Compete in the front, collaborate in the back

Jerry Friedhoff, managing director of securities finance and collateral management at Broadridge, explains how an efficient technology infrastructure can be the salvation of securities lending participants

From a technology point of view, how much of a challenge is compliance with the various regulatory initiatives the industry is facing?

It is a huge challenge for the industry because of the sheer breadth and depth of regulatory change. The forthcoming Securities Financing Transaction Reporting (SFTR) rules are very granular in terms of the level of data that needs to be reported and implementation timelines look very tight. In the securities lending market specifically, there is still lack of standardisation or a common data model among market participants for meeting all these new reporting requirements.

As a vendor, it's our responsibility to understand and help clients to meet these challenges. One of the problems the market faces is that there is still some ambiguity around some of these new rules. Until we know all the details, it's difficult to be fully prepared for the future, but at the same time we prefer to take a proactive approach to preparing for the incoming regulations.

Are industry participants embracing the level of sophistication that these rules will require from them?

As far as our clients are concerned, we have found they have kept abreast of the technical standards and are aware that resources will need to be allocated to implementation in 2017. The derivatives trade reporting already implemented for the European Market Infrastructure Regulation (EMIR) and the US Dodd Frank Act has provided a good model and lessons learned around how to manage change and is something we can try to emulate in securities finance trade reporting.

Can the market work around these new requirements or will the securities lending business fundamentally have to change?

There will be an element of behaviour and market change because of the resource constraints everyone is under. This includes balance sheet scarcity, increased liquidity costs and capital constraints along with additional reporting. As a result, we see the market moving towards a more granular transaction cost analysis in order to maximise resource allocation and determine what business is actually profitable. There will naturally be new market participants and new business models arising to meet these challenges in the market and we're already starting to see that through new trends, such as the emergence of peer-to-peer lending, and newly-launched platforms being created to accommodate that.

Regulatory burdens that require investment are coming at a time when many large banks are shrinking their back-office operations. Does this present an opportunity for vendors?

There is a noticeable trend towards using vendor-made systems as opposed to building in-house tools. This now includes large banks that historically would have the capacity to self-build technology solutions. The volume and scope of regulatory change means adapting older in-house systems in a timely manner is both challenging and costly for many industry participants. A phrase I heard in a meeting recently that summed this up nicely was, 'compete in the front, collaborate in the back', which is absolutely spot on. The real competition should be your core front-office operations. Let a vendor take care of all the structural problems around that so you can stay focused on doing business.

Broadridge is looking to provide solutions for the whole trade lifecycle. This includes our growing managed services offering suite which many firms are now leveraging.

Broadridge is a much broader church than it was 12 months ago as you've completed a number of acquisitions. What's your focus going forward with these new capabilities?

Bedding down all of the acquisitions (4sight and Anetics) and optimising all those new moving pieces is really our core focus at the moment.

At the same time, we're also looking into how we can build upon our strengths in global inventory management and cross product collateral management in order to allow our clients to be proactive, not just reactive, to new features of our market. The liquidity coverage ratio (LCR) is a good example. We have done a lot of product development around identifying and sourcing LCR eligible assets through a central view of global inventory and feeds of data that allow users to filter down availability of high-quality liquid assets (HQLA). This is providing huge benefits for customers. It enables them to take a more proactive and forward looking view of meeting liquidity needs and also in financing long HQLA inventory in the market.

Is Broadridge's ultimate aim to become a one-stop shop for clients?

Yes, and I think with the new capabilities we have acquired we are very close to achieving that goal. The key to what we're looking to create is a product that caters to a wide remit of market needs but also has the flexibility of being modular so our clients can decide if they just want the repo, securities lending, collateral management or synthetics components, or any combination of those.

We can then scale that to the fit the size of the firm and the regions it operates in, as well offering them either a deployed solution at the client site or a hosted solution in a Broadridge data centre. Flexibility and scalability are really at the core of our product.

Again, we've moved towards this style because we're hearing from our existing clients that it's what they want and need. It also allows us to be very accommodating to new clients that may not want to move all their components over in one go but want to add functionality over a longer period. **SLT**