On the 4th June the GlobalTrading journal hosted its second annual post-trade roundtable. Last year’s was welcomed by a black rainstorm, and this year’s was met with fierce sunshine. Whether the weather reflects market mood or not remains to be seen.

The roundtable focused on a number of major issues that reverberate across the trade lifecycle and into the back office. The main topic under discussion revolved around the split between automation within a firm, offshoring processing to a cheaper environment, and outsourcing processing altogether. As is often the case, a careful balance must be found between saving costs and cutting back on functionality. The fundamental point remains that no matter what processes are moved where, and what is automated entirely or partly, the responsibility for post-trade compliance and risk management has to stay within a firm.

There was also a conversation around the changing value of labor within the firm: the value calculation between offshoring labor intensive processing to a cheap market where there is a high staff turnover, and keeping the work in a more expensive environment with better staff retention that encourages staff improvement is changing.

A major consideration leading on from this point is that in the case of controversy (eg Libor fixing, FX rate scandals), it is often the case that these areas won’t be fixed until a person in a firm is made personally responsible or accountable for such transgressions. This is often forced by regulators. Culture
within a firm does not drive compliance and surveillance technology forwards; the technology exists, but its uptake is limited until regulation forces firms to engage. As was said in the room, everybody believes that lighting will strike somewhere else first. It remains to be seen how many billion dollar fines it takes before surveillance and compliance becomes an area where global firms start to implement solutions ahead of the regulators. As is often the case however, the technology and people that the regulators have access to, needs to rapidly increase in level and complexity to enable regulators to properly monitor and control their jurisdictions.

Dean Chisholm,
Regional Head for Operations, Asia Pacific, Invesco

“Efficient post trade processing is all about end to end business optimisation, not just the back end or the front end. Data issues must be addressed to optimise both parts. A good mechanised trading life cycle is an essential foundation so data issues can be tackled and processes standardised. The more processes that can be commoditised, then the easier it is to gain economies of scale.

Any participant’s solution will be combination of what to do in-house onshore, offshore or outsource. Different players will have solutions and always retain responsibility.”

Michael Karbouris,
Head of Business Development, Asia Pacific, NASDAQ OMX

“The post trade space is all too often treated as distinct from all other aspects of trading. But it’s getting harder to ignore the impact that more demanding regulations are having on the entire trade and post trade value chain. Vendors play a critical role in helping firms automate post trade, and compliance is now a vital component. The entire risk and compliance stack needs to be taken into consideration, from pre trade risk controls to market surveillance, and even through to eComms surveillance.

This is particularly true in a world where regulators have front and center focus on things such as market manipulation. No asset class is immune as we’ve seen from regulators attention to LIBOR and FX manipulation. It’s also important as market structure in Asia changes, for example with the introduction of China Connect, issues will arise from applying China markets regulation to north bound trading and vice versa. The industry can benefit by outsourcing compliance and surveillance technology to cost effective technology. In that way banks and brokers can focus on other aspects of the post trade processing chain, and even focus their time on those aspects that provide a competitive advantage.”
Jean Remi Lopez, Sales & Planning Execution Manager, Omgeo

“Much has been said about the challenges that the regulatory tsunami brought about globally, but the silver lining is the opportunity for industry participants to lay their businesses flat and review what they are best at. Post-trade operations, which are becoming more standardised, are increasingly leveraging trusted central utilities and services which not only spread the cost but encourage best practice.”

Stuart Knowling, COO Asia, Instinet

“"The theory of commoditization of the back end is just that, a theory. In practice the different local regulations and market structures in Asia make it difficult to implement one solution across an entire region. Shanghai-Hong Kong Connect is a prime example of that with different settlement mechanisms and processes now needing to be combined. The Shanghai – HK Connect project looks great on paper but is going to create complexities on the back end to manage the differences between the markets. The aggressive time line to implementation and the large number of unanswered questions also makes it a challenge, but a challenge that the market knows it needs to overcome.”
Endre Markos,
Head of Execution to Custody at Citi

“The industry is waking up to an evolutionary convergence of the various functions within the financial markets’ numerous engines. While expansion and specialization helped propel the industry, it created silos that over time started to create a larger than desired drag. A scientific and holistic view of all the processes and activities is now emerging as the only assurance of margin protection and continued excellence. Very much the same way, that traders and fund managers came to work much closer together over the last decade to optimize and align investment and trade strategy, more divisions will need to follow suit. Front, back, middle office and ancillary services need to optimize the overall trading and investment process and their rapidly multiplying regulatory requirements. The alpha gain from any further sharpening of the trading weapons may dwarf the return that can be realized by better understanding of the costs, streamlining the compliance requirements and design the trade lifecycle to run in the overall most cost efficient ways. This will without doubt challenge some practices, strategy decisions and organizational beliefs or structures but ultimately, survival remains optional. Proper use of the right technology and the entry of the digital generation into the workforce will not just help this but makes this transformation unavoidable.”

Peter Morris,
EVP Global Head of Utilities and Managed Services, SmartStream

“The pursuit of post-trade cost reduction and efficiency for both the sell and buy sides is a well-established priority but the demand for greater performance with less financial/operational resource is an ever growing constant. Traditional post execution costs and operational margins are approaching exhaustion in providing further savings and efficiencies; firms have to take TCA approaches further along the transactional cycle and better integrate the front office to the post trade, post settlement processes – right down to analysis of transaction fees, management of expenses and invoicing. Better management of trade costs and efficiencies can provide significant financial savings, enhanced trade funding, better regulatory compliance and real competitive advantage.”