

The perfect trade

Building a more compelling trading solution

» *At first glance, stitching together different component systems may appear to be a sensible way to create an effective trading solution with a broad array of functionality. But appearances can be deceiving. By creating a truly integrated trading, risk and operations solution whose functionality all flows from the same common architecture, OpenLink has avoided some common pitfalls that trouble competitor solutions and created a robust and adaptable platform that stands out from the crowd.*

As some firms may have discovered during the financial crisis, market stress can expose shortcomings in non-integrated trading solutions. Extreme volatility, shifting correlations, illiquidity and rising counterparty credit risk have made it clear that without a truly integrated system, well-informed and nimble trading and risk management are difficult to achieve.

While treacherous markets may have highlighted the need for an integrated solution, the lesson is actually a timeless one says Gary Koche, a managing director at leading vendor OpenLink. "Regardless of the market environment, a truly integrated approach offers many significant benefits and advantages – in terms of transparency, functionality and adaptability – that are perhaps not otherwise possible," he explains.

OpenLink's Findur and Endur solutions are targeted at financial capital markets and energy markets participants, respectively. Both offer complete integration of all trade processing functions including trade capture, valuation, compliance and limits monitoring, position and risk reporting, collateral management, accounting, cash management and other functions. The OpenLink systems allow users to manage the entire lifecycle of a trade and provide a central source of truth related to trade-related operations.

Unlike other solutions that patch together different systems to achieve a similar functional utility, Mr Koche says, OpenLink has developed a single system with a single source database that can provide the golden copy of all transaction information. Such transparency can yield significant benefits because information that is in some way dependent on a trade can easily and consistently be reconciled all the way back down to the trade itself.

"So for someone in an accounting function using our system, for example, this can be very powerful. By simply clicking on an accounting entry they can immediately drill down to the underlying trade and view its details," Mr Koche adds. Similarly, the OpenLink solution's transparency means that a trader or risk manager who needs an instantaneous snapshot of their exposure to a particular counterparty can, with the click of a mouse, see which trading positions are consuming their limit capacity.

In addition to offering greater transparency, the integrated nature of OpenLink's solution means that it has a self-correcting nature about it. So, for example, if someone in an accounting function using the solution spots an error when generating debits and credits, the subsequent correction of the underlying deal that prompted that error will automatically generate a corrected accounting entry – minimising the need for manual revision, mitigating operational risk and



Top: Gary Koche, Managing Director, OpenLink; **Bottom:** Ken Knowles, Executive Vice President, OpenLink

preserving the audit trail. "Historically, end users have spent more capital on trade-support staff than they have on trading software, so we believe that this characteristic can be of huge value to our clients," says Mr Koche.

Software-related 'real option'

Running three different systems – one for trading, one for risk and one for processing – may not be a sensible approach says Ken Knowles, Executive Vice President of financial and risk solutions at OpenLink. "Reconciling information between different systems is not only costly and time consuming – it's completely unnecessary when you can have an integrated solution."

Cost is of course an overarching concern as business strategies adapt and technology budgets get slashed amid ongoing financial market and economic turmoil. "In this kind of environment, firms need technology that can adapt to new business requirements – technology where new functionality can be deployed as needed," says Mr Knowles.

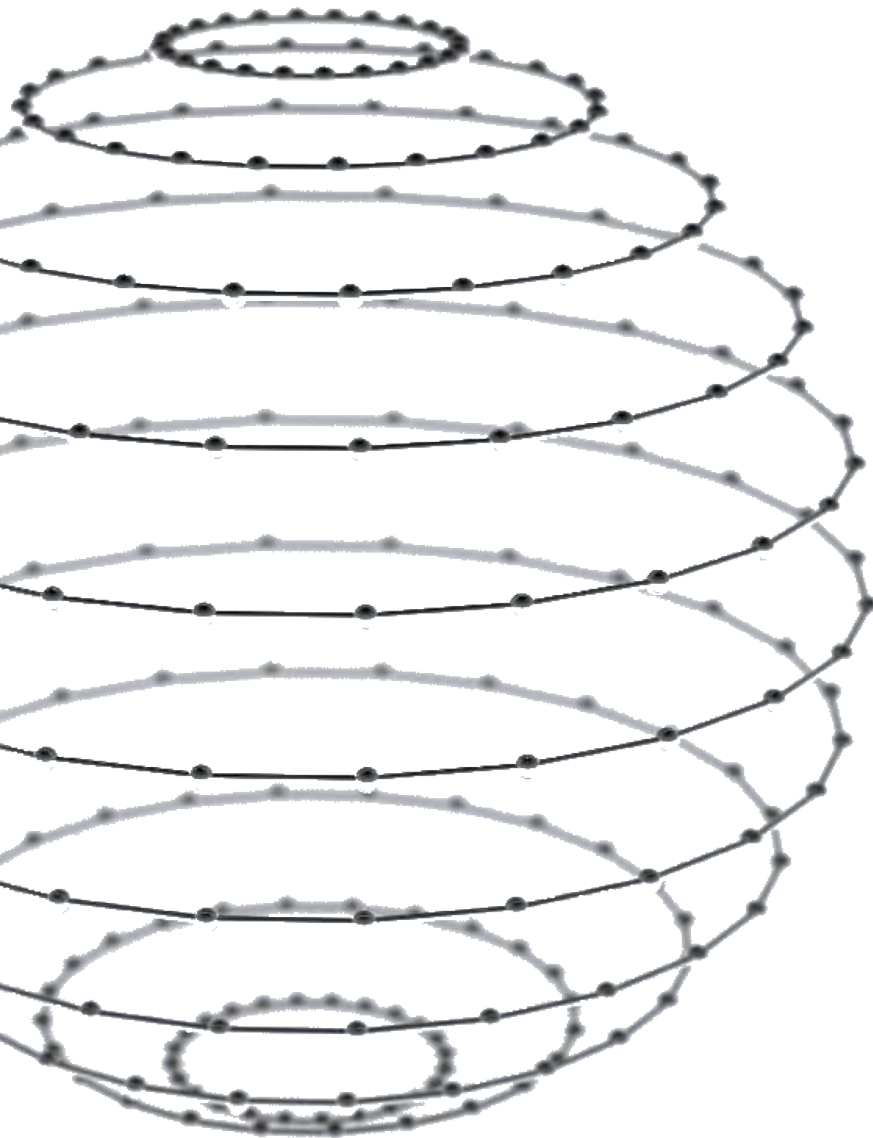
So ideally, if an OpenLink client wants to implement a new kind of credit risk calculation, for example, they could potentially use the solution's out-of-box functionality, or they could use the solution's extensibility to customise, or they could even implement their own proprietary analytics within the system. "We think of this flexibility as an invaluable kind of software-related 'real option' that users of truly integrated solutions can own," Mr Knowles adds.

The flexibility of OpenLink's solution environment is perhaps best borne out by its diverse client base which includes sophisticated market participants of virtually every type and size – including major investment banks, central banks, corporations, energy companies, and pension and hedge funds.

Of course, these various categories of market participants have different needs, and so each puts more or less emphasis on different system attributes – perhaps making it all the more noteworthy that, regardless of category, many market participants find what they need with OpenLink. Many in the market, for example, view OpenLink's system as offering extraordinary security, control and audit facilities – an opinion that appears to be supported by the significant number of central banks that use its products. "All data and information can be maintained in a single OpenLink database, thereby simplifying routine tasks such as reporting, extractions and on-going system support," explains Mr Koche. "This design also helps to facilitate the adaptability required by our clients. As market or regulatory requirements change for example, clients may easily adapt or extend the system without the need to replace it."

This streamlined approach to data means that a clear audit trail is always present within the system – a feature that is often little more than a cursory afterthought in rival solutions. So, for example, if a user in the front, middle or back office changes an attribute of a particular counterparty, a record of





the change itself, which person made the change and when it was made will be generated. "This kind of reference timestamp and audit detail is pervasive throughout our system," says Mr Koche.

Unshackling workflows

OpenLink's solution can also be configured so that based on user-defined business rules, additional levels of review or approval can be triggered. Let's say, for example, that a new junior trader executes a small trade. In this instance, there would likely be no red flag triggered – the trade flows through to the back office seamlessly and is automatically confirmed and settled.

But what if the same trader tried to execute a very large trade – perhaps with a non-standard settlement instructions and a newly created counterparty? In this circumstance, it might be wiser to have an additional level of review prior to automatic confirmation and settlement. Amid the financial crisis, it's easy to forget that there have been numerous large scale losses from unauthorised activity in recent years – especially from derivatives trading. Exceptions-based management capabilities,

which are straightforward to set up within OpenLink's solution, are an invaluable automated way of identifying and hopefully preventing unauthorised trading activity from escalating into a major exposure.

Amid the ongoing demand to handle new financial instruments, or implement new pricing models, Mr Koche says it's actually the OpenLink solution's improved facility around user-defined workflows that has been a major driver of clients embarking on upgrade projects. The workflow building facility is called Trade Process Management (TPM). The impressive TPM core module within OpenLink's platform allows user-defined workflows to be implemented via a simple 'point-and-click' interface. Workflows may also be enhanced through programming if needed.

"Irrespective of the number of people involved, the number of parallel paths, the contingencies, automations and manual interventions – if you can draw a diagram of it, you can implement it with TPM," adds Mr Knowles. TPM can be applied using all manner of objects such as market, reference and static data – for example, rules can be set up so that a particular workflow is invoked when credit rating of a specific counterparty is changed or put under review. Such flexibility stands in stark contrast to many competitor solutions to OpenLink where workflows and exceptions-based management are comparatively rigid because standard trade processing is assumed.

"Of course, workflows within different groups and organisations often share similar themes, but rarely will they be exactly the same," says Mr Knowles. "Details vary, so it shouldn't be a major programming exercise to have different routing or exception handling within the system, and workflows must be able to change when critical events occur." All too often with other trading solutions, critical events mean that workflows have to be supplemented with memos and other measures which are external to the system – not so with OpenLink.

This adaptability of course speaks to Mr Knowles' earlier point about the software-related real option that owners of truly integrated trading solutions possess. "There's a potentially huge economic benefit that clients can reap when the software vendor's workflow paradigm adapts to their internal business process, as opposed to vice versa," adds Mr Koche.

So are there other ways that trading clients of OpenLink have been seeking to exploit this adaptability of late? Unsurprisingly given the recent failure of major derivative dealers, both Mr Knowles and Mr Koche say that collateral and the broader issue of counterparty credit risk have been uppermost in some clients' minds. Recent market turmoil has heightened the need to assess exposures, manage collateral and understand the implications of unwinding or assigning trades.

"A broader range of instruments is being accepted as collateral and many of these will have significant market risk exposures in of themselves," Mr Knowles says. "An integrated solution where collateral management is folded into overall risk management allows for more sophisticated analyses of a kind that simply wouldn't be possible if separate systems were being used".

Business strategies, workflows, pricing and risk models will always require updating – or overhauling – in response to market stress. Quite understandably, market participants tend to implement solutions based on their current circumstance and their expectations for future use. But, as recent experience has demonstrated, circumstances can change dramatically – often in ways that are difficult to predict. Perhaps the real test of a solution's effectiveness is how it can adapt and maintain performance when the unexpected happens. ■

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