

# TRADE PROCESSING: MORE COMPLEXITY AND MORE SPEED

Interview with Russ Hatton, SVP, Head of European Pre-Sales and Business Development, SmartStream

**Financial IT: What are the most important trends that you are seeing in trade processing at the moment?**

**Russell Hatton:** There is a new focus on reconciliations. Buy-side and sell-side players are much more aware of the challenges of reconciling complex trades – fixed income, OTC products, exchange-traded derivatives etc – with the various central clearing counterparties (CCPs). In particular, there is a new emphasis on risk management systems that identify when trades are not matching.

**Financial IT: What is driving this?**

**Russell Hatton:** This is the result of new regulation and, in particular the EMIR and Dodd-Frank regimes. Under the Dodd-Frank regime, the party that is dealing with the CCP has to monitor and manage trade breaks on a daily basis and to report on those breaks.

**Financial IT: The additional reporting requirements are what, exactly?**

**Russell Hatton:** It is now necessary to identify the reason for breaks and to quantify the financial values that are involved. So trade reconciliation is more complex. Consider, by way of example, a sell-side player that is doing a reconciliation of an exchange-traded derivatives deal. The player will have to do a positional reconciliation, a trade-by-trade reconciliation and a cash movement reconciliation. More than that, it will be necessary to combine all this into a single reconciliation across all assets that they settle through a particular CCP.

In other words, Dodd Frank and EMIR have required a single solution that handles all elements of trade reconciliation for all assets with all CCPs.

**Financial IT: Are there other trends that you would highlight?**

**Russell Hatton:** There is also a growing requirement for ‘ad hoc’ reconciliations. For instance, if a buy-side player needs to reconcile the details of the trade repository, where the trades are booked, against the details in the risk management systems. This would be done in order to ensure that all components of the trade comply with the risk management requirements. It may be a part of a regular audit. Traditionally, those reconciliations have been carried out on an ‘ad hoc’ basis – through the comparison of spreadsheets. That process takes a lot of time. Our offering enables the client to upload the two relevant files, after which the system will automatically analyze the data: it will then produce a report on which trades do not match and why they do not match.

**Financial IT: So you deliver much greater speed?**

**Russell Hatton:** That is right. And speed matters more. Increasingly the exotic trades, such as OTC products, have to be reconciled on a real-time basis, rather than on the traditional T+1 basis. That is usually because of the need to understand the impact of the trade on the overall risk profile.

**Financial IT: What impact does Basel III have on all this?**

**Russell Hatton:** Basel III standards require more stringent liquidity reporting, on an intraday basis. This relates to a client’s liquidity usage, and the amount of capital assets that they have to hold so they are not penalized by a central government bodies.

As part of the SmartStream cash management solution, we offer an intraday liquidity module to allow clients to monitor their liquidity usage on the information coming in relation to debit and credit movements, the available lines of credits, both secured and unsecured, and the available collateral cash balances.

**Financial IT: Are those modules part of your flagship TLM product?**

**Russell Hatton:** We deliver solutions to most of the processes within the middle- and back-office of institutions, all of which come under the umbrella of Transaction Lifecycle Management (TLM®). We offer TLM Reconciliations Premium, which covers all asset classes and which can do a multi-asset reconciliation in a single dataset. As noted, we offer TLM Cash Management, with intraday liquidity. We offer TLM Client Money Segregation, which allows banks to report their clients’ money segregation. Other solutions include TLM Corporate Actions Processing, TLM Collateral Management, TLM Confirmation Management, TLM Fees & Invoice Management and the Reference Data Utility.

## About Russell Hatton

*SVP, Head of European Pre-Sales and Business Development, SmartStream*

Russell Hatton has been a Senior Pre-Sales Consultant at SmartStream for over 18 years. As part of the sales team, Russell is responsible for presenting SmartStream's TLM solutions which focus on the automation and improvement of clients existing processes.

Before joining SmartStream Russell worked at Chase Manhattan Bank where he held a number of positions in back office operations and treasury support. Prior to this he gained experience of financial services as a dealer on the London Stock Exchange.



**Financial IT:** *In short, you offer a comprehensive range of solutions that enable your clients to meet the new regulatory requirements.*

**Russell Hatton:** Exactly. And Dodd-Frank and EMIR are not the only sources of new challenges. IOSCO is requiring management of collateral for uncleared derivatives as well as cleared derivatives. And we believe that our collateral management solution will be able to meet all the requirements. It will also help our clients to manage collateral in the optimum way.

**Financial IT:** *Looking forward, how do you see your competitive position?*

**Russell Hatton:** Our reputation in the industry means that we have been successfully working with over 70 of the top 100 global banks.. We also work with eight of the 10 largest custodian banks. Our clients also include insurance companies and corporates.

Our position comes in part from our ability to deliver solutions that help our clients to meet the ever-growing reporting requirements and, therefore, to control risk. I would also add that we are competi-

tive because we help our clients to reduce costs. Our clients can work with us in a number of ways. They can use our solutions on their own premises, through our data centers or in the cloud.



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