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Financial IT

Innovations in Technology

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Chief Executive Officer,
Euroclear

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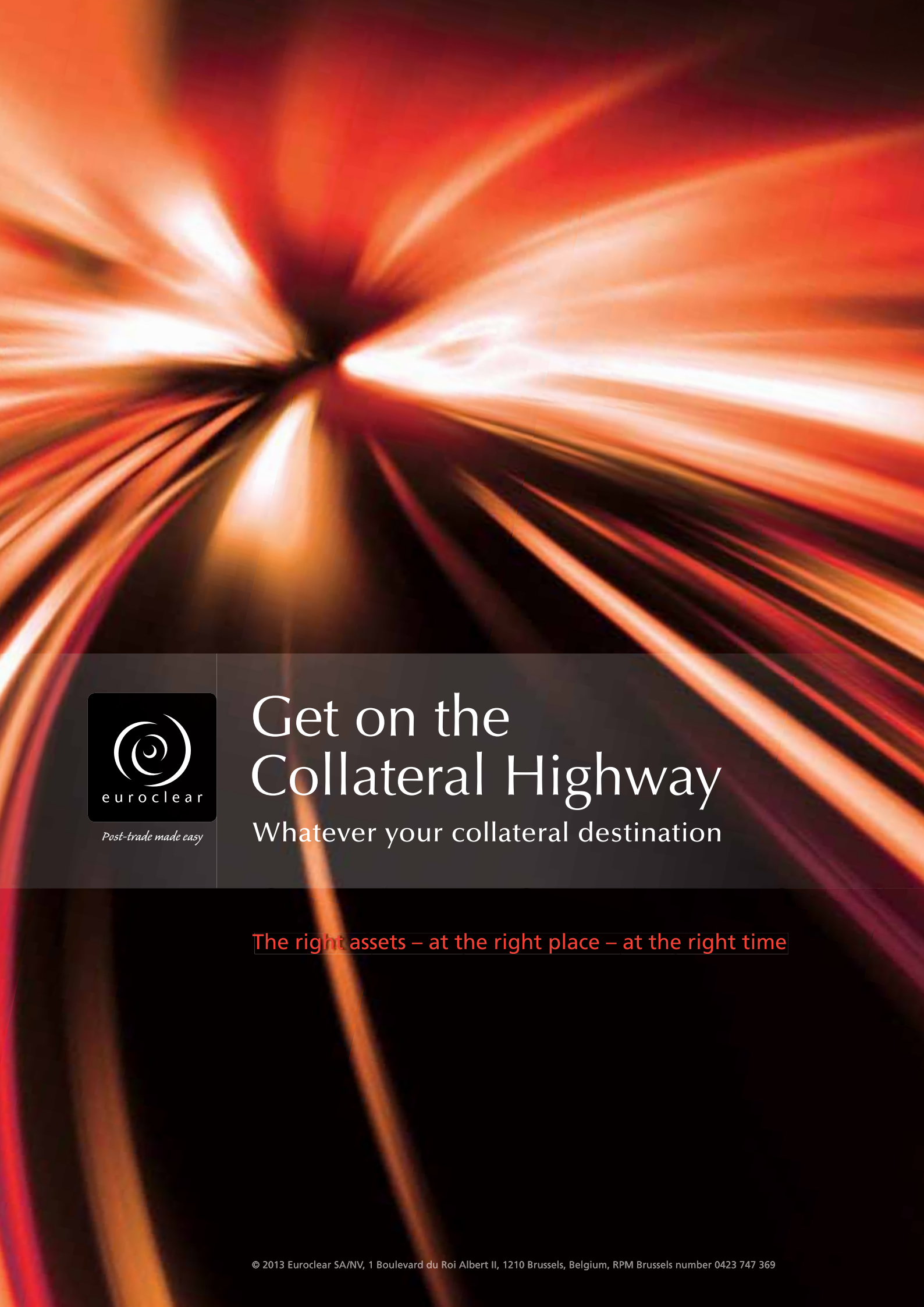

euroclear

Post-trade made easy

Get on the Collateral Highway

Whatever your collateral destination

The right assets – at the right place – at the right time

Founders' Letter

Innovate today for a new tomorrow

SIBOS always brings with it hope, as banks and software suppliers combine to debate issues and present the latest technological innovations. Each SIBOS also represents a milestone as the financial community moves forward, coming to terms with the latest regulatory demands and facing up to a myriad of problems, which only appear to have escalated over the preceding year. This has particularly been the case since the first signs of the global financial crisis emerged in 2007. What then can we expect after this year's milestone?

What is certain is that the global financial markets will continue to wend their way through a process of change, which will eventually deliver to society the financial services that it needs, and at suitable levels of price and risk. This will enable the consumers and investors to have confidence in their chosen suppliers. How long will this process take? Over what timeframe can we expect benefits to be delivered? Who knows, but it should be driven by every single type of financial services firm and not by political or regulatory will.

For far too long, financial services firms have followed a development path mapped out by politicians and their regulatory bodies, remote from the day-to-day challenges of the industry. Executives at financial institutions must take charge of the development of the global financial services industry, and the much-needed reconstruction of market infrastructures, to consign the ailments of the past into history and to open up a bright new future.

Much of the secret of building a new financial services industry has to be the capability to introduce new technologies and move as fast as possible, away from legacy systems. To do this effectively, everyone involved in financial services firms from both business and technology needs to cast off legacy thinking and innovate.

In recent years, we have seen many new types of lending and trade finance services via the web, all growing in usage. Although miniscule in comparison to the traditional offerings of large banks, they are proving that innovative thinking, combined with established technology, can supply the type of financial services much needed in societies and economies. This is what conventional banks have generally been failing to provide. New banks have been established, and they seem to be flourishing despite very difficult economic conditions. This all goes to show that innovative business opportunities still exist and are being introduced. These are bound to shake up the established institutions and provide the real potential for the rebuild of financial markets and the recovery of society's trust.

SIBOS is of course a great forum for people to see the latest developments and innovations in technology, demonstrated by most of the world's top software firms. The exhibition is huge and demands plenty of time to get around, but it might be the most important walkabout you will do this year. Speak to the vendors and challenge them on their solutions. I am sure they will welcome the opportunity to engage in a debate.

Attend as many of the presentations as possible, especially if they are outside of your current area of responsibility. This will not only help you broaden your understanding of the various markets but also open up networking opportunities to speak to people you would not normally engage with.

SIBOS also brings with it plenty of parties at the end of each day. These are just as important to attend, to meet with people from different; business cultures and backgrounds. Taking advantage of all these opportunities at SIBOS, you will not only receive greater rewards personally: you will also benefit your employer, if you come back loaded up with new understandings, new ideas and perhaps new innovations.

So, the future is bright. Much can be achieved in rebuilding the financial markets, providing people are allowed to develop their skills and industry knowledge beyond business silos, and become true industry-wide specialists. This should be allied to a new age of innovation — in order to create technologies and build systems which have the objectives of enhancing business and profitability for the benefits of clients and society at large.

The message this year at SIBOS and going forward should be to reward courage for those enterprising enough to develop better systems and services, whilst bringing control to costs and risks. This is something which does not require regulatory or political involvement, just good business understanding and industry knowledge, combined with a desire to build a successful business and be part of a new financial services industry. Let SIBOS 2013 be a key milestone in the industry's development.

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Editor's Letter

Why standards matter more than ever in 2013

Andrew Hutchings
Editor-In-Chief

Standards are the central concept that underpin financial services infrastructure. Standards underpin the electronic messages that link market participants with central clearing houses (CCHs), financiers, central securities depositories (CSDs) and end clients. Standards are reflected in the regulations and laws that govern the conduct of markets. Without standards, the regulators who ensure that all stakeholders have sufficient confidence in the entire system would be unable to function effectively.

We would have said the same in mid-2012, mid-2011 or mid-2003. Therefore, a key question is: what makes standards so important in mid-2013? A part of the answer must be that governments in major economies have made considerable progress in changing regulatory environments in order to ensure that the excesses which produced the crisis of 2008-09 cannot recur. Five years after a near meltdown of the global financial system, standards play an even more central role in providing the essential confidence than they ever did before.

Another part of the answer is that, in 2013, financial markets can much more clearly play a role in ensuring that the global economy recovers. The recession in the euro area has just ended. The UK's economy has stabilised. Radical monetary and fiscal policies in Japan appear to be bringing to an end two 'lost decades' of stagnation. Many of the indicators in the United States have been positive for some time. In much of the world, economic actors have moved from a struggle for survival to actual progress.

Of course, 2013 is also 'the year of the slowing BRICS'. The details vary from country to country, but activity has been decelerating (or worse) in each of Brazil, Russia, India, China and South Africa. What happens in these countries is, and is seen as being, large enough to have an impact on the global economy: this is something that was not true in 2008-9, for instance. There are imbalances in each of the BRICS' economies. Most worrying, perhaps, are the various signs that the authorities in Beijing only have partial control over China's financial system.

More than ever, it therefore matters that decision-makers in the BRICS — as well as the other emerging markets, of course — follow global best practice. The BRICS' emergence from the current, and challenging, period will depend on their adoption of standards which increase their financial integration with the rest of the world. It is a very positive sign that the authorities in Beijing are actively promoting the development of Hong Kong as a financial portal between China and the rest of the world. It is also encouraging that Chinese institutions are buying know-how and training from London and other global financial centres.

In short, technology is driving innovation which, in turn, is producing change. Much of the change that is taking place is positive and, as noted above, involves the development and/or application of standards in some way. Yet obstacles remain. In Europe, for instance, vested interests have delayed the move to a single CCP which is the logical move if economies of scale (and other benefits) are to be realised. Monopoly owners of cross-border standards and infrastructure appear increasingly anomalous in a world where open standards are becoming the norm.

Islamic finance should also benefit greatly from a move towards global standards. The failings of conventional financial products, which gave rise to the crisis of 2008-09, highlight why alternatives should be welcomed. The very nature of Islamic finance, where all product development is overseen by independent Sharia boards, means that design flaws and excesses are very unlikely. The growth in populations of Muslims in Western countries is an obvious source of opportunity for proponents of Islamic finance. As many Islamic banks and Takaful (Sharia-compliant insurance) operators have shown in Malaysia, there is also an opportunity to sell Islamic financial products to non-Muslims.

Collectively, all these themes are reflected in this edition of Financial IT. Together, they produce a powerful and positive message. More than ever before, change and innovation that is focused on standards is contributing to sustainable growth in the global economy. Confidence is being rebuilt. The global financial system is far stronger than is generally realised. We are, and should be, optimists.

IN THE NEWS MARKET NEWS

Xchanging to provide technology to Standard Bank

Xchanging, the business process, procurement and technology services provider, has won a new contract with South Africa's Standard Bank. The contract will see Xchanging supplying financial processing services initially for one year. Xchanging will provide its services in reconciliation, payment processing, origination, and data and document management.

Xchanging was selected for its expertise in working with major banks to deliver complex business processing solutions, and for its innovative approach to sharing risk and reward.

Ken Lever, Chief Executive, Xchanging (pictured) comments: "We are pleased to be announcing this new contract with Standard Bank. It builds on our domain strength in Financial Services and also represents our first major customer in Africa."

Peter Wharton-Hood, Standard Bank Group's Chief Operating Officer, comments: "Our aim is to improve our operational efficiencies and enhance customer experience of our services. Standard Bank's new partnership with Xchanging will help us to deliver this."

Bravura selected as back office technology partner for IFDL

UK fund platform operator Investment Funds Direct Limited (IFDL) announced that it had selected Bravura Solutions as its preferred back office technology partner. The announcement sees the two firms moving to a Planning & Implementation phase that will take around three months to complete while detailed commercials arrangements are concluded.

Hugo Thorman, Managing Director at IFDL commented, "We announced towards the end of last year that we were continuing to build our front office technology in house but were looking at potential back office partners. This move stemmed from a belief that the back office is becoming an increasingly commoditised function where scalability, flexibility and low operational costs driven through new technology are increasingly important. The due diligence we have conducted over the last few months has, if anything reinforced our thinking on this."

"We are delighted to be working with Bravura on the next key phase of this development. They were the best fit both from a cultural and technology perspective and we look forward to working with them on a slick, integrated back office that will dovetail neatly with our new front office technology which will be rolled out over the next 12 to 18 months."

Deutsche Bank adds supply chain finance app to Autobahn

Deutsche Bank has announced the launch of a financial supply chain manager app on its Autobahn App Market. The app includes multi-currency and multi-lingual capabilities and enables clients to access receivables finance and supplier finance solutions via one central access point.

By implementing such services the bank can contribute towards better working capital management and liquidity generation, lower costs and increased supply chain transparency, the bank says. Financial Supply Chain Manager can be integrated with a client's ERP system to facilitate electronic data transmission.

"By making our industry-leading financial supply chain solutions accessible through Deutsche Bank's Autobahn App Market, our clients will enjoy unprecedented ease of access and usability, not only to our receivables and payables finance solutions, but also to many other Deutsche Bank products and services," comments Rick Striano, Global Head of Product Management, Trade & Financial Supply Chain at Deutsche Bank.

J.P. Morgan introduces new collateral management tool

J.P. Morgan recently introduced Collateral CentralSM, a dynamic, real time service that provides clients with advanced asset tracking, margin management, proprietary optimisation algorithms and analytics to support collateral activities across a wide range of derivatives, securities and cash transactions in real time.

Collateral CentralSM includes the introduction of an innovative virtual global longbox for J.P. Morgan clients — a single, comprehensive view of their collateral assets and obligations — as well as access to experts with whom they can discuss their collateral situation in real time. Clients ultimately make their own strategic collateral decisions and execute their transactions through Collateral Central.

Kelly Mathieson, J.P. Morgan's global head of collateral management (pictured), said: "Clients are faced with increased market complexity and a changing regulatory environment with regard to how they think about their collateral. Collateral CentralSM can help them navigate this new landscape. For the first time, clients can manage and optimise their entire collateral portfolio, regardless of counterparty, custodian or clearing bank and across all supported geographies. J.P. Morgan is the only collateral agent able to offer this comprehensive global solution."

Ricky Maloney, co-head of service delivery for IGNIS Asset Management, notes that, "Under the new regulatory framework, collateral has become very valuable to us as an institution. Understanding all the assets we hold, and the margin and other obligations that need to be met, allows us to manage our collateral optimally. Ultimately, that affects our bottom line."

BoAML adopts SWIFT MyStandards for global custody

Bank of America Merrill Lynch announced that it has licensed the SWIFT MyStandards product, a web-based application designed to facilitate the management of global standards and market practices across the financial industry.

BofA Merrill Lynch will initially use MyStandards for its custody message expansion program. The expansion will broaden the instruction and reporting messages used by clients, agents and internally across BofA Merrill Global Transaction Services business lines, in order to facilitate greater straight-through processing.

"MyStandards is a simple yet powerful way to connect with our clients and servicers while adding efficiency," said Morgan Downey, head of Global Custody and Agency Services for BofA Merrill. "Clients will benefit from the transparency of our message guidelines and enjoy easy access to annual SWIFT release changes and our own product enhancements."

The initial BofA Merrill custody message publication via MyStandards is scheduled for the fourth quarter.

"While MyStandards provides significant immediate benefit for standards documentation control, we are very excited about its future impact in the message testing process," Downey said. "MyStandards re-engineers testing by eliminating the time lags involved with set up and communication link coordination, allowing clients to focus on the message content. The net result is a greatly reduced implementation timeframe."

RBS, BOC initiate electronic trade finance platform use in China

The Chinese trade finance industry has achieved another significant milestone recently with Bank of China and The Royal Bank of Scotland (RBS) successfully completing its first ever electronic presentation of documents via the Bolero platform.

Bank of China is the first of the 'Big Four' Chinese banks to carry out a fully electronic presentation of documents, in a move was prompted by international trade deals in the mining industry. It highlights the readiness of the Chinese market to adopt electronic processes. With China driving global trade growth, the success of this deal is expected to pave the way for for greater need for efficiency in trade finance.

The types of documents include those issued under a documentary credit and electronic bills of lading, which are essential requirements for international shipping. Electronic presentation of documents is made via straight-through processing, thereby speeding up transaction turnaround time for all parties. It also provides improved security controls.

"In China there is interest in exploring the use of electronic documents and an electronic bill of lading. As a major Chinese bank, BOC is keen to be involved in a program which is proven and has been demonstrated to meet the needs of the banking community" said Zhang Xinyuan, General Manager, Global Trade Services Department

Bank of China is the latest in a growing number of financial institutions, corporates and supply chain companies in Asia to sign-up to the electronic presentation system from Bolero.

"As the first bank globally to successfully perform fully electronic presentation of documents using the Bolero platform, RBS is committed in ensuring that our deep expertise, experience and capabilities in Trade translate into tangible benefits for our clients. Electronic presentation of documents help our clients streamline their trade finance processes, shorten the days sales outstanding and maximise their overall working capital. We will continue to be a pioneer in the electronic presentation space and championing the straight-through processing agenda for the advancement of the Trade industry," said SimWoon Yap, Head of Trade Product Management, Asia Pacific, RBS.

"The partnership with Bank of China demonstrates the commitment of RBS in supporting our clients with leading technology and service capabilities in China. RBS is proud to have been able to help our clients, and the Trade finance industry in China, to achieve new standards. We will continue to evolve and strengthen our product proposition to ensure that our clients obtain the best in class proposition," said Jonathan Jiang, Head of Transaction Services, China, RBS.

Financial IT

IN THE NEWS PEOPLE MOVES

ConvergEx Group announces four new senior hires

ConvergEx Group is significantly expanding its institutional clearing business. The build out of the Institutional Clearing business is being overseen by new hire Carmen Sturm, managing director, Sell-Side Services. Ms Sturm comes to ConvergEx from SunGard where she spent the last 13 years. Most recently, she was SunGard Brokerage & Securities Services chief operating officer with responsibility for the institutional clearing business, including operations, sales and stock loans. Ms. Sturm reports to Barclay Frey, managing director and co-head of Sell-Side Services at ConvergEx Group. To manage the day-to-day operations of the new services, the following individuals have joined the Equities Finance desk. All report to Ms Sturm:

- John Nacincik, senior vice president will head the ConvergEx Equities Finance desk. Mr Nacincik comes to ConvergEx from Knight Capital. Prior to that, he spent 24 years at UBS and five years at SunGard where he set up their equities finance solution, including a locates business.
- Karen deStefani is a new vice president on the desk. For five years at SunGard, Ms deStefani ran their large conduit book and supported the locates business. She was also with UBS for 20 years running their conduit book and ADR/ETF securities lending businesses.
- Darryl Cooke is a new vice president on the desk. Mr Cooke's experience includes more than 15 years at firms such as Charles Schwab and UBS in securities lending operations as well as Knight and SunGard where he spent four years at the latter in equities finance sales.
- Thirty-year industry veteran Ray Delgado and his colleague Marcella Broughton remain in their positions on the desk.

ITG expands high touch trading team

ITG announced the hiring of three veteran sector specialists and two high-touch portfolio traders as part of a build-out of its full-service agency trading desk. The sector specialists are responsible for providing clients with trading insights and superior high-touch execution, with a particular focus on the more than 300 companies covered by ITG Investment Research. The new sector specialists are:

- Rob Cohen, Telecom, Media & Technology: a 28-year equity market veteran, Mr Cohen previously served as head of technology trading at Jefferies & Company and head of listed technology trading at both J.P. Morgan and Credit Suisse, as well as trading roles at Morgan Stanley and Drexel Burnham in both New York and Tokyo.
- Brian Fenske, Telecom, Media & Technology: A nine-year equity market veteran with five years of advertising and online media experience, Mr Fenske previously worked as a desk analyst at Nomura Securities and Barclays Capital and an equity research analyst at Lehman Brothers and Prudential Equity Group.
- Tommy Labenz, Consumer: A 17-year equity market veteran, Mr Labenz previously served as head of consumer retail trading at Jefferies and Company and head of trading at First Albany Corporation. He also worked in trading roles at Imperial Capital, J.P. Morgan and Hambrecht & Quist.
- Messrs. Cohen, Fenske and Labenz join energy and industrials sector specialist Jeff Haise, who started at ITG in April of this year.

360T hires global options product manager

360T Group, independent global provider of a multi-bank, multi-asset trading platform, has appointed Glenn Rosenberg as Global Product Manager for the FX Option Business. Mr Rosenberg, who is based in the New York office, will report to Alfred Schorno, Managing Director, 360T Group. His responsibility will be to increase and enhance the growing option trading activity on 360T, leveraging the already existing business via additional liquidity and strategic partnerships. Amongst the latter, a key component is the drive to expand business opportunities with GFI/Fenics.

Visa Europe has announced new president and CEO

Visa Europe has appointed Nicolas Huss as president and CEO. A 20 year financial services veteran, Mr Huss is currently chief executive of Apollo Group's Avant credit card business in Spain and Ireland. Previously, he worked for Bank of America as the MBNA European collections and portfolio optimisation executive for the card business, and was CEO for Spain at GE Money. Mr Huss will take on the new role at the beginning of October, when current CEO Peter Ayliffe steps down after seven years in the job to "concentrate on his expanding portfolio of non-executive roles".

IN THE NEWS DEALS

Bottomline Technologies acquires Sterci and Simplex

Bottomline Technologies has announced the acquisition of Swiss-based Sterci SA and the signing of an agreement to purchase London-based Simplex GTP Ltd. These leading providers of financial messaging solutions utilise the SWIFT global messaging network on behalf of more than 350 customers across 20 different countries. When the acquisitions are completed, the two companies, combined with Bottomline's existing SWIFT Access Service financial messaging business, will create a new global center of excellence in financial messaging, providing solutions for banks, financial institutions and corporations around the world.

Commenting on the deal, Rob Eberle, president and chief executive officer (CEO) at Bottomline Technologies, said: "Bringing together these three businesses creates a truly global financial messaging business with the expertise, resources and scale to help customers around the world optimise their financial transactions."

Asset Control acquired by Marlin Equity Partners

Data management software vendor, Asset Control, has been acquired by Marlin Equity Partners. The deal will enable Asset Control to invest in its products and strategic initiatives, while maintaining best practices in implementation and support for its global client base.

Dean Goodermote, CEO of Asset Control, said, "This is a very positive step for Asset Control and our clients, providing greater strategic clarity for the company. Marlin's operational experience in financial services software and access to capital make them the ideal partner to help us in our next phase of growth. We are enthusiastic about Asset Control's future under Marlin's stewardship, which will be centered on high quality products and high quality client service."

DTCC plans to acquire Omgeo completely

The Depository Trust & Clearing Corporation (DTCC) has entered into a binding agreement to acquire full ownership of post-trade processing utility Omgeo. DTCC and Thomson Reuters served as equal owners and strategic partners in Omgeo since its formation in 2001. Under the agreement, DTCC will take over full ownership of the company, which operates an electronic allocation and central matching engine alongside an account and standing settlement instruction (SSI) database. The company claims 6,500 clients and 80 technology partners in 52 countries around the world. The terms of the deal were not disclosed.

DTCC and Thomson Reuters have been equal owners in Omgeo since its formation in 2001.

"Over the past 12 years, Thomson Reuters has built a strong relationship with DTCC through our strategic partnership and we are pleased to see Omgeo enter the next phase of its development. We look forward to continuing our relationship with DTCC as this part of the marketplace continues to evolve," said David Craig, president of the financial and risk group at Thomson Reuters.

The transaction will enable DTCC and Omgeo to drive a single, global strategy for post-trade processing and settlement, the companies said. It will also facilitate a unified strategy around key industry initiatives including the move to trade date affirmation, settlement matching in The Depository Trust Company (DTC) and the adoption of shorter settlement cycles in various markets.

The terms of the transaction were not disclosed, but Thomson Reuters will continue as a service provider to and partner with Omgeo.

Broadridge completes acquisition of Bonaire

Broadridge Financial Solutions announced the closing of its acquisition of Bonaire Software Solutions, LLC — a leading provider of fee calculation, billing, and revenue and expense management solutions for asset managers including institutional asset managers, wealth managers, mutual funds, bank trusts, hedge funds and capital markets firms. Terms of the transaction were not disclosed. Bonaire will operate as part of Broadridge's mutual fund and retirement solutions group, with current management remaining at the firm.

"The addition of Bonaire is a great advancement in our strategy to offer expanded fee and expense management solutions to the financial services industry," said Gerard Scavelli, President, Mutual Funds and Retirement Solutions Group, Broadridge. "The combined Broadridge and Bonaire solutions will help create the transparency, automation and audit trails that firms need as they respond to increased regulatory scrutiny of fee calculations around the globe."

Collateral management in focus

Financial IT spoke to Tim Howell, Chief Executive Officer, Euroclear to ask his opinion on industry trends in collateral management.

What areas of collateral management do you believe are problematic?

There are several key issues that need to be addressed as market participants implement new collateral management operating models.

Enterprise-wide collateral inventory management is growing in importance as demand for collateral increases. Thus, firms will need to become more efficient in tracking, monitoring and managing collateral inventories globally and across business lines. Because demand for collateral will grow in volume and arise from more types of collateral takers, the ability to rapidly allocate collateral and optimise its use will require close examination.

The mandatory use of CCPs for OTC derivatives trades means that firms will be faced with new collateral demands, requiring new models for optimal CCP margin management. High levels of STP are vital as the amounts and intensity of margin calls are forecast to increase by as much as seven times current levels.

And, collateral transformations or upgrades will be important to sustain market liquidity.

Many markets are moving to a shorter settlement cycle — how will this impact collateral management?

For most market participants, moving to T+2 across Europe presents a major operational and technology challenge. For CSDs operating real-time systems, T+2 will pose no technical issues. However, the move to T+2 transaction settlement needs to be complemented by practical steps to ensure same-day funding and collateral management possibilities. Rather than wait for T+2 to become a reality, firms need to start planning their front and middle-office changes now to ensure that they are ready for same-day trade affirmation and confirmations, prior to matching and settlement. This would greatly ease the management and allocation of assets for collateral purposes.

What role does regulation have in creating more efficiency in collateral management?

New regulation is putting collateral management in the spotlight. It is moving from a back-office discipline to an integral part of a firm's financial and risk management strategy. New regulation is, in effect, forcing the destruction of collateral silos and moving the business towards enterprise-wide or holistic collateral management. It is also providing opportunities for service providers like Euroclear to introduce innovations in the provision of global collateral management services, such as the Collateral Highway. The new emphasis on collateral management is also spurring more cooperation within the financial industry in providing collateral management services, rather than trying to go it alone.

OTC derivatives are entering central clearing — how do you think this will impact collateral liquidity?

As demand for collateral increases, it is natural for the market to take stock of collateral supplies. There are some who fear that there will not be enough high-grade collateral to meet demand, particularly for CCP-cleared derivatives contracts. However, we do not foresee collateral scarcity per se, but the challenge will be finding a way to easily access collateral pools held in different locations.

Firms will need to manage and move collateral across borders and to a broader range of collateral takers seamlessly and at low cost while continuing to meet collateral demands for liquidity purposes in their domestic markets.

Tim Howell,
CEO, Euroclear

What are the greatest risks in collateral management today?

The biggest risks are related to managing the increased costs related to collateral management and to access pools of collateral held in multiple locations to avoid any shortfalls in finding the right assets to be used as collateral. According to a recent Celent report, it will cost the industry over USD 50 billion in technology and infrastructure investments to achieve the desired levels of collateral processing efficiency. In addition, the report states that around 55% of institutional investors believe that new regulation will drastically redraw their trading and asset allocation strategies.

The new CCP margining requirements will be steep and could run into trillions of euros in collateral usage. That said, service providers need to be careful about the fees they charge to help the buy-side in particular cope with the new collateral requirements. CCP clearing fees, clearing member charges, collateral management and upgrade fees, among others cannot rise to the point where the buy-side, including hedge funds, decide to withdraw from the market altogether or switch to alternative forms of hedging, like swap futures. Losing the buy-side would have catastrophic impacts on the market.

Do you have concerns about intraday collateral liquidity? How do you think the industry can improve?

Not being able to use a firm's entire portfolio of assets for financing purposes on an intra-day basis is a manageable concern. By working with a neutral, third-party agent that has the depth and expertise to bridge intraday collateral liquidity matters is a logical and available solution. It is critical to give treasurers and liquidity managers a near real-time view of their collateral assets, their disposition and where they have been used as collateral.

What defines good quality collateral?

Traditionally, securities used as collateral that maintain their perceived value were regarded as "good" collateral. Pre-financial crisis, a security's credit rating was the main determining factor for it being "good" or not. Post-crisis, liquidity has become the most important barometer of worth. This change in market definition could prompt the regulators to also redefine their definition and haircuts in various collateral frameworks, like Basel III's Liquidity Coverage Ratios.

We expect there will be a broader definition of what is considered "good" collateral. The industry is already exploring to what extent regulatory pressures may be mitigated through the acceptance of a broader range of collateral assets. For instance, assets such as gold, high-grade corporate debt and major index equities may have a role to play alongside other already favoured collateral assets including cash, government bonds and covered bonds.

How could the rating of quality collateral be improved to make it better for the industry as a whole?

If we define quality collateral as being liquid, then getting a real-time price for that piece of collateral becomes key. Today, highly liquid top-quality government bonds and exchange traded financial instruments are easy to price. The pricing problem arises with lower grade securities. If all CCPs, clearing banks, and central banks could accept a wider variety of collateral for funding purposes and margin pledging, a standardised pricing service that runs continuously to provide an around the clock, global pricing system could be developed. The benefit to the entire collateral services industry and for regulators would be enormous.

Are there any technologies or systems/services you would like to see adopted by the industry to better manage and control collateral?

Where do I begin? Collateral management is probably the most operationally demanding and complex service in the asset services industry today. It encompasses everything from understanding legal agreements to risk management, coupled with a deep understanding of asset types and structures to set up collateral rule sets. It also requires expertise in managing corporate actions and tax events, settlement and deadline management, cash management, fail repairs, exposure calculations, funding requirements, asset optimisation, valuations, dispute resolutions, portfolio netting rules, etc.

The warning that you see at the start of certain documentaries on television "Do not attempt this at home" should apply to all in the financial industry — "Do not manage your collateral obligations on a spread sheet." Some providers take dangerous short cuts by simply cutting out the need for the actual collateral transfer by earmarking the collateral within the collateral provider's account. This is an unsafe and unsound practice.

I would like to see mandatory transfers of collateral into the receiver's account, either on a title transfer basis or pledge and would definitely support minimum standards or best practices established by the industry to provide sound, safe and efficient collateral management services.

What would you like to see the industry do to improve the control and management of margining?

Collateral management for the OTC market still involves the transfer of cash to meet margin calls in 80% or more of transactions. This is not collateral management because you are giving away your bank's liquidity to a competitor and not maximising the use of other assets on your balance sheet. The whole of the OTC derivatives industry needs to speak with their repo and securities financing colleagues to understand how real collateral management should be done.

Many banks have restrictions on their balance sheet, which are encumbering their banking activities — how could a better collateral management system/structure be of benefit?

The aim of a good collateral management process is simple: maximise the firm's funding capacity and reduce the amount of risk weighted assets (RWA) on the balance sheet. One of the biggest obstacles to overcome is managing collateral in silos and moving to a more holistic approach. Basel III is driving firms to bolster their capital adequacy ratios, meaning that they will need to find novel ways to locate and mobilise new pools of assets as collateral since more of their available 'good' collateral will be tied up balancing their books.

International cross-border business continues to grow, but the fragmented market infrastructure has been questioned, especially with regards to CCPs — how could this problem be addressed?

I agree that the proliferation of CCPs and CSDs is increasing fragmentation in Europe, particularly when regulations mandated only a few years ago aimed to consolidate the post-trade infrastructure. Target2-Securities (T2S) will address some of the fragmentation issues among CSDs and we are starting to see some mergers and other forms of consolidation among CCPs and trading venues.

I suspect infrastructure consolidation will take some time. In the context of collateral management, the interim solution is to work with all the relevant parties to ensure all exposures are covered. This is, obviously, one of the objectives of our global Collateral Highway and renders CCP fragmentation a non-issue.

T2S is soon to be implemented — how do you see this benefiting collateral management?

T2S may well facilitate greater collateral mobility in Europe. There will be less need to maintain pools of collateral at each local CSD to facilitate domestic settlement. Therefore, we may end up with a scenario that collateral in Europe is pooled with two, maybe three centres of liquidity. Euroclear Bank and one of our T2S-eligible groups of CSDs (Belgium, France and the Netherlands via the ESES platform) could well serve as central pools of collateral.

The operator of T2S will not provide asset servicing or collateral management services, so firms settling transactions on T2S will need to determine how they will provide these services for themselves and their clients. Will they build collateral capabilities in-house or would it be wiser to work with one of the triparty agents? The same question is being considered by the CSDs.

Euroclear have developed the Collateral Highway can you describe the benefits to the market and investors?

The Memorandum of Understanding Euroclear signed with the DTCC aims to create a joint collateral processing service which will significantly increase collateral efficiency, reduce risk and support the growing collateral needs of industry participants. It can be seen as an extension of our Collateral Highway westward. DTCC and Euroclear will establish mutual links, permitting firms to manage collateral at both depositories as a single pool. The main benefits include greater collateral optimisation to cover exposures arising from many types of transactions with no geographic or time-zone barriers.

What can we expect from the Collateral Highway initiative in the future?

You can expect a Collateral Highway that will operate around the clock, connecting and servicing central banks, CCPs, commercial banks and buy-side providers of liquidity, including corporate treasuries, as well as institutions seeking rapid access to liquidity and for fast delivery of collateral to meet CCP margin calls. As a truly global and open infrastructure, the Collateral Highway's governance will reflect its use as an industry utility, maintained and managed for and on behalf of the collateral services industry globally. That means more partnerships with CSDs, custodians and agent banks, as well as key infrastructures like CCPs, all of which will have strong representation in the governance of the Collateral Highway. It will be their Highway.

What is your vision of collateral management in ten years' time?

I envision that the Collateral Highway will become the global utility for the collateral services industry. I could also foresee collateral being traded on exchanges, where buyers (for repos, collateral upgrades and securities lending transactions) exchange their assets or liquidity with the providers of collateral, which need the financing or the upgrade. Such a global, around the clock exchange will lead to increased liquidity, much better price discovery, lower costs and improved transparency. I suspect that such an exchange or exchanges would be welcomed by regulators as it would move some of the activities that have been unfortunately labelled as "shadow banking" out of the shadows.

Financial IT spoke to Fiona Hamilton, V.P. EMEA Operations, Volante Technologies Inc., to ask her opinion on future developments for messaging standards.

Future developments for MESSAGING STANDARDS

What do you see as future developments of electronic messaging in financial markets?

Latency in financial services is somewhat different than in other industries. So, to look at the future of electronic messaging one should look at what other industries are doing. Not only are they more agile, but tend to focus on the adoption of new technology. However, if you are talking about messaging in the front office, the appetite for taking on board new technology is always much quicker than in the back or middle office.

So you see that the financial services industry can really learn a lot from other industries, in terms of how to utilise the messaging and the technology in that space?

Yes, but if you want to project a bit further, it's actually technical journals that highlight the next wave of quantum cryptography, or whatever, to address security concerns. When people start using less secure networks, potentially some of that technology becomes relevant.

How do you see financial markets developing better message standards in the future?

That's a very good question. Sometimes, the issue is that everybody wants the standard to be as near perfect as possible and serve the whole industry. This leads to a long development cycle. Some standards work better, as they iterate more quickly, like FpML, where there is a fast iteration of working drafts and trial recommendations etc. Conversely, others tend to go into a black hole. Without criticising groups like ISO, these situations involve a lot of stakeholders: over such a long cycle, you end up with different people using different versions of the standard, before it gets published.

So we can expect to see a more dynamic development and take up in the future?

The general consensus seems to be that you need to adopt the same kind of agile development methodology for messaging standards as you see in software development. Otherwise the danger is that the software will be old before the standards are finished.

What is your view on commercial networks competing with SWIFT in the future?

I think that that's inevitable, but the phrasing of the question makes it sound like SWIFT is not a commercial network. SWIFT is a commercial network, despite its cooperative society status. Over the last few years, a lot of people have been asking whether, for non-risk bearing information, other than payment and settlement instructions, do they really need to pay on a per message basis etc., etc? So I see more players entering the market, with the likes of BT, Colt or whoever, coming up with different pricing strategies that will compete. This will cause SWIFT to compete, especially on their SWIFTNet InterAct or FileAct services. Already there is a lot of stuff going over FIX, a lot of stuff going over FpML, for confirmation and affirmation services and that's where the major fight will be. I expect to see traffic come off the FIN network for things like confirmations: SWIFT will need to fight to actually get hold of that traffic and put it onto something like the InterAct or FileAct to allow people to change the price. We have seen this already in the derivatives markets and in equities trading.

What new technologies can we expect to see developed in the future?

Well, we would all like a crystal ball. I think people may be moving to the mindset that there has been a slight case of the emperor's new clothes about XML, which has been a kind of wonder child over the last few years. Some XML standards are overly complicated given what they need to do and you don't have to adopt every single construct within the WC3 specification. Now people are saying "the great thing about XML, was that it was human readable", but what relevance does that really have? How many people sit and read XML messages? We have created a very verbose payload — so, now people have started inventing compression algorithms etc., to make things take up less bandwidth because you are charged by the bandwidth. Plenty of people criticised the ISO20022 methodology for saying you don't have to use XML, although most people do think it's an XML standard, but in fact you can define a CSV file, or a fixed length rec code, or a binary rec code that would still be compliant with ISO and more and more people are doing that. People say bandwidth is cheap: well, it still has a cost. You don't get it for free!

What is the future for ISO20022 in financial markets?

ISO20022 is a bit of a slow burner. It has been around for ten years and it has seen uptake in certain message categories. Payments, is a good example of that, although forced by SEPA in Europe. Other areas and other regions have gradually taken it up to replace their legacy standards — the Japanese market for example. I do see increased wider adoption, some caused by retiring other message standards, like the investment funds 15022 template, and some by mandatory change. T2S will obviously drive this in the securities settlement market. We are now at the curve of adoption. Over time it will widen into other asset classes etc. and hopefully other message standards. But people who think it's a single standard and one size fits all are missing the point. It's a starting point for a lot of other standards. There is commonality, but there are many different flavours, for the same payment initiation message, or clearing and settlement message, for example.

Do you think that financial institutions are better served by technology today or worse?

Life was certainly simpler 25 years ago, as most things were all based on one big box and it was more monolithic. Perhaps it was harder to change. However, it was easier to support because there

were not so many component parts. Previously, there would have been a business analyst, a systems designer, a programmer and a tester and that was it. Nowadays, there are many teams involved. In an investment bank for example, you have; database people, user interface people, service bus people, infrastructure people, data architects, chief architects and so on. Therefore, you have to get a lot of people together with a lot of different skills to come up with solutions. Technology has allowed people to do a lot of things that were never possible before. In that way, yes, technology is serving us better, especially for mobile or browser based functionality and social media interaction etc. In terms of just pure functionality for trading or settlement, I'm not convinced.

Why do standards take so much longer to be introduced in financial markets than other industries?

In other industries such as the automotive or pharmaceucticals, how many parties are needed to get together to come up with a standard? Perhaps, 50 or 60 car manufacturers globally that need to get together to share information. It is broadly similar with the pharmaceuticals companies. In banking, however, every single country on earth has many different banks. This means that if you are trying to get a standard, which everybody wants to feed in to, you have a much greater contributing audience. This is going to elongate development time. Other industries, generally speaking, are not developing a standard, which they want to diversify to gain a competitive edge. They are doing it just because of the supply chain. They simply need to talk to the supplier of the widget and do the invoicing. By contrast, in financial services it's different. The minute the standard is produced, it starts to evolve and that's because there are people that want to make money out of the standards. You can see an example of this in the payments world, where everybody's interpretation of SEPA is different. This is because they want to offer a better service to their corporates and therefore have to manipulate the data and add other information in. Conversely, in a lot of other industries it's just pure information sharing.

What is the likely future of SWIFT?

You have to look at SWIFT in two parts. Firstly, there is the standards organisation, with its ISO hat, which is in very safe hands. SWIFT has been running the process, well, for many years and I can see it continuing. On the network side of things, SWIFT is definitely, in my opinion having to becoming commercial, because of the competitive nature of the other network providers, especially for non-risk bearing data. There is pressure to make the SWIFT network for those messages, as far as possible, free to use. In order to do this, SWIFT has to raise revenue by putting more and more value added services onto the network. This will completely change the dynamics of its relationship with the vendor community, and SWIFT has already begun to move into a competitive space against vendors and other networks. There are big challenges for SWIFT going forward. This will alter the relationship that the majority of the vendor community or partner community (as was) has with SWIFT. Vendors will need to develop closer relationships with other network providers.

What would you like to see developed in financial markets to provide the greatest benefit to banks and their investors?

Financial institutions need to be more realistic about what can be delivered, when and for how much. I would like to see them apply the right amount, type and quality of resources to define what they want. Whether that's in standards development or the implementation of those standards, because I still think that people look at message integration and think "how hard can it be". Well, actually, if you don't specify it, very hard, because all of the different end points want something different. How do you monitor it, how do you do you exception manage? A lot of the time the industry just expects something that does everything straight out of the box and that's just not how the world works.

Do you have any final thoughts?

I am a firm believer that there are a couple of parties that have always either, refused to join in the standards development process, or have not been invited to the party. It's six of one half a dozen of the other. The whole market will really benefit if the application vendors (i.e. trading systems, OMS system, portfolio management systems, universal banking payments systems etc.), were brought into the standards process and published schemas of how they represent transactions. They could perhaps do this in an ISO20022 standard or at least something that is consumable, with appropriate annotations so that people know what those entities are, in the data elements. Making it open in the way that ISO20022, or FIX, or FpML is, will means that one can bring in, either other vendors, or consultancies that have expertise in those individual end points. These parties can work on the mapping and create things off-the-shelf and specifications that can be easily implemented. The problem currently is when people want to implement ISO20022, or FIX, or a derivative of it — which might be the DTCC's format — everybody has to reinvent the wheel, because they've got Murex or they've got Summit or they've got another application. But if all the vendors published their standards and consultancies with expertise created off-the-shelf components one could drastically cut the cost of actually implementing connectivity. I am pretty certain there is no intrinsic value in how application vendor A and vendor B represent an equity trade. They might call them different things, but the information that is instructed to the outside market, doesn't containing any of the reasons why people buy a particular product, so I don't think there is any intellectual property exposed. The industry needs a web repository, where vendors can create and post their own consumable schemas that represent their data structures. The biggest challenge integration vendor's face in implementing their software is in getting the data structures of the client's original applications: finding somebody who knows how those data elements relate to the message that they want to create is what takes a vast amount of time.

Can you explain what Volante Technologies does?

Volante Technologies is solely focused on data integration and delivers value in two ways. Firstly, to help clients increase their return on investment, when they make the decision to adopt a particular standard; secondly, to reduce the cost burden, which comes from the near continuous changes to messaging standards. Volante seeks to reduce the complexity of data integration for financial services organisations, working with all kinds of banks, buy and sell-side organisations, exchanges, custodians, clearing houses, financial industry utilities and many leading software providers. Our solutions reduce or remove the need for our clients to hand-code messages and ensure that messaging systems are integrated with the client's own systems. Volante's solutions are inter-operable with all message types.

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.

Technology has a huge role in translating the data into information and creating efficiency.

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.

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

Per Nyquist,
CEO, Brokerway

Is there a case for ISO20022 in CORPORATE ACTIONS?

ISO15022, when it was introduced in 1999, was heavily promoted as the final solution for the automation of key functional requirements, within the corporate actions process. However, over the last few years there has been a push for its replacement by adoption of ISO20022. It's not surprising therefore that many financial institutions who invested in ISO15022, have viewed this switch to ISO20022, with a high degree of scepticism.

The transition from ISO15022 to ISO20022 requires more investment and this has a direct correlation, with having an integrated messaging strategy. But is this investment justified? It is clear that since its introduction in 2004, not enough business benefits have been identified, to encourage a move to ISO 20022, for corporate actions. It's an easy equation; all you have to do is list all the cost and risk savings of using ISO20022, against the cost of implementation and maintenance.

For technologists ISO20022 offers increased flexibility, which might offer the opportunity to reduce costs. However, the advantages of this flexibility are not fully understood by business operations and it has therefore failed to gain much of an interest, when easier, more obvious solutions, can bring tangible and measurable benefits.

ISO20022 has clearly not convinced the market of its value in corporate actions processing, but can it have a more intrinsic importance? When evaluating this question there are still a number of compelling negatives. Corporate actions processing by its very nature is complex. It requires a number of integrated data sources and various communication and process management functionality and it's hard to make a case for ISO20022. Can ISO20022 improve data quality in a transaction, which by its design is complex? Variations in classifications of corporate event types from different data sources, also adding layers of complexity, which can hardly be rectified by utilising ISO20022.

The harmonisation of MT564/MT566 in recent years has been necessary and has proven valuable. But financial institutions have still hesitated to implement ISO20022. It's simply that the benefits are not that many, or worth the change.

So what should the industry be concentrating on?

The work that the SMPG has undertaken has been valuable, but in today's world should focus on introducing universal standards and provide rules and recommendations, how to create STP processes in between different areas like; corporate actions, payments, FX and settlement. This is where the business operations can be more engaged in a topic that they understand and where solutions are obvious to all.

Despite selection of a technical format, there are several questions within the corporate actions area that the SMPG should address during the standardisation work. Does the international securities industry actually need so many corporate action event types — today around 50? It should be simple enough to define specific event types and build a best practice around each one. Is it possible to define a best practise for attributes (such as ISIN, record date, etc.) that could constitute a public corporate action identifier? This would make it easier to scrub events, as the official corporate action event reference (20C/COAF) in the MT564 rarely occurs. Why not include market claim processing into the corporate action message, as this is already known on confirmation date? Why not separate the reporting of corporate action terms with the reporting of entitlements and confirmations? Why not implement a standard (ISO) for reporting of securities (equities, fixed income etc.) and better support double listed securities (today solved by PRIM/ primary market identifiers)?

These are very basic requirements, but are taking forever to be introduced and one can only speculate at the reasons why. Should one question whether corporate action stakeholders are acting in the best interests of the securities industry and therefore its investors and users? They talk about new complicated formats and how to create STP from unstructured data, instead of taking a step back and trying to address a better underlying structure, which will make the overall work with scrubbing, processing of entitlements and reconciliation easier. Should we not concentrate on methods to make this easier and cheaper?

Of course all firms want to gain as much STP as possible in their corporate action processes and to do this with the least risk and cost. The industry has successfully tackled mandatory events like dividends and interest payments. However, voluntary events and those that have been constructed with more complexity, prove elusive in attaining much automation. Maybe they never will, but it should be possible to narrow the areas and processes where most problems occur.

One could say that there are two groups; one that can be classified as 100% standardised and the other, which falls well short. This group carries a massive amount of high risk and this is where the focus must be. It is therefore difficult to see how ISO20022 can be of much value and does not fit into the automated requirements of the highest volume firms and is why financial institutions are finding it difficult to make a clear and provable business case.

The greatest benefit of ISO15022 was that it provided a better tool to create standardised machine readable messages to support specific information flows. The main concern now should be to standardise international market practice and provide rules and recommendations, on how to structure processing and messaging in between different business areas (e.g. corporate actions and payments) to achieve full STP built from true business standards. Why not use the opportunity with ISO20022 XML to make these improvements. If it happens, I promise to write a new article with the heading "There IS a case for ISO20022 in corporate actions."

BROKER WAY

Financial IT

By Gary Wright,
CEO of B.I.S.S. Research, founder of the B.I.S.S. Independent Accreditation.

COLLATERAL LIQUIDITY

The unintended consequences of moving OTCs into central clearing

Liquidity in any market is fundamental. Since the global financial crisis, which commenced in late 2007 and which reached its critical phase in 2008, we have seen with absolute clarity the catastrophes that can ensue when liquidity diminishes in markets and even disappears.

In recent years, quality collateral has become more difficult to find. The inevitable consequence of this has been the widespread acceptance of lower quality collateral in order to meet the demands of increasing margin requirements and the effects of a bear market.

Stock borrowing and lending, together with repos, have become seriously impaired. As a mixture of political interference, regulatory focus, market structures and market conditions have hindered these important facilities, the liquidity that is vital to the listed and unlisted markets has been constrained. This is at a time when the world's economies have been floundering, needing highly liquid markets that will attract investors and investment.

Investors require a solid market, where over time the incline is steady and sustained by sound investments, providing an end profit. Markets that are volatile tend to attract traders looking for quick profits. Such profits have little to do with performance, either in the company that has been invested in, or the general economy.

Since MiFID I, we have witnessed a market structure that has been competitive in narrowing spreads and increasing transaction volume: these trends have benefited investors. But, this has also produced a market that is very volatile and loaded with a massive percentage of smaller sized, professional trader-to-trader transactions, causing the long term investor to be driven into almost inert action.

It can be argued that the enormous rise in the number of transactions has increased market liquidity. To counter this argument, it could also be said that mass trades between fewer players actually increases the volatility and in a way, an ebb and flow of liquidity within the trading day. This can have a detrimental knock-on effect on all forms of liquidity that shape the overall market.

We must not forget that financial markets are made up of many types of financial products that are traded by all the major investment banks. Increasingly, banks have a problem in assimilating data, across their businesses. They need to do this, in order to manage risks, provide regulatory reports and manage their financial condition. This is a tough task for any bank, but virtually impossible for global banks, with their many branch networks.

John Wilson,
Global Head of OTC Clearing, Newedge

Settlement cycles shorten across the world's markets. However, market rules and structures frustratingly remain bespoke, varying widely from centre to centre. The needs of global investment banks and the requirements of their customers have become difficult, if not impossible, to be managed efficiently.

In 2014 and through future years, the financial markets will have to cope with over-the-counter (OTC) trades being introduced into central clearing houses (CCHs), on the face of it a sound choice. This decision was forged out of the experience of the Lehman crisis, where central counterparties (CCPs) proved their worth and had a golden period. However, the resolution to move all OTC products into central clearing based on the example of Lehman Bros is actually fraught with danger.

The fall of Lehman was a unique situation at a unique time within the global finance industry. It required extraordinary measures, undertaken in the most testing of circumstances. The risks that executives within investment banks took, along with central banks, were outrageous, but necessary at the time. However, that situation has very little relationship to the ongoing operation of global OTC markets.

The move of OTC to central clearing will put untold pressure on the CCPs and central bank, to manage their risks through a greater reliance on margin calls. Positions will need to be effectively managed intra-day. Even if the organisations that provide the market infrastructure are able to step up to the task, can the banks and the range of general clearing members?

According to **John Wilson, Global Head of OTC Clearing, Newedge,** the impact of moving OTC derivatives into CCHs is: *"clearing will have a number of profound impacts on the market including acting as a credit risk leveller, allowing firms of different standing/rating to trade with each other without having an on-going exposure to each other. Hence one should be able to trade with a wider range of counterparties and potential enable more "liquidity providers" to emerge. It will free up credit limits as trades with counterparties will quickly face the CCP. It will add new explicit direct and indirect costs with clearing charges and collateral costs and concentrate credit risk into systemically important entities, CCPs. It will remove credit risk management from firms in respect of mandatory cleared products, leaving them to handle the rest, but which may actually leave them with higher credit exposures due to the loss of netting benefits. It will considerably simplify administration and collateral management if one only uses cleared products. It will introduce significant new liquidity risks as firms need to meet daily cash margin calls and increasingly prefund activity, thereby draining their liquidity on top of initial margin requirement."*

Bill Hodgson from the OTC Space comments: *"For most firms clearing will increase direct and indirect costs of carrying OTC business on their books. For all firms this will require significant back office process changes, but also more certainty on the value and settlements for contracts."*

As we have seen with the current problems in collateral liquidity, the application of an increased demand for collateral appears to be perverse. If something in a community is clearly in short supply, it does not make sense to ask community members to provide more of it.

Does the securities market today have more or less liquidity within the trading day? How does this impact collateral? **Wilson** comments: *"Real-time clearing as opposed to intraday batch clearing means there are no netting benefits. Hence, the largest intraday spikes in margin requirements have to be funded notwithstanding offsetting trades may be seconds behind in the clearing queue sequence. This will demand sizable prefunding and immobilisation of collateral, which seems undesirable and may harm trading liquidity as firms endeavour to remain within their collateral thresholds."*

The widespread concern with banks, or at least some of them, has been that they are too big to fail. However, in the case of CCPs small is the real risk. The Bank of England at various times has raised the

Diana Chan,
CEO, EuroCCP

concern about a CCP being brought down. Such an outcome would make the fall of Lehman pale into insignificance, as masses of market players, both large and small, would be exposed to crippling losses.

In Europe, the CCP space is massively fragmented, with far more than are actually needed. The thinking has been to avoid creating monopolies: the assumption has been that increasing competition will improve services and keep costs low. There is even a view that fragmentation reduces risks by spreading the business across multiple domains.

So are there too many CCPs? **Wilson** says: *"Undoubtedly, but national/regional regulatory barriers are partly to blame for impeding the operation of cross border CCPs, thereby creating space for local ones. Additionally, there is a wariness in some quarters about 'foreign' insolvency regimes which is encouraging some to look nearer home. However, it is questionable whether there is sufficient business for all of them to survive mindful that open interest naturally tends to cluster around a few big CCPs."*

Hodgson adds: *"If clearing is a competitive business, then so far the competitors within each assets class are highly skewed towards incumbents, such as ICE for CDS, and SwapClear for Interest Rates, so perhaps you could argue that there needs to be stronger competition. On the other hand splitting risk across multiple CCPs will drive up margin costs, and will lead to equilibrium where the benefits and costs of multiple CCPs evens."*

Most CCPs are naturally undercapitalised, due to their construction and business operations. This is because they are based on their general clearing members collectively supporting the CCP and their clients. However, with OTC entering central clearing, the risk of failure is heightened: indeed it is far more likely that we will see a CCP under stress or, worse still, fail.

Is there a greater risk of a CCP failure after OTC enters central clearing? *"OTC products don't make a CCP more likely to fail; only poor risk management and a weak margining regime will do that — outside of huge upheavals in financial markets, in which there could be simultaneous, multiple failures of the largest institutions, which leave the surviving clearing members unable to carry the burden of supporting the CCP. Clearly, some products carry more risk, but if a CCP and its' Risk Committee don't believe it can handle an orderly liquidation of such products, within reasonably foreseeable loss parameters and then such products should not be cleared. It would be madness to impregnate CCPs with products they cannot handle,"* states **Wilson.**

Hodgson adds *"There is no quantifiable increase in the probability of failure, but most regulators are thinking hard about the typical lines of defence (or default waterfall) to protect against a CCP failure, given that the size of the OTC business being cleared is much bigger than a typical Exchange business. Regulators have suggested including a haircut on Initial Margin for non-defaulting members, the Bank of England has published a paper on haircutting Variation Margin, both adding assets to the layers of protection."*

To cover the increased risks of OTC and to ensure adequate margin requirements, a demand for high quality collateral is a very likely result. When the demands of collateral to cover massively increased margin requirements occur, there will be an impact on the secondary listed markets, where prices and spreads could increase. This is a natural outcome when liquidity becomes tight.

There is also a problem of collateral quality. Once all the best collateral has been assigned, the obvious next step is to accept lesser quality collateral. It then becomes apparent that we need to have an industry-wide standard recognition of what is acceptable quality. As is not the case with ratings agencies, there must be an industry-wide recognised quality rating that is applied to collateral.

Would a standard rating of collateral quality be of value? How could this be achieved? **Wilson** thinks that *"Collateral assessment needs to be left with CCPs and Risk Committees as they bear the risks of shortfalls."*

Meanwhile, **Hodgson** states: *"The CDS market expresses the quality of an issuer and a bond now — as does bond duration and ratings from agencies. It would seem that the securities market has enough information to know the 'value' of a bond — what is hard to*

Bill Hodgson,
OTC Space

measure is the possible intraday volatility of a bond leading to intraday shortfalls."

Can the financial markets efficiently manage intraday collateral liquidity? *"This is one of the largest issues to be addressed. The move to real-time clearing at the behest of the CFTC has profound implications in light of some CCPs demanding collateral cover at the point of clearing, together with intra-day P&L cover. This creates considerable volatility in the collateral requirement for clients and clearing firms alike. As a consequence, many clients will need to over margin/ prefund their anticipated clearing needs, with consequences for immobilising liquidity, failing which, such liquidity will need to be provided by clearing firms, which is arguably, not their function",* comments **Wilson**.

In Europe, the fragmentation of CCPs could seriously impair the capability of ensuring that collateral reaches the areas where it is needed. Increased volatility in the market and shortened settlement cycles could provide a spinning roundabout of collateral movements between CCPs and all the various clearing members: this would in due course massively increase the costs to the investors.

Diana Chan, CEO, EuroCCP comments: *"The demand for more efficient intraday collateral management will grow. There is certainly room for new services to be developed in this sector to reduce frictional costs. A major breakthrough will arrive with the launch of TARGET2 Securities in 2015."*

Bill Hodgson, the OTC Space adds: *"Since the acquisition of LCH by the LSE, there are no horizontally aligned CCPs available to merge. ICE, CME, NASDAQ and Deutsche Börse all operate a vertical business and clearing model, with LCH being the exception due to history. So the wider question is whether we will see further consolidation amongst those vertical businesses such as the merger of ICE and NYSE. Given the current CCP landscape, I don't see much changing for some time. CCPs are developing models to support intraday risk, using additional pools of assets to cover shortfalls. In most cases intraday shortfalls will be funded with cash to a CCP to meet delivery timing requirements. Delivering cash is an efficient process, with the funding of that cash in the Repo market."*

John Wilson, Global Head of OTC Clearing, Newedge states: *"Regulatory barriers may impede consolidation to the fullest extent, but it seems unlikely that every existing and 'talked of' service can survive on a commercial basis. As to timeframe, the market itself will pick the winners based on where open interest is directed — it's probable that some CCPs will "die at birth" or shortly thereafter, whilst some may limp on for a while before clients vote with their feet."*

So a number of different views and ideas about the impact of moving OTCs into central clearing; it was of course intended to reduce risks, but it could well have precisely the opposite effect. That is unless structure change is implemented to tackle the results of unintended consequences.

Chris Pickles,
Head of Industry Initiatives,
Global Banking & Financial Markets, BT

Enabling ALTERNATIVE PAYMENTS

There has always been a tendency to consider that banks are at the centre of all things financial — but there have also been times when the world wished that they weren't. Back when the Wall Street Crash happened (not this time — last time, back in 1929) it was decided in the USA that banks should not be allowed to participate in all markets — particularly in securities markets, and the US Glass-Steagall Act was passed to achieve this. But then the concept of 'universal banking' came in around 1945, to help the rebuilding of post-war Europe, and gradually the idea spread — even back to the USA where the Glass-Steagall act was repealed in 1999 and banks could get back to being involved in all markets again.

Today, people are considering from all sides whether Payments is something that banks should be involved with or not. Processing payments is a volume business, which means that only those who have the highest volumes of payment to process can win. Taking that there are many thousands of banks around the world — some 9,000 banks in the EU alone — then, by the rules of volume business and economies of scale, many thousands of banks cannot be among the most cost-efficient processors of payments.

Some major banks are looking at this problem very analytically: Is Payments a banking business or a communications business? And more and more there's a feeling, particularly on the part of customers, that Payments is a communications business. The classic model is, of course, PayPal, and banks have invited PayPal representatives to most of their conferences for the last ten years and asked them to "tell us again how you did it to us!" Not only were banks caught unawares by this new payment mechanism — they seem to have been unable to react significantly to it for over a decade now.

That's perhaps also because the nature of customers' expectations of banks has changed. No longer is your 'universal bank' branch where you go to for all things financial — to make payments, to ask for a loan or to beg for a mortgage. You may only go there when you have to deposit a cheque, and in some countries like the Netherlands and Sweden you may not have seen a cheque in years. Even paying in money is a burden, because you have to take time out to go to a bank branch. We've seen studies recently that show the massive decline in the number of retail bank branches over the last 25 years, leaving even fewer for customers to visit in order to make the few non-electronic deposits that they have to.

Bank branches have been sold off and turned into bars and restaurants and shops. And now that they are becoming retail outlets for goods and services other than banking — places that people really do want to visit — those outlets are starting to offer banking and payment services. For many banking customers, the closest that they go to a bank branch was the ATM in its outside wall — and that was often as close as they wanted to get. We're now used to seeing ATMs in our corner shops, and not necessarily ATMs that are owned by the major banks. We can pay using our phones in shops, as well as by bank card. If we use our credit or charge card to pay, rather than our bank account debit card, we can also get loyalty points, air miles or significant discounts off other services.

Here's an idea for a smartphone app. If you have alternative payment methods available to you — debit card, credit card, PayPal, cash, etc., — your app tells you the method that's the most advantageous to you before you make the payment, and you just have to push the "OK" button to take its recommendation. There may not be many times when this app would tell you that it's best for you to use your bank account to make payment. Which brings back the question: is Payments a banking business?

Back in the days when moving messages securely between organisations involved technology infrastructure that only the largest banks could possibly afford, clearly only banks could move payment messages around. Today around 5 billion people around the world have mobile phones that can do exactly that same thing. Payments infrastructures were built to serve banks: the Internet exists to serve customers.

Banks introduced an important concept in payments processing — the shared infrastructure. By all sharing the same infrastructure they could all benefit from shared economies of scale. That is the same concept that drives the 'virtuous spiral' that epitomises the public Internet and powers its perpetual growth. But with the Internet, no one organisation or industry sits in the middle and controls it all: instead, it enables competition between service providers in the interest of customers.

One view of competition is based on a three-sided model: how large a community of customers an organisation serves, how well it serves them, and how much those customers trust the service provider. All three sides of the model are directly related to each other. (eg more trust equals more customers, poor service equals less customers, etc.) A bank no longer necessarily serves a large community of users, and often serves far fewer customers than other service providers in other industries, e.g., supermarkets, mobile phone companies, etc. And customers' trust of banks continues to take a severe beating, not only due to the 2008 crash but also due to recurring and highly-publicised examples of inefficiency, lack of security, inappropriate treatment of customers and breach of regulations.

New providers of alternative payments systems will still have to manage their way over many of the same hurdles as banks do, but without the legacy of old technology and protecting the status quo to hold them back. New technology approaches, such as the Internet and cloud computing, open up the doors for competition to really break out. New regulations allow new competitors to enter the Payments sector more easily, while other regulations are forcing banks to act as though "the customer comes first" — a concept that new market entrants already understand very well.

Dr. Hatim El-Tahir,
Leader Deloitte ME Islamic Finance Knowledge Centre
Member of the AAOIFI's Auditing and Governance Standards Committee.

Takaful insurance[1]

Priority regulatory and practice strategies

The Takaful insurance industry is at a critical juncture, facing a number of policy and practice issues in areas of legislative changes, Sharia governance, business models, products and human capital. Fueled by the exponential growth of the GDP of the rich oil-exporting countries of the GCC, Islamic finance — being the vanguard of the Takaful and Retakaful industry — is interestingly evolving and integrating into mainstream financial services.

The social demographic of Muslim population which accounts for 23% of the world population presents a mass market for family Takaful insurance, but it is important to emphasise that Takaful products are not limited to Muslims only. In Malaysia, for instance, over 50% of the Takaful products buyers and policy holders are non-Muslims.

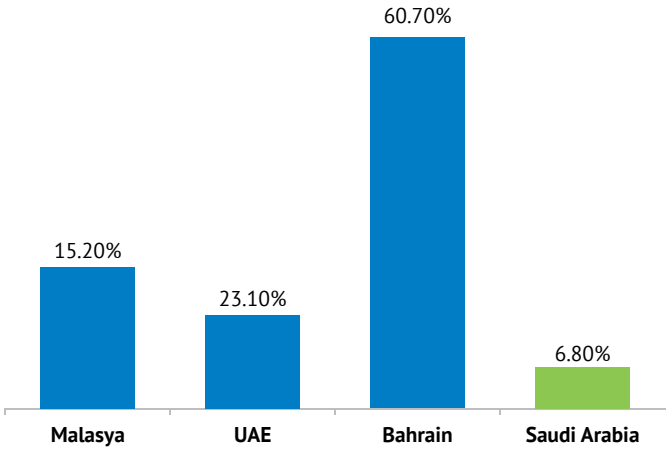
However, the scale and scope of the industry remains insignificant compared with conventional insurance. At present, the Takaful industry is variably estimated at the landmark figure of $10 billion, and it is estimated that it will grow significantly in the coming five years to reach $20 billion by 2017. The annual average market growth ranges between 15% to as high as 30% in some markets, and a number of key international conventional insurance players now offer the Sharia compliant insurance. Major industry players such as Swiss Re, Scottish Re, Munich Re and Trust Re are offering "Retakaful windows" and have a presence in the Middle East and South Asia. Albeit, there are a number of key regulatory and practice challenges that should be addressed by industry decision-makers and executives. This article draws on the recent Deloitte research and shares new insight on priority regulatory and practice strategies discussed with industry stakeholders.

For the benefit of readers, key industry stakeholders in Islamic Finance and Takaful (IFT) include:

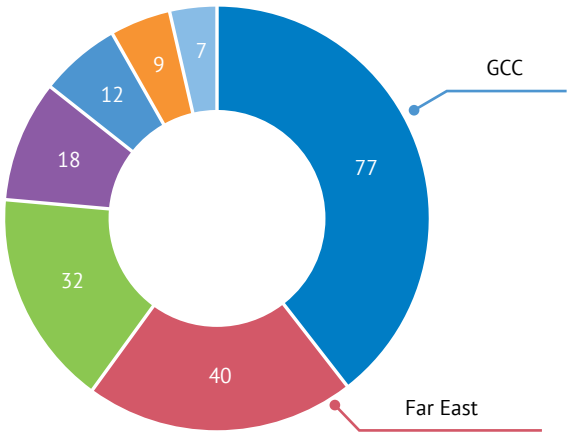
- Institutions offering Islamic Financial Services (IIFS)
- Regulators and Self-Regulating Organisations (SROs)
- Investors and issuers (clients)
- Professional service providers including research and training institutions
- Community or society at large

The Middle East, anchored by the GCC region, is one of the key markets of the Islamic finance and Takaful is the Middle East and accounts for almost 40% of the total global Takaful business with South East Asia coming a distant second with an 11.8% share in 2010. The charts presented below highlight the growth of the industry in the last four years in key markets, and provide the number of operating Takaful insurance firms globally.

Global Takaful CAGR, (2009-2011)



Number of Takaful Firms (2010)



Emerging practice challenges

Achieving growth in the Takaful insurance sector and breaking into the mainstream might be easier said than done. This is especially true because the Takaful industry faces epic challenges to achieve growth and build mass coverage globally. Yet, the growing industry has a number of opportunities to set the stage for both short- and long-term growth, as well as achieve Takaful inclusion.

Ten key challenges grouped into five industry disciplines (see chart below) should be addressed by industry stakeholders to embrace leading practices and improve market conduct in the Takaful sector. Not every challenge applies to every Takaful firm and there are other challenges not explored herein.

1. **Governance and Regulatory Compliance:** Strengthening the regulatory frameworks of the Takaful industry requires focused effort and the support of all industry stakeholders. National regulators as well as industry standard-setting bodies (SSBs) need to work together to take bold actions and initiatives to improve Takaful practices and policy-making processes.

   - There is a need for more consistent regulatory frameworks among key markets and regulators.
   - Optimising capital adequacy through consolidation will achieve growth and sound corporate structures.

2. **Risk Management and Internal Controls:** With a confluence of regulatory changes likely to impact the international expansion of Takaful business, executive management and boards are advised to strategise risk management functions and governance. Sharia compliance risk should be embedded in all phases of operations and management. This effectively means that Takaful insurers will be better equipped for a business cycle that develops new, innovative products and services, penetrates new markets, competes with conventional counterparts, and be better prepared for adverse market turbulence and shocks.

   - Making risk-based business a priority, unified with Takaful operators' strategic planning.
   - Improve risk and Sharia disclosures and governance.

3. **Operational and Business Excellence:** The insurance industry in general is fast becoming a technology business, so Takaful operators should embrace technology in all operational, sales and marketing strategies. Operators could achieve cost efficiency and improve productivity through the building of technology capabilities to tap into new markets and increase revenue.

   - Need for new business models to accommodate for wider niche markets e.g. 'generic' insurance.
   - Improved technology capabilities to achieve cost efficiency and productivity.

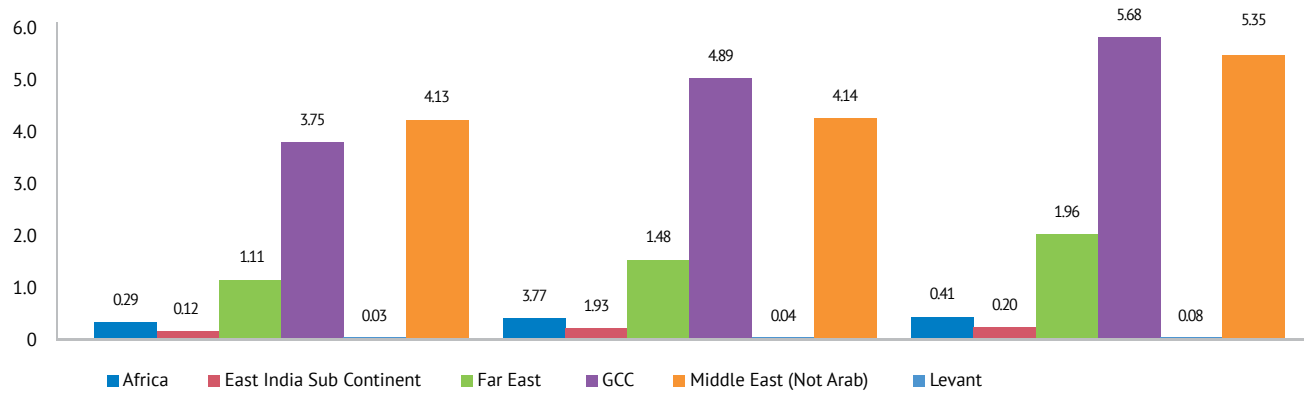
4. **Product Governance and Strategy:** Takaful firms are challenged with adapting new strategies that provide cash flow streams and develop innovative 'protection and saving' products in general family Takaful. The social and demographic needs of the key markets in MENA and SEA offer ample room for new product offering and growth. The global recognition and acceptability of Islamic finance, as an alternative mode of investment and finance, will arguably boost long-term growth for Takaful insurers and will enhance its internationalisation and acceptability.

   - Improve product governance and product development processes including the Sharia process.
   - Emphasis on target market, sales and distribution channels to achieve growth and profitability.

5. **Capacity Building — Talent and Leadership Development:** The role of leadership and talent in Takaful business has become increasingly important as Takaful operators seek to respond to uncertain economic conditions and stagnant growth opportunities, as well as to address the aforementioned regulatory and organisational structures.

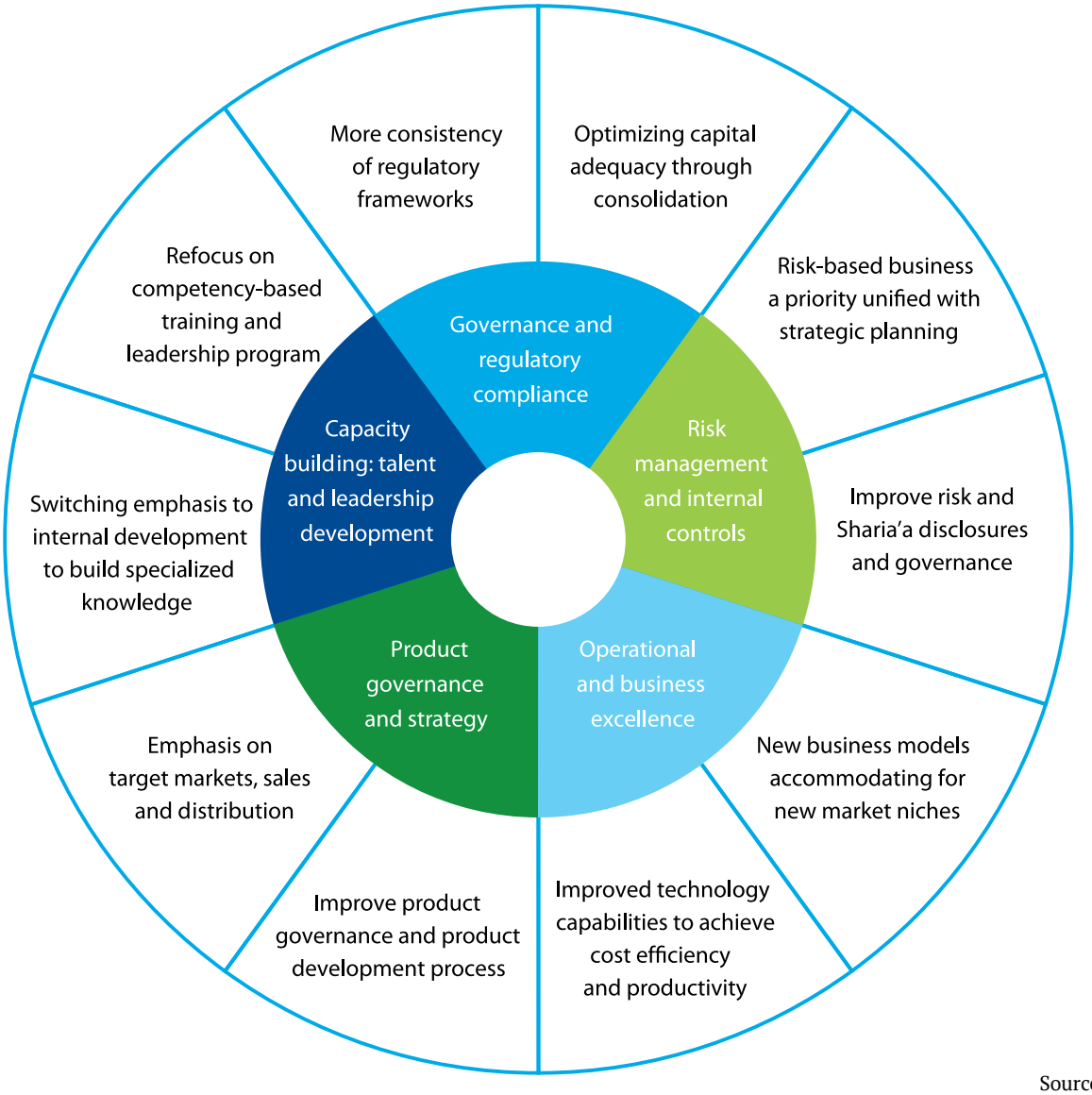
   - Switching emphasis on internal development to build the specialised knowledge and skills required.
   - Refocus on competency-based training and leadership programs.

Gross Takaful Contribution by Region (2008-2010) - (USD Billions)



Source: World Islamic Insurance Directory 2012

The ten challenges classified by industry disciplines



Source: Deloitte

Final thoughts

Responding to these challenges will require practice synergies and regulatory consistency among global industry stakeholders to achieve scope and scale. As such, mass markets can be achieved through the creation of innovative and competitive products and thus unleash the industry's forthcoming opportunities. Business strategies and operational models will need to be revamped, taking into account expanding regulation, increasing competition from conventional insurers, pricing strategies and costing models. General and Life Takaful solutions may need to be redesigned to accommodate a wider customer base including non-Muslims and should provide for generic insurance coverage in all kinds of Takaful products. Product governance and processes should be improved to ensure regulatory and Sharia compliance.

In the near and mid-term, we expect further policy announcements and a push towards Islamic finance in general and Takaful insurance in particular being stimulated at the national and governmental level of many countries around the world including Europe and the Americas. This is because it is the conventional banking and insurance organisations that are keen to tap into this niche market and take part in its market growth. These developments should translate into further good news for the prospects of the Islamic finance and Takaful (IFT) industry growth and integration to the global financial marketplace.

[1] Takaful is derived from an Arabic word which means solidarity, whereby a group of participants agree among themselves to support one another jointly against a specified loss. In a Takaful arrangement, participants contribute a sum of money as tabarru' (donation) into a common fund, which will be used for mutual assistance of the members against specified loss or damage.
[2] FWU International Publications.

By Brian McNulty,
C.E.O. DBFS

Why I 'Adam and Eve' HFTs are receiving unfair press

High Frequency Traders (HFTs) are the bad guys. Read the press, enter the forums and look at the moves of certain regulators, and this is what we are led to believe about HFTs: "they are unfair, market manipulators, a risk to the industry and, well, making too much money — which is unfair, because, um, we are not the ones that are making that money."

Yes, the debate rumbles on as to whether the methods certain (HFT) firms adopt in leveraging technology for profit are fair and if so, whether they are in the best interest of the broader capital markets. Add to that the technology malfunctions and manipulations associated with HFTs and we see where the case has been built that HFTs are the bad guys.

However, I believe that the case against HFTs is unfair and therefore within this article I have attempted to breakdown the negative connotations associated with HFTs and provide my personal opinion against each of these points. According to the detractors, HFTs are:

- Not adding value to the broader market place
- Simply taking advantage of having lower latency, in terms of information flowing into and within their organisation, enabling them to analyse and act quickly on such information which is unfair on those who do not have such advantages
- Not what 'trading' is about, in that they are not making decisions based on forecasting the movement of the underlying instrument itself. i.e. not adhering to the fundamentals of economics
- Abusing and manipulating the markets
- Bringing an element of uncontrollable risk to the markets

As I address these points individually. I must take this opportunity to stress that these opinions are personal and even within the consultancy practice that I work, there are differing views, highlighting that to an extent it comes down to personal opinion.

HFTs are not adding value to the broader market place

I disagree and instead believe that the participants are increasing liquidity, creating tighter spreads, and bringing price anomalies back inline, whilst also driving forward lower associated fees. Technology advancements on the whole are also allowing more participants from different walks of life and geographical locations who would not have had the opportunity otherwise.

HFTs have unfair advantage due to latency

I do not see why using advancements in technology to receive ahead of the competition is unfair. Trading faster than your peers is an advantage, but not unfair, nor without historical precedent.

What is different about using technology to get information faster, or to analyse information in a more innovative way, compared to previous advancements now accepted in the financial markets? For example the way that computers advanced in the 1980s to allow the crunching of massive amounts of back testing data, when some competitors did not have such technology? Similarly we could compare it to practitioners who signed up earlier than others for automated feeds and, for example, acted on differentiations / correlations between indices versus underlying stocks, whilst many of their competitors were still downloading such data from sites or emails. Going back further to pre-tech days, I recently read that the Rothschild bank made a significant amount of money in 1815 by finding out news of Napoleon's defeat at Waterloo by carrier pigeon before most of the market!

I had the pleasure of working on trading desks with some very gifted technologists who automated feeds to flag volume and price trigger points way before the majority of our competitors. Our entire team was very ethical and driven to succeed, but I do not believe for one second that anything we did was unfair or detrimental to the markets. Instead it was colleagues using innovative minds and innovative technologies to achieve a competitive advantage.

> *The markets will continue to be impacted by technology advancements such as; synchronisation, intelligent latency monitoring/optimisation, leveraging multi-core processing and single server strategies...*

HFT is not adhering to the principles of market practice

I disagree and believe that modern day technologists are as focused on supply and demand as the first scholars of Adam were long, long ago. (Note I am referring to the great Adam Smith rather than talking about supply and demand of apples in the Garden of Eden.) Where in the laws of the financial markets does it say that the views of a traditional economist are any more valued than a technologist? Perhaps it is time for some participants, including non-technologists to accept this is now the shape of the markets, and either continue with strategies used before such technologists entered the markets, assuming they still work, adapt or get out.

HFTs are more guilty of manipulating the markets

There are examples of market manipulators in HFT, as there are in any type of market practice. However, in my view it is unfair to accuse the HFT industry of having a higher degree of manipulation than exists in other parts of the market. In fact, recently there have been a number of reports from various regulatory bodies, which have failed to uncover evidence that HFT contains widespread use of unacceptable market practices such as front-running, ticking or quote stuffing.

Sadly there have always been those who manipulate the markets, misselling or using insider information for their own personal gain. Unfortunately, people will continue to do this through the latest developments in technology, just as some others do this through non-technology related means. Quite rightly the regulators are continuing to look at developing rules and deterrents around such malpractices. It is positive to see the book being thrown at the culprits who manipulate the markets (through computers or otherwise) and likewise, crashes caused by technology being treated as seriously as they are by the regulators.

In fact one could argue that the advancements in technology actually allow us to catch market abuse culprits more easily than it was back in the days of open outcry or during the earlier days of technology. Examples of unacceptable practices that can be uncovered with the aid of technology includes 'testing the market' (rapidly opening and cancelling multiple batches of small orders to test prices) or 'spoofing the market' (placing small orders to sell, quickly followed with several large buy orders at successively higher prices, thus giving the market the impression that there was significant buying interest.)

HFT brings an element of uncontrollable risk to the markets

Technology malfunctions such as those at Knight Capital, BATS and other troubled IPOs, which have a disruptive impact on the smooth running of the market, understandably attract negative connotations to the computerised trading space in general. Yes, technology advancements do introduce risks of instability of the markets, but it is not fair to assume HFT is any more risky than other computerised trading.

Such advancements in technology are also being used to reduce risks, thus improving transparency and stability within our market place by providing advanced security and real-time risk management. This means that undesired events can be flagged before the problem impacts the market. For example, by analysing time stamping and related measures in distribution curves and the like, it allows us to see if latency is increasing and helps with the initial identification of where in the chain that issue may lie and potentially stopping a problem and possibly a flash crash.

Furthermore, it is positive to see advancements being made to reduce technology related risks beyond just suspending trading when the market experiences a large move. Standards are being developed to measure latency and advancements in software development, include removing unnecessary coding decisions from developers through the development of reusable best of breed components and optimal runtime memory management etc. In addition regulatory bodies are proposing new certification rules for trading systems, including stringent annual tests and automated controls to suspend orders and/or systems in order to further protect our markets.

Conclusions and looking to the future

The markets will continue to be impacted by technology advancements such as; synchronisation, intelligent latency monitoring/optimisation, leveraging multi-core processing and single server strategies, advanced network protocols and operating systems, programming threading and memory management optimisation etc. They are part of the markets now and HFT will remain a hotly developing area until perhaps timings are reduced to a point whereby it becomes a level playing field. Then it will be the equivalent of everyone having calculators and Excel and the next generation of market participants and technologist will need to find the new ways to gain competitive advantages.

One final point, I have heard practitioners say that "the only thing that can derail the continual advancement of the role that technology plays in the markets is the looming regulatory discussions" (i.e. German HFT taxes, European FTT, Market Abuse Directive etc.) However, my view is slightly different in that if the regulation of technology cannot be domiciled and different governing bodies continue to act in a fragmented way, it may instead create the next series of HFT opportunities.

So for the foreseeable future, perhaps Adam can be proud that technology is so ingrained in analysis of market behaviour and supply and demand — maybe? Or maybe he would be too busy staring at Eve!

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Don't be fooled by the SECURITIES MARKETS

Nothing illustrates the state of society and economies like the securities markets: bounding forward in good times and slumping in the bad. The securities markets have acted like a barometer determining the success or not of business and its capability to raise capital. Well, that was until recently, where despite modest economic growth and huge political gyrations across the world — particularly in the EU — a dichotomy occurred, as the securities markets have been leaping up. Why is this and what can we anticipate the immediate future will bring to the securities markets?

The main cause of the attraction of the securities markets has been created by the massive introduction of quantitative easing especially in the USA and Europe. This action was a desperate intervention by governments through central banks to limit the immediate damage in the general economy. However, along with historically low interest rates, this has created a very false looking outlook and disrupted investment in the securities markets. For example, fixed income securities have lost their attraction, whilst equities have become extremely attractive, with good dividends being announced by companies across many sectors.

The volume of transactions has also been extraordinary high although much of this could be bracketed as bank-to-bank professional business, rather than actual medium or long term investing.

But, perhaps the best gauge of the strength of the securities markets is the number of new listings and capital raising transactions, which have been instigated together with those that are in the pipeline and here the picture is grim.

The last few years has seen virtually no volume of IPOs coming to market, apart from a few major ones like Facebook and this can be discounted in terms of valuing the IPO market. Even the Facebook IPO was loaded with controversy, which was also an indication of dissatisfaction by investors in the securities markets. Due to this malcontent by entrepreneurs in the capability of the securities markets there has been a massive increase in the utilisation of venture capital. This is clearly not good for Stock Exchanges, as they are losing out on this vitally important business function.

Although banks have severely pulled back from lending and seem to have become overly concerned with administration. The flow of money into new projects and new ideas has been increasing, at a rate almost without precedence in history, as venture capital finds its way into the hands of the entrepreneurs through many new sources. Thus, the overall picture of the securities markets is not all it seems and is not an accurate indicator that one can be very confident that all is well at the moment, or will be in coming years.

The securities markets are instrumental in economic growth and for society as a whole. It is vital that the capital markets are liquid and efficient in the managing of their operations and risk. Based on the existing construction of the markets we can say that today's market infrastructure and service levels provided by financial institutions leaves much to be desired. A restructuring of market infrastructures would hold more long-term benefits than the drip drip torture of massive amounts of regulation that only attempt to tackle the symptoms, not the illness.

Now I am sure that in 50 years, under the current regulatory process, we might end up with the securities market that everyone wants, but it will take huge costs and far too much time to reach. Rather the securities industry should take charge of its industry and introduce progressive changes to market infrastructure that can bring the benefits insisted on by politicians and their regulators. Ultimately, the financial rewards will be shared by financial services firms and their clients, but will be felt immediately by society at large. But how will this be achieved?

The first part of solving any problem is to understand what the problem is and it is here that participants in financial markets have failed miserably in the past, causing politicians and regulators to get involved.

One of the problems in the financial services industry has been that vested interests and protectionism is rife. The stubborn reluctance to introduce incremental change by organisations that make up the structure of the markets has now been elevated to a need for radical change. It was the fear and mistrust of financial organisations in

introducing change for the greater benefit of the industry, which lead to politicians forcing change, through new rules and regulations. This was clearly evident in MiFID 1, which had laudable objectives but far reaching implications not fully understood at the outset. This created numerous problems in unexpected quarters. The laws of unintended consequences now feature regularly when people have described the changes in markets in the intervening years.

There can be no doubt that regulators and politicians do not fully understand the intricate workings of the financial services industry, which they are trying to legislate. This knowledge is held by the myriad of different firms that go to make up the industry. Unfortunately, financial services firms have got into the habit of blindly following rather than leading the way. Despite heavy pressure in the consultative stages of new regulations, they have been almost powerless in the introduction of change. Any change introduced should be able to achieve the desired result sort by regulators, but should also minimise the impact on the various businesses concerned. The result of this lack of detailed understanding has meant that new regulations are falling between two stools, managing to appease politicians but only to achieve modest change.

The old adage 'you can't make an omelette without breaking eggs' comes to mind when one looks back over recent years to the actual changes which have been introduced. We have not broken many eggs and have not created an omelette; rather we have tried to whisk eggs in their shells. For example, the creation of competition is an undoubted value to investors, but not if it makes best execution almost impossible. And the break up and fragmentation of the markets has increased the cost of clearing and settlement. Hence one benefit is lost because of the lack of thought given to consequences in operations.

The number of CCPs in Europe is cumbersome, expensive and creates its own risks. However, the clearing function is a commodity operation that is a high volume, low margin business. By fragmenting the market we are not reducing risks by spreading the business around firms with small balance sheets and old technology, but increasing the risks. A single CCP allows cross subsidisation across asset classes, which reduces cost and risk but this does not work with multiple CCPs. Unfortunately, the competition element that works to a degree in the front office does not work in the back.

What is required is a consolidation of CCPs into a maximum of two and this is only necessary to appease the competition brigade. A single CCP would bring increased collateral liquidity and a massive reduction in costs for investors. Will it happen? The answer has to be it is doubtful, despite the obvious benefits. Because of vested interests and the paranoia of regulators and politicians who feel the only way is to introduce rules, which they believe will handle the problem, but in reality do not.

The future of the securities markets has to be built on new technologies and systems that replace the huge number of legacy systems that proliferate in far too many firms. There are numerous financial services firms still running on systems and technology created in the 1980s and this is simply not good enough. The reticence of many firms to invest in maintaining and upgrading their technical environment to the highest and latest standard is almost criminal. Once a firm has invested in its own technology, it is on a treadmill to continue to ensure it is supported to the best possible standard. By not reinvesting annually it is engaged in a false economy, as the range and numbers of regulatory inspired enhancements or developments are endless and far more expensive to maintain.

The FCA regulator in the UK is apparently going to have an interest in how systems are developed or purchased and this will be a rude awakening for many firms.

The securities markets have plenty of problems in infrastructure and management, which can be camouflaged by current transaction volumes and the impressive increases in the various indexes. But don't be fooled, as the underlying problems are in market infrastructure and in the capability of financial services firms to look beyond following regulatory leads. To actually take charge of developing a securities industry that not only works towards satisfying investor needs, but one that is profitable and efficient.

Financial IT

A series of **very fortunate** trade events

For everyone outside of the secular world of trade and for those living trade everyday it is clear that trade is in resurgence, even a renaissance, could we be already in the dawning of the golden age for trade. Yes, I know that for many in trade the golden age may be synonymous with the pre-computer age. When in back rooms with little light and big tables the trade technicist poured over individual piles of paper, making notes and cross checking each document many of which seemed to be made of tissue paper. Yes, my friend, those were the good old days, but that was not the golden age of trade. Today the doors are open, the lights are on bright and trade is front and center with industry, governments and even the banks.

Let's start out with a Series of Unfortunate Events — The Bad Beginning; starting with the Housing Bubble, into the Great Recession, followed by the Liquidity Crisis, caused a significant reduction in trade globally. This was due to a lack of credit availability which reduced not the demand but the ability for consumers and industry to buy goods. While the Great Recession impacted the financial system negatively and many of us personally, in many ways it was good for trade.

My experience talking with many banks globally during this time was that their trade business remained profitable and although there was a reduction in volume this was due to lack of credit availability rather than issues within the banks business of trade. We did see a rise in claimed discrepancies which can mostly be attributed to the buyer's inability to pay due to loss or restriction of their bank credit lines. Still the actual loss rate remained below 1%.

This brings us to the benefits trade enjoyed as the world started to step out into the light after the dark days of September 2008. First, it is very widely recognised that global trade was the driver to jump start the world economy — as is evidenced by the multitude of governmental offerings to inject capital and guarantees into the financing of trade. Additionally, top bank management noticed that their trade business remained steady and profitable with very manageable risk. This new view of trade as a bright spot in the bank has led to investment in trade solution where most banks have been using 20 year old technology applications. Like a Perfect Storm, in trade today you have three main drivers for trade system investment; Technology, Business, and Market:

Technology: Much of the applications sold today and in use today at banks are at their core are built in old coding languages. This make them hard to maintain, hard to enhance and unable to respond to the changing dynamics of today's trade business. Today there is available technology that benefits the business; Java for independence, SOA for flexibility, BPEL for workflows, xml and ESB for messaging and integration, and cloud provided applications with the potential to lower the total cost of ownership.

Business: Processing for trade is changing from the paper based world to electronic documentation. A new trade instrument, the Bank Payment Obligation, now has a legal structure. Innovative approaches to provide Supply Chain Finance has opened new bank-corporate interaction requiring specific applications for financing open account transactions. The move to including all parties of the transaction, (buyer, seller, 3pls and banks) necessitates flexible collaborative platforms.

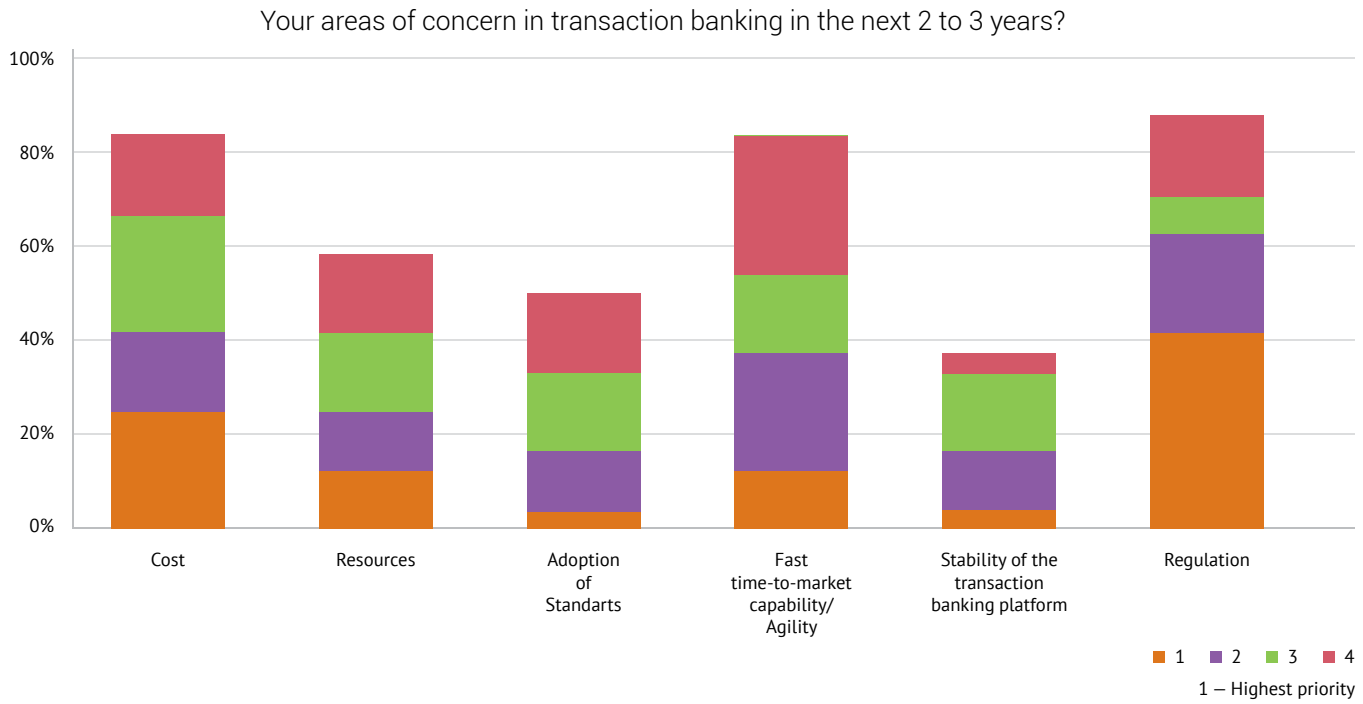
Market: The Great Recession has forever changed the view of trade. The importance of liquidity in the market drove Governments and ECAs to inject tremendous amounts of capital to finance trade during the Great Recession. Corporations found that when their credit lines were reduced or withdrawn, that dependency on working capital lines left them without funding and they are now aggressively looking for alternatives ways to unlock the cash inside their supply chains.

The Golden Age

A series of very fortunate trade events has pushed trade into a golden age where new visions and innovations are taking hold. Inside the banks trade has new respect and is being rewarded with investment. trade is the bright light of the banking image which has suffered as people now understand that the reason they have milk in the fridge or even the fridge is due to trade. Banks make that happen by providing the financial flows that industry is based on. Let's take a peek at those visions and innovations that are driving trade today and the ones that likely will be coming on in the future:

Chris Principe,
Senior Principal Solution Consultant
Global Trade and Supply Chain, ACI

Transaction Banking Concerns[1]



Change Your Trade View — There has been a shift in how trade practitioners need to view their world of trade. It was gone from Importer/Exporter to Buyer/Seller as the focus is now both international and domestic sides of the business. Trade has expanded beyond Letters of Credit to Open Account transactions with the natural extension for Supply Chain Finance. Trade today requires the high level of technical transactional skills, with an understanding Cash Management practices as the name of the game is Capital Optimisation for the banks clients. The new generation of trade practitioners will take their teachings from the past with an open mind to forge ahead with new ideas that will keep trade vibrant and growing.

Risk to Financing — Within Traditional trade we have seen the volumes remain steady according the SWIFT messaging statistics, but going down in proportion to the growth of global trade. This has been influenced by the shift in usage of Letters of Credit from a primary role of risk mitigation to a tool used to obtain financing. This is a subtle change, but I believe will lead to additional usage in Letters of Credit as well as Standbys and Guarantees underlining the value inside of the corporate supply chains.

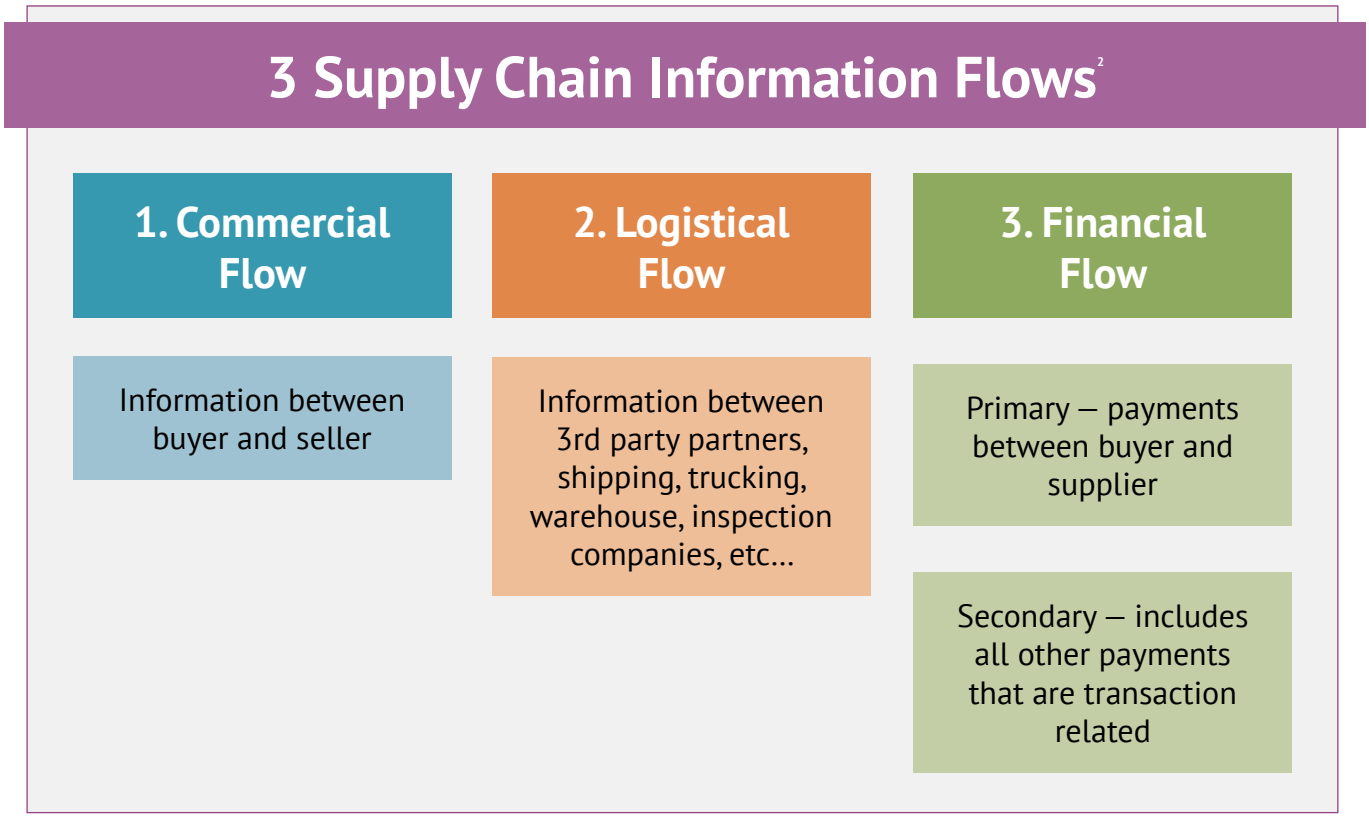
BPO versus LC Lite — The ICC Banking Commission released the Uniform Rules of the Bank Payment Obligation, (BPO), which gives this new instrument a legal foundation. With the BPO it is now time to put the LC Lite in its place. There may be individual banks that offer an LC Lite where they agree with their client to limit the amount of checking done, but traditionalist will point out that this is not in keeping with the intent of the UCP 600, ISP98, etc. that is the framework for trade practice. It is time now for the BPO to fill this role as the industry standard based on the rules set in place. The impact of the BPO will be seen over the next few years as Open Account transactions are supported for financing with BPO and we will see Factoring and Low Value LCs move to BPO.

Trade/Cash Convergence — Today corporations want a single view of all of their banking activities and with the same user experience globally. The rise in Transaction Banking groups within banking and the focus of corporations on a full portfolio view for risk and liquidity management is driving the convergence of Cash, Trade, FX and Payments.

Banks that meet these new client requirements will succeed by providing a seamless view of all corporate activities and can present this view uniformly to every corporate user regardless of where they are located globally. Those banks will be competitive in their home footprint and can selectively present challenges to the global banks. This will take transformation of bank systems and entail the deployment of single global platforms integrated with Cash, Trade, FX and Payments.

Big Trade needs Big Data — There is more value in the bank's data than there is in the bank's vault. Banks that can make use of this data will provide clients with intuitive experiences that can create stickiness to those relationships. A bank can look within its own client base and see those clients who have payments going to other bank clients and view this as an opportunity to offer buyer and seller financing. A bank could see different clients that ship or receive goods from similar destinations and organise a group with a shipping company client to offer preferred rates and terms to the members of such a group. Banks could push out information based on currency, country, industry,seasonal considerations, as well as advance the interaction between valued bank clients for additional business.

Customer Service, No; Customer Care, Yes — There is a new view of how customers want to interact today, which is more personal and at the same time more virtual. While this may sound like a contradiction, personal and virtual, the fact is clear that today's clients need to be cared for in the way they prefer. Valued information pushed to the client in their manner of choice, or



by multi-channels, when and where they want it. Sure, alerts are valuable and these can be added to with notifications of industry events or selling opportunities within the bank's client base or local government programs. Customers are expecting a more proactive approach that is attuned to their business's needs and to have access to their information at their fingertips, delivered to a variety of devices in real time. Getting this right is a big task and likely a change in culture as customers are not to be just something serviced, but are there to be cared for and in doing so you are caring for your own business.

Physical and Financial Supply Chains — The time has come for the convergence of the Physical Supply Chain with the Financial Supply Chain. First, bankers must realise that the corporate's greatest fear is not about money, it is Supply Chain Disruption. Second the value of information, available electronically, allows the corporations the visibility to see potential risks and act upon them. The corporations with initiatives such as JIT and Demand Management have gained most of the efficiencies from the physical supply chain and are now starting to focus on the inefficiencies of the financial supply chain. The pulling together of the three information flows, Commercial, Logistical and Financial to give a single view will help corporations reduce their risk by seeing where they may have capital locked up and where they may need to inject some capital. This information, available in real time through 'glass pipes' for 24/7 visibility that is shared between the corporation and the bank, will enable a strategically superior use of capital: this, in turn, will give the banks a comfort for financing that is not available today. Additionally, there is the opportunity for the banks to provide data back to the corporations of financial information that will allow for greater granularity of their product profitability at the moment of purchase.

South-South Trade — The trade flows are continuing to broaden and the movement of raw materials and goods between Asia to both Africa and South America is just the latest example. The dominance of the West is giving way to the surging East and we will see more dramatic changes to the trade flows as a result. The strengths of the BRICS countries and the growth of inter-Asian trade continues' to develop and expand it will change the complexion of where capital will be located. As the continuation of capital moves from West to East and starts and stays in the East, that capital will flow back in different ways. Government to Government capital flows have been in effect for years as witnessed by the accumulation of U.S. debt by the Chinese. Starting is the expansion of Eastern banks into the markets of the West, first to service their local clients export needs. As the manufacturers continue to gain in size and strength they will look to purchase their buyers in order to maintain their ability to sell the goods they produce. This strengthening could lead to the East financing the West.

For the Golden Age of Trade, these are but a few of the ideas and directions that this business can go forward to bring greater interaction between bank and corporate. The opportunities are clearly there for those with the vision and ability to capitalise on the technical advances made in the usage and design of applications. The new capabilities for delivery of products and services by the banks to their clients is creating easier opportunities to increase business while lowering costs, through SAAS and Cloud based offerings. Trade is like a beautiful butterfly emerging from a cocoon once again ready for resurgence in spite of being one the oldest forms of banking. This provides the valuable and necessary marriage of the banks and corporate clients that the world depends on. So through a Series of Very Fortunate Events, trade will continue to be the engine that drives the world's economies.

[1] Celent, Trends in Transaction Banking: A Global Survey, by Axel Pierron, Neil Katkov, PhD
[2] P4B — Platform for Business, Financial Supply Chain Management Whitepaper, by Chris Principe, September 15, 2009

Michael Cooper,
CTO, BT Radianz Services, BT

Innovation in financial technology

Doing things in new ways is not something that financial institutions in general are famous for. Instead, their tendency is to continue to use mature, well-established and proven approaches — sometimes for many years beyond their sell-by date. Innovation doesn't come easily to financial institutions, and it's something that is very difficult to achieve and needs to be worked at hard if an institution is to really benefit from technology innovation.

Bankers speaking at conferences in recent years have started to make comparisons between functions that banks perform and functions that communications companies perform — partly to help clarify their own thinking as to whether some functions that have traditionally been thought of as 'banking' are perhaps today more associated with 'communications' instead. So, with technology being fundamental to the day-to-day operation of financial institutions, it's worthwhile looking at some of the ways that technology companies themselves approach innovation.

It may seem obvious, but having an 'innovation centre' is one good place to start — a centre of excellence that not only tries to find or develop innovative ideas but that also works on the whole process of how to innovate. This is clearly a significant investment: a major technology company can have 3,000 people working specifically on innovation and research. It can also have research centres in more than one geography, e.g. if you see China as a major growth market for your firm than having one or more research centres in China can make a lot of sense. Measuring whether you get value-for-money from innovation is also key, and having meaningful metrics is critical: a technology company might measure itself by how many thousands of patents it has filed that result in products or services over which it has intellectual property rights.

Innovation is often something that you can't do on your own — sometimes by sharing ideas with other organisations and technology providers you can develop concepts that can have a much greater business impact as compared to ideas that you have kept within your own closed company silo. 'Innovation clusters' can allow organisations to work together more productively on technology solutions, with innovation functions from multiple organisations being co-located to maximise the efficiency of idea-sharing.

You wouldn't expect to have all the relevant brains within your own organisation, so working with other 'brainpower' organisations can help in developing innovative approaches. Working with universities is a very practical example of this. If your market is purely domestic, working with one or two local universities with relevant skills can help considerably. But if your organisation is international or global, you have to think much bigger. A major global technology provider would be doing genuine work with tens of universities in different countries around the world, including partnering with recognised academic-leading universities in the larger relevant economies. That also provides access to the global science base of university research, additional core research capabilities, knowledge, thought leadership and an engagement platform that allows the technology provider to augment its own in-house research.

Looking for innovative ideas and processes has to become a way of life, and that includes having scouts out searching proactively around the world for innovative ideas and companies to work with. Global scouting has two primary functions:

- to identify and qualify innovative technologies that can be deployed rapidly, emerging business models at the early-adoption stage, and customer experience best-practice
- to provide independent and strategic insight as well as a pipeline of innovation opportunities and threats.

A global scouting team needs to produce real-time innovation alerts and recommendations, strategic reports, 'key trends' presentations, hosted innovation 'hot-houses' for key customers, as well as company and sector analysis.

Market-changing innovative ideas often come from small and start-up companies — the kind of companies that banks frequently have little involvement with through their normal business. Scouting teams need to spot companies through the lens of extending the business of the bank. Again, there have to be metrics to measure the success of those activities: the scouting team of a technology vendor would be measuring this in terms of hundreds of new technologies, business propositions and market trends each year that have been identified for the firm's management to consider. This can also lead to supporting the launch of innovative, independent start-up companies through a corporate-venturing partnership.

Trying to 'do innovation' behind the bank's own closed doors is less and less possible, and even less desirable. Sharing knowledge and experience with and from other banks is very difficult for them to deal with. This can often be a reason why banks would turn to consulting firms that work with multiple banks in order to gain that multi-bank view of what is happening and where technology is going. Turning to the consulting wings of major technology providers can be of equal benefit.

There is an internal conflict within banks between innovation and operational cost. As a volume-based business, if a bank can keep an old system running for longer it can further amortise its original investment in that system, bringing down its cost per transaction. However, this doesn't usually lead to quantum reductions in operational costs that new technology approaches can generate. And new competitors in the areas that banks operate in, such as electronic payments, can make those quantum leaps in cost reduction by using innovative technology approaches.

Which brings us around to the question: is innovating in technology one of the core functions of a bank? Using innovative technology is clearly a critical requirement of any bank that wants to stay in business in the long term — but can it do all of the innovation itself? The examples have been given above to show what major technology firms have to do in order to be competitive, to be leaders and to remain as leaders in the application of technology. The corporate commitment and the investments involved are huge. Hopefully it demonstrates that banks can benefit greatly through working more closely with, and sharing knowledge and experience with, the major technology providers that banks already use today. To learn more about what BT does to help banks innovate, visit www.bt.com/gbfm.

Financial IT

Vermeg

The story continues

Vermeg is one of the securities industries' most respected software firms. It has a growing list of high end customers including Global/Local Custodians, Central Banks, Asset Managers, Fund Managers, Broker Dealers and a CSD. Vermeg's customer base is spread over 18 Countries — covering Northern Europe, Eastern Europe, Mediterranean, South Africa, North Africa and Asia. More are bound to follow as the world wakes up to the success story that is Vermeg and Megara®.

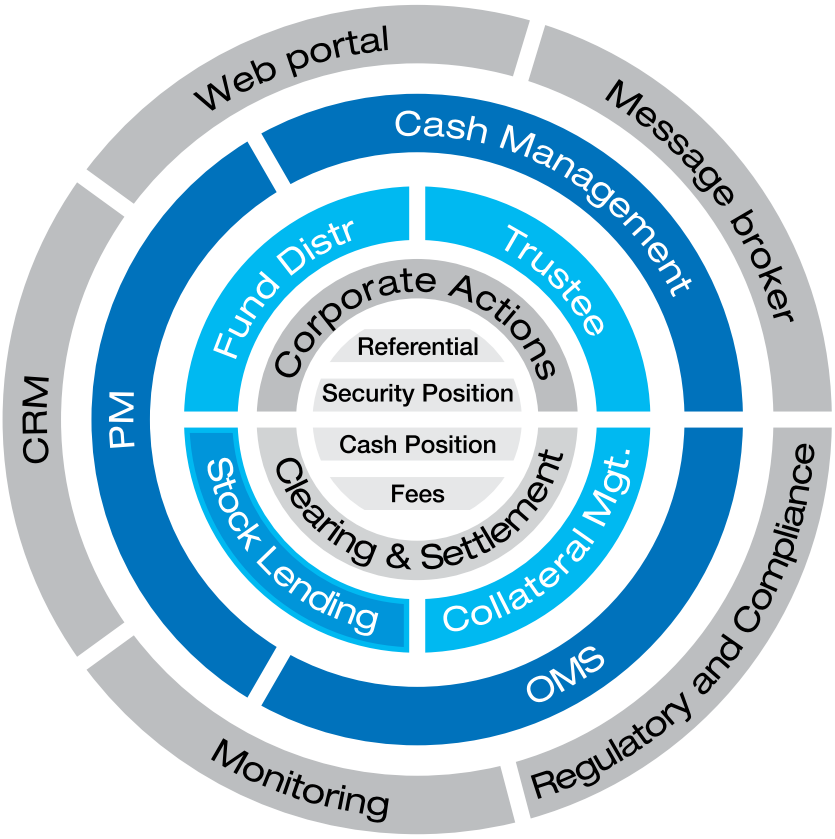
For many, Vermeg is known for its excellent independently accredited Corporate Actions system MegaCor®. However, this is only one module of the Megara® suite, which incorporates solutions: Securities Processing, Order Management, Clearing & Settlement, Collateral Management & Stock Lending/ Borrowing & Repos, Fund Distribution and Fund Management. (See diagram below)

Like all the top software vendors, Vermeg has invested a considerable amount of time and effort in creating a high quality customer service and support team. But in addition they have a web-based anomaly tracking system, which allows customers to monitor and benchmark the quality of support provided against the SLA.

Vermeg is committed to meeting the highest international standards and to providing the most robust information security procedures and is ISO/IEC 27001 certified.

Business continuity is another area, which differentiates Vermeg, as in addition to its own Business Continuity Plan — which is tested with the assistance of Ernst and Young, it offers business continuity services to its clients.

Technical innovation is at the heart of Vermeg, through the creation of Palmyra® its own Java EE technology framework, which is one of the most efficient and quickest software development environments in the market today. Palmyra® enables fast development of reusable, reliable and scalable component-based applications to satisfy the ever changing market and regulatory requirements. Palmyra® is available for licence as both an onsite and offsite development facility. A copy of the Accreditation report which provides more information and analysis is available upon request from: www.bissresearch.com



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ARQA TECHNOLOGIES

quik qort

New technologies from ARQA

- FIX2Markets interfaces for low-latency (HFT suitable) infrastructures—FIX2LSE, FIX2MICEX, FIX2Plaza2—with pre-trade control for external platforms based on FIX
- DMA solutions for all Russian exchanges, LSEG, WSE (UTP) as well as 20 other trading venues via technological partners
- QUIK as a risk-server with inbuilt online pre-trade control supporting all major models of risk calculation
- Test environment is available

The company

ARQA Technologies is a leader in Russian IT for financial institutions. The company provides front to back solutions to a wide range of market participants. Today the clientele of ARQA Technologies includes more then 300 banks, asset management and investment companies from Russia, Ukraine, Great Britain and Cyprus.

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Financial IT

Financial Technology Buyers' Guide

Summer · 2013

Broadridge Financial Solutions, Inc. is the leading provider of investor communications and technology-driven solutions for broker-dealers, banks, mutual funds and corporate issuers globally. Broadridge's investor communications, securities processing and operations outsourcing solutions help clients reduce their capital investments in operations infrastructure, allowing them to increase their focus on core business activities. With over 50 years of experience, Broadridge's infrastructure processes more than $5 trillion in fixed income and equity trades per day, and underpins proxy voting services for over 90% of public companies and mutual funds in North America. Broadridge employs approximately 6,400 full-time associates in 13 countries.

COMPANY PROFILE	
Company type	PLC/Listed firm
Annual turnover	$2.432 billion
Number of Customers Total	Nearly 1,000
Number of Employees	6,400
Inception	1962
Geographical coverage	Global

COMPANY CONTACT DETAILS	
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With an average of 15 years experience in the financial services industry, Brokerway's people combine knowledge of securities with leading edge technology. Brokerway understands the systems that securities markets need. Its focus areas are clearing, settlement, corporate actions and risk analysis. Brokerway works with customers to boost efficiency and competitiveness.

COMPANY PROFILE	
Company type	PLC
Annual turnover	SEK 17 Million
Number of Customers Total	15
Number of Employees	10
Inception	2006
Geographical coverage	Europe

COMPANY CONTACT DETAILS	
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Compass Plus provides proven software and services for financial institutions, including retail banks and payment processors across the globe that operate in complex and rapidly changing business and technology environments. Compass Plus builds and quickly implements comprehensive and integrated payment technologies that allow customers to increase revenue and profits, and improve their competitive position by implementing flexible systems that meet market demands. With hundreds of successful projects spanning card, account and merchant management, card personalisation, mobile and electronic commerce implemented in record breaking time, Compass Plus ensures its customers make the most of their technology investments.

COMPANY PROFILE	
Company type	Limited Partnership
Annual turnover	Undisclosed
Number of Customers Total	Undisclosed
Number of Employees	Undisclosed
Inception	1989
Geographical coverage	Global

COMPANY CONTACT DETAILS	
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Equipos is a leading international supplier of client reporting and communications solutions. The award-winning Coric™ Client Communications Suite delivers robust institutional and private client reporting solutions with remarkable performance and proven scalability. Their international client base includes private banks, institutional asset management firms, third party administrators and global custodians. Client services teams have the flexibility to change the format and content of client communications quickly and cost-effectively. Reports can be designed, built and modified by client services users without technical assistance. Reports and other communications are delivered via the channel preferred by clients (print, online, via a mobile device).

COMPANY PROFILE	
Company type	Joint Venture
Annual turnover	Undisclosed
Number of Customers Total	Undisclosed
Number of Employees	Undisclosed
Inception	1999
Geographical coverage	Global

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Governance, Risk, Compliance & Finance (GRCF):FERNBACH provides a ready-to-use solution out of the box. FlexFinance optimally complements your core banking system. It organises the entire historical period management and stores the historical data sets for years. All weekly, monthly and quarterly reports are archived. The data and reports are available for comparison purposes and historical analyses at any time.

COMPANY PROFILE	
Company type	PLC/Listed firm
Annual turnover	Undisclosed
Number of Customers Total	More than 50
Number of Employees	150
Inception	1986
Geographical coverage	Asia, Europe, Africa

COMPANY CONTACT DETAILS	
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icubic AG, based in the "City of Science", Magdeburg, develops, produces and distributes successful software solutions for the international financial community. In just a few years, an established company with products for electronic securities trading and its associated services has emerged from the original group of committed Risk Management Advisers. icubic offers intelligent software covering every area of trading on electronic markets and platforms throughout all financial sectors. The software makes it possible to be active on multiple markets simultaneously while utilising only one system. Intelligent automation and the streamlining of trading workflow lead to a distinguishable speed advantage, while maintaining a focus on execution management.

COMPANY PROFILE	
Company type	Corporation
Annual turnover	$13 Million
Number of Customers Total	12
Number of Employees	104
Inception	1999
Geographical coverage	Global

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INDATA is a leading industry provider of software and services for buy-side firms, including trade order management, compliance, portfolio accounting and front-to-back office. INDATA's iPM — Intelligent Portfolio Management technology platform allows end users to efficiently collaborate in real-time across the enterprise and contains the best of class functionality demanded by sophisticated institutional investors. The company's mission is to provide clients with cutting edge technology products and services to increase operational efficiency while reducing risk and administrative overhead. INDATA provides software and services to a variety of buy-side clients including asset managers, registered investment advisors, banks and wealth management firms.

COMPANY PROFILE	
Company type	Limited Liability Company (LLC)
Annual turnover	Undisclosed
Number of Customers Total	Over 200
Number of Employees	Over 150
Inception	1968
Geographical coverage	North America, Europe

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InfoReach is an independent provider of multi- and cross-asset, broker-neutral solutions for electronic, algorithmic and high-frequency trade analysis, management and execution of global equities, futures, options and forex. The signature of InfoReach is functional depth, flexibility and enterprise-strength performance, with intelligent adaptability for future needs. The technology is configurable to deliver customer-unique adaptations without adding development time and costs. InfoReach streamlines clients' workflow and allow them to rapidly respond to market opportunities by consolidating all the trading tools, global market connectivity and execution capabilities that they need in a single system.

COMPANY PROFILE	
Company type	Corporation
Annual turnover	Undisclosed
Number of Customers Total	Undisclosed
Number of Employees	50+
Inception	2000
Geographical coverage	Global

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Lombard Risk provides risk management and regulatory compliance solutions to the financial services industry and large corporations around the world. Their solutions reduce the risk inherent in collateralised trading operations, enable firms to measure and manage liquidity and meet the demands of global regulators. The clients of Lombard Risk include over 30 of the world's "Top 50" banks, nearly half of the banks operating in the UK (where the corporate headquarters is located), as well as several industry leading banking businesses, investment firms, asset managers, hedge funds, fund administrators and large corporations worldwide.

COMPANY PROFILE	
Company type	PLC/Listed firm
Annual turnover	Undisclosed
Number of Customers Total	Undisclosed
Number of Employees	over 120
Inception	1986
Geographical coverage	Global

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Markit is a leading, global financial information services company with over 2,800 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial marketplace.

COMPANY PROFILE	
Company type	Corporation
Annual turnover	Undisclosed
Number of Customers Total	Undisclosed
Number of Employees	2800
Inception	2003
Geographical coverage	Global

COMPANY CONTACT DETAILS	
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Milestone Group is a global provider of advanced software solutions to asset managers, fund product manufacturers and distributors, life and pension companies, and fund administrators. Its pControl funds platform is a single application platform delivering market leading operational efficiency, transparency and control to key business functions. Milestone Group brings global insight and proven technology to deliver a unique business partnership.

COMPANY PROFILE	
Company type	Limited Partnership
Annual turnover	Undisclosed
Number of Customers Total	Undisclosed
Number of Employees	Undisclosed
Inception	1998
Geographical coverage	Global

COMPANY CONTACT DETAILS	
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The inventor of the electronic exchange, The NASDAQ OMX Group, Inc., fuels economies and provides transformative technologies for the entire lifecycle of a trade — from risk management to trade to surveillance to clearing. In the U.S. and Europe, OMX owns and operate 24 markets, 3 clearinghouses and 5 central securities depositories supporting equities, options, fixed income, derivatives, commodities, futures and structured products. Their award-winning data products and worldwide indexes are the benchmarks in the financial industry. Home to approximately 3,400 listed companies worth $6 trillion in market cap whose innovations shape our world, OMX give the ideas of tomorrow access to capital today.

COMPANY PROFILE	
Company type	PLC
Annual turnover	$2,560 Million
Number of Customers Total	Undisclosed
Number of Employees	Over 2,500
Inception	1971
Geographical coverage	Global

COMPANY CONTACT DETAILS	
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Actimize, a wholly owned subsidiary of NICE Systems, provides financial crime prevention, compliance and risk management products and services to the financial services industry. Primarily headquartered in New York City, Actimize sells its software to all types of firms and regulators worldwide. Actimize is the only vendor with core offerings across all financial crime prevention and compliance areas built on a unified reporting and case management platform. Actimize is best known for its development and innovative use of sophisticated analytics and modeling techniques that uncover anomalous financial transactions, like fraud, money laundering and market manipulation.

COMPANY PROFILE	
Company type	Public company
Annual turnover	$600 Million
Number of Customers Total	Over 250
Number of Employees	Undisclosed
Inception	1996
Geographical coverage	Global

COMPANY CONTACT DETAILS	
Contact	Irene Harvey
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Otkritie is one of the Russian largest financial groups. Through its five core businesses — investment bank, broker, commercial bank, asset management, and insurance business — Otkritie offers financial solutions to private, corporate, and institutional clients, as well as global investors. The group capitalises on their top-notch team and transparent ownership and governance structure to make swift decisions, and move forward quickly, in the meanwhile sustaining their business resilient and reliable. In recognition of its performance, Otkritie was admitted to World Economic Forum's Global Growth Companies Community which consists of nearly 400 members.

COMPANY PROFILE	
Company type	Corporation
Annual turnover	$1.767 Trillions
Number of Customers Total	Over 2,000,000
Number of Employees	Over 7,000
Inception	1995
Geographical coverage	Asia , Europe , North America

COMPANY CONTACT DETAILS	
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Founded in 1990, PROFILE Software is a specialised financial solutions provider, with offices in Geneva, Dubai, London, Singapore, Athens and Nicosia, delivering market-proven solutions with an exceptional track record of successful implementations in the Banking and Investment Management industries. PROFILE is recognised as an established and trusted partner in a number of regions, offering a wide spectrum of solutions to the financial services sector. PROFILE's solutions enable institutions worldwide to align their business and IT strategies while providing the necessary business agility to proactively respond to the ever-changing market conditions.

COMPANY PROFILE	
Company type	PLC/Listed firm
Annual turnover	Undisclosed
Number of Customers Total	200
Number of Employees	102
Inception	1990
Geographical coverage	Global

COMPANY CONTACT DETAILS	
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SAGE SA, a privately-held software publisher, develops leading financial software that satisfies the needs of global financial organisations and assists them in improving their productivity while focusing on their core competence. SAGE SA, which was founded in 1986, has its headquarters in Switzerland, and has branches in Dubai and Singapore. Over the years, it has developed a cutting-edge front to back-office banking system, called Prospero, the Global Banking & Wealth Management System.

COMPANY PROFILE	
Company type	Private company
Annual turnover	Undisclosed
Number of Customers Total	Undisclosed
Number of Employees	80
Inception	1986
Geographical coverage	Asia, Europe

COMPANY CONTACT DETAILS	
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Both a software publisher and an Application Services Provider, SLIB is a trusted partner to the financial services industry, always on the lookout for changes in the European securities landscape, by supplying its customers with innovative software solutions to streamline their securities processing and improve their performance, whilst mitigating their risks. SLIB solutions support securities order and trade, clearing, settlement, custody, online vote prior to General Meetings and risk control. To date 50 securities services providers throughout Europe are using SLIB solutions.

COMPANY PROFILE	
Company type	Limited Company
Annual turnover	More than $25 Million
Number of Customers Total	Over 50
Number of Employees	110
Inception	1988
Geographical coverage	Europe

COMPANY CONTACT DETAILS	
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truphone

Truphone is a mobile network with a unique voice and SMS recording facility. As financial regulation continues to tighten on a global basis, mobile recording is emerging as one of the steeper technical and operational challenges for the global banking community. Truphone Mobile Recording has the flexibility to comply with evolving legislation whether you are doing business in the UK or internationally. The platform records to Truphone's secure managed service or a customer-designated site. Truphone's in-network solution does not interfere with user behaviour — calls do not need to be made through an application and there are no call connection delays.

COMPANY PROFILE	
Company type	Limited
Annual turnover	Undisclosed
Number of Customers Total	Undisclosed
Number of Employees	Undisclosed
Inception	2006
Geographical coverage	Global

COMPANY CONTACT DETAILS	
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Whether complying with regulatory requirements or managing financial transactions, addressing a single key risk, or working toward a holistic enterprise risk management strategy, Wolters Kluwer Financial Services works with more than 15,000 customers worldwide to help them successfully navigate regulatory complexity, optimize risk and financial performance, and manage data to support critical decisions. Wolters Kluwer Financial Services provides risk management, compliance, finance and audit solutions that help financial organizations improve efficiency and effectiveness across their enterprise.

COMPANY PROFILE	
Company type	PLC
Annual turnover	€386 Million
Number of Customers Total	15,000
Number of Employees	2,314
Inception	
Geographical coverage	Global

COMPANY CONTACT DETAILS	
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ValidSoft offers world-class telecommunications based security solutions, custom built for the new mobile landscape, and are the only software security company in the world with three European Privacy Seals. ValidSoft has the world's only indigenous, IP based, secure multi-layer, 5-factor indigenous platform, preventing fraud before it happens and virtually eliminating very costly false-positives. At the heart of their security model is a focus on real-time "invisible" authentication and transaction verification.

COMPANY PROFILE	
Company type	Private Limited Company
Annual turnover	$11.7 Million
Number of Customers Total	Undisclosed
Number of Employees	up to 30
Inception	2003
Geographical coverage	Global

COMPANY CONTACT DETAILS	
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Financial IT

ECOSYSTEM

IN THE NEWS MANDATES

GBC International Bank selected the Precision bank platform and outsourced processing from Fiserv

Provider: Fiserv
Client: GBC International Bank
Mandate value: Undisclosed

GBC International Bank selected the Precision® bank platform and outsourced processing from Fiserv. The bank expects to leverage its new relationship with Fiserv to increase efficiencies while enhancing the selection of innovative products and services available to its customers. Other Fiserv products and services selected by the bank include Business Analytics, the Prologue™ financial accounting suite, Accel™ payments network, Retail Online™ and Business Online™ for online banking, Business Process Manager for new account and process management, EnFact® for debit fraud protection, CheckFree® RXP® and CheckFree® Small Business for bill payment, Director™ for electronic content management, Integrated Teller for real-time customer and account information, WireXchange® for wire transfers, and solutions for ATM and debit card processing.

First Bank goes live with Fundtech's CASHplus version 3.8

Provider: Fundtech
Client: First Bank
Mandate value: Undisclosed

Fundtech announced that First Bank has gone live with CASHplus® Version 3.8. The turnkey cash management platform enables First Bank to deliver a scalable, flexible and customisable solution to the bank's corporate customers. A longtime Fundtech client with a unique footprint in Missouri, Illinois, Florida and California, First Bank is a privately owned institution with approximately $6.5 billion in assets. First Bank runs CASHplus through Fundtech's data center and relies on Fundtech's help desk to support the bank in addressing any unique customer challenges.

Circle selects Reval for hedge accounting

Provider: Reval
Client: Circle Anglia
Mandate value: Undisclosed

Reval, a leading global Software-as-a-Service (SaaS) provider of comprehensive and integrated Treasury and Risk Management (TRM) solutions, announced that Circle Anglia (Circle), one of the UK's leading providers of affordable housing, has selected the company to streamline hedge accounting workflows and enable informed hedging decisions, increasing control over earnings volatility.

Lord Abbett chooses SimCorp Dimension

Provider: SimCorp
Client: Lord Abbett
Mandate value: Undisclosed

SimCorp announces that it has signed a license agreement with Lord Abbett, a privately held firm which has been managing equity and fixed-income products for over 80 years. Lord Abbett has selected SimCorp's investment management solution, to support the firm's value creation strategy, that is focussed on offering clients a diversified range of products and superior service.
With assets under management in excess of $130 billion, Lord Abbett will use SimCorp Dimension for centralised position-keeping, investment accounting, performance measurement, corporate actions and reconciliation.

Kiltearn Partners selects INDATA's iPM

Provider: INDATA
Client: Kiltearn Partners LLP
Mandate value: Undisclosed

Kiltearn Partners LLP, based in Edinburgh, Scotland is live with INDATA's iPM — Intelligent Portfolio Management® platform.
Thanks to significant growth in assets under management, Kiltearn Partners LLP required better systems to facilitate greater operational efficiency and compliance capabilities. Kiltearn chose to implement iPM based on the system's strong portfolio modeling, compliance and dealing (OMS) capabilities, as well as the fact that iPM can also provide a fully integrated back office accounting package via a single database architecture.