Up to the challenge

Chris Davis, Vice President of Broadridge’s FX and Cash Management business, explains how financial institutions are navigating a raft of market challenges including Basel III and MiFID II at a time when bank ROE in the FX market is under increasing strain.

What are the challenges and opportunities in the FX and liquidity management space?

The growth in foreign exchange trading over the last decade has been significant, but delve beneath the surface and challenges persist. As electronic trading continues to increase efficiencies and open the market to new entrants, it is also a development that has dramatically reduced the cost of trading and rendered currency trading at an institutional level an increasingly ultra-low margin business.

Against this backdrop, increased regulation for best execution, reporting, liquidity management, and underlying market infrastructure change, has caused a shift in operational priorities for many. As financial institutions work through a host of incoming compliance requirements, many are refocusing efforts on delivering stronger, more efficient and ultimately, integrated workflows, while cutting out manual processes. These firms are now seizing the opportunity to drive capital efficiencies by integrating real-time cash management, risk management and reporting requirements into a world class service.

Can you give us some specific examples of regulatory and market change that your FX/treasury clients are currently focused on, and how you’re helping them to address these?

As a global player in financial technology, Broadridge has taken a proactive approach to help firms comply with a raft of regulations, while continually enhancing operational processing efficiency.

Basel III is set to change the way firms manage cash and liquidity ratios and, more broadly, is causing them to reassess their strategy for this core function. Through our investments in FX and liquidity management technology, we are able to help firms advance to a best-practice operation, monitor real-time intra-day cash positions for actual, projected and historic balances, and enable informed, effective and accurate funding decisions.

Another high profile piece of regulation set to have imminent impact is of course MiFID II, and we are actively implementing our new trade and transaction reporting solution with global firms in preparation for the January 2018 deadline.

How has Broadridge helped firms to prepare?

A global clearing bank approached us after assessing the outlook and risks of its cash management technology. Faced with rapid expansion, growing cash activity volumes and issues from manual processing, the firm recognised the importance of understanding up-to-date cash positions. Without a current, aggregated and accurate view of enterprise-wide cash positions, management believed it was at risk of missing opportunities to leverage capital.

We helped the bank transform through an advanced, real-time solution for FX and cash management, enabling it to adopt an intraday, real-time capability for cash position data and reporting, with a consolidated view of true cash balances and better visibility of borrowing requirements to cover short positions.

The securities market has seen a number of high-profile transformations to a mutualised service model for ops and tech. Is it time the FX market followed suit?

Banks have already taken significant steps to trim costs, including moving processing offshore to lower cost centres and the reduction of headcounts in back office functions. Technology budgets and remaining discretionary spend have largely been committed to regulatory compliance and compulsory market change.

As the industry battles stubbornly low cost/income ratios, the increasing cost of regulation and the strategic cost of technology disruption, an alternative approach based on operational mutualisation now offers the market a credible alternative option.

How are you helping firms keep up with the rapid pace of fintech innovation?

Innovation comes in more than one form, leading us to offer efficiencies and streamlined processing through a number of options. We enable firms operating in a multi-asset environment to move from separate silo-based operations and technology to a fully integrated, unified workflow spanning FX and other principal asset groups.

Underpinning specific market solutions, Broadridge has continued to play a market leading role in delivering cloud-based applications that can be efficiently integrated without the need for on-site deployment.