Description of business processes

Securities – Description of Business Processes

Issuer – Pre-Investment Decision
This covers the information from the issuer to Edgar, etc. which is used by the analysts in making their investment decision.

Sub-function	Description
Filing Fundamental Data with the Regulator	An Issuer reports financial statement data that describes the economic fundamentals of the investment. This data can then be processed by automated processes that enhance the accuracy and speed of investment decisions.
Analytical Models	Fundamental evaluation frameworks define evaluation metrics whose value is derived from financial statement data. i.e. Free Cash Flow from Operations, etc.

Front Office - Pre-Trade
Pre-Trade covers all activity which occurs prior to a trade. Examples of pre-trade activity are indications of interest (IOI), trade advertisements, quotes and market data (in support of trade through post-trade functions, i.e. market data dissemination, instrument identifiers, descriptive data, attributes, rates, codes and contact data, etc.).

Sub-function	Description
Indications of Interest (IOIs)	A buyer or seller communicating to others an interest in finding the opposite side to a trade. For equities, this typically is a broker communicating to its customers while representing another customer's order.
Trade advertisements	An executing party (broker) publicly disclosing that (when and how much) they have executed large block trades in an effort to publicize their role and volume in a particular security.
Quotes	The bid or ask quotes are the most current prices and quantities at which the shares can be bought or sold. The bid quote shows the price and quantity at which a current buyer is willing to purchase the shares, while the ask shows what a current participant is willing to sell the shares for.
Market Data	Refers to numerical price data, reported from trading venues, such as stock exchanges. The price data is attached to a ticker symbol and additional data about the trade.
Short Sale Locate	Location of stock prior to the execution of short sale.
Reference Data	Includes securities reference data (instrument identifiers, descriptive data, attributes, rates / codes, calendars and taxes), entity reference data (counterparty data, entity identifiers, client data, contact data) and ancillary reference data (location of trading).

Front Office - Trade
The trade area includes the order and execution processes, including order management, order routing and trade execution.

Sub-function	Description
Order Routing	Order routing and execution for single instruments and multi-leg instruments; crossing order routing and execution; and basket and list order processing.
Trade Execution	The process in which a trade is executed. The trade may be a single, multi-leg, cross, basket, list, etc.
Trade Date Position Reporting	Management of traded and tradable positions on trade date.
Reference Data	Client data, credit profiles, account numbers, commission rates, place of trade, etc.

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Middle Office - Post-Trade

Post-trade covers all activity after execution up until clearing and pre-settlement begins.

SUB-FUNCTION	DESCRIPTION
Trade Capture & Validations	The process in which trades (block and or allocations) are captured by a central counterparty or locally, for purposes of trade matching and confirmation.
Allocation	Allocation of trades from both two and three party models.
Matching	Trade and allocation level matching. May be performed locally (two party) or centrally (three party). Matching may occur prior to and also after allocation.
Confirmation/Affirmation	The process of confirming and affirming trades executed.
Position Management	Affects start of day positions, positions created through trading activity, deliveries, transfers, and end of day position management. Depending on the type, position may be liquidated, adjusted, exercised, and marked to the market.
Novation/Assignment Process (OTC Derivatives Post Trade Processing)	The full or partial transfer of the rights and obligations defined by an OTC derivative contract to other consenting counterpart. A fee may be payable between the parties (actual payments are part of the settlement function) to account for the contract value. The novated and remaining contracts maybe subsequently confirmed (see confirmation sub-function). Note: FpML uses FIX messages to carry FpML data (trade messages).
Amendments / Modifications (OTC Derivatives Post Trade Processing)	The process by which one or several economic parameters in an OTC contract is changed. The process typically includes a confirmation part (see confirmation sub-function) and fee payments between the parties (actual payments are part of the settlement function), to account for the change in the contract value.
Termination (OTC Derivatives Post Trade Processing)	The full or partial reduction of the notional amount or number of options defined in an OTC derivatives contract prior to the scheduled termination date (swaps) or the last exercise date (options); the process typically involves a confirmation part (see confirmation sub-function) and fee payments between the parties. Note: FpML uses FIX messages to carry FpML data (trade messages).
Increases (OTC Derivatives Post Trade Processing)	Process by which the notional amount or number of options of an OTC contract increases.
Affirmation (OTC Derivatives Post Trade Processing)	
Exercise (OTC Derivatives Post Trade Processing)	The full or partial exercise of an option.

Securities – Description of Business Processes

Middle Office - Clearing / Pre-Settlement

This denotes all activities from the time confirmation is made for a transaction until settlement begins. In theory, this includes the management of post-trading, pre-settlement credit exposure, ensuring trades are settled in accordance with market rules.

It is important to note that clearing may occur either bi-laterally or through a central party.

SUB-FUNCTION	DESCRIPTION
Matching	The process of "pre-matching" in order to alleviate issues (fails) in the settlement process, prior to instruction of settlement.
Netting	The process of netting trading obligations (cash, securities or other), with a goal to reduce the number of settlement transactions.
Funding	The process in which a party, individual corporate or central counterparty is responsible for ensuring that trades are properly funded, prior to settlement process initiating.
Reference Data	Settlement location, clearing account numbers, CSD identifiers, etc.

Back Office - Asset Servicing

Administration activities performed for others, e.g. processing of corporate actions, tax reclaims and portfolio valuation.

SUB-FUNCTION	DESCRIPTION
Issuance	The process in which securities are created/issued. Also referred to as underwriting. Includes the IPO process and activities of the agent, registrar, transfer agent, etc
Corporate Actions	An event issued by a company that effects the securities issued by the company, ie, dividends, stock splits, coupon payments, factor updates, etc.
Proxy Voting	The process of voting by members or shareholders and the related management of this process.
Securities Lending	Transfer of ownership of securities from the lender to the borrower for a specified period of time against fees. The transfer of ownership of the securities is not a sale. The borrower assumes all rights of ownership and receives interest, dividend, bonus, rights and any other corporate actions due from the securities, but is obliged to pay these to the lender (original owner).

Back Office – Reconciliation (Note: this is not in the roadmap)

The process of reconciling with counterparties details of some or all transaction data such as positions or cash flows.

SUB-FUNCTION	DESCRIPTION
Portfolio Reconciliation	Automated process for reconciling with counterparties details of some or all of the positions outstanding between them. A position includes the transaction details and may include valuation information as well. The need to reconcile portfolios may be met either through bilateral arrangements or through the use of vendors providing centralised matching services.
Cash Flow Matching	Automated process for reconciling with counterparties details of some or all of the pre-settlement OTC Derivatives cash flows between them. A pre-settlement cash flow may include its calculation details to facilitate its reconciliation.

Securities – Description of Business Processes

Back Office - Collateral Management

The process used to control counterparty assets against the exposure calculated as part of the risk management process. Management of risk via collateral, margin, positions, voting rights, etc. This includes repo collateral management associated positions resulting from trading activities - includes assignments, substitutions, inquiries, and request of collateral.

SUB-FUNCTION	DESCRIPTION
Initial Margining	The process of assessing the risk of a position based on volatility and market conditions, calculating a performance bond based on these factors, and comparing the requirement to the assets that are currently on deposit. A margin requirement that is greater than what is on deposit is referred to as a margin deficit. A margin requirement that is less than what is on deposit is referred to as a margin surplus. The clearing house is responsible for collecting more collateral in the case of a deficit.
Margin Call	End to end process of collateral call, including collateral call issuance, collateral call issuance responses, collateral assignment and responses to proposed collateral assignment, and notification of collateral to be moved. It also includes dispute resolution in case of rejection of collateral call.
Substitution	End to end process from initial request for a collateral substitution and expected responses.
Recall	End to end process from initial request for a collateral recall and expected responses.
Transfer	The process of requesting the transfer of collateral between clearing member sub-accounts
Interest Payment	Process that support the interest payment notifications and the dispute resolution in case there is no matching of the notifications.

Back Office - Settlement

Settlement can be simply defined as the actual exchange of obligations (cash, securities, others). Settlement is the next step in the trade lifecycle after clearing / pre-settlement.

SUB-FUNCTION	DESCRIPTION
Pre-advisement	The process whereby a party prevents its transactions from settling on a temporary basis. This can be, for example, for pre-matching purposes without committing for settlement.
Settlement Notification	The process in which a trading party, ie, an investment manager, notifies, or instructs, their settlement agent of settlement instructions for a trade.
Settlement	The process in which obligations are settled between counterparties to fulfill contractual obligations of a trade. The settlement process includes the process of pre-settlement matching, in that settlement instructions are matched prior to actual settlement being initiated in the local market. The settlement process includes settlements of financial instruments, physical or non physical and the cash payments.
Transaction Management	The process in which transactions related to settlement are managed. The process includes advice of settlement status, pending transactions, allegements, intra-position instructions, etc. The transaction management process also includes the reconcilement of settlement transactions.
Fail and Claim Management	The process in which failed trades and their associated claims are tracked, communicated and reconciled.

Securities – Description of Business Processes

Back Office - Pricing, Risk and Reporting

Pricing, Risk and Reporting covers all processes across products related to the pricing and valuation of securities and derivatives, series of risk measures (or values), and all types of reporting including position management and regulatory reporting.

SUB-FUNCTION	DESCRIPTION
Tax Management	Tax Payments, reclaims, repatriations, etc.
Income Collection	The process in which income due on an investment or otherwise, is tracked, collected and paid to an account.
Risk Management	The process of monitoring and controlling the financial exposure created by a collection of financial obligations with respect to fluctuating risk factors (e.g. market price, credit worthiness, etc).
Pricing & Valuation	The determination of a financial instrument's 'fair value' by theoretically valuing the current and future financial behaviour. Financial measures other than just price/NPV may also be calculated such as the 'greeks' for derivatives or duration/convexity for fixed income products. Valuations are in general considered for books and records, not for trading.
Reporting	The process of reporting on transactions, positions, currency accounts, etc. The reporting process includes general ledger and accounting statements.
Position Management	The process in which positions (interests) in financial instruments are managed by an account servicing institution on behalf of an account owner.

Investor Supervision – Regulatory Reporting

Sub-function	Description
Short Sale Reporting	The practice of selling assets, usually securities, that have been borrowed from a third party (usually a broker) with the intention of buying identical assets back at a later date to return to the lender. The short seller hopes to profit from a decline in the price of the assets between the sale and the repurchase, as the seller will pay less to buy the assets than the seller received on selling them. Conversely, the short seller will incur a loss if the price of the assets rises. Other costs of shorting may include a fee for borrowing the assets and payment of any dividends paid on the borrowed assets. Shorting and going short also refer to entering into any derivative or other contract under which the investor profits from a fall in the value of an asset.
Trade Surveillance Reporting	Designed to assist with surveillance and investigations of member firms by regulators and exchanges for potential violations of federal securities laws and related rules.
Position Management Reporting	Affects start of day positions, positions created through trading activity, deliveries, transfers, and end of day position management. Depending on the type, position may be liquidated, adjusted, exercised, and marked to the market.
Tax Lot Reporting	The process of reporting (from custodian to authorities) or transporting tax lot information (from custodian to custodian). Tax lots can be defined as a breakdown of position per historical purchase.

Issuer Supervision – Regulatory Reporting

This includes short interest reporting for example.

Sub-function	Description
Short Interest Reporting	Reporting short positions to the regulator including the value and details of the short positions held.
Financial Statement Reporting	Reporting of financial statement information such as a 10Q or 10K.
Investment Reporting	Reporting investment positions to the regulator including the value and details of the investments held.