Sell-Side Firms Are Reviving Key Projects: SmartStream

July 02, 2020 by Eugene Grygo

Jason Ang, program manager, TLM Collateral Management, at SmartStream, spoke to FTF News, about the company's achievements in 2019, and the challenges of regulatory deadlines amid a pandemic.

(Sell-side firms are reviewing and reengaging strategic projects in the wake of a pandemic that caused staff to work remotely, says Jason Ang, program manager, TLM Collateral Management, at SmartStream Technologies. This return to strategic projects amid lockdowns and re-openings means the sell side is re focusing on collateral and its importance for credit risk reporting, Ang says in this Q&A. SmartStream won the 2020 FTF News Technology Innovation Award for Best Sell-Side Collateral Management Solution.)

Jason Ang

Q: What aspects of the Uncleared Margin Rules (UMR) compliance push helped SmartStream the most in making its case to the sell side about its collateral management offerings in 2019?

A: There were several areas, not least the fact that sell-side firms know that we have a battle-tested collateral solution, where tasks and workflows can support large volumes of agreements and trades without any performance degradation. Add to this, functionality that supports regulatory concentration rules as well as 'Wrong Way Risk,' which is important when verifying that your tri-party agent is delivering on its contract. The rollout of functionality specific to checking tri-party collateral allocations has proven to be popular.

Q: How did the regulatory uncertainty around UMR impact SmartStream's collateral management efforts in 2019?

A: One of the issues that was thrown into the spotlight in 2019 was how firms dealt with the regulatory IM [initial margining] netting against non reg IA [independent amount].

ISDA put together three strategies: distinct, allocated, and greater of, for dealing with this, and we quickly adopted a solution. We now enable firms to support all three within TLM Collateral.

Q: Beyond UMR, what other regulatory trends caused voters to name SmartStream as the Best Sell-Side Collateral Management Solution for 2019?

A: The UMR regulations have shown that firms need to take new functionality as soon as it is available.

With this in mind, we have several initiatives to facilitate this — firstly, the rollout of our QA testing service — this provides firms with the latest build every two weeks, along with all of our automated test suites, and personnel to carry out bespoke testing. This has proven to shorten time to upgrade and to reduce resourcing costs.

Additionally, re-connecting a collateral system to all upstream and downstream systems during an upgrade is time-consuming. So, by rolling out documented, fully-versioned, backwards compatible, public application programming interfaces (APIs), which are stable over the long term, means these connections do not need to be recompiled with each new release.

Both of these strategies are helping sell-side firms take new functionality regularly and without delay.

Q: How would you describe the current situation with the new UMR deadlines?

A: The postponement of UMR by a year was welcome, since it has given breathing space to all participants — not only those coming into scope, but also the sell side that services Phase Five and Six firms.

It was said before Phase Six was created that firms should not sit back, but push ahead, and my feeling is the industry is serious about compliance.

The volatility earlier this year has highlighted that collateral management is not just another operational cost center, but a business area that will prevent you from losing money in a crisis. So, firms, for the most part, won't take their foot off the pedal in terms of compliance.

Q: How are sell-side firms coping with new and pending deadlines amid a pandemic crisis?

A: There was a period of four to six weeks when volumes peaked, and firms were in protection mode, focused on the daily operational function of collateral management. However, they have now reverted to looking at strategic projects, which includes UMR.

Of course, everyone working from home suddenly meant teething problems, but for the most part the sell side is back engaging. And, if anything, it has been a wake-up call to give more focus on collateral and its importance for credit risk reporting.

Additionally, the volatility during the pandemic shone a light on the importance of good inventory management that is both real time and global. It also highlights the importance of having robust quality systems that can handle significant surges in volume without issues.

Q: Have you seen any shifts among buy-side firms and their approach to the UMR situation?

A: As with the sell side, managing your collateral inventory has proven to be a key takeaway from the pandemic. If firms can understand what collateral they have, and, as importantly, can forecast what the likely margin requirement will be, they won't get caught out.

This plays into the question of managing IM collateral when the firms fall in scope, in either Phase Five or Six.

Before the delay, they may have simply opted for tri-party, but given more time to play with, they may decide on a third-party approach. The third-party approach may be better and cheaper option for firms that have more vanilla collateral portfolios.

Q: How did the lockdown during the pandemic impact SmartStream's collateral management service and support for clients?

A: The collateral squeeze forced firms to expand the collateral types that they were willing to accept, and also what they chose to post.

In some cases, this was just simply looking further down the eligibility schedule, but, in others, it meant renegotiating the schedule.

Additionally, when firms took lower quality collateral, it meant that concentration rules were activated.

Firms needed help from SmartStream in reconfiguring schedules and building concentration rules within the application.

Q: What do you see as the future of collateral management for the industry and SmartStream?

A: The industry needs a collateral solution that is at the cutting edge, with all recent regulatory functionality as well as the ability to automate the collateral process.

This is only possible if the upgrade process is smooth and quick, and so our strategy is to provide tools to enable this. Our QA testing service, our API strategy, and the ability to upgrade specific components of the application in isolation will all facilitate this goal.