

10 things to consider when choosing a post-trade matching solution

Historically, post-trade processing [i.e., matching, allocation and confirmation] was notorious for being incredibly inefficient. In addition to being highly fragmented, post-trade processing itself was very manual, leading to added costs and heightened risks for market participants.

The post-trade space has been going through an interesting period of change in recent decades. This area, historically overshadowed by the front office and trading, has seen increased focus driven by regulatory activity, demand for greater operational efficiency and technological innovation.

REGULATORY ACTIVITY

Regulations such as the Central Securities Depositories Regulation (CSDR) have cemented best practices and forced industry players to look at whether they have the right systems in place for matching and settlement instructions. Globally, regulators are pushing to reduce the settlement cycle from T+2 to T+1 or even T+0. As a result, more regulatory intervention around trade processing and settlement can be expected. Buy-side firms need to transform their post-trade processing in order to remain compliant.

OPERATIONAL EFFICIENCY

Many asset managers face challenges when they want to do new things, such as launch a new strategy. They lack the flexibility and agility within their operating model to bring new products or portfolio management teams into their organizations. When they do, they often need to perform many of their middle- and back-office processes manually. This creates more operational fragmentation and higher levels of operational risk.

TECHNOLOGICAL INNOVATION

Over the past two decades, the FIX Trading Community, a nonprofit entity that promotes industry standards, has developed a series of post-trade FIX specifications and guidelines covering cash equities, futures, equity swaps and FX equity options. This has streamlined post-trade technological innovation and the integration of FIX into post-trade. The real-time nature of FIX means the entire allocation and matching process occurs in a matter of seconds, enabling buy-side firms to automate post-trade processing like never before.

More and more buy-side firms are turning to technology to modernize their middle and back offices for greater operational efficiency.

Here are the 10 key areas you should consider when assessing your shortlist of vendor groups.

1

EMBRACING THE FIX PROTOCOL

FIX, the industry standard financial messaging protocol, enables allocation instructions and confirmations to be exchanged in near real time between FIX-enabled clients and brokers. A FIX-based post-trade solution enables you to allocate, confirm and affirm trades more efficiently than with legacy technology.

In addition, the FIX protocol stores every piece of communication with brokers, including order timestamps and a detailed breakdown of fees and charges (commissions, research payments, soft dollars, stamp duties, miscellaneous fees, etc.). This can make a big difference in handling certain compliance burdens, such as audits.

2

GLOBAL COVERAGE AND MULTI-ASSET CLASS CAPABILITY

Asset managers often find themselves having to use different vendors for different asset classes, which creates cost and resource pressures.

When evaluating a solution, make sure the vendor system enables you to incorporate new asset classes and expand to new regions and markets, empowering you with the capacity to handle global, domestic and international flow.

LICENSE FEE MODEL AND HARDWARE COST

Some vendors charge clients based on transaction or AUM, while others offer a tiered pricing range or levy upgrade charges.

This can make a huge difference in terms of total billings. In addition, you need to be aware of any additional costs for hardware and infrastructure on your premises, which will substantially increase your total cost of ownership.

3

EASE OF INTEGRATION

A vendor should provide an extensive and flexible integration option so that it can quickly plug into your existing applications.

A high level of integration with your OMS is necessary to shorten the settlement cycle, as it is crucial for T+0 processing and middle-office automation.

4

VENDOR STRATEGY AND INVESTMENT PLAN

You need to confirm that the vendor is committed to continued technological innovation and investment in order to keep up with regulatory and market structure changes, continuously enhance the platform and deliver new capabilities to support your needs and future growth.

Ask for the vendor's overall product strategy and roadmap, including product development investment and resources, technology stack refreshes, approach to new feature requests and the like.

5

6

ABILITY TO STAY UP TO DATE WITH CHANGING REGULATIONS

Given the ever-increasing complexity of the post-trade space, you need a vendor that has proven its expertise in the relevant regulatory considerations and their impact on global workflows.

This vendor should describe how it has handled key recent regulatory changes, including their impact on its offerings and the level of support provided to users through such an implementation.

VALUE EXPERTISE

Most firms that want to work with a vendor instead of an outsourced IT arrangement are looking for a true partnership.

Identify a reliable vendor with a proven solution and the domain expertise to understand the value and vulnerabilities of its products, as well as the flexibility to support your ongoing needs and urgent requests.

7

8

CLOUD-BASED ARCHITECTURE

The COVID-19 pandemic demonstrated that most firms can benefit from running middle- and back-office processes in the cloud when possible.

Running on-premise hardware is less scalable and can severely hamper the ability to adapt to future innovation.

Leveraging fully hosted solutions built on flexible, cloud-based architecture enables ultimate flexibility, more frequent updates and reduced IT costs.

9

SUPPORT MODEL

The vendor's support model must be understood in detail. Vendors often have vastly different service levels in this arena; you should look into how support tickets are managed, the escalation process and what tools are offered to enable your team to work in a more automated fashion.

In addition, the ability to access historical trade data and oversee post-trade allocation activities at any time via a web interface is critically important.

MIGRATION/ONBOARDING PROCESS

A prolonged and problematic migration/onboarding process can be costly and introduce an unacceptable level of risk as you straddle two systems or even delay your launch plans.

You need a vendor with a credible plan (which has been executed in the past with similar clients) to migrate you to its platform without disrupting service.

Proposed timelines should be according to your priorities and there should be a sound contingency plan in case any unexpected issues arise.

10

Broadridge Financial Solutions (NYSE: BR), a global Fintech leader with \$5 billion in revenues, provides the critical infrastructure that powers investing, corporate governance, and communications to enable better financial lives. We deliver technology-driven solutions that drive business transformation for banks, broker-dealers, asset and wealth managers and public companies. Broadridge's infrastructure serves as a global communications hub enabling corporate governance by linking thousands of public companies and mutual funds to tens of millions of individual and institutional investors around the world. Our technology and operations platforms underpin the daily trading of more than U.S. \$9 trillion of equities, fixed income and other securities globally.

broadridge.com

