



## Key SmartStream Technologies officials talk about their wins via the 2017 FTF News Technology Innovation Awards competition, and about the future of traditional internal securities operations.

*(FTF News recently got time with SmartStream's Darryl Twiggs, senior vice president for the Strategic Initiatives division, and Kurt Eldridge, global head of sales, to talk about the two awards that the company took home: Best Outsourcing Provider and Best Derivatives Operations Solution. They also share their thoughts on the future of managed services and how a traditional in-house processing operation is "fast becoming an expensive luxury many firms can no longer afford.")*



**Q:** In 2016, what did SmartStream find as the biggest challenges in derivatives operations processing?

**A:** Each participant in the derivatives market has its own definition of a derivative trade in terms of actual data, taxonomy and symbology, which for the majority of vendors is a substantial challenge.

The consequence for these vendors is that they have to build a unique, singular data model and processing workflow for each derivative type, which takes time and funding and does not really resolve the requirements for quality portfolio management.

However, SmartStream's unique reconciliations architecture delivers a normalized data model and automated tooling that enables us to rapidly map all derivative types to a common data model. This exposes the data to a common workflow.

Normalizing the data is the first step to delivering processing efficiency and understanding, but we have gone further with SmartAnalytics, which provides multi-dimensional analysis of the root cause of data errors enabling our customers to quickly resolve these issues and drive continuous systemic improvements.

Furthermore, SmartStream had already addressed the complexity of derivatives data definition and normalization in its Reference Data Utility notably in the provision of clean listed derivatives data to the market, which we have been able to successfully apply to our operations solutions.

Understanding the data and downstream workflow requirements are key challenges which we have solved for different firms in this market.

Lastly, SmartStream is addressing the complexity of the invoicing processing with the industry specific challenges across the multiple broker relationships and broker types, from executing, clearing and introducing brokers.

The interrelationship between the market participants is complex and multi-layered with respect to cross charging and identification of appropriate billing partners and entities. The billing utility provides an end-to-end service provision for both accounts payable and receivables, either as a deployed technology solution for varying degrees of managed services through to a fully outsourced environment.

**Q: Same question for SmartStream's outsourcing offering?**

**A:** There is no difference for SmartStream between providing on-premise solutions and managed services; it's just a question of preferred deployment technology.

We follow the same best practice methodology to deliver first class service to our customers.

All SmartStream's solutions have been Web-architected from the very beginning.

We're not trying to mount old technology in the cloud; our solutions are cloud-enabled.

In hosting, we also have the advantage that we can integrate with our Reference Data Utility to provide the highest quality reference data for derivatives which enables us to deliver the highest efficiencies and lowest subscription costs back to our customers.

Interestingly, in a managed service model, our customers are very interested in taking advantage of a mutualized operations approach, which comes naturally from providing a managed service to multiple customers.

Our operations team services multiple customers and offers industry best practice operations and expertise in data modelling, operations and workflow. We are able to provide not just data results but intelligence back to our customers who are then able to focus on business improvements.

**Q: What, in your opinion, did SmartStream do better than its competition last year to win the outsourcing and the derivatives processing awards?**

**A:** We provide an in-depth understanding of how derivatives are defined and normalize this data into a singular processing service.

Together with the multi-dimensional analytics that come with our solutions demonstrates to our customers that we are not only providing operations solutions but intelligence packaged in a way that they can use to identify root cause issues with their internal and external sources.

The width of data in the derivatives space can be extreme and different market participants have their own specific interests.

Our processing, workflow and analytics enable these different participants to pinpoint root causes of issues. Other vendors that are unable to deliver a normalized model are constrained to focus on specific derivatives rather than provide a more holistic heat map of the collective derivatives operation.



It is fundamental in this space to be able to look across different derivatives types and this can only be achieved with a normalized data model.

SmartStream analytics is pioneering the way forward. Regulators are demanding that root cause issues be identified and resolved; they are demanding better data quality and with our analytics series we can enable our customers to meet this need.

**Q: What still needs to be done to make derivatives operations more efficient?**

A: There are moves in the industry, driven by the regulators demand for reconciliations and trade reporting to define industry-wide standards for derivatives.

In part, this comes from the reporting requirement we have seen from Dodd-Frank and EMIR [European Market Infrastructure Regulation].

Having a standard specification for derivatives will aid operations efficiency but it will at the same time force the issue upstream to the front office systems providers who will have to respond with changes to their systems.

For SmartStream, analytics and AI [artificial intelligence] are enabling our customers to understand their data, collectively and to us this intelligence to drive operations improvements.

Our customers are then working with their counterparts to improve data quality.

It is only cooperation among all parties in the trade and settlement processes, for their mutual benefit, that will then achieve higher efficiencies in operations.

**Q: How does SmartStream counter clients' reluctance to use an outsourcing provider?**

A: I think the reluctance is dissolving pretty fast.

A change to the traditional in-house processing operation is fast becoming an expensive luxury many firms can no longer afford.

In-house is very costly and there are significant economic and operational benefits to be achieved in moving to a managed service paradigm.

In our discussions over many years, our customers are understanding that there are significant areas of operations that have no competitive advantage in being retained in the back- and middle-office. These are the operations that can be lifted to a managed service with relative ease and enable the firm to change to business growth, which, after all, is their core business.

Data security is probably the key concern but today technology has stepped up and answered that challenge.



Data can be encrypted in flight, protected behind robust firewalls, obfuscated to outsourced operations and held in guaranteed regions. Our managed services operations have successfully taken on these key points. Managed services is actually enabling our customers to take on business re-engineering projects that they would otherwise not be able to, and it is returning significant benefits.

**Q: How much can you tell us about some of the advances to come for SmartStream's derivatives operations service?**

A: SmartStream, as always, will respond to the market with solutions and services.

At this time, we are looking at higher automation capabilities, rolling out machine learning and AI [artificial intelligence] services, extending our reference data services to improve data quality across an even wider set of instruments.

Derivatives processing is resident in all our solutions: reconciliations, collateral management and liquidity.

We are opening up these solutions to provide a federated operations model which will give greater insight to risk for our derivatives customers, overlaid with SmartAnalytics as a real time tool.

A key area of focus for our clients within the current environment is around regulatory compliance. We are in the early stages of deploying a utility type model to enable certain aspects of these compliance functions, in the initial stage with a focus across MIFID II and EMIR, particularly around the control frameworks for these processes.