FROM COMPLIANCE TO COMPETITIVE ADVANTAGE

Institutions in the capital markets sector are facing both regulatory and competitive pressure to gain a real-time, end-to-end view of every trade they make. But detailed monitoring of the complex value chains in capital markets is only possible with the right tools. This article examines the challenge and discusses the solutions that can meet it.

As with most regulatory compliance demands, thus far the minimum has been done with little thought given to how transformational change could positively impact the business, forcing it to look for better ways to do things. Widely used techniques in machine learning, for example, could significantly enhance a bank's operations and also prepare the business for any unforeseen bumps in the road.

In search of transparency and accountability

The EU's second Markets in Financial Instruments Directive (MiFID II) is here and is busily transforming the financial industry with its demands for greater transparency and tighter standards of accountability.

MiFID II, which took force at the beginning of 2018, massively extends the scope of the original 2007 directive, making it hard for any organisation with a stake in the EU's capital markets sector, however minor, to escape its reach.

With the aim of offering maximum protection for investors and greater visibility for regulators, the directive demands full transparency for every class of capital markets asset, from equities to fixed income investments, from exchange-traded funds to foreign currency deals. The new rules cover all aspects of trading within the EU, affecting every corner of the financial services industry, including banks, institutional investors, exchanges, brokers, hedge funds and high-frequency traders.

The intent is to push trading towards exclusively electronic methods, which come with better audit and surveillance trails. Institutions will have to report more information about most trades as soon as they happen, including all information on price and volume. The rules further mandate that institutions need to be in a position to report any suspicious trades immediately and to spot unusual patterns of activity, whether fraudulent or not. Saying 'I'm sorry' after the event and paying a fine is no longer good enough.

About Richard Price, Head of Financial Services Practice – UK&Ireland, TIBCO:

Richard is an experienced leader with extensive IT Sales, Marketing and Partner enablement experience within EMEA. Having joined TIBCO in late 2016, Richard assists TIBCO clients and their partners deliver business advantage with the challenges they face across the financial services and insurance sectors.

Prior to joining TIBCO, Richard held a number of senior sales positions at Open Text over a period of eighteen years, and has a proven track record running sales and partner collaboration across a number of financial services sectors including Retail, Corporate and Investment Banking, as well as General, Life and Specialist Insurance.

Front Office projects delivered include direct customer portals in wealth management, global marcomms and marketing asset management platform in investment banking, brand management & product delivery in retail banking and underwriting & claims re-platforming in insurance.

Back Office projects include delivering transformational global HR management processes projects, ERP management delivery from invoice management to expense processing, and AUM & market positional compliance programmes with High Performance Compute, Analytics and Content Management projects.

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MiFID isn't the only regulatory driver forcing finance houses to look at improving the monitoring of their business. The Second Payment Services Directive (PSD2) requires banks to open their payments infrastructure and customer data assets to third parties. And many institutions are facing uncertainty over what will happen to the regulation of the sector following UK's exit from the EU, and are therefore planning for all eventualities.

A golden opportunity

With regulators on the offensive to ensure that traders have full visibility of what's going on in their environments, it would be easy to see the matter as a tricky compliance hurdle and nothing more.

But it is important that all capitals markets stakeholders understand what is up for grabs here. It is crucial that they do not write off the need for better surveillance of trades as simply a regulatory box that needs ticking off. Unlike certain regulatory burdens, this one can and should be seen as an opportunity which, if grasped, has the power to transform an entire trading operation for the better. If managed right, the opportunity is a fast track to competitive advantage and a brighter, securer future for the business.

The key to this transformation lies in the power of technology. The more forward-looking players in the trading sector have already spotted the potential of adopting a software platform, such as that which TIBCO has implemented for a number of capital markets customers. Such a platform gives them the power of end-to-end trade surveillance, and rather than being a narrowly focused solution to a single need has the potential to be a framework that optimises all kinds of business processes. Such a task is not easy, and there is a vast amount of network, systems and infrastructure that need to be monitored. The important difference in this model is that trades are monitored not by human agency but by machine algorithms that are more accurate and effective at spotting degradation and at predicting what could happen next.

A powerful platform can edge the trader ahead of rivals in efficiency, reduce fraud and money laundering, result in better knowledge of the customer, and all this while meeting the most demanding of regulatory hurdles with ease, now and into the future. The right surveillance platform has multiple use cases, across the trading floor and reaching up to the boardroom.

Getting the right platform

At this point, some banks may be arguing that they already have plenty of tools that give them visibility of their business processes. What's the value of one more? The problem in reality is that they probably have too many tools, each a point solution for a single problem. Their IT is set up in such a way that each problem has led to the deployment of its own solution. This does not add up to true visibility, and moreover requires that all these disparate tools be maintained in isolation while delivering next to no synergy between them.

What traders need is a platform that offers a centralised destination for every event, wherever it is happening in the business. They need a dashboard that provides information on every trade, every kink in the supply chain, every node in the infrastructure that carries the trades, illuminating where problems might be occurring now and helping to pre-empt future problems before they happen.

With this kind of platform, information of all sorts is fed in, from routers, systems and applications. A vast number of sources in the trading chain all appear in a single real-time view. This gives an operations team a look at the trading flow end-to-end and the ability to communicate relevant information out to traders so that those at the sharp end of the business know what's going on. This is not just about the present, but the immediate future, with the platform able to build in predictive models around the data that's coming in. If the information coming back displays activity that could lead to a problem, then the trader can know about that before the problem occurs.

Information about what happened yesterday or an hour ago is no use. A platform must highlight deviations from 'normal' trading patterns in real-time. It must handle multiple streams of data and prep that data for human consumption so that correct decisions can be made in a timely fashion.

If a trading system is in any danger of an outage, then a surveillance platform must offer the data points required to identify the root of that outage, instantly and in an aggregated and coherent format.

The right platform will allow support teams to get in front of issues before they have any customer impact, improve customer service and ensure smooth running of the whole operation. This means having the ability to aggregate input from millions of data points, along with the power to turn raw data into useful and actionable information. In banking, time is money, and time is measured in tiny fractions of a second.

We are not talking about amounts of data that traders will already be used to – we are talking about massively more data than they ever dreamed existed. An inevitable result of the scrutiny demanded by MiFID II will be a wave of data, likely to be measured in petabytes, which must be monitored and protected. Clearly, tools with a high degree of sophistication are needed to ensure compliance.

The trading industry was the first to use algorithms for execution so they are no strangers to this world. The same techniques are now being used to better understand what is happening in the entire ecosystem not just when to execute trades.

A platform must do more than keep the trader in the picture with information on activities they are already aware of. It should have the power to prompt solutions to problems the trader either didn't know they had or old problems that previously went unsolved.

And every trading environment is unique, which means a flexible framework approach is the best way to get the trader where they want to go, as accurately as possible.

Achieving competitive advantage

Legislation around end-to-end trade visibility requires increased self-regulation by market participants and the clock is ticking to get this right with directives like MiFID II already in force. Only software can enable this effectively. By deploying the right surveillance framework, you are not just ticking a regulatory box but creating competitive advantage, enjoying efficiencies and driving business process optimisation.

Regulation plus operations plus machine learning means the regulatory burden can now be seen as a positive impact on the business not just a drag or bumps in the road to innovation.

Regulation and potential fines aside, it is in everyone's best interests for traders to adopt some form of surveillance that enhances visibility and transparency while assisting in minimising risk and avoiding losses due to rogue trading. But there is only a short window for decisive action before ground is lost to faster movers.