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ICMA Brief:

Operations FinTech Directory Review & ERCC Member Feedback, Q3 2021

ICMA has updated its Operations FinTech directory for repo and cash bonds (previously 'FinTech mapping directory') in the last quarter. In parallel with the review, ICMA has gathered the views of ERCC members on current market trends and developments, challenges, and opportunities for post-trade repo solutions – we thank those members involved with this review.

Key takeaways

- The post-trade environment has recently seen multiple mergers, acquisitions, and collaborative ventures.
- These developments appear to be driven by demand for cross-asset expansion, extending capabilities to buy-side participants, and leveraging data management and communication capabilities.
- The normalisation of internal and external data flows is a key challenge firms continue to focus on, which can be facilitated by the CDM for repo and bonds.
- Simplicity and ease of onboarding is a key consideration for selecting vendor firms. The level of connectivity between the vendor and the market ecosystem is of equal importance.
- It remains to be seen how many providers the market can maintain in a fragmented ecosystem.

Operations FinTech directory

The Operations Fintech directory now includes over 200 solutions, compared to 165 solutions from the June 2020 review and 87 solutions when first launched in November 2017. It is divided into 10 categories comprising collateral management, corporate actions, exposure agreement, intraday liquidity monitoring and reporting, matching, confirmation & allocation, reconciliations but also ancillary areas such as static data and SSI, workflow and communication and KYC onboarding.

The 47 new solutions listed since last publication correspond to offerings from 9 providers, including 7 newly listed vendors. The highest category increases, as seen from newly listed solutions, were for collateral lifecycle & margin management (10 additions, 50 in total), and intraday liquidity monitoring & reporting (8 additions, 24 in total). Solutions for exposure agreements (6 additions, 23 in total) and matching, confirmation & allocation (5 additions, 19 in total) saw moderate increases. The review also captured 6 additional workflow and communication offerings, bringing the total to 25 in this category.

Trends

We have observed acquisitions of several firms with expertise in regulatory technology, portfolio management, matching and confirmations, and FIX connectivity solutions for buy-side and sell-side firms spanning equities, derivatives, and fixed-income. As regards workflow and communications, we have observed a voice and electronic communications company has recently been acquired to develop natural language processing (NLP) and leverage data analytics and data management expertise. Additionally, we observed the announcement of a partnership to further leverage a workflow and communication solution's data management and network workflow capabilities.

Benefits

Regarding benefits of utilising vendors, firms remarked they primarily engaged with external solutions through the lens of risk mitigation, by eliminating manual touchpoints and benefiting from scaled efficiencies to reduce cost. Members remarked that each provider would need to reach critical mass for continued development and to be a viable industry solution – it remains to be seen how many providers the market can maintain in a fragmented ecosystem.

One key factor for platform usefulness and viability is the quantity and quality of data collected, and how this is normalised and shared. Vendor firms using collected data for insights in easily accessible formats or within the same user interfaces, alongside its post-trade lifecycle management functionalities, provide the most value for users.

Challenges

A key challenge that persists for members is the normalisation of both internal and external data flows. A substantial amount of time and effort is invested in translation mechanisms, usually from underlying activity-based flows such as FIX and SWIFT, to proprietary representations through APIs for example. Regarding translation management, firms must decide between the use of non-standardised API connectivity or continue to use internal processing suites which may not be as agile as required. Where data can't be normalised bilaterally, firms would look to leveraging wholesale utilities as they become available.

Similarly, challenges in the adoption of post-trade solutions most consistently noted by ERCC members relate to onboarding, integration and connectivity. Given the quantity of post-trade vendor providers, firms must determine those solutions most suitable to their own needs and look at time spent onboarding – simplicity and ease of onboarding is a key consideration for selecting vendor firms. Additionally, the level of connectivity between the vendor and the market ecosystem is of equal importance. Translation capabilities and interoperability between participants are key. ERCC members also mentioned the ability to maintain a single interface across various lifecycle management processes was a significant adoption incentive.

Opportunities

ERCC members noted although both FIX and SWIFT provide well-defined data models, it makes sense to utilise a common domain model for normalisation processes. A common domain model would also provide a roadmap for the progressive migration from legacy systems. The availability of a consistent syntax and data modelling for third parties would also limit the need for connectivity services. Large banks undertaking proprietary domain modelling would also want to ensure relative consistency with market standards.

It was observed repo allocation functionalities were less mature than cash and there was further opportunity to develop industry definitions to harness overlaps in product representations. This would be another example where a common domain model provides the structure of such industry definitions and representations.

Regarding confirmations functionalities, further opportunities exist to digitise and utilise associated data points. Current solutions exist to ensure critical processes are met – the right information is sent to the right organisation at the right time – but may not persist in an electronically usable format. Up to now, the one-directional nature of confirmations has not demanded prioritisation and development of machine-readable, dynamic confirmation data points, though further regulatory and operational cost pressures may force firms and vendors to revisit confirmations processing.

ERCC members also commented they expect to see increasing opportunities relating to the servicing of digital assets as major banks and financial infrastructures continue to be involved in numerous projects and pilots utilising distributed ledger technology (DLT). ICMA continues to monitor applications of DLT and other innovative technologies on the New FinTech applications in bond markets webpage.

ERCC members expect to see an increased focus on outsourcing regulatory processes such as KYC and onboarding. So far, KYC solutions represent the lowest category within the Operations FinTech directory (only approximately 3% of all solutions). ERCC members noted opportunities for the shifting mindset of regulatory and compliance checks conducted internally toward leveraging specialised firms conducting similar reviews.

ERCC members mentioned post-trade functionalities most utilising vendor solutions were for matching, confirmations, allocations, and settlement processing. Firms were also more likely to use multiple vendors for workflow and communication relative to other processes. Reconciliation processing was also consistently highlighted as a core post-trade process leveraging vendor solutions. ERCC members considered reconciliations as an important area to continue developing in the shift toward higher automation and more dynamic information exchange. This function has become even more widely understood recently with SFTR requirements.

The concept of mutualisation in the context of firms grouping together to share vendor costs was flagged. Although the idea of mutualised costs of vendor processing is not new within the industry, the model has not gained momentum.

Members also noted the increasing importance of understanding available tools used to mitigate settlement failures, especially in light of CSDR settlement discipline requirements with the upcoming go-live date of 1 February 2022. ICMA maintains a separate CSDR-SD technology directory, referencing various solutions to manage cash penalties.

Download the ICMA Operations FinTech directory

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