Control and efficiency

Best Execution speaks to Linda Middleditch, Chief Product Officer at Itiviti about increasing efficiency and cost effectiveness in the post-trade space.

What are some of the major challenges in the post-trade space?

Regulations such as CSDR (Central Securities Depositories Regulation) have cemented best practice and forced the industry to look at whether they have the right systems in place for matching and settlement instructions. Progress has been made but there is more to be done. One of the biggest challenges is the ability to effectively match trades with as few touches as possible. When I first started in the City in fixed income operations we didn't have a central matching utility, the unmatched reports were based on settlement messages sent and prematched by the agent or clearing house. This is a more expensive way to prematch trades. It is important to ensure that the terms of the trade are correct with all counterparties before the instructions are sent for settlement.

The other challenge is to ensure that there is a layer to manage the operational risk on top of your trading systems. Pulling all the data together will provide greater depth of information. This will help people make better choices because they will be able to identify and understand all the operational costs across the organisation and industry.

How has Covid-19 exacerbated the issues?

Covid-19 has driven more focus on STP (straight through processing) – and an urgent need to replace manual processes within a division or across different divisions and departments. For example, if you get an unmatched trade, it could involve both the buyside and sellside middle office and both firms' trading desks to resolve the issues. I think this will lead to a second wave of firms looking at their workflows to see how they can become more efficient and streamlined.

The changes to workflows and systems will also depend on the asset classes that are being traded and the level of electronification. There was an expectation that MiFID II would have driven electronification, which did happen in some asset classes but not in all. There is still a lot of work done on spreadsheets, and voice trades are still prominent in some asset classes.

How has FIX boosted post-trade resiliency?

FIX was built to support the framework of global trading 24/7. The solutions are logical, simple and easy to integrate. Many of the other solutions are bespoke interfaces that require cost/maintenance by all parties. FIX is a cost-effective solution as well.

How do you see the development of cross-asset trading?

I think Covid-19 has given cross-asset trading another nudge but there are three main drivers that point to greater activity in the future. The first is regulation, which has normalised the data capture needed to do cross asset trading. At the moment, there are too many manual processes dealing with this, which is a heavy burden on banks. The second is the increased use of cross asset products which impacts the entire organisation, especially from a post-trade perspective. Cost is another important element. All the banks are looking to rationalise the number of platforms into as few as possible to save costs. The banks need to further rationalise their organisational structures, but they are restricted by each asset class having separate platforms. It is possible to bring together the asset classes into a single platform when the workflow is the same; post-trade matching is a good example of this.

How do you see automation evolving?

It depends on the asset class. The view was that after MiFID II, there would be greater electronification in the fixed income world, but the change was not as extensive as expected. There are a number of factors driving a second wave in electronification now for fixed income. For the other asset classes there will be a move towards further automation of workflows within platforms to save both time and reduce risk. The other area where I believe we will also see changes is in surveillance. Think of all the problems that organisations are having with people sitting in their living room and not in the office. This will become a priority for banks who will have a rethink about the tools they are using to monitor people. There also needs to be more work done in terms of how traders are changing the way they manage and use data. As I also mentioned, operational risk is an issue, especially in relation to understanding the costs, where and how to settle trades and identifying the risks as people move to cross-asset trading.

What are some of the main challenges with today's solutions and what do clients want?

In general, they are looking for end-to-end solutions that are more efficient and cost-effective. One of the big drivers for firms is to ensure their cost model is imitating their business model. A major problem today is that some of the solutions on the market are overly complicated and difficult to integrate into workflows. During my time at UBS and Morgan Stanley I was lucky to see the middle office and post-trade being rebuilt from the bottom up. Not everyone did that and I think today we are still struggling with the limitations of platforms which can be too siloed.

Banks also want providers who can understand workflows and have solutions that can easily be plugged into their systems. In the case of multi-asset class trading they also want real time systems as well as flexibility. For example, if you look at the futures model, best fit allocation is still being used, but not all firms have the ability so do this and they will typically then defer to the broker. On our systems, we give clients the control over how allocations happen.

Can you explain what your NYFIX Matching solution is and what are the benefits?

NYFIX Matching is a post-trade solution that streamlines affirmation, allocation, and confirmation matching service. While the majority of trading is now done via the FIX protocol globally, the industry has yet to leverage this disruptive technology for the affirmation portion of the trade life-cycle. FIX and NYFIX Matching have become a game-changer for the post-trade space. Buysides can now affirm, confirm and allocate trades with brokers and prime brokers through a FIX-based service that sits within one of the industry's largest infrastructures for multi-asset trading. It helps to shorten the settlement cycle allowing real-time block and allocation matching, and lower post-trade costs thanks to a flat-fee pricing model.

We recently entered a partnership with ECS to provide the ability to process trade messages with custodians via all networks including SWIFT. It also allows us to notify trade status to customers in real-time.

We also have an immediate focus of reducing the time and effort to onboard to our platform. We want to make sure that the whole process is as efficient as possible, not just the order matching but also the way data is exchanged and links to settlement. We are continually looking at how we can improve and evolve our post-trade workflows. ■