






FOW

INTERNATIONAL AWARDS 2017

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LIFETIME ACHIEVEMENT AWARD

Xavier Rolet

Xavier Rolet takes home the lifetime achievement award following his retirement from the helm of the London Stock Exchange. Rolet has presided over a period of unprecedented growth at the LSE. Since 2010, revenues at the group have grown from £628m to £1.6bn and pre-tax profits are up 205% to £364.1m in 2016. Rolet began his tenure with the acquisitions of Turquoise and Millenium IT. Other notable deals during his nine-years at the helm include the purchase of the remaining stake it did not own in FTSE in 2011. the disposal of Russell Investments in 2015 and the game changing acquisition of LCH.Clearnet.

CHIEF EXECUTIVE OF THE YEAR

John Phizackerley, TP Icap

John Phizackerley has almost seen and done it all. The former mining engineer who went on to be a mining analyst and rose through the ranks at Lehman Brothers to become its European chief administration officer and then chief executive of Nomura International has not wasted time since taking the reins at Tullett Prebon in September 2014. Most notably, Phiz, with Icap chief Michael Spencer, was the driving force behind the acquisition late last year of Icap's voice brokerage business and the creation of TP Icap, a London-based broking powerhouse. The deal shook up the inter-dealer broker market which has for decades been dominated by a handful of very large firms. It was also a bold commitment to voice at a time when electronic trading is becoming prevalent in most of TP Icap's main markets.

EDITOR'S CHOICE AWARD

Vela

Vela has had a deserved reputation as the market leader in exchange and data gateway solutions but the financial technology firm surprised the market in the middle part of 2017 with a bold double-move. Vela announced and completed its agreement to acquire OptionsCity in late June and then followed this with a similar agreement to acquire Object Trading in mid-July. The Object Trading deal was initially set for closure before the end of September but the trade actually went through in late July, just two weeks after it was announced. The double acquisition is undoubtedly ambitious, and buys Vela a seat at the top table of derivatives trading technology suppliers, a business that has been dominated for years by a handful of large incumbents.

GLOBAL EXCHANGE OF THE YEAR

Taifex

The Taiwan Futures Exchange is the first regional exchange to take home the Global Exchange of the Year award after an astonishing year of innovation and investment. During the judging period, the exchange launched its first currency options contract, the world's first exchange traded offshore USD/RMB options, a suite of FX futures, Nifty futures and Taiwan dollar denominated S&P 500 and DJIA futures. It also completed the implementation of a new inhouse built trading system doubling capacity to 48,000 order per second and cutting latency to a quarter of what it was previously and began an after-hours trading session with volumes of 6% of total trading volumes within a month of launch.

EXCHANGE OF THE YEAR • US and Canada

CME

CME has positioned itself as the market to react to international events around the clock. During the judging period, the exchange hit a record levels of open interest and a surge in options ADV, which was up 21% in Q2 2017. The exchange hit an overall OI record of 78.6m contracts in its interest rate franchise in June 2017. As traders turn to energy markets in the wake of low interest rates, CME has been well positioned to serve the market with WTI hitting an average ADV of 1.5m during the judging period. The exchange also saw the return of Russell 2000 futures with 91% of open interest switching to the market since launch.

EXCHANGE OF THE YEAR • Central and South America

B3

B3 fell just shy of being awarded as Global Exchange of the Year after a year of frenetic innovation and growth. The exchange rebranded from BM&F Bovespa, completed the acquisition of local securities depository giant Cetip and experienced surging volumes, which rose by 19% to 1.6bn during the judging period. B3 also completed the consolidation of its post trade operations onto one multi-asset platform bringing together its equities, derivatives, bonds and equities lending markets. The exchange has set its sights on bringing the international securities lending market to Brazil with an overhaul of order types and the settlement systems. It is also investing in blockchain technology through its partnership with R3.

EXCHANGE OF THE YEAR • Europe

EEX

Deutsche Bourse-owned EEX takes home its first European Exchange of the Year award following a year of growth and global expansion. The exchange is transforming itself from a regional power market into a multi-asset, multi-continental market seizing opportunities in emerging asset classes such as dairy futures, while aggressively building its core energy base. During the judging period, volumes rose by 35% and it launched a number of new contracts including wind power futures and extending its coverage of the European power market with the launch of Central and Eastern European power contracts. However, it was the acquisition of US-peer Nodal Exchange that won the highest praise from judges. The move gave EEX a position in the US power market from which it intends to expand into LNG and is a big step towards it goal of being a global commodities market.

CLEARING HOUSE OF THE YEAR • The Americas

ICE Clear US

ICE Clear US won the judges votes for its domination of the Credit Default Swap clearing market during the judging period. Rival CME bowed out of the race to clear CDS after it became obvious that ICE had the market and the CCP has continued to innovate and develop its CDS operations. Launched in 2009, ICE Clear Credit and ICE Clear Europe CDS clearing solutions offer clearing for more than 500 single name and index CDS instruments based on corporate and sovereign debt and have reduced counterparty risk exposure by clearing more than $93tr in gross notional, with open interest of approximately $1.6tr. The CCP is now developing single name CDS clearing ahead of the regulatory mandate.



CLEARING HOUSE OF THE YEAR • Europe and Asia

LCH

LCH is a double winner this year taking home the Clearing House of the Year award in both Europe and Asia as it continues to dominate the OTC clearing markets. SwapClear manages the largest OTC rates liquidity pool in the world and continues to grow its offering clearing $468tr in notional in H1 2017, up 35% on the previous year. It boasts a 90% market share in client clearing and has taken the lead in compression with over $300tr of trades compressed in H1 2017, up 75% on the previous year. The CCP was perfectly position for the introduction of the uncleared margin rules in September 2016 and is expanding its services in FX ahead of the mandate for FX next year.

BEST NEW EXCHANGE OR TRADING PLATFORM

Curve Global

Curve Global launched in September 2016 aiming to challenge the duopoly of ICE and Eurex in the European interest rate market. Volumes grew steadily during the judging period with daily short term interest rate volume peaking at 5% and open interest doubling to 130,000. Curve is backed by seven global banks and US-headquartered options exchange Cboe. It is the only rates market that offers cross-margining into LCH's pool of swaps open interest offering clients the potential for huge margin savings on their trades. The market continues to bring on new banks and clients and is set on reducing the cost of trading for market participants, which includes a pledge not to charge for market data.

MOST INNOVATIVE NEW CONTRACT LAUNCH BY AN EXCHANGE • Commodities

Dalian Commodity Exchange – Soybean Meal Options

Dalian Commodity Exchange ended years of preparation to launch its first options contract in March 2017 bringing a new hedging tool to the Chinese market. The launch of options in China was one of the most significant developments in the global market this year and comes after almost a decade of preparation. The American-style options were launched with seven initial expiry months. Trading has been restricted by order size limits of 100 contracts and limitations on who can trade but volumes peaked at 548,000 in July. The exchange is understood to be developing further options contracts to provide more hedging tools to the local market.

MOST INNOVATIVE NEW CONTRACT LAUNCH BY AN EXCHANGE • Interest rates

ICE Futures Europe – Eris LIBOR suite

ICE has been quietly developing its suite of Eris interest rates futures contracts and won the judges praise for innovation this year. The contracts are based on the Eris Methodology and replicate all of the cash flows and economics of comparable swaps traded in the over-the-counter market. Additional contract features include capital, margin and operational efficiencies of exchange-traded, cash-settled futures contracts, without physical delivery risk at maturity. ICE Eris interest rate futures benefit from margin offsets with ICE's extensive interest rate product range which provides a deep pool of liquidity. Open interest across the ICE interest rate futures and options complex stood at more than 17.9m at the end of July.

EXCHANGE DEAL OF THE YEAR

Cboe acquisition of Bats

The acquisition of European equities market operator Bats by options market CBOE was the most significant deal in the US exchange's history and represented a step change in its strategy. Bats has a strong position in the European equities market and has been expanding its share of the US options market. Following the deal, the group was rebanded as Cboe Global Markets. The deal significantly strengthens Cboe's position in the US options market but also gives it huge potential to expand a European options business against Bats strong regional equities markets. The deal was the second European investment for Cboe during the year following its investment in CurveGlobal.

SEF OF THE YEAR

TradeWeb

Following the launch of SEF trading in 2013, Tradeweb has grown to encompass over 40% of volumes in the US IRS markets. The introduction of tools such as Compression, MAC Swap trading and switch trading has helped cement Tradeweb's place as a leading SEF among market participants. Tradeweb is the leading SEF for buy-side compression, and currently has over 60% D2C compression marketshare. Tradeweb has also expanded its market share of credit for both CDX and iTraxx - which was 14.8% for the first half the year, up from 12.9% during the same time frame in 2016. Tradeweb's single-name CDS platform has also seen steady growth since launching in August 2016.

TRADE REPOSITORY OF THE YEAR

CME GRS

CME Global Repository Services beat off competition from its larger rivals to emerge as the 2017 Trade Repository of the Year after a period of impressive growth and innovation. During the judging period, CME GRS grew its market share to 27% globally up from 14% the previous year. It added support for ten new Canadian provinces to become a pan-Canadian TR and launched a Singapore-based APAC business centre to support its Australian business and soon to be launched Singapore TR. CME GRS in 2017 re-confirmed to its clients a commitment to simplicity and certainty in its commercial policies implementing an annual cap on client budgets.

BANK OF THE YEAR

Citi

Citi returns to the winners' podium in 2017 to take home the Bank of the Year award following another year of innovation, investment and growth supported by impressively client testimonials. Globally, Citi Futures, Clearing and Collateral revenues gained 27% year-on-year (as of August 2017 month-end). In OTC Clearing, Citi is #1 by both segregated collateral and notional market share across all major IRS clearinghouses. Citi's futures, clearing and collateral business has transformed itself into the market leader under the stewardship of Jerome Kemp and is well positioned to help clients navigate the next wave of uncleared margin rules, the introduction of Mifid II and continues to invest in innovation both internally and in new initiatives across the industry.

IDB OF THE YEAR

TP Icap

Tullett Prebon is named as this year's Interdealer Broker of the Year following its acquisition of Icap's broking business to create the largest interdealer broker in the world. The deal combines the complementary strengths of two leading global broking franchises. The firm now has almost over 5000 employees globally, including almost 3000 brokers. The newly rebranded TP Icap has continued to progress with the overhaul of its IT delivery and new technology and support centre in Belfast, which was announced in August 2016. By 2019 the centre will house 300 employees. During the judging period, the firm executed the largest ever Bulk Risk Mitigation run on its tpMATCH platform and continued its aggressive hiring spree.

NON-BANK FCM OF THE YEAR

RJ O'Brien

R.J. O'Brien & Associates (RJO) takes home the Non-bank FCM of the Year award for the second year running following continued investment in the services it provides to more than 100,000 clients across the globe. Most notably, the firm launched a new proprietary application, AutoHedge – a powerful, web-based tool that seamlessly ties together multiple systems and processes for grain elevator hedging activities. RJO also recently completed the implementation of its OTC Structured Products group, which is focused on agricultural OTC products in grains and oilseeds. Also during the judging period, it launched an administrative portal for introducing brokers providing a new tool for its huge network of IBs.

MARKET MAKER OF THE YEAR

Citadel Securities

Citadel has continued to disrupt the market since it launched its revolutionary swaps market making business in November 2014. During the year, it expanded its services and deepened its relationships with clients through full service offerings in US treasuries, custom swaps and risk transfer blocks. Over the past 12 months, it has maintained its market share in electronic IRS and US treasuries on Bloomberg and Tradeweb and more than doubled its institutional client base to over 800 clients across 30 countries adding key client segments including central banks, GSEs, insurance firms, pensions and Sovereign Wealth Funds. The firm opened a new office in Dublin and expended its position in the retail market. The firm claims to have provided its equities clients with more than $400m in price improvement during the year.

BEST NEW TECHNOLOGY PRODUCT • Blockchain

Thomson Reuters

In June 2017 Thomson Reuters became the first major industry player to make a smart oracle, BlockOne IQ, available in the blockchain ecosystem. An oracle is an adapter-like mechanism that bridges the gap between web-based APIs and the blockchain. For the first time ever, blockchain-based applications could include Thomson Reuters current and historical market data in their automated processes so that real market conditions are represented more accurately. This not only fundamentally changes the way blockchain applications and proof of concepts are built, but it opens up countless possibilities for blockchain innovation across various industries – not just finance. BlockOne IQ also provides cryptographic proof that Thomson Reuters is the true source of content, which is a unique and essential characteristic of this oracle and hard to do on the blockchain.

BEST NEW TECHNOLOGY PRODUCT • Post trade

Nex Trioptima and CLS

In response to capital rule changes and increased regulatory interest in FX compression, CLS, the leading provider of risk mitigation and operational services for the global FX market, and NEX Optimisation, which helps clients reduce complexity and optimise resources across the transaction lifecycle, collaborated to launch the triReduce CLS FX service. Major dealers have actively used the service since its launch and have already eliminated $3tr in gross notional value. Participants benefit from enhanced capital efficiency and leverage ratios, reduced operational risk and costs, and managed counterparty credit risk without fundamentally changing their market positions. Since its launch, triReduce CLS FX has become a widely adopted risk management tool. Significant progress has been made by working together with the FX derivatives community to further enhance and extend the service.

BEST NEW TECHNOLOGY PRODUCT • Connectivity

FIS

FIS' Global Trading group manages equity, fixed income and mutual fund trade connectivity through its SGN Securities and SGN Funds trading networks connecting over 2,000 buy-side clients to over 275 sell side destinations. During the judging period the firm enhanced its SGN Securities network integrating the SGN Funds capabilities and expanding the asset classes and making new third party custodian destinations available via a single SGN connection. Using the platform, a buy-side manager can now manage multi-custodial trade flow for funds, equities and fixed income through a single Order Management System connected to SGN, typically via FIX protocol. SGN manages the routing and connectivity to all sell-side destinations including brokers, global custodian banks and other interested parties.

BEST NEW TECHNOLOGY PRODUCT • Collateral management

Broadridge

Broadridge greatly expanded its global securities financing and collateral management capabilities during the review period, through the integration of its newly acquired securities finance and collateral management systems. 4sight, acquired in June 2016, was integrated during the judging period, helping clients optimise financing decisions across different asset categories, automate the securities financing lifecycle and control risk. Broadridge now offers real-time, enterprise collateral management and optimisation for cleared/bilateral OTC and ETDs, securities lending and repo. In addition to offering its newly integrated platform, several further significant investments have been made during the review period including Basel III LCR support, SFTR and enhanced electronic market connectivity.

BEST NEW TECHNOLOGY PRODUCT • Market surveillance

Nasdaq

Nasdaq returns to the winners' podium following the latest release of its flagship Smarts Trade Surveillance software. Version 9.1 Core Product Release contained a new visualisation tool, Depth, which was created to enable compliance analysts visualize orderbook imbalance with alert-specific views of large data sets. Using visualisations, the human brain is able to interpret information at a speed of 60,000 times faster than text alone. Depth visualisation allows the analyst to 'see' the orderbook, in order to recognize the pattern of behaviour commonly used in spoofing and layering strategies, which primarily manifests itself as order book imbalance, with trading direction contrary to the weight of orders shown. By being able to identify this 'signature' pattern visually, and to identify the behaviour in outliers, the analyst can very quickly determine if the alert requires further investigation.

TRADING SYSTEM OF THE YEAR • Sell-side

Fidessa

Fidessa has now won the Sell-side Trading System of the Year award for six years running in both the FOW International and the Asia awards – an astonishing achievement. Fidessa's unique distributed architecture means that orders can be delivered to the order management system - via terminal order entry, EMS, proprietary products or black boxes - and best routed to the exchange to achieve optimum execution outcomes regardless of the client's location. During the judging period, Fidessa signed on eight new derivative clients including two large global FCMs taking its roster of derivatives clients above 80. Revenues at the company were up 18% and 80m lots were traded through the platform. In addition it continued to invest in connectivity adding the Thai Futures Exchange, Warsaw Stock Exchange's derivatives market and Nasdaq OMX Commodities Exchange.

BEST INNOVATION BY AN ISV - REGULATORY CHANGE

Droit

Droit has generated remarkable traction with its regulatory eligibility and obligation platform, ADEPT, this year. The ADEPT platform generates the full scope of global cross-regulatory implications and obligations of a trade in real-time, enabling institutions to implement a comprehensive approach to regulatory pre-trade decision making, and accurate execution of pre- and post-trade obligations. Droit enables low latency decisions, integrating with front office e-trading and voice sales/trader workflows. Through a simple interface, the ADEPT platform has built-in traceability to fully digitised regulatory text, as well as complete, human-readable, auditability of every decision on every inquiry. Additionally, Droit's visualisation framework enables complete traceability and auditability from all trade inquiries, into a readable decision tree logic, and finally through to fully digitised regulatory text.

Mifid II has breathed a new lease of life into SIs

ULLINK launched its smart order router in 2009 after the first Mifid rules took effect across Europe but the technology firm has dramatically enhanced its SOR to support the second wave of the European regulation.

Richard Bentley, chief product officer at ULLINK, told Global Investor Group Mifid II presents a greater challenge to ULLINK clients than its predecessor.

"The regulation under Mifid II is much more ambitious than Mifid I, it covers a broader set of asset classes and fixed income in particular is heavily impacted. The prescriptive nature of best execution under Mifid II obliges the sell-side as well as the buy-side to be compliant with this requirement."

Mifid II is multi-faceted but, for ULLINK clients, the greatest challenge is dealing with the plethora of new trading venues, such as large in scale venues and new block trading models.

Bentley said: "Systematic internalisers did exist after Mifid I but Mifid II has breathed a new lease of life into SIs, while there are other venues like continuous auctions or auctions on demand. Together these venues will mean a further fragmentation of liquidity."

The rules will impact both institutional and retail brokers alike: "We have been working with the largest sell-side firms that are supporting the large institutional-type flows. There is however also a real gap and opportunity around retail flows."

Mifid II imposes tough rules around firms trading on electronic fixed income, derivatives and equity venues.

"If you think about the post-trade order record-keeping requirements, firms need the capability to track the chronology of client orders as they are executed by brokers. One big complexity is how do you capture the relevant information and glue that together to get the complete picture," said Bentley.

Connectivity to trading venues is one of ULLINK's strengths. "If you look at the electronic fixed income space, there are at least 100 electronic venues out there so we do have to make choices about which to connect to and part of that is customer driven. Similarly, we have taken the view to connect to a number of APAs, and we have to make a decision about how to prioritise these," said Bentley.

A recent example of a new ULLINK connection is Mexico's Bolsa Institucional de Valores (BIVA), a new securities market that launched in late 2017.

But it was the European exchanges' Mifid upgrades that were keeping ULLINK busy in the latter part of 2017. "We have managed nearly 40 exchange go-lives in the past few weeks, so it's been an intense period for us. We have to build the software, certify it and deploy it."

But, for Bentley and his clients, Mifid represent various challenges.

"When I think about Mifid II, I think about resilience and compliance. Brokers may be receiving the correct messages but are they resilient? Exchanges can deliver their exchange gateways but are they reliable?

"When we think about compliance, firms may be able to handle the appropriate message formats but does that make them compliant? There is variation among clients, some have been very proactive in their preparations whereas others have been later in understanding what they need to deliver. It is true there are different levels of compliance and maturity."

Bentley, like many of his peers, expects some forbearance on the part of European national authorities.

"The regulators understand this is a big piece of regulation and there are elements that are still opaque. I believe the industry will be resilient but it will take time to get everyone on the same page."

But Mifid also presents opportunities, Bentley said.

"If you look at the work we had to do for Mifid II, there were a lot of technical enhancements that we had to do including micro-seconds timings. We are also looking at where the clients need new capabilities or new products. There is further that we can go in transaction reporting. Fixed income is a little bit behind everyone else in terms of systematic internalisers or trade repositories for example."

ULLINK is also looking to capitalise on a trend within its clients to align more closely their trading operations across different asset classes.

"We also believe we can further enhance our derivatives capabilities. Previously many clients run separate derivatives and equities platforms but now they are looking to combine those across low-touch electronic execution and high-touch, care order management. We are doing a lot of R&D in this area," said Bentley. ■

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ABN AMRO wins again!

ABN AMRO Clearing gets the votes of its clients for the fifth year running once again taking home the Proprietary Traders' Clearing Firm of the Year award.

Praise from clients covered the firm's breadth of service, professionalism and levels of customer service.

Among other areas, ABN AMRO Clearing specialises in providing clearing services to professional trading groups and counts most of the world's major proprietary trading groups among its client base.

"ABN AMRO Clearing is on top of its game, pro-active and reliable," said one client, while another praised the "dedicated team that is quick to automate solutions for our business."

One of its key selling points is its market leading risk model, which allows clients to optimise collateral utilisation, leading to capital efficiencies.

According to Martin Frewer, global commercial director at ABN AMRO Clearing, the firm's understanding of and commitment to the principal trading market is also a key differentiator.

"We actively advocate the concerns of our clients toward authorities and support our clients on a variety of issues by sharing expertise," he says.

ABN AMRO Clearing services clients on more than 160 execution venues, including exchanges, MTFs and FX liquidity centres. The firm consistently ranks as a top 3 clearer on four continents and boasts a plus 20% market share of transactions on the largest international derivatives markets.

The firm services its clients from 11 offices across the globe, employing more than 800 staff.

"Being global enables us to tap into fast growing markets and service our clients wherever they are located or want to trade. We are seeing a lot of growth in Asia, as new firms open up in Singapore, as well as European and US clients setting up Asian operations."

Despite the low volatility and pressures of MiFID II compliance in its core European market over the past 12 months, Frewer is optimistic about the future of the professional trading sector.

"Earlier on in the year we saw some rationalisation and some firms pulled out of the market but those that remain are adapting. Once the shock of MiFID II is over I think entities and clients will start to build again," he says. ■

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Apcela's UltraFast Market Data for the Cloud: plugging in real-time market data

The emphasis on real-time data has been prevalent for a long time, but there has been a clear shift towards wanting to move that data to the cloud.

Naturally a tool that delivers high quality market data in real-time directly to the cloud, while avoiding the slower and less secure public internet, has been attracting financial market players.

Nasdaq, NYSE, Cboe and CME are already included in the data offering on Apcela's UltraFast™ Market Data for the Cloud, which is also named best new market data product at the FOW International Awards 2017.

"Just because I am in the cloud it doesn't mean that I am going to want to take my inbound market data feeds over the public internet," explained Mark Casey, president and chief executive officer at Apcela. "That could lead to a lot of problems such as with latency or packet loss – next thing you are dropping packets and the associated market data."

Although Casey observed that the shift from storing data in premises-based data centres to using the cloud has generally been slow in financial markets, Apcela responded quickly to users of its existing product who wanted data delivered to a private cloud instance such as Amazon Web Services or Microsoft Azure.

"Given that we had leading market data feeds and at the same time, we were building out a cloud interconnect – it was easy for us to adapt the product to deliver an institutional-grade market data product in real-time to the cloud," Casey said, explaining that one of the difficulties companies face when adapting existing products is being to convert the data so that it can actually plug into the cloud.

Micro-second speed

In the historically low-volatility environment, propriety trading firms are looking at ways to be more efficient, and the cloud is an attractive choice for storing, processing and backing-up market data.

"Furthermore, for a back office environment, the speed of the market data to the cloud is important, as is the quality of the data and the ability to access it in the exchange native format. Most prop trading firms aren't looking for consolidated or normalised feeds as they have already written their own proprietary feed handlers, so the ability to keep that data format is important."

Front office operations within prop trading firms are perhaps even less suited to public internet infrastructure, given the reliance on data to be delivered at micro-second speed.

However, real-time market data is critical where firms are building front office platforms in the cloud, whether for their own use or for their clients.

Casey explained that "you can provide a feed into a client's cloud-based ticker plant, they can provide accurate real-time market data quotes to their users."

New opportunities

As firms are constrained by regulation to provide increasingly more data, there is a greater need to ensure that the data is safe and in the right format.

Although Apcela does not yet provide a historical market data product, Casey said there is "certainly the opportunity for us to look at whether there are other products that we could be or should be offering around normalised consolidated feeds into the cloud and historical reference data into the cloud." In the meantime, users can store its real-time data in the cloud and use it for regulatory purposes.

Apcela is currently looking at the international software vendor (ISV) marketspace given the greater focus on platform-based services using the cloud.

"The large ISVs, regardless of asset class, are today running more hosted platforms – some of the largest ones are in the process of using the cloud as it provides better agility for the delivery of their own products," Casey observed. "That is an area that we are very much focused on, enabling products for those firms."

"However, in general, there are more large financial firms that have moved to the public cloud on the hypothesis of saving time, cost and better agility and they are seeing those things prove out. I think we will see that movement accelerate in 2018 and we are here to help any clients in supporting that." ■

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SmartStream RDU gears up for Mifid challenge

SmartStream's Reference Data Utility has emerged in recent years as a rare example of the financial services industry working together to develop a solution to a common problem.

Recently, the division of the technology group has been focused on the draconian challenges presented by the European Mifid II reforms that take effect on January 3 2018, specifically the vast data processing obligations associated with compliance.

Peter Moss, Chief Executive Officer of The SmartStream Reference Data Utility, told Global Investor: "The SmartStream Reference Data Utility (RDU) was set-up as a collaboration between a number of banks and SmartStream to create a security master utility for the industry at large. What we are doing today is not fundamentally different from that idea - we support reference data for tradeable financial instruments, such as equities, bonds, futures and options."

Moss continued: "A year ago, we realised that in 2017 no-one was going to focus on anything but Mifid II and that Mifid II is hugely reliant on reference data for tradeable financial products, which is exactly what we do. We took a good look at the regulations and started to build out our reference data functionality to support regulatory reporting under Mifid II and Mifir."

Moss said in November the RDU had "many customers" testing in preparation for the January introduction of the reforms but firms are being hampered because "some of the data has not yet been made available by the regulators".

Given Mifid applies to any firm that trades in one or more of the European Union's 28 member states, the rules also impact most international trading firms, including those in the Americas and Asia.

Moss said: "We are actively selling across Europe, the Americas and Asia and have found that our natural audience is the large brokers that will be systematic internalisers under Mifid II."

"We already have as customers many of the tier one banks but we also have tier two banks in Europe and Asia," he added.

The data sources upon which the RDU draws information are similarly varied. "We are connected to nearly 100 listed derivatives exchanges as well as all the major data vendors and other agencies such as the European Securities and Markets Authority (Esma) and ANNA. We are also expecting to source data from each of the 28 national regulators."

The utility model is popular, in principle at least, because it mutualises the cost of a common challenge but Moss said the appeal of the RDU goes further.

"I see the advantages of the utility as being efficiency and cost effectiveness but also, crucially, the quality of the data. This is all we do, we are focused on reference data and nothing else. We pride ourselves on implementing best practice."

The industry is fixated with the January 3 Mifid implementation date but Moss said that is just the beginning of what looks like a multi-year effort.

"Everyone is currently focused on getting to the starting line but most firms are going to keep their Mifid projects going into next year. They are going to need to constantly adjust and fix their processes as the regulations are bedded down."

The systematic internaliser regime is certainly one to watch. Dozens of large sell-side firms have already said they will seek certification as an SI.

Moss said: "In September next year the regulators are going to decide who will need to be classified as systematic internalisers. We are expecting a good number to be in this group. A lot of firms have already said they expect to be SIs, which they are using as a marketing exercise to the buy-side."

He added: "Being an SI has significant requirements in terms of trade processing generally. They need to be able to offer transparent pricing prior to the trade and, once executed, they need to be able to publish that trade data to the industry."

No-one really knows what the industry will look like in the weeks and months immediately after Mifid II but Moss, for one, thinks the change will be gradual.

He said: "I think it will be very different once the regulation goes live, I don't expect everything to be working perfectly on January 3. It is going to take a period of time to settle down and there will be some fine-tuning by the regulators. The first six months at least are going to be about bedding down what has been a massive change for the industry." ■

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SmartStream

SmartStream at forefront of reconciliations evolution

SmartStream's TLM Reconciliations Premium is a vanguard in the changing role of reconciliations.

Reconciling data between internal systems and with external counterparties was historically a fairly staid process and therefore underfunded compared with other processes in the transaction lifecycle.

Yet the profile of reconciliations has changed in recent years as the sheer volume of data that needs to be reconciled has increased exponentially.

This is partly due to regulation, as tough new reforms such as Europe's Mifid II have dramatically increased the data handling and reporting responsibilities faced by trading firms.

The increasing complexity of trading houses linked to greater product and regional diversification has also led to a proliferation of internal systems and increased the need for reconciliation between these diverse sources of information.

The focus of reconciliation services has changed over time also.

Reconciliations managers and systems were previously preoccupied with resolving exceptions between data sources, now systems like SmartStream TLM Reconciliations Premium are tasked with enabling managers to change proactively established processes to lower the volume of exceptions.

Steve Moss, solution director at SmartStream TLM Reconciliations Premium, said: "Historically reconciliations vendors were focused on getting reconciliations rates up but our focus is now on more about getting to a known hit rate and supplying the analytics necessary to deal with the exceptions."

The SmartStream flagship reconciliations platform now supports sophisticated analytics functionality that gives firms access to more information for process improvement. This empowers firms to be more proactive in their approach to reconciliations whereas historically they would have had to wait for an internal report, which can take time.

The solution provides an integrated function that reduces the reliance on IT support, allowing for greater flexibility and faster time to market.

Moss continued: "We take the approach that if a human can see patterns in the data to reconcile exceptions, this can be automated. So where there are exceptions that are being consistently resolved by a human, that can be replicated in our technology, enabling the reconciliation rates to move closer again to 100%. And this can be done without requiring IT development."

The SmartStream technology also allows firms to match exceptions based on different attributes such as trade identifiers or amounts, which will reduce further the number of outstanding exceptions. By analysing breaks at the attribute level, firms can focus on where to improve processes or where the problem originates from.

SmartStream is also different to many of its peers in that it has a single version that handles all data types, according to Moss.

"Some reconciliation vendors think they need to have separate physical code bases for cash or assets, exchange-traded versus over-the-counter, but we have a single version that can accommodate all reconciliations. We are a one-size-fits-all with many industry best practice packages out of the box."

The reconciliations process looks, on paper at least, as a perfect test case for the implementation of nascent distributed ledger technologies.

Moss said: "A key part of what we do is working with future technologies focused on issues such as scalability and cost of ownership. Reconciliations tends to be a sticky area but the clients still like us to be ready with the latest technologies. There are many more choices out there in terms of what customers are looking for. When we think about something like the blockchain initiatives, our clients want to know they have bought a solution that is aware of these new initiatives and is ready to integrate to them."

SmartStream said it also sees an opportunity to partner more closely with other specialist technology firms to offer more comprehensive technology solutions.

Moss said: "Being a market leader is a great position to be in because we get to work with so many diverse organisations. Rather than fighting to win market share, we have firms coming to us because we have unparalleled experience. I expect to see us working more and more with third parties where reconciliations is not their core strength."

Recently SmartStream announced a partnership with RegTek.Solutions, a leader in regulatory compliance technology, to deliver a managed service that provides independent, turnkey reconciliations that directly address regulators' demands for the proactive oversight of trade and transaction reporting.

Moss concluded that the future of the product is to use analytics to promote further process automation.

He said: "The entire experience of the solution has to be intuitive from on-boarding to daily maintenance to the acquisition of analytics in support of process change. Therefore the 'self service' mantra is key to the design of all user interactions in combination with automation where applicable." ■

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AxeTrading: bringing the EMS to fixed income

For a company just launching in the buyside market, AxeTrading's award of Buyside Trading System of the Year stands as an impressive testament to its foresight - it started developing its fixed income EMS three years ago - and innovative approach to the fixed income market.

The firm has grown out of its base of leading regional / Tier two banks and into the Buyside with a suite of products designed to capitalise on the rapid evolution of the fixed income markets since the financial crisis.

AxeTrading was founded in 2009 by Dinos Daborn and Ralf Henke. Daborn had been at Cantor when it launched eSpeed and subsequent stints at Bloomberg and Citi had convinced him that the fixed income market was changing in several fundamental ways.

"I could see in the early 2000s that the fixed income markets were going electronic and you either embraced that or you were left behind," he said.

"By 2009 it was clear that the structure of the market was also changing. Before the financial crisis the fixed income market was in the hands of a small number of international banks. Whether firms wanted US treasuries or South African government bonds, they could rely on a handful of counterparties."

In the wake of the crisis and the imposition of more stringent capital requirements on banks, many were forced to pull out of non-core, peripheral markets and were less able to warehouse risk on their balance sheets.

"The buyside still wanted to trade peripheral market bonds, but for the first time had to engage with local banks to trade," said Daborn.

"These banks were therefore starting to get interest from international buyside firms but they didn't have the technology or the salesforce to service those clients."

AxeTrading sought to capitalise on the opportunity presented by this emerging trend and launched a fixed income software platform to support Tier two/ regional banks seeking to handle international business and get their pricing out to the global market.

As many banks moved to an agency model matching buyers and sellers, the firm developed software for them to create internal order books to aggregate client orders in one view across both electronic and voice.

An EMS for fixed income

It was from this position offering fixed income software to both the regional banks seeking to get visibility in the international markets and the larger banks that needed to aggregate orders that AxeTrading began its journey into the buyside.

Again for Daborn, it was in response to a prevailing trend in the market.

"We saw about three years ago that the continuing evolution of the market and the pressures on banks' balance sheets meant that the buyside were increasingly the most significant holders of bonds," he said.

"At the same time there was a proliferation of trading venues including new central limit order books, so a buyside trader looking to execute trades was having to connect into many different platforms and make sense of numerous disparate data sets."

From this technical insight, AxeTrading built its buyside Fixed Income Execution Management System. Designed to sit on top of the buyside's Order Management System, the software provides buyside trading desks with a holistic view of the fixed income markets, integrating internal systems with multiple venues (OTC, exchanges, MTFs, OTFs and SEFs), and data sources into a single application to help facilitate trade execution.

An EMS was a familiar concept in the equities markets, but is still almost unknown to buyside fixed income trading desks.

"What we have built in its most simple form is an aggregator," said Daborn. "All the orders come in to the EMS through the OMS and the EMS is connected to all the venues that buyside firm wants to be connected to.

"We also pull-in all the client's market data from their various sources including runs messages, axes, broker and exchange data. We normalise the information and display all the market data in one window, we enable clients to grade that market data and help identify the optimum trading strategy."

AxeTrading's EMS is likely to be a key tool for buyside firms that are required to prove best execution post Mifid II. Firms will need an audit trail to validate their decisions on where to trade and access to all available data will be crucial to meeting the mandate.

Future plans

AxeTrading has its sights set on exponential growth following a €2m investment from Mark Beeston's Illuminate Financial fund.

It opened an office in Sydney in October, and will soon build out the sales teams in Singapore and the US. The firm has more than doubled its staff in the last 12 months.

"Our focus has been, and always will be, pressing at the forefront of fixed income e-trading. In today's world, firms are coming to realise the pitfalls of a multi-asset system, and are increasingly understanding they can pick the best system for each asset class. And that is what we offer for fixed income." ■

For more information, visit www.axetrading.com

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Total Return Futures
- a real-life example for futurisation

Over the last couple of years, futurisation has been one of the buzzwords that market observers have debated upon. While it is clear that regulators want to shift parts of the Over the Counter (OTC) business on exchange, the reality looks different. The OTC market does not shrink. So, what happened to the large-scale replacement of swaps by futures that many expected to follow the global financial crisis?

The answer is that it takes longer than expected. However, a combination of the regulatory agenda and the current market environment finally lays the ground for successful real-life cases of futurisation. One prominent example are Eurex' Total Return Futures (TRF).

Launched at the end of 2016, TRF on the EURO STOXX 50® Index support the market in complying with new financial market legislation. Under the Basel III capital standards, banks face increased capital requirements when entering Over-the-Counter (OTC) transactions. In addition, the regulator introduced bilateral margin rules on non-cleared swaps.

In combination with cost pressure all over the financial industry, these rules change the structure of derivatives markets by supporting the trend to Exchange Traded Derivatives (ETD). Eurex' TRF offer returns analogous to Total Return Swaps; thus representing a functional replacement for these OTC instruments.

On 30 November 2017, Eurex reached an important TRF milestone with 500,000 traded contracts. In total over €19bn in notional value has traded and open interest is over 10bn.

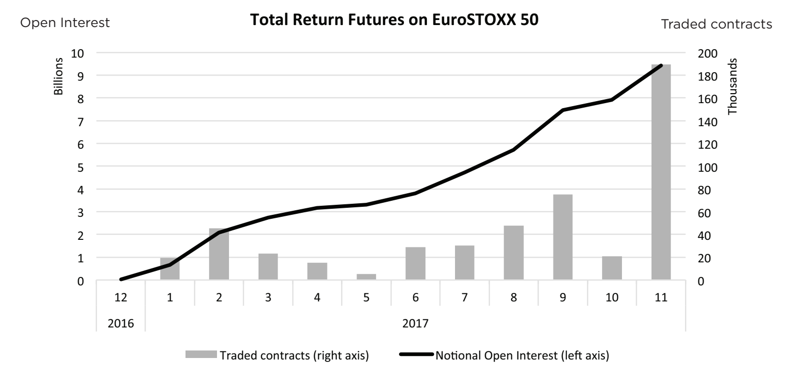
"The introduction of our Total Return Futures is clearly one of my highlights of the last 12 months", says Eurex CEO Thomas Book. "We estimate that over 10 percent of the market has already migrated to our listed product. This success shows that regulation opens up new potential for innovation, and how exchanges can support both the market and the regulatory agenda."

The TRF contract design replicates the payout profile of the funded purchase of a cash equities basket representing the components of the underlying index. In line with current market convention, TRF trade in „spread" in basis points and allow the implied repo rate associated with cash basket replication to be hedged and traded for the first time. Going forward, we can broaden this product structure towards other indices, equity baskets or even other asset classes.

One of the key arguments for ETD like TRF is their standardisation. Contracts that offset each other can be netted out through clearing, offer cross-margining, and the processing of trades is greatly simplified. On top, Eurex Clearing acts as Central Counterparty, mitigating counterparty risks. "That is one of the reasons why market participants have adopted to the product so quickly", Book adds.

Eurex constantly observes market developments and trends. "We are in close contact with our customers as well as regulators. This is key for our objective to meet the market's needs", says Book. "Also, it is important to stress that we cannot innovate all alone. We work closely with our clients. For our Total Return Futures, BNP as one of our trusted partners gave us valuable input and joined from launch as one major liquidity provider – and therewith an important contributor to this success." ■

Strong growth in key new product opportunities



Achievements in 2017

- More than €9bn notional open interest and 500k traded contracts within 11 months from launch, first exchange to successfully offer total return swaps
- More than 10% of existing OTC open interest in total return swaps already migrated to Eurex

Trading in the post -MIFID II environment

MIFID II has presented firms trading in Europe with the greatest set of technological challenges in living memory, forcing them to upgrade their entire technology stack to ensure compliance.

Johannes Frey-Skött, VP Apps Engineering at Itiviti, the leading European trading technology firm, has been working with clients on MIFID for years now and concluded that a key challenge is handling the additional and massive data requirements linked to MIFID compliance.

Frey-Skött told Global Investor Group: "Part of the challenge is that post-MIFID II firms will be consuming a huge amount more reference data from regulators and trading venues and they also need to store for five years all client data and orders, trades and quotes if you are classified as a high-frequency trader."

Itiviti was quick to move on MIFID II. They picked up the Regulatory Technical Standards as they became available and made the required changes to its existing portfolio of technology products but realised early there was also a need for a standalone MIFID regulatory reporting tool, hence Itiviti Analyst.

Frey-Skött said: "Under MIFID II, firms will now have to populate orders with additional information among those, pertaining to investment decisions or the execution decisions which is information that these firms were not previously required to supply."

He added: "To handle these requirements, the same firms need to make fundamental changes in the core of their products."

There is also the thorny issue of Legal Entity Identifiers (LEIs), which every trading firm must acquire and provide to counterparties.

Frey-Skött said: "Firms handling client orders also need to manage the reference data for clients so the clients need to have a Legal Entity Identifier and the broker needs to populate these LEIs in their databases. That is a big challenge when combined with the requirement to maintain reference data for all the underlying instruments. There are also other requirements such as pre-trade and post-trade limits on size which are specific to instruments."

The up-shot firms are facing is a huge regulatory reporting headache when it comes to sheer volumes of data they will be expected to process, Itiviti argues.

It is not only trading firms that are facing a huge data challenge however.

"We are in contact with many of the national regulators and I think there is a feeling that some regulators may be overwhelmed by the sheer volume of data they will receive through daily, quarterly and annual reports," said Frey-Skött.

There was (at the time of writing at least) still some confusion over the direct electronic access (DEA) rules as drafted by the European Securities and Markets Authority, leaving some firms unclear whether they will be bound by the rules or exempt.

Frey-Skött added: "At a recent conference the Financial Conduct Authority said they think that quite a lot of investment firms will be surprised to hear that they are going to be classified under the DEA rules. There are currently exemptions to the rules but there are also exceptions to the exemptions. If you are trading on a Multi-Lateral Trading Facility in your own membership for example, or through a DEA set-up you must comply with record keeping requirement, which may come as a surprise for many companies."

Frey-Skött said European regulators should exercise forbearance next year, reflecting the scale of the challenge faced by regulated firms.

"It is likely we will see some kind of grace period though we don't know how long that will be," he said.

"The FCA has said it is sufficient if you can demonstrate that you are making best efforts but, at some point, they are going to start fining."

MIFID II then does not go away as a challenge when it takes effect across Europe on January 3. Itiviti said the market structure will continue to evolve and this will need to be reflected in its various technology services including Itiviti Analyst.

Frey-Skött concluded: "Next year, we will be continually watching the market structure, with a particular focus on the proliferation of Systematic Internalisers (SIs).

"Clients are already requesting meetings next year so we will be monitoring closely the market structure changes and reflecting those in changes to the Smart Order Router," he concluded. ■

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