



Strategic Transaction Processing
Considerations for Securities/Fund Services Providers

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Outsourced transaction processing is one of the key middle office services offered by some securities/fund services providers. Yet, have the operational and technology demands of these business processes changed sufficiently that is it worth assessing whether your existing operations are best placed to meet these future challenges?

changing times - the difficulty bar continues to rise

Trade confirmation, settlement instruction management and tracking of the post-confirmation settlement cycle, whether provided as services, products or operational functions are always evolving. For instance:

- new asset classes have gradually become standardised;
- automated matching and settlement venues have developed;

- regulation imposes tighter controls and operational burdens; and
- wholesale changes reshape the sector (e.g. the move to T+2 settlements in the US as well as a number of parties vying for the confirmation messaging traffic, for example: SS&C Technologies' SSCNet).



With all these changes at play it is useful to explore the questions that might be on your agenda rather than simply assume any packaged answers from the outset”.

Historically, trade matching and the management of settlement processes were often viewed as a low profile middle and back office exercise, focused on confirmation and message management, all the while aiming to keep processing costs to a minimum.

The reality is that these functions are not a simple reconciliation exercise; they are a critical element in the management and mitigation of settlement risk. The potential costs (real and reputational) of settlement failure can be material regardless of who might take responsibility for interest losses, as asset managers expect their outsourcers to proactively manage and effectively mitigate exposure.

Whilst asset managers who in-house, manage their own matching and settlement transaction processing face similar sets of operational, technical and regulatory problems, they rarely have to accommodate the challenges of multiple entities/organisations/clients being managed within a single technical architecture and operation.

Furthermore, the degree of complexity increases for securities/fund outsource providers if they provide these services on systems that were not initially designed to effectively and consistently segregate enterprise data management from

the business functions associated with post-execution transaction processing.

For outsource service providers, the sophistication and complexity of these middle office activities have continued to increase in terms of client expectation. So too have the corresponding responsibilities and challenges to support and execute them. Quite simply, the bar is set higher, much higher, for them.

are there deeper issues under the water line?

Within some service providers, the technology components were initially selected more than a decade ago and continued piecemeal developments have, in some cases, created cul-de-sacs where turning can be difficult. Generic data management functions and connectivity management intricacies were often built into the system components as part of a build or reconfiguration, and separating these distinct elements within the current architecture is sometimes difficult, if not impossible.

Other companies have experienced repeatedly trying to fix problems within solution components that are not designed or suited to specific tasks or functions. People can be assigned to analyse, design, build, integrate and test numerous patches within vendor or in-house systems, but the effort can result in solutions that over time become unfit for their long-term purpose.

The fear of wasting or having to write off the investment made to date should not be a reason to mask the issues and plugging the holes. Escalating costs of technology ownership is a concern and additional functionality cannot always be simply overlaid on top of current solutions, resulting in:

- high cost of ownership (bespoke development and maintenance);
- lack of upgrade opportunities (gained from investments by other parties/users);
- overly complex operating models (tactical fixes not addressing business needs);

- challenges associated with the growing complexity of transaction sources;
- a critical need to re-engineer data modelling;
- challenges with client take-on abilities;
- support necessity for multiple, disparate and sometimes out-dated technology.



Is your current technical architecture suited to an ever-changing operating model?

This raises questions for some companies. There clearly is no “one size fits all” approach to addressing the complexities of enhanced transaction processing that are provided by outsource service providers.

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