

# Tutorial 3: Metzler and Omgeo Case

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## Introduction - OMGEO

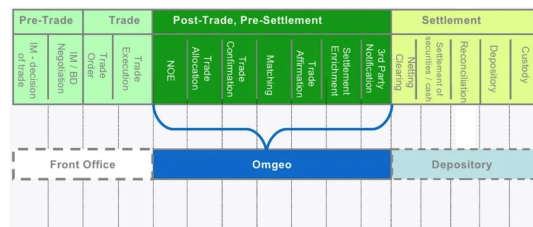
Established in 2001 between DTCC and Thomson Reuters.

Omgeo is a financial services global joint venture wholly owned by the Depository Trust & Clearing Corporation (DTCC) - Acquired in October 2013.



Specialise in Automating Post-trade Operations:

- Trade Allocation
- Confirmation/Affirmation
- Settlement Notification
- Enrichment
- Operational Analytics
- Collateral Management/Reconciliation



## Introduction - Metzler

Oldest German Private Bank (Established in 1674 Frankfurt, Germany)

Core areas of business: Asset Management, Corporate Finance, Equities, Financial Markets and Private Banking.



Metzler Asset Management operations include portfolio management services for private and institutional clients.

Main Challenges faced:

- Rising trading volumes and peak loads (tripled since 2001)
- Increasing number of markets, brokers/dealers, custodian banks
- Large proportion of processes done manually

Aim to:

- Automate securities processing between brokers/dealers, investment managers and custodian banks on a single platform
- Instruct the custodian banks via SWIFT
- Maintain long-term technology leadership in the market



## OMGEO Products

Omgeo ALERT

- Global Database for Maintenance and Communication of Account and Standing Settlement Instructions (SSI)

Benefit: Significantly reduces trade failure.

Features: Allow investment managers, brokers/dealers and custodian banks to share accurate account and SSI automatically worldwide.

Omgeo Central Trade Manager (CTM)

- Platform for Central Matching of Cross-border and Domestic Multi-Asset Class Transactions

Benefits: Streamline trade flows, decrease operational risk and increase efficiency.

Features:

- Direct connectivity via FIX from front office to middle office
- Exception-only processing
- Real-time settlement instruction enrichment
- Automated settlement notification in SWIFT MT541/543 format to custodian banks

Omgeo Benchmarks

- Performance Measurement Solution

Benefit: Monitor and analyse operational performance against industry standards as well as counterparty timeliness and performance.

Features: Trade Analytics tool, Peer-to-Peer Scorecard, and Business Intelligence component.

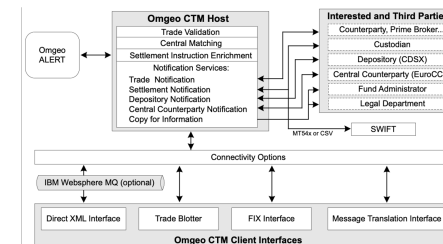


Figure 1.1 Omgeo CTM architecture

a)

How has Metzler automated its business processes to ensure more efficient straight-through-processing (STP) operations?

## Objectives

### Objective 1: T + 1 Booking

- Settle all transactions within 1 day of trading
- Avoid failed trades

### Objective 2: Avoiding Errors and Risks

- Reduce operational risk by earlier detection of risks
- Avoid errors as security requirements have tightened

## Automation of business processes

### Method: 100% automation

- Automating internal and external trade processes
- In-house developed front office tool
- Externally developed compliance tool
- Order Management System (OMS) from Charles River
- Matching and Settlement solution from Omgeo

## Automation Processes

### 1. Externally Developed Compliance Tools

- Past: manual time-consuming control process. Impossible to scrutinise every fax in detail
- Automation has reduced compliance risk significantly
- Able to review every transaction

### 1. Order Management System (OMS) by Charles River

- Awarded Best Order Management System in 2020
- Helps traders to find liquidity, execute trades across all asset classes and ensures trades are compliant
- Provides tools on a single trading blotter to work more productively
- Allows better communication between traders and portfolio managers

## Implementation of Omgeo Products

### 1. Omgeo CTM

- Matching and Settlement solution
- The function send the settlement notification automatically to the custodian bank via SWIFT
- Exception-only handling

### 1. Omgeo Alert

- Reduces risk and execute processes with a high standard of quality
- Orders were enriched with the necessary standard information without manual intervention

### 1. Omgeo Benchmark

- Allows to analyse operational broker/dealer performance and internal processes
  - Allows to identify problem areas and risks with certainty and hence raise optimisation potentials
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b)

What do you think are some of the challenges Metzler may face in implementing STP technologies?

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## Implementation

### High cost

- Cost in determining the right system for the company
- Costly to install new servers and database for the new systems

### Training

- Employees require training and time to transition to new workflows and processes
  - Internal resistance
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## Integration

### Internally

- Custom codes required to integrate new system with the current system
- Data from Charles River OMS (Order Management System) to be sent direct to Omgeo CTM without intervention

### Externally

- Custodian banks need to have corresponding infrastructure in place
  - Need to be able to receive Standing Settlement Instructions (SSI) in SWIFT format from Omgeo CTM and Omgeo ALERT
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## Cybersecurity risks

- More processes in the financial sector are undergoing digital transformation
- Threats are constantly present and evolving
- Must put in place effective technology risk management practices
- Cyber-attacks can result in a prolonged disruption of business activities
  - **Case:** On December 4, 2021, Bitmart, a crypto trading platform, experienced a major security breach, resulting in hackers withdrawing almost \$200 million in assets.

## Data management

- Effective data management required to ensure **speed, flow** and **quality** of data
  - **Data flow:** delivering data across networks and systems when necessary
  - **Data speed:** delivering data rapidly when requested
  - **Data quality:** delivering current and accurate data required by the destination application or user
- Data needs to be accurate and quickly accessible to achieve STP and reduce trade failures due to incorrect data.
- Must ensure that the database platform has the performance, scale, and availability to support business operations.

c)

What do you think contributed to Omgeo's success in capturing the market for clearing and settlement technologies?

## BENEFITS

- The CTM solution is industry owned and governed
- High transparency and consistency for your post-trade processes
- Connecting to the CTM platform means connecting to almost 2000 counterparties in 52 countries
- Support of multiple asset classes on one platform, such as Equities, Fixed Income and Repurchase Agreements (Repos)
- Incorporation of industry best practices, such as SMPG, AFME, ISITC and user community best practices
- Improved regulatory compliance and risk management
- Direct links to depositories in Korea (KSD) and in the US (DTC)
- CTM is a regulated service for the central matching of trades in the US and Canada

## Accessibility & Demand

### Increased Market Demand for Automation

- External Pressure from high volume of trades & stricter regulations.
- Increasingly complex investment industry
- Buy-Side Commitment to Technology Leadership

### Omgeo's Acquisition by DTCC

- Increased Collaboration and Unified Strategy
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## Efficiency

- Manual Processes were time-consuming
- No matching and real-time information about whether the right positions were being taken.



- Made Post-Trade Efficient &
  - Efficient monitoring of brokers/dealers commission
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## Effectiveness

### 1. Cost-Effective

- Manual Processing is more costly

### 1. Risk Reduction

- Reduces Operational Risk and Errors
- Reduces trade failure by enabling a community to share accurate SSI automatically worldwide

### 1. Liaison Tool

- Creates a link between order-routing and front office
- High Transparency and Consistency for Post-Trade Process

### 1. Versatile

- Support of multiple asset classes
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Thank you

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