Meeting Industry Challenges in Trade Confirmation, Settlement and Clearing

For years, the asset management industry has focused on automation of the post-trade business. This is a theme that many of you have heard discussed at various events throughout the industry. However, in many cases, the desire for change has not turned into commitment to take action and change processes. At the same time, market volatility, economic uncertainty and increased regulatory oversight has put additional pressure on our industry. We are charged with the challenge to reduce operational risk, improve efficiencies and, ultimately, provide viability in the post-trade process.

The landscape was much simpler in the past when investment strategies focused on equity and fixed income instruments. In recent years, the landscape has changed drastically. The increased use of cash, fixed income and derivative instruments, paired with the growing number of industry utilities, has caused complexity and led to the implementation of non-standard and manual processes.

Organizations are becoming more aware that their post-trade operations are under greater scrutiny. They must make a decision on whether to invest in technology or consider outsourcing to providers that have the ability to provide scalable service at a lower cost. The build versus buy decision is a difficult one to make, but it is one that must be considered before a firm chooses to venture down the path of automation.

The key areas of focus that Fiserv has maintained for our clients are the traditional functions of confirmation and settlement. Because of the shift in the marketplace, however, these areas are being re-examined and our current processes are evolving to manage the growing number of instrument types that require automated processes and increased transparency. The question at hand is whether to explore not only automation, but the model that would best suit the current state of business and what lies ahead.

With OmgeoSM sun-setting OASYS Global and migrating to Central Trade Manager, and SWIFTTM making its transition into the confirmation space with its Global ETC solution, it is apparent that the time for change is now. Factors for consideration are based on preferences or systemic requirements and whether electronic trade confirmation happens at block or allocated level.

Confirmation processing for other asset classes, like Exchange Traded Derivatives (ETDs), Contracts For Difference (CDFs) and Non-Deliverable Forwards (NDFs) will also need to make progress in order to complement the processes of organizations and their counterparts. This introduces connectivity to MarkitServTM for the confirmation of credit default swaps, interest rate swaps and other utilities, like TraianaTM and Univista.

Trade settlement via SWIFT has become a market standard although, surprisingly, non-standard and manual processes are still practiced by many businesses today.

Organizations need to understand the implications of the expansion of the asset classes and their support within SWIFT and other industry participants. The concept of notification must be managed to the point where certain instruments, particularly derivatives, do not settle and use Financial Products Markup Language (FpML) formats to notify counterparts. In
Germany there is also the BVI Securities Transaction Standards Excel® formats for communication with the Kapitalanlagegesellschaft (KAG).

In retrospect, we are also seeing a push toward clearing for Asset Managers on the back of the Dodd Franks Act and the European Market Infrastructure Regulation (EMIR). This is creating further cost and complexity around OTC derivatives with added communication and connectivity with the clearing brokers, Markit and the clearing houses. Other implications around collateral and margins need to be considered. This can be achieved through cash, treasury stock and potentially, the use of stock lending or repo to meet obligations.

There are many aspects of the post-trade environment that need to be considered and evaluated before the right decision is made for your organization. Fiserv supports asset managers by providing the tools that help you manage your middle-office environment and provide a fully automated and consolidated view of your operation. This, in turn, results in operational control, exceptions management and transparency throughout the process.

Connect With Us
For more information on TradeFlow™ from Fiserv, please contact us at 800-437-2997 in North America; +44 (0) 845-013-1200 in Europe, Middle East and Africa, +65 6533-9288 in Asia Pacific, or visit www.fiserv.com.