

Factsheet

○ SureVu.

Real-time transparency over trade exceptions



EXECUTIVE SUMMARY

The European Central Securities Depositories Regulation (CSDR) will introduce a new Settlement Discipline Regime (SDR), harmonising the way Central Securities Depositories operate but the deadline for this is yet to be set in stone.

One of the key features of that regulation is the introduction of penalties for failed trades, in order to encourage greater operational controls and disciplined processes. The regulator has found it necessary to step in and impose penalties because there are insufficient consequences for firms not following best practice to ensure the accuracy of transaction and settlement data provided to custodians, settlement agents and CSDs. Our view is that operational problems associated with trade settlement relate to capacity and scalability.

CHALLENGES & OBJECTIVES

Asset management and asset servicing firms face continuous challenges driven by fee compression, new asset classes and the erratic economic climate - all whilst balancing operational overheads. This means that firms must reinvent their target operating models to better adapt to key business drivers.

Year-on-year we see staff numbers diminishing, which can have an impact on effective operational standards. An Investment Management Survey Report in 2019 indicated that, in the UK, operations and fund administration accounted for 17% of overall staff numbers, of which 36% are assigned to investment transaction processing, settlement and asset services¹. Organisations need more scalable operating models to cope with sudden spikes in trading volumes, while keeping operating costs low.

The solution is a model that operates on an 'exceptions basis', enabling automation to handle the heavy lifting of transactions that truly benefit from Straight Through Processing (STP).

Making the whole post-trade process more efficient has been a challenge for many years, particularly when considering where the oversight process should naturally end. A lack of effective exception management workflow is the 'Achilles heel' for many firms, delaying operations and costing firms heavily in both financial and risk terms.

An operating model that benefits from effective exception management is critical.

The buy-side must embrace technology to eradicate the need for manually repetitive activities. Every minute in every hour counts, putting pressure on the post-trade lifecycle and adding risk of settlement failure as timelines are compressed, before we even begin to consider the reality of T+0 lifecycles.

Automated exception management removes the risk of human error, provides scalability to the processing environment and gives support teams capacity to deal with the all-important exceptions.

As the settlement lifecycle continues to shorten, not only do institutions require the centralisation of exception data on one dashboard but they must also question whether they can actually afford to not be running an exception-based model?

¹ Source: The Investment Associations Annual Survey – Sept 2019

'Prevention rather than cure'

From conversations with major asset management and asset servicing firms concerning SDR, we have found that the creation of an avoidance-based operational approach is the preferred option, with effective exceptions management forming a key component in the solution.

Whilst we know that some middle offices are focusing on dealing with the outcomes of failed trades, we have found that the majority are shifting toward an avoidance strategy.

As one major asset servicing firm told us: "It's impossible to totally eradicate failed trades, but the legislation is there to discourage firms from getting to the stage where buy-ins and cash penalties are a threat. We have been looking upstream to achieve best practice post-execution in order to minimise the number of fails. Proactive settlement tracking relies on real-time transparency over trade exceptions."

It is therefore clear that 'prevention rather than cure' is the best way to tackle settlement failure as a whole.

CURRENT BUSINESS PROCESSES

Pre-settlement monitoring is still a manual process for large parts of the buy- and sell-sides.

Although there are established methods to match or affirm executed trades with brokers, Operational teams should also proactively monitor the pre-settlement status of every trade to validate the settlement instructions associated with each transaction.

A lack of focus on settlement location variables commonly causes settlement failure.

There are paper reports, industry utilities and custodian portals to reconcile the status of outstanding transactions, but this often requires a complex process that leads to off-line investigations which are commonly manual.

THE SUREVU SOLUTION

SureVu is available as a cloud-based, fully managed service presented in a consolidated, web-based dashboard (see Figure 1). The solution provides comprehensive, exceptions-based workflows to mitigate settlement failure.

SureVu focuses on centralising post-trade settlement management processes. The journey commences with the receipt of matched/confirm trade records that have

been sent to custodians or settlement agents. In near real-time SureVu then tracks inbound settlement status notifications from custodian banks, via structured SWIFT messages. The exception management workflow identifies exceptions that require user intervention or corrective actions, prioritising these events based on settlement date. Figure 2 outlines the communication of post-trade records and notifications.



Figure 1 - Exception Management Dashboard Summary

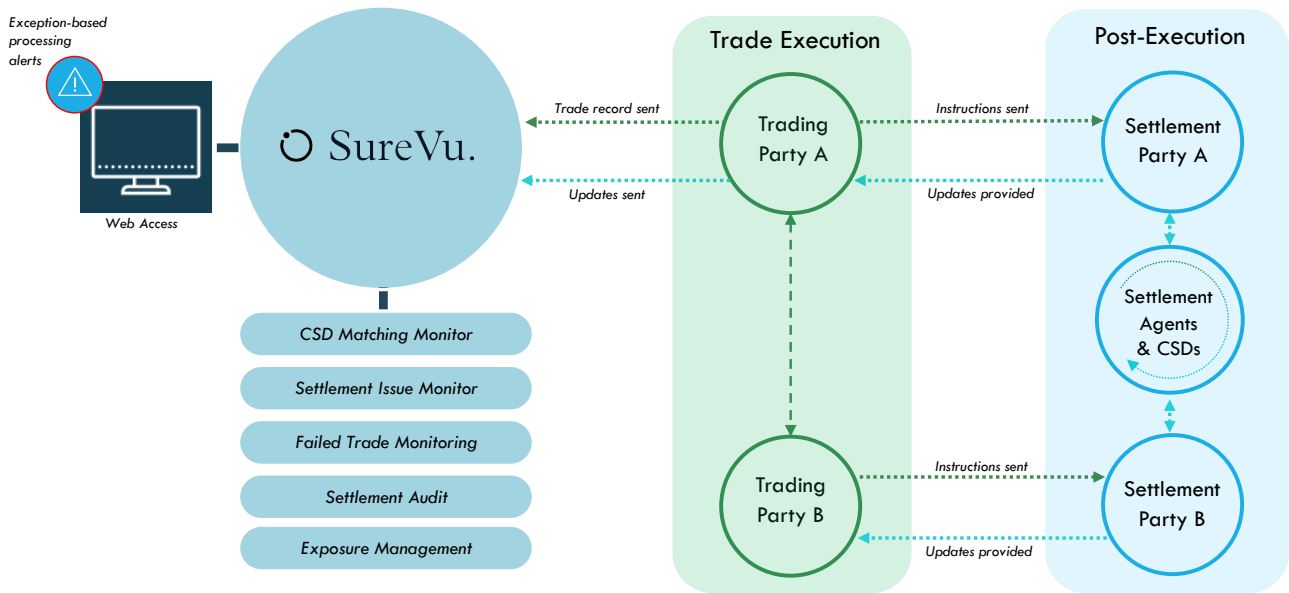


Figure 2 - Capturing and Centralising Settlement Notifications

SUMMARY OF WORKFLOW IN FIGURE 2

- Trading Party A sends instruction to CSD, via their settlement agent/custodian
- Trading Party A sends trade record to SureVu solution
- Trading Party B sends instruction to CSD, via their Settlement Agent/custodian
- CSD sends settlement updates back to trading party A, via settlement agent/custodian
- CSD sends settlement updates back to trading party B, via settlement agent/custodian
- Trading Party A directs settlement updates to SureVu solution
- SureVu presents the settlement tracking positions via dashboard with exception management workflows

The settlement management lifecycle only concludes when an executed trade record is updated with a 'settled' status, which is shared with downstream position-keeping platforms to maintain accurate stock and cash records. SureVu also enables firms to assess accumulated data relating to the value of unsettled trades with individual parties.

KEY BENEFITS

- Exceptions Management and Prioritisation:** proven exception management workflows - prioritisation status levels focus on exceptions that require immediate attention where early resolution could avoid settlement failure
- Investigation Support:** linking all inbound settlement notifications to originating trade records serves to centralise information and user records/ notes
- Ease of Use:** intuitive software that automates and improves existing business processes
- Communication:** automated communication with custodians via near real-time SWIFT messaging
- Deployment:** quick and easy to deploy cloud-based solution
- Scalability:** in an ever-increasing regulatory environment, exception management workflows are critical

For more information on our solution or to discuss your trade processing requirements, please contact us at: info@corfinancialgroup.com.

CONTACT USEmail: info@corfinancialgroup.comVisit: www.corfinancialgroup.com**ABOUT CORFINANCIAL**

corfinancial provides software solutions and advisory services to banking and financial services organisations worldwide. The firm has offices in London, New York and Boston.

There are five key problem areas corfinancial looks to solve through its primary software and service offerings:

BITA Risk provides end-to-end private client suitability, portfolio management, risk, ESG and monitoring oversight solutions; brought together in BITA Wealth to mirror and systemise the investment process of wealth managers and private banks and available individually for CIO and investment teams.

SureVu empowers buy- and sell-side firms to efficiently monitor and track security trades throughout the settlement lifecycle, enabling users to proactively manage and oversee settlement exposure.

salerio is a post-trade processing solution that enables asset managers, hedge fund managers and securities/fund services firms to automate the flow of securities and treasury trades from matching through settlement.

costars is an investment administration platform for third party administrators, fund supermarkets and wealth management companies.

paragon is a comprehensive front-to-back office fixed income portfolio accounting, processing and reporting solution for banks.

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