
Processing Complexity: Back Office Challenges of Listed Derivatives

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Executive Summary

The global financial markets are a hotbed of competition. It is no longer sufficient for sell-side brokers to simply provide a service to clients for a reasonable commission and expect to thrive or even succeed. And investment managers cannot expect to attract investors based on their ability to replicate the returns of an index. The competitive environment in which buy-side and sell-side firms are operating today requires constant innovation, up-to-date technical infrastructure and a talented pool of staff that can navigate the complexities of the constantly evolving financial markets.

Success is increasingly dependent on creating work flows that maximize efficiencies. Firms are realizing that these efficiencies can lead to improved customer service, and the ability to provide a better client experience is often the key to both retaining and expanding a client base.

Although sell-side and buy-side firms have different business models and service offerings, the drive to become more efficient is placing significant pressure on both sides of the Street. The buy side is constantly looking for ways to lower costs while still maintaining returns. And the sell side is facing unprecedented pressures in the form of constantly declining commissions, increased costs of business and regulatory pressures that threaten their existing business models and ultimately their survival.

Current back office work flows associated with processing ETDs represent the Achilles heel for firms experiencing growing volumes of listed derivatives trading. Firms trading once or twice a day in their own domestic market can easily handle their activity with manual processes, but as volumes rise and the complexity of activities increases, buy-side firms face a growing need to automate the process. Although back-office processes may be fragmented with little standardization, key

players within the industry are working towards making the work flow process more efficient through greater automation.

Initiatives abound, with vendors like Omgeo, Sungard and Traiana offering a variety of solutions that can address specialized work flows for the smallest hedge funds trading a few hundred futures a day, as well as a prop shop trading millions of contracts per day in a high-frequency trading strategy across multiple regions around the world. The solutions are designed to incorporate the disparate work flows that exist today, including phone trades and FIX based messaging protocols.

The challenge has become particularly acute for firms that are expanding their derivatives trading operations. As investment managers move beyond initial forays into using derivatives and begin to deploy these strategies across more accounts and see rising levels of processing complexity, they require more automation to support the growth.

The TABB Group Vision Note **Processing Complexity: Back Office Challenges of Listed Derivatives** examines the challenges facing global financial institutions as they increase their activity in the global listed derivatives market. The report reviews the current methodologies used for post trade processing activities across both the buy side and sell side and examines how firms are implementing solutions to manage their growing activities. The report also examines factors that are pressuring financial firms to automate processes including regulation as well as the need to improve risk management processes across the transaction chain.

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