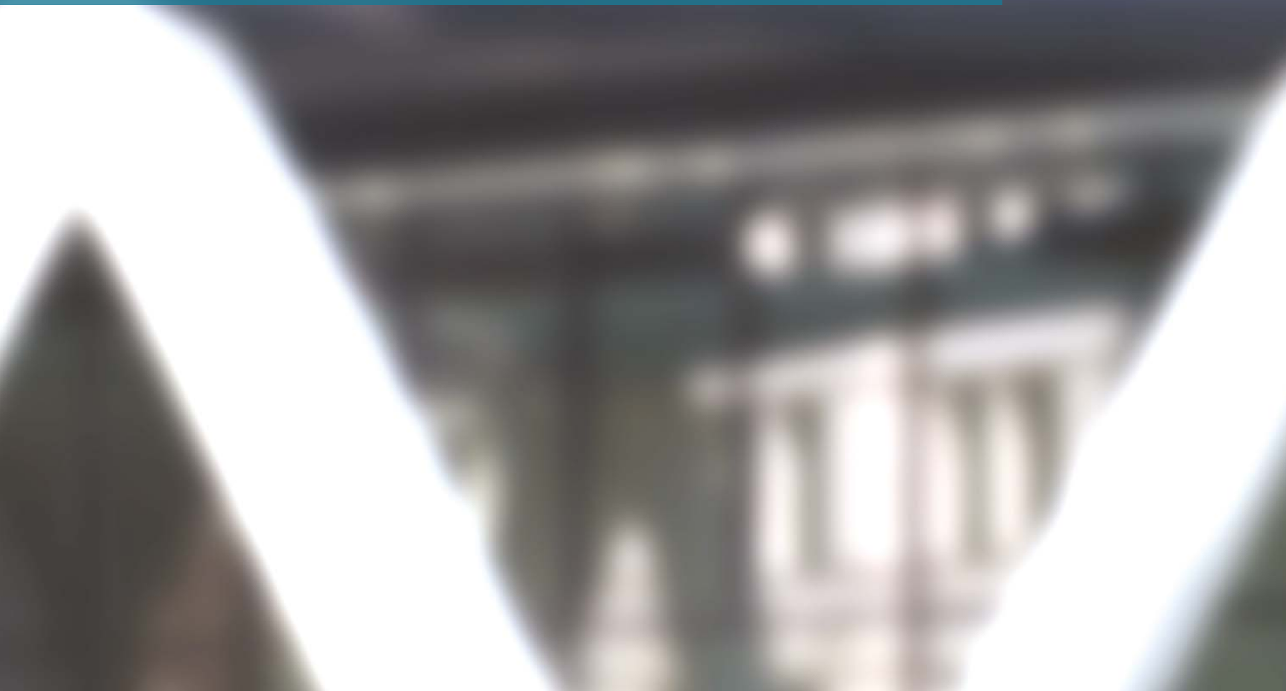
Leading the charge

Phillippe Chambadal, CEO of Smartstream is a long-standing proponent of utilities and the post 2008 industry is catching up to his way of thinking. Smartstream is aiming to mutualise the bulk of post-trade processes so that firms can focus more on their core businesses.



What were your initial goals after the company was acquired in 2007?

Our aim was to offer shared services in post-trade processing because we believe they offer the only way to increase efficiency and improve operational risk control. We bought SmartStream in 2007 because the company had a strong platform and client base. It was good timing in that until the global financial crisis happened, the financial services industry did not look at post-trade operations. It had been a bull market for the previous 30 years and it was not a major focus. They also underinvested in the technology, which meant that the post-trade processes had become very inefficient. For example, the cost of processing one derivatives trade typically ranged from $200 to $600. However, after 2008, there was a new focus on cost and a real sense of urgency to restructure the back office. This coincided with regulatory pressure to improve the quality and accountability of the risk data and reporting and to have a real time view of positions, liquidity and risk.

What benefits would a utility bring?

There is very little in the post-trade world that can't be mutualised. Consultants estimate that there is between $50bn and $65bn waste in the post-trade world and that there is no value-add for companies to run these services internally. Even if banks did spend the billions of dollars to invest in their own systems, they would only be as good as their counterparty's processes. If for example, a buyside client has weak post-trade systems, it has a significant impact on the operations of the bank. The other benefit is that utilities enable participants to concentrate on their core competencies and improve their competitive edge and quality of service.

What was the first project?

Reference data. In the past, financial services firms thought reference data was unique to their organisations and a value-add, so they did it themselves. However, it was an inefficient process for many reasons such as the front and middle offices used different ID codes and external data sources could be incorrect. The utility normalises and cleanses the data coming in from external sources, as well as providing a cross-reference across all identifiers for the same base instrument and issuer. This means that organisations can consume consistent, high quality data based upon a common coding reference and aggregate risk data with proper governance in place. The result is improved straight through processing, fewer trade breaks and a lower cost per trade. We estimate that we can immediately cut direct enterprise data management costs by around 30% to 40%.

Can you provide more detail about the current reference data initiative with the banks?

J.P. Morgan Chase, Goldman Sachs and Morgan Stanley have come together to evaluate current data management offerings and create a reference data utility. They put out a tender to different technology vendors and SmartStream won the mandate. The utility creates a golden copy for each client and helps eliminate trade breaks by sharing a common data model and high quality data on both sides of the trade.

What other utilities have you created?

Reconciliations, corporate actions, as well as fees management. With the latter, we basically take over the whole process of the management of fees and invoices emanating from brokers, clearing and exchanges. Traditionally they have

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been managed using manually intensive and paper-based processes that create significant inefficiencies. Instead of taking many months for firms to check these invoices, we streamline that process depending on the client's requirements. Our solution manages the matching of transactions and associated fees. Going forward we are looking to help the market by creating standard invoice formats between market participants to make the process more transparent and efficient.

What were the drivers behind the acquisition of IBM's Algorithmics collateral solution in February?

It was the missing piece and a natural extension of our cash and liquidity management solution. The acquisition enables our clients to have a complete picture across the front- and back-office and a centralised view of their inventory and exposure, enabling greater transparency of funding and collateral needs. We have rebranded the company as TLM Collateral Management, and have integrated collateral management with our other real-time solutions and services which includes cash and intraday liquidity management, corporate actions, reconciliations, data management and exception management.

We recently built an Acadiasoft Adaptor to provide a complete integration of messaging and collateral management. ■