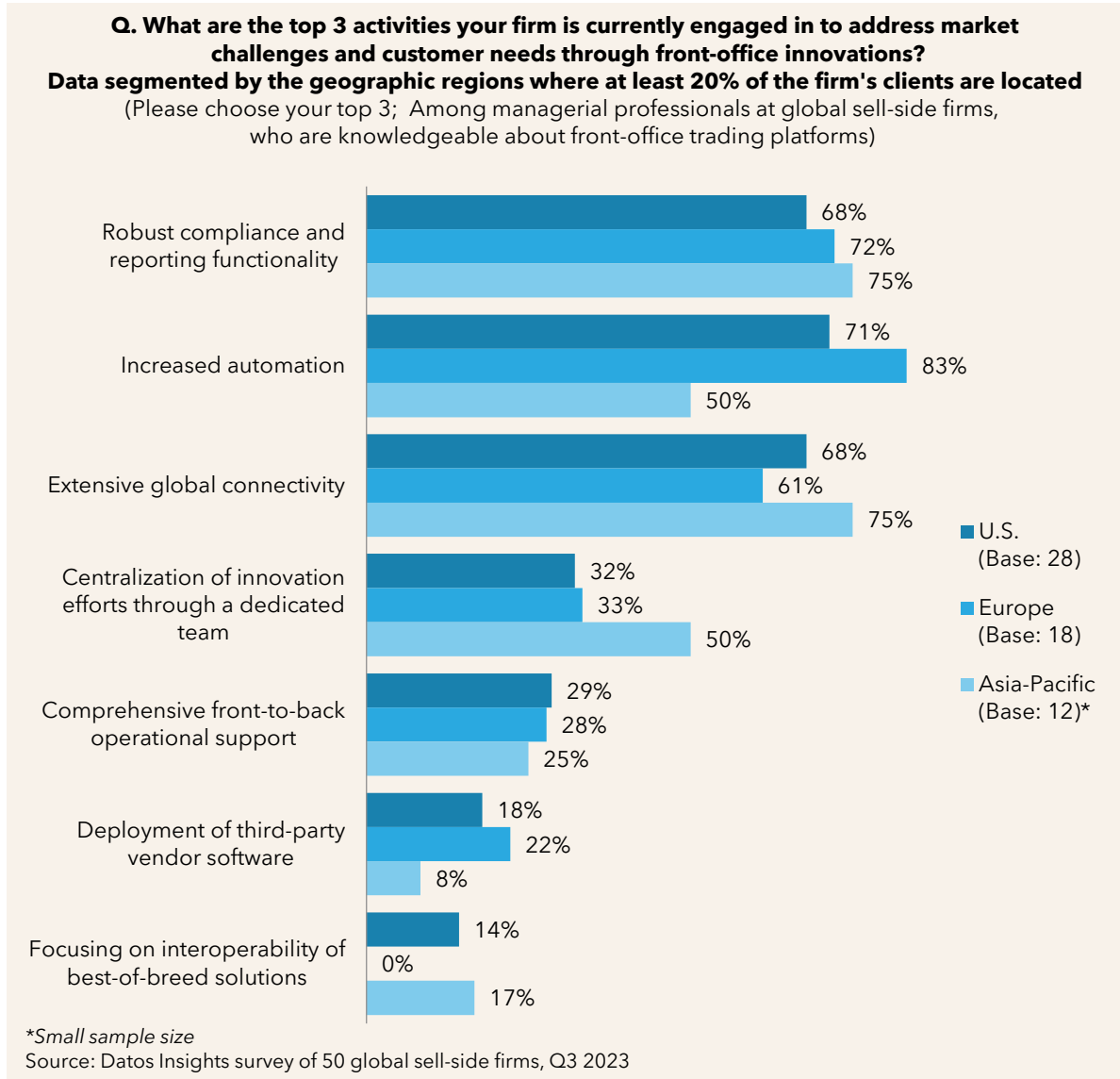
When asked to provide the top three activities they are engaged in to address market challenges and customer needs through front-office innovation, responses from managers at global sell-side firms with a deep knowledge of their front-office trading platforms coalesced around three key areas: Sixty-nine percent of respondents expressed building out a robust compliance and reporting functionality was a top priority. The two next most-cited activities were an increased focus on automation technology and building out extensive global connectivity solutions, each chosen by 67% of respondents (Figure 5).

Figure 5: Addressing Challenges and Meeting Customer Needs



When interpreting results by asset class segments, the same three responses remained the top areas of activity with even more pronounced emphasis on the same three areas for fixed income participants. Segmenting the results by region, however, yields interesting divergences for key activities sell-side firms are engaging in to face market challenges and meet client demand (Figure 6).

Figure 6: Addressing Challenges and Meeting Customer Needs, by Region

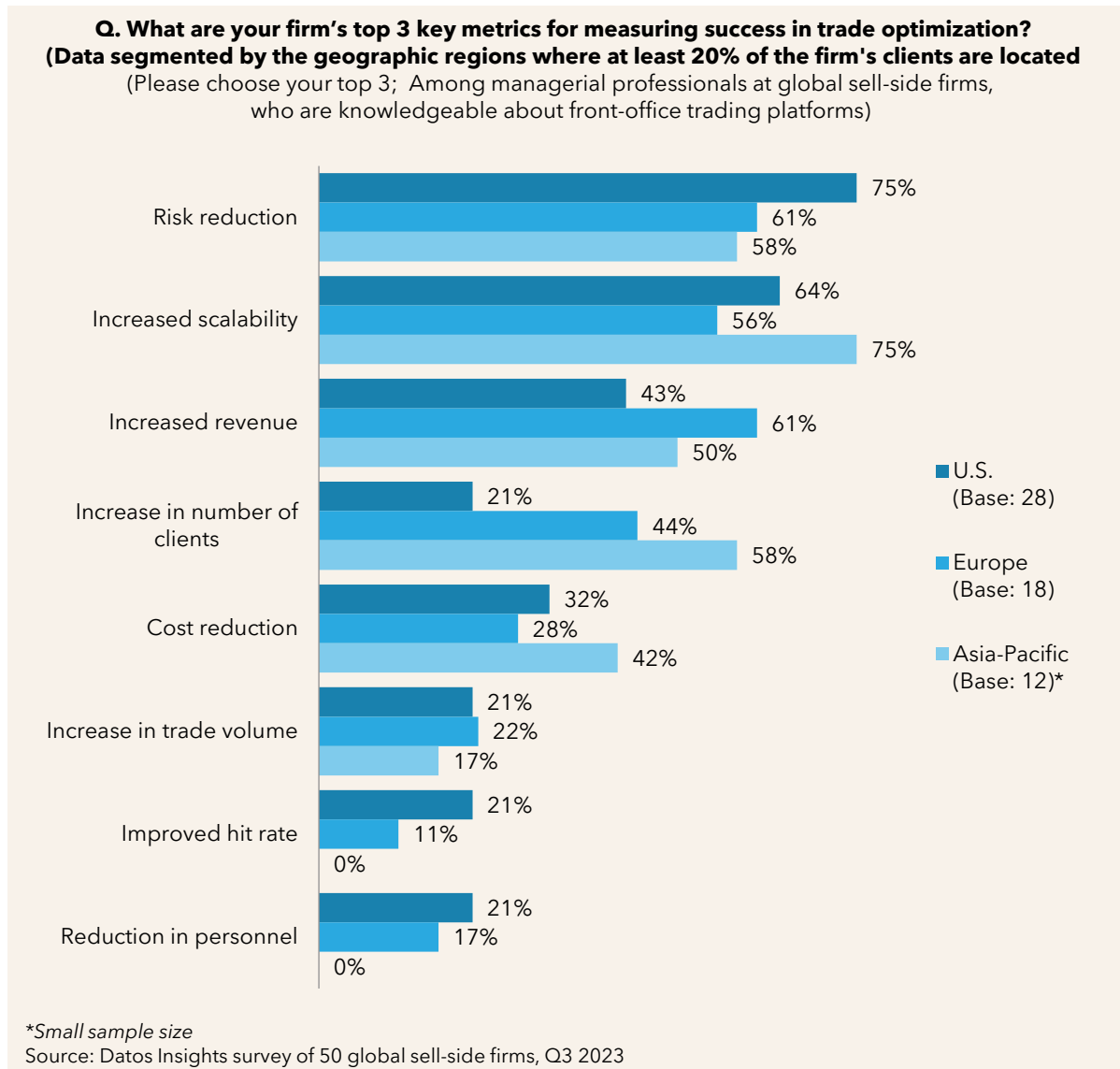


Within European regimes, a clear emphasis on increasing automation capabilities for front-office platforms jumps out immediately—with a significant 83% of EU-based sell-side respondents choosing this option as a top priority. Seventy-five percent of Asia-Pacific respondents emphasize building out extensive global connectivity as a top priority in addition to a robust compliance and reporting functionality. U.S. participants, like their European counterparts, place the highest amount of emphasis on activities driving increased automation to counter market challenges and satisfy customer demands.

Key Metrics for Success

Despite the multifaceted nature of trading challenges and the myriad approaches sell-side firms are taking to optimize their trading, three key factors for evaluating the success of their trade optimization stood out across all sell-side firms surveyed: risk reduction, increased scalability, and an increase in revenue (in that order; Figure 7).

Figure 7: Key Metrics for Success



When results are segmented by region, however, a different most-cited metric for optimization success emerges for each region. For Asia-Pacific sell-side firms, increased scalability is the number-one metric for optimization of trading, while U.S. participants defer to a reduction in risk as the gold standard for trade optimization success. European participants, on the other hand, keep an eye on revenue as the primary metric for optimization.

In speaking with senior executives at global sell-side institutions, key areas of activity to meet the challenges of the market fall neatly in line thematically with the broader survey results. In line with the survey results, all of the senior sell-side executives Datos Insights interviewed express that regulatory concerns and the need for a more robust compliance and reporting functionality is the key driver in reconsidering the viability of their current OMS.

Metrics for measuring the success of their trade optimization efforts fall into either informal categories, such as user feedback and the ease/speed with which OMS developers can solve unique workflow issues, or more well-defined metrics, such as regulatory report cards or the number of times a given system might go down each year—which, by extension, reflects the level of stability and technology/market support the system is built upon.

Conclusion

Inescapable cost pressures put on global sell-side institutions are forcing middle- and back-office technology decision-makers to find ways to do more with less. This, of course, is playing out against the inevitable forward march of regulation—in particular for the U.K. (EU) and U.S. regional markets—which will only amount to additional operational burdens. Complicating the state of affairs further are global market infrastructure issues without clear solutions. Banks will continue to struggle to keep pace with globalization, maintain efficient connections to an increasingly fragmented market, and struggle with interoperability issues for legacy/third-party solutions.

Taken in isolation, none of these challenges are in any way novel or beyond the scope of what existing front-/middle-office technology—whether in-house systems or vendor OMS/connectivity solutions—can handle. Global sell-side firms, however, are not facing these challenges in isolation. In an increasingly resource-constrained environment, firms should leave no stone unturned when looking for opportunities to find efficiencies in workflows, both front-to-back and across asset classes and regions.

This challenge is a significant opportunity for technology providers—in particular sell-side OMS solutions—to provide a modular, interoperable, and globally scalable approach to trading technology that bridges the gap between the benefits that a fully customized in-house OMS that might provide wide-ranging support across high-touch, low-touch, and portfolio trading; middle office, compliance, and risk integration; and rigidly structured vendor solutions.

About Broadridge

Broadridge Financial Solutions (NYSE: BR), a global fintech leader with more than US\$6 billion in revenue, provides the critical infrastructure that powers investing, corporate governance, and communications to enable better financial lives. We deliver technology-driven solutions that drive business transformation for banks, broker-dealers, asset and wealth managers, and public companies. Broadridge's infrastructure serves as a global communications hub enabling corporate governance by linking thousands of public companies and mutual funds to tens of millions of individual and institutional investors around the world. Our technology and operations platforms underpin the daily trading of more than US\$10 trillion in equities, fixed income, and other securities globally.

About Datos Insights

Datos Insights is an advisory firm providing mission-critical insights on technology, regulations, strategy, and operations to hundreds of banks, insurers, payments providers, and investment firms—as well as the technology and service providers that support them. Comprising former senior technology, strategy, and operations executives as well as experienced researchers and consultants, our experts provide actionable advice to our client base, leveraging deep insights developed via our extensive network of clients and other industry contacts.

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