Traiana™ MarketView 360

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Securities Briefing:
Presenting Insight from Across the Market

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Contributions from:

BlackRock® Goldman Sachs J.P.Morgan liquidnet

Foreword

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London's Securities community, and the EMEA markets in general, have experienced significant change across 2016. Operationally, the introduction of T2S and the move in Settlement timeframes from T+3 to T+2 in 2014 are designed to improve standardisation in post-trade processing, but have introduced new complexity as well. The increasing number of execution venues together with the multiple asset classes within Securities and the nuances between regions – both internally within EMEA and externally with counterparties in APAC or the Americas – automated, consolidated, exception-based solutions are more important than ever with one day less to settle.

While these events are likely to have specific impacts on individual firms, both the Buy- and Sell-side each have challenges to overcome and objectives to meet.

Legacy infrastructures specific to individual products are coming under increased internal scrutiny by Sell-side institutions. Having separate processes for Cash Equity and Repo, for example, may have made sense in the past, but has become a source of complexity and cost. Consolidating these siloes into a unified, exception-based workflow across functions rather than asset class can increase efficiencies, deliver cost savings and improve client service – while also opening a route towards enabling clients with self-service, real-time visibility into the workflow.

> **"PARTICIPANTS WANT MORE CHOICE, CONTROL AND VISIBILITY INTO POST-TRADE THAN EVER BEFORE**

For the Buy-side, days when firms could select a preferred approach and expect the Sell-side to support it are over. As the drive to cut costs, improve efficiencies and streamline processes crosses the Street, the Buy-side community is taking an active role in meeting operational challenges through partnership, collaboration and consultative innovation. Moreover, with more 3rd party vendor utilities offering proven function-specific solutions through common messaging standards like FIX, the mid-tier and boutique participants can now leverage efficiencies and STP on a scale previously restricted to larger institutions.

At Traiana, our commitment to innovation and unrivalled client service ensures our clients remain ahead of change in the market. We are working hard to ensure our secure, cloud-based and scalable Harmony network can robustly meet the demands of the market today, and is flexible enough to integrate disparate siloed infrastructure into the consolidated technology estates of tomorrow – across multiple asset classes.

Our recent panel event in London was a venue for cross-market participants to come together – where they could discuss the drivers at the heart of these issues, and a range of potential solutions. The following synopsis provides an insight into our expert speakers' opinions on topics including: regulation, MiFID II and CSDR; the evolving role of the Buy-side; and the likely rate of change as participants of all sizes move to embrace and overcome the operational challenges that lie ahead.

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Panel Insights

Panel members

Tony Ashraf

European Head of Derivatives Collateral & Clearing

BLACKROCK®

Risa Lederhandler

Managing Director, Equity Prime Services Operations

Goldman Sachs

David Quickfall

Executive Director, Head of EMEA Cash Prime Brokerage Middle Office

J.P.Morgan

Nadine Readie

EMEA Head of Trade Services

liquidnet

Moderator

Laura Craft

Director, Securities Product Strategy

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Improved efficiency through better behaviour

The panel agreed that behavioural changes would be key to removing cholesterol from workflows. Risa Lederhandler said that Goldman Sachs aims to eliminate breaks and exceptions through better understanding of clients' requirements at on-boarding. "It's about getting it right from the start." The panel agreed that behavioural changes would be key to removing cholesterol from workflows. Risa Lederhandler said that Goldman Sachs aims to eliminate breaks and exceptions through better understanding of clients' requirements at on-boarding. "It's about getting it right from the start."

As David Quickfall from J.P. Morgan prime broker pointed out, providing the ability for clients to self-serve is paramount, especially since their clients' risk appetite has also changed.

Tony Ashraf agreed, pointing to the culture in BlackRock of confirming core economics on T0. Providing a third perspective, Nadine Readie from Liquidnet pointed to cross-market collaboration: "The Buy- and Sell-side have their own forums, but we need to come together more often." There is too much fragmentation in the market – working in unison is the key to improved efficiency.

Cross-asset standardisation

Moving to technological consistency between asset class processing, the panel split along two lines. Tony explained how Aladdin, BlackRock's end-to-end investment technology platform, enabled consistency, efficiency and scale. Similarly, Liquidnet also leverages a single "robust, well-established and globally consistent system," according to Nadine.

On the Bank side, Risa spoke about how eliminating siloes and driving standardisation has become the "name of the game" at Goldman Sachs. However, David Quickfall took a different approach, speaking from J. P. Morgan's Prime Broker perspective. He pointed out the various and valid reasons why his workflows were different between, as an example, Cash Equity and Swaps.

At J. P. Morgan, the emphasis is on enabling clients with a real-time, accurate and self-service view of each trade – visibility, not standardisation, being the objective. It remains challenging for many firms to achieve cross-asset standardization, with many firms investing in technology and leveraging vendor platforms to achieve consistency.

Panel Insights

Opportunity opened up by regulation

Discussing the viability of a central data storage utility in response to MiFID II, Tony expressed BlackRock's view from the Buy-side: a preference for utilities "doing one thing really, really well." This specialisation, combined with healthy competition, would result in offerings that enable a lot of the Buy-side with capabilities they either cannot or will not develop in-house.

In contrast, Risa explained that Goldman Sachs is being "as strategic as possible" – considering their MiFID II obligations in the context of other technology strategies. Nadine reminded us that, in Tony's scenario, "the Sell-side will likely have to plug into multiple utilities, and that comes at a cost." However, it was noted by the panel that the regulatory environment provides opportunity for firms to clean up processes and focus on fixing disparate systems and databases; but as Nadine pointed out, some of the regulatory requirements are for more onerous for smaller houses and whilst utility solutions can be the answer, it is important that they have critical mass in order to maximise investment spend.

Operations protecting revenue

According to Nadine and Tony, CSDR's nickname of "the forgotten regulation" is well deserved. Operations has a duty "to protect as much of the revenue generated by the front end as possible", which CSDR makes harder via mandatory buy-ins or penalties for late / failed settlements. However, David explained that J. P. Morgan had seen "very little fallout" when the market moved to T+2 for Settlement. "The last couple of years have tighted things up from a regulatory perspective. CSDR is a continuation of that," in their opinion.

At Goldman Sachs, according to Risa, the Bank is taking a more pragmatic view: "the hard problem to solve for is Settlement – especially in Europe, and especially without T2S." However, rationalising complex infrastructure and improving inventory management should, for Goldmans at least, make things easier.

Collaboration across the Street

As the Operational challenges facing the Securities market continue to evolve, improved collaboration between Buy- and Sell-side firms has to improve. As Tony said: "we generally are only as efficient as our counterparties." As an Agency Broker at Liquidnet, Nadine believes that "the Sell-side has a responsibility in the education, connection and introduction" between the smaller Buy-side firms and potential service providers.

At Goldman Sachs, Risa views these relationships as "absolutely critical." However, they are not confined to between vendor utility / Buy-side or vendor utility / Sell-side: as Tony explained on the view from BlackRock "we are starting to see utilities work together as well, which is a real positive. You could almost start creating front to back flow within the utility space."

Panel Insights

Intelligent post-trade

Closing out the panel with a view into upcoming developments, David wondered about the impact Netting and Compression is about to have: "balancing efficiency against volume discounts, transparency with clients about ticket charges, and ultimately does the client care?" David went on to explain that operations is often the first to feel the pinch when cost saves are demanded – trade compression is an obvious area for J.P. Morgan to facilitate.

Moving back to technology, Tony spoke about integrating intelligence into BlackRock's post-trade platform. Specifying collateral optimisation, he talked about "using pre-determined logic to select the right collateral to utilise, where the most benefit could be found, and where the Netting, Margin or Clearing optimisation opportunities lie."

Risa sees Goldman Sach's Operations teams evolving from a reactive, exception processing role to a more proactive and real-time flow monitoring position: analyzing break downs in STP, understanding why it had occurred and with whom, and then suggesting solutions for a more successful outcome.

In closing, Nadine made a fitting seafaring analogy: "boutique and agency firms are like yachts, the big Tier 1 institutions are freight tankers". Simply put, the smaller firms can turn with more agility to embrace change, while it requires more time, effort and investment to turn the big ships around. While these banks and firms are embracing change, complying with regulations and developing new, innovative solutions, the 'turn' has not been completed yet.

To discuss the insight presented at the panel event, or for more information about Traiana's suite of solutions for the Securities market, please visit:

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