

# Derivatives trading platforms: time for change?

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Regulatory compliance has dominated the agenda for the majority of industry participants over the last few years. What has emerged is a new world built on best practice where we are continuing to see heavy scrutiny by regulators across the globe.

Before the next wave of major regulatory reform hits, is it time to consider whether today's trading platforms are fit for purpose given the seismic shift in the trading landscape?

## HERE ARE SOME OF THE TRENDS WE ARE SEEING IN THE CHANGING FACE OF LISTED DERIVATIVES TRADING PLATFORMS:

### **OPEN VS CLOSED PLATFORMS**

Listed Derivatives Independent Software Vendor (ISV) platforms have traditionally operated closed systems where connectivity (especially to trading venues) is tightly coupled with the core trading platform.

At a typical Futures Commission Merchant (FCM), the desktop of the average trader is still very overcrowded. They have to manage risk, monitor and supervise algorithmic trading activity across multiple platforms, including vendor systems chosen by their clients.

Managing a fragmented set of tools and processes creates a significant overhead on traders which distracts them from adding value to customers.

As firms continue to seek ways to reduce risks to meet regulatory obligations and look for operational efficiencies, many are questioning whether this model is sustainable. To enable firms to meet their regulatory obligations, should the industry be pushing more for open and flexible FIX connectivity adoption?

Such an approach would provide a clear delineation between the order entry platform chosen by their clients (e.g. ISV platform) and the sell-side platform used to manage risk. This separation is the norm for the other asset classes and yet Listed Derivatives lag behind in this evolution.

## AUTOMATION AND ALGOS

There is now more competition than ever in the execution algorithm space for Listed Derivatives. The improved ability to measure the performance of algos has resulted in an increased demand for quality and transparency from the users.

Traditionally, your algo provider would be the same as your Execution Management System (EMS), but with increased choice this no longer needs to be the case.

For liquidity provision or market making strategies there has been a trend to move away from in-house built platforms to vendor platforms. These vendor platforms offer a solution for a commoditized part of the product, as well as an ability to customize where it is important to differentiate.

## INTEROPERABILITY

The industry has seen major developments in interoperability platforms and many of these solutions have gained significant traction.

In a more modular setup, interoperability allows firms to achieve a seamless workflow across multiple vendors. Firms are now demanding to use best-in-breed solutions to integrate with their main O/EMS platform.

This industry shift increases competition and provides space for smaller niche players that provide part of the offering with an overall effect of improved, more efficient workflows.

## MODULAR DESIGN

To satisfy the demand for increased choice around connectivity and automation, there is a need to move towards a more modular architecture. An ability to choose an independent entry screen, client connectivity layer, O/EMS, algo provider, and venue connectivity solution appears to be the preferred option.

Modular design has long been the demand in other asset classes and makes sense to be able to adapt efficiently in an environment that is heavily regulated, data-driven and continuing to look for cost efficiencies.

## POST-TRADE EFFICIENCIES

With the post-trade space dominated by legacy technology providers, there is both the desire and the need for improved solutions.

Nascent vendors are providing much-needed alternatives to the incumbent technology providers, addressing key gaps such as improved automation/ STP, trade date processing and feature-rich calculation modules.

## CROSS ASSET SOLUTIONS

As workflows continue to align across the different asset classes and ETFs continue to rise in popularity, the need for the cross-asset platform increases. A cross-asset solution can improve efficiency, allowing for cross-flow/ product coverage of clients, reducing trading risk by providing the ability to cover full workflows in a single platform, whilst giving traders more options and flexibility when hedging their risk. All these reasons ensure that 'cross-asset' is at the top of a client's wish list.

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