

whitepaper

After the Trade – The Case for Outsourcing Post-Trade Processes

Asset Managers of all types are pursuing the opportunity to outsource all or part of their operations to qualified service providers. The reasons vary, but hedge funds, pension companies, corporate treasuries and insurers are looking at outsourcing post-trade activities. Nowhere is this more prevalent than with OTC derivatives instruments.



The factors each asset manager considers when determining which processes to outsource are as varied as the managers themselves. This guide will summarize the common rationales for outsourcing and provide the options available when outsourcing post trade services.

Outsourcing Drivers

Firms invest in derivatives for different reasons. Advisors deploy derivatives as part of complex investment strategies. Banks use derivatives to hedge market risk. Corporate treasuries hedge and protect commodity, funding and currency market exposures. Mutual funds and insurance companies also invest in these instruments. For Banks, there are strict rules on how these transactions are structured, to qualify as a hedge. The issue is complex derivative processing, coupled with collateral tracking, is often a costly, manual and labor-intensive process and prone to human error. In efforts to optimize cost structure and gain operational efficiencies firms are turning to some form of outsourcing of these processes.

This is made more complex with the coming regulations, discussions of a shortened settlement cycle in many markets, the reform of the over-the-counter derivatives market and the introduction of LEI's (Legal Entity Identifier) to identify business entities for the purpose of trade reporting. Institutions are finding themselves at an imperative fork-in-the-road. These firms will need to re-engineer and enhance their operations, offering greater levels of scale and automation in their post-trade processing, all while trying to minimize any disruption to current operations.

Specifically, the main factors for firms considering outsourcing post-trade processing of derivatives are:

1. **Cost**

- Asset managers are looking for efficient ways to take advantage of industry technology such as automated trade matching, messaging and cash transaction processes.
- The regulatory enhanced drive toward derivatives clearing requires retooling technologies. Outsourcing allows managers to lay off the expense to providers who can focus their technology efforts efficiently for the benefit of all their clients.
- Hedge funds specifically, find it easier to allocate costs directly back to the funds they manage if they outsource the process to a service provider.
- Cost effective scalability in a market where the need for enhanced returns may require the flexibility of trading larger numbers and varieties of OTC derivatives.

2. **Quality**

- As traders find value in increasing the number of dealer, prime broker, and custodial relationships, outsourcing can take advantage of service providers established relationships with sell-side back offices and the connectivity already in place.

- Similarly, the increased complexity of the new ISDA Credit Support Agreements with multicurrency cash settlement and segregation of initial and variation margin, and cleared and un-cleared collateral payments are driving managers to consider outsourcing collateral management.
- For some asset managers, OTC derivative trading is an important function, but not a primary one. For these managers choosing to outsource can allow key personnel to focus on the most important aspects of their business. This can be true for hedge fund managers as well as for corporate treasurers, etc.
- Adherence to evolving best practices can be assured by when outsourcing to providers that stake their future on keeping up with advances in processes and that certify their controls through SOC I (Statement of Controls) audits.

3. Oversight

- The need to respond to increasingly demanding regulatory reporting requirements such as Form PF, ADV, CFTC, Solvency II.
- Pressures to provide transparency and independent verification of asset existence and valuation required by institutional investors and regulators.
- A desire for independent risk measurement and limits monitoring.
- Increased scrutiny is compelling boards of directors, Chief Risk Officers and other governing bodies to require more transparency to fulfill their fiduciary responsibilities.

Whatever the reasons that motivate the decisions of individual asset managers, the trend is unmistakable and shows no sign of abating anytime soon.

Why Outsourcing

As firms think about their options, it is incumbent upon interested parties, be they COO's of corporations, asset managers or those responsible for oversight on behalf of investors, to look under the hood of the valuation process and consider outsourcing. Here are some key benefits of outsourcing your post-trade processes:

- **Reduce costs**
 - Post-trade processing costs can be significantly reduced
 - Legacy software and staff costs complying with new regulations will be reduced
 - Firms gain greater visibility into the costs associated with each part of its post-trade processing
- **Gain greater cost certainty and flexibility**
 - Buy-side will have the ability to select number of services they want to use as they grow

- **Improve service delivery**

- Make better decisions in real-time and better manage collateral for your securities operations
- Comprehensive information enable buy-side to provide higher quality of service

Outsource vs. Insource – Asking the tough questions

Timing to market

Which alternative will provide me with a solution I can use faster?

Flexibility

Which will allow me to adapt to the ongoing changes in the market?

Which solution will adapt better to new trading strategies?

Which one best handles the instruments my investment managers trade?

Which one will allow me to add new instruments quickly and efficiently?

Staffing your support team

Which allows me to best leverage subject matter experts?

Which will provide me with a stable operations support team?

Cost

Which one will cost less the next 2 years?

Which one will cost less over the next 5-7 years?

Which one will most cost effectively scale up as my business grows?

Data Integrity

Which one provides the best security for my proprietary trading and account information?

Which one provides the best access to data and reporting flexibility?

Which will prove to be the most reliable for meeting my regulatory reporting needs?

Carmine Ricciardi, Mizuho Securities USA Inc. a current SS&C client, said, "We leverage SS&C's GoTrade+ services to manage our OTC collateral processes. This provides us with a transparent, controlled and scalable infrastructure as well as subject matter expertise at a fraction of the cost of building and maintaining it ourselves."

SS&C's Global Post Trade Processing as a Service

The state of legacy platforms and the required ability to keep up with future market shifts and regulation means the buy-side face must consider outsourcing its post-trade processes. SS&C global post-trade services has set the standard for integrated post-trade processing by leveraging its outsourcing capabilities in combination with proprietary technology solutions and extensive expertise in post-trade processing.

SS&C's global post-trade services support post-trade activities of complex traded transactions including bilateral and cleared OTC derivatives, listed derivatives, loans and other securities. These services can be flexibly fitted into existing client infrastructures to flow seamlessly with current processes. The technology receives trade data from front office systems and delivers post trade life cycle support, valuations, collateral management, cash services, accounting, reporting and data delivery all wrapped in a personalized relationship management framework.

With SS&C's post-trade services, managers can:

- Integrate electronically with counterparties – including Swap Execution Facilities
- Assist identifying LEIs
- Process results of trades quickly – and provide information immediately
- Track collateral
- Research and resolve reconciling items
- Apply valuation best practices
- Comply with regulatory edicts of all of the corresponding governing parties
- Provide robust reporting

SS&C's world-class post-trade infrastructure combined with its technology expertise delivers a comprehensive, independent, web-based transparency on traded portfolios. SS&C uses web based technology to provide clients with real time 24/7 access to their trade data and statuses so that clients can know anything about their trades, anytime and anywhere.

Post-trade lifecycle processing software & service that streamlines operational functions, customized to fit seamlessly into a client's existing infrastructure.

- Corporations
- Pensions
- Insurance companies
- Asset Managers
- Mutual Funds
- Hedge Funds
- Banks

