

# ***EFET Insight into* Post Trade Standards, Harmonization and Process Optimization**

## **What is post trade harmonization of processes and why is EFET involved?**

Once a trade has been conducted by the Front Office, teams such as the Back Office and Risk Management are involved in the handling of the respective trade information. Since trading companies all have different processes and set-ups to handle data, post trading, speedy identification of data issues is essential. Harmonizing data exchange and reconciliation between trading companies was identified as being key to timely agreement of trades and positions.

## **How have Standards been established?**

Firstly, members from various Back Offices (BO) across the industry have resolved process topics by discussing at length what fields need to be automatically exchanged and reconciled, what desired results are expected of the matching process and how to best deal with the incoming information: matches, rejections, cancellations (The EFET Standards).

Secondly, matching cannot take place without all counterparties using the same language when exchanging their trade details. Therefore, the underlying technical Standards need to be closely adhered to and followed (The CpML Standards).

Only the combination of both elements guarantees the success that electronic data exchange and reconciliation enjoys in the industry, illustrated by the fact that more than 100 counterparties are live on eCM, and eSM has been successfully launched, too.



## **Which processes have been identified for harmonization?**

The idea behind all process standardization is to ensure equal usage of trade data and the respective information.

Harmonization and standardization have been delivered for several processes across Back Office and Risk Management, namely:

- Confirmation Matching (BO, eCM)
- Position Matching (BO, ePM)
- Settlement Matching (BO, eSM)
- Regulatory Reporting (BO, eRR)
- Back Office online training programme (BO)
- Broker Matrix (Risk)

All the above are live today except for Position Matching. In this area, take up by the industry was lacking and so this process was stopped and is not currently live. However, there is a new interest in the markets, which may revitalize this initiative. Shorter term storage is also possible in the grid as linepack or in compressed form, but quantities are much smaller and they are more used to assist operation of the grid.

### **What EFET is doing in this area?**

Work Groups for the various Standards have been established in EFET to bring in different experiences in handling in-house data and information to ensure that all voices are heard. This ensures that processes are developed in an open way allowing every trading company to join a Working Group and set the process live once delivered by a software vendor.

Constant interaction between Back Office & IT ensures that no amendment to an existing Standard is agreed upon without IT understanding all the technical requirements, giving IT the chance to intervene where required and thus guide the business on best practices and to highlight potential flaws in the desired Standard.

### **The work of the Working Groups is driven by real-world pain points.**

The following pain points in Back Offices were successfully tackled by the establishment of Standards, development and delivery of software, and introduction of new products to existing Standards:

- The manual, error prone and labor intensive process of manual confirmation checking
- Timeliness of confirmation exchange
- Accuracy of trade details and thus trading positions within day
- The scalability of confirmations process

Recently, various trading companies have expressed an interest in adding new products to eCM - this is currently being considered by EFET's newly formed Operations Committee and the respective WG.

A pain point that couldn't be tackled via electronic exchange and reconciliation of data was identified early on by the Heads of Back Office. An industry wide formal training for staff joining Back Office Operations without trading experience was needed. EFET fostered the creation of an online training programme covering all major aspects of a deal life cycle and the different departments involved in handling data post trade. Within this training, Master Agreements are explained from a legal point of view, Credit and Market Risk details are discussed and taught; an emphasis on trade data, pricing conventions and overall consciousness for anything impacting a traders P&L is looked into. Staff completing the course take a test to ensure their understanding.

## Who is currently live using the above matching processes?

**eCM** has by far the biggest user community. More than 100 counterparties are live using the advantages the confirmation matching process delivers. These range from large trading companies operating across Europe, smaller municipalities, as well as mid-sized traders from Eastern Europe, the Benelux and Northern Europe. In addition, traders from the UK also use eCM. There really isn't a reason not to join the user community!

**eSM** is a relatively new matching process, supported by two software vendors. Its use is enjoying an uptake in interest, underpinned by the current volatility in markets and the consequent large increases in margin requirements. eSM brings billing cycles much closer to actual data flows, allowing credit limits to be freed up and margins paid back more quickly after deals have been settled.

A report looking at the benefits of eSM and earlier settlement, developed by PwC and EFET, was launched to the industry on April 8th. The report concludes that shorter settlement cycles, supported by eSM, are beneficial for most industry members, bringing all the security with them that automated processes gives.

**eRR** is something that traders have used for several years to fulfil reporting obligations under REMIT, EMIR, MAR. We understand there are trading companies delivering their required reporting via other means than using an EFET Standard, or the formally related software. A differentiation between large traders, being responsible for their own reporting, and smaller to small traders, having their reporting executed on their behalf by larger CPs, can be observed.



### *In summary*

Faster, more reliable and more secure data exchange, cost savings due to less manual mistakes, knowing your trades have been booked correctly and producing a correct position for your traders are all necessary to succeed in this business.

The Back Office plays a key role in delivering all these aspects of trade management.

We recommend that you conduct an internal business review and have a chat with a 'friendly' trading company to understand what they believe the main advantages of using standardized processes and harmonized ways of exchanging and reconciling trade data area.

For more information, feel free to contact us at [secretariat@efet.org](mailto:secretariat@efet.org)