



Blockchain: dragging post-trade out of the dark ages

By Andy Coyne, Co-Founder and CEO, Cobalt DL

Electronic execution has evolved beyond recognition over the past 15 years. Trading technology has responded to dramatic market transformations driven by developments such as the emergence of high frequency trading, changes to the nature of liquidity and diversification of counterparties assisted by credit provision.

The speed at which trades are executed between participants across every corner of the globe has altered on a scale that previously seemed unimaginable, while competitiveness has increased and costs related to market access and execution have shrunk.

In contrast with execution technology, associated post-trade infrastructure has failed to keep pace. Legacy systems and practises being used to support these processes have changed little since their inception; they are now so inefficient and unfit for purpose that they introduce risk and unnecessary cost, having a serious impact on trading institutions' profitability. This comes at a time when there is a move away from revenue to a real focus on true profitability.

The root cause is a glaring mismatch, where back office processes that evolved to support profitable voice and proprietary trading of 25 years ago are failing to support high volume, low margin electronic trading.

This is exemplified by the huge degree of unnecessary replication. A single transaction executed in today's trading environment creates multiple records for buyer, seller, broker, clearer and third parties, introducing inconsistencies throughout lifecycle events such as affirmation, netting, allocations and confirmation, through to trade finality and nostro reconciliation. This hugely increases the probability of creating discrepancies, caused by multiple system hand-offs, normalisation and reconciliations. High frequency trading firms are particularly vulnerable, incurring huge costs for high volumes of low value tickets.

Against this backdrop it is little wonder that business owners typically pay a significant amount more for post-trade processing as they do for execution. Complex and opaque cost structures have become the norm, with trading institutions facing multiple license fees, messaging charges, IT overheads and staff costs. Coupled with reduced spreads, the reduction of risk appetite and an increase in regulatory costs; post-trade costs can now even exceed the potential profit from execution of the trade.

There is, however, room for optimism and the tide is beginning to change. Regulatory focus on enhancing operational efficiency, creating transparency and reducing counterparty risk; along with the emergence of more agile, sophisticated technologies has set the scene for an alternative to the inflexible existing infrastructure. Such innovative technologies are being harnessed to re-engineer banking processes once accepted as the status quo and the spotlight is now turning and beginning to shine on post-trade infrastructure and practises.

Testament to this is a recent survey of market participants which revealed that the area of capital markets likely to see the most comprehensive rethinking of infrastructure will be post-trade processing. Almost a fifth of all respondents stated that they were planning to take a clean-slate approach to post-trade, completely rethinking it from scratch over the next three years in order to improve efficiency and reduce exceptions.¹ Re-thinking and re-engineering post-trade infrastructure is the only possible route to addressing these challenges successfully – attempting to overhaul existing legacy will simply not work.

Blockchain is one such technology that holds the potential to revolutionise post-trade processes. An industry report recently claimed that if blockchain-inspired technology were to be applied to back office functions it would be able to address painful and expensive problems such as data fragmentation, reconciliation and ticket matching, concluding that shared back offices on a distributed ledger are a means to tremendous capital and cost savings.²

However, whilst blockchain is currently being discussed in relation to a vast range of banking processes, in its original form it has a number of issues, specifically regarding throughput and anonymisation, which render it inappropriate for financial infrastructure purposes.

For example, public permissionless blockchains, such as that used to verify Bitcoin transactions, were developed to enable a transfer of value between unknown and untrusted counterparties. This is very different to the private, trusted and heavily regulated networks in which banks operate and trade.

Utilising the more appropriate parts of blockchain, such as distribution, encryption and the ability to provide a single version of a transaction with multiple perspectives, this technology can be developed and applied in a manner that has the ability to transform current post-trade financial infrastructure.

¹ Capital Markets – Set for Transformation (March 2016) – Finextra Research

² Blockchain in the capital markets (February 2016) - Celent

A perfect storm of technological developments and regulatory pressures has set the stage for post-trade processing to be dragged out of the dark ages kicking and screaming. By creating a shared view of trade data, blockchain-inspired distributed ledger technology will free up back and middle office resources that are currently drowning in their attempts to reconcile multiple systems.

Blockchain holds the key to making post-trade infrastructure fit for purpose in modern electronic markets. Choosing and utilising the appropriate elements of this technology is the challenge, and the solution that succeeds in combining the perfect mix will shape the future of financial services infrastructure for years to come.



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A pioneer within the global FX markets, Andy Coyne has been at the forefront of FX technological innovation for over two decades. During this time he envisaged and created a new breed of pre- and post-trade technology for FX prime brokerage, which has since become the adopted industry standard.

Prior to co-founding Cobalt, Andy was CEO of Traiana and was responsible for the strategic direction and governance of the company. He previously headed up the FX prime brokerage departments at both Citi and Deutsche Bank, leading both teams to the number one position by clients and volume.

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