



PRODKTR

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A Risk Based Approach to Transforming Your Trading Operating Model

TRANSFORM
OPTIMISE
GROW

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1

High levels of volatility in business infrastructure

Financial firms have seen both disruption and opportunity in the past decade. Accelerated roadmaps, new technological breakthroughs, rapid market volatility, reshaped strategies, new regulatory requirements, a pandemic and environmental, social and corporate governance are some of the drivers continuously impacting business as usual today.

All these things introduce risks to your business infrastructure which need to be identified, measured and mitigated – something we believe should be at the top of a COO's to do list.

This paper sets out the Prodktr views on the risks facing investment / asset managers and banks in delivering services from trading to settlement. We focus on the processing pipeline from trading backwards to settlement via a wide range of risk areas. The paper is oriented towards people in the roles of **COO, Chief Investment Officer** or **CTO** who have ultimate accountability for the cost and efficiency of your firms' infrastructure.



2

Our view of business risks

Risks fall into high level categories which we will discuss below, these include:

- Economic: financial impacts from external influences and internal cost effects
- Legal: Risk embedded in service contracts with investors
- Technical: Identify risks from requirements, resources, technology and assessments
- Operational: Risks from resource contention, and drivers for change
- Reputation: Risks from external influences and client service demands
- Regulatory: Risks indirectly from staff competence and economic regulations

2.1 Our view of business risks

Category	Risk	Description
Economic	New business: Market share: Value transfer: Financial: Basis:	<ul style="list-style-type: none"> • New business opportunities foregone due to inefficient technology and operating models • Possible reduction of market share if not ready to support automated trade processing • Variation in pricing, duration and potential value transfer • Potential financial impact of trade fines on net interest income • Unexpected behaviour change in STP basis within asset classes, regions and counterparties
Legal	Existing agreements: New agreements: Lack of consensus:	<ul style="list-style-type: none"> • Amend existing agreements with restrictive fall back provision for vendor changes • Update new agreement templates with respect to manual vs automated negotiation • Lack of consensus on fallbacks leading to delay / lack of preparation
Technical	Design Requirements Identification Prioritise	<ul style="list-style-type: none"> • Evolution of the design and the production of the system of interest affecting the level of performance necessary to meet stakeholder expectations and technical requirements • Identify and capture technical risks including sources, analyse potential consequence and likelihood of risks occurring and assigning priority levels
Operational	Ops footprint: Resource: Systems updates: Model approval: Product offering:	<ul style="list-style-type: none"> • Visibility of Ops footprint across the company for internal reporting and external requests • Scare resource versus other internal projects • Insufficient time for system updates, testing and verification • Model transformation may require additional testing • Failure to support new products or existing products referencing KPIs
Reputational	Speed and time: Commitments: Client engagement: Litigation:	<ul style="list-style-type: none"> • Inability to respond quickly enough to regulatory, competitive and/or client deadlines • Commitment to serving as active members of industry working groups • Coordination for clients with multiple touchpoints within your organisation • Provision for counterparties failing to recognise or accept global regulatory changes
Regulatory	Training: Capital effect:	<ul style="list-style-type: none"> • Increased regulatory focus on training • Capital and stress testing impact under different interest rate environments



2.2 Risk commentary

In addition to the catalogue above, here are our thoughts on where risks can occur which cause an impact on your business.

2.2.1 Technology Stability

Financial firms might look back on 2020 as the year in which the threat of technology stability— an already open remit encompassing everything from accidental systems blackouts to deliberate attacks by outsiders – exploded into millions of home offices around the globe. The shift to remote working left investment firms more exposed than ever to cyber-attacks by high-tech nasties, backdoor threats introduced via newly critical third-party suppliers, or hacker's intent on causing harm.

While the industry congratulated itself with its ability to function so effectively from home, some teething problems were inevitable. Housebound employees are familiar with the turmoil created by unreliable Wi-Fi connections, a virtual private networks going down or the firm's in-house systems falling over and

delayed. Now overlay these risks with ransomware and communication targeting. High trading volatility during March 2020 led to failure, outages, and delays at number of critical market participants and software vendors across FX and derivatives.

2.2.2 Information Security

The global pandemic has caused a global shift to remote and hybrid work, making most firms change the way they operate overnight with no preparation or governance. For cybercriminals this was an opportunity, more than 6 in 10 firms have suffered a ransomware attack within the last year. Cybercriminals took advantage of the rise in digital activity and have seen over a 60% increase in email threats in 2020 with most firms lacking preparation and a simple plan.





2.2.3 Operational Resilience

In 2018, The U.K. Financial Conduct Authority (FCA) published a consultation on operational resilience and a follow-up at the end of 2019, proposing firms make critical business processes more robust, whether conducted internally or by a third party. While some questioned the need for these proposals, today, leaders in financial services firms no longer argue over them, as the pandemic has underscored the need for significantly enhanced operational resilience. Internationally, regulators are accepting the idea of operational resilience. The BCBS's August 2020 consultation on its Principles for Operational Resilience is creating a roadmap for jurisdictions to follow when setting their own rules.

2.2.4 Technology Transition

Firms with fragmented operational risk infrastructures found it difficult to respond quickly and with agility during the pandemic crisis, and it shone a spotlight on the shortcomings of firm's current operating models.

Although many firms were starting to recognize that they could not manage their operational risk management programs on a mass of spreadsheets and problem statements, the pandemic revealed how critical a transformation roadmap is required.

2.2.5 Geopolitical

Findings from this year's World Economic Forum's Global Risks Report 2021, reported that the COVID-19 pandemic is increasing disparities between emerging economies and industrialized nations. It is also driving social fragmentation which, in the next 5-10 years, will weaken geopolitical stability.

According to this year's report, social inequality is a pervasive risk across multiple regions – particularly in the Americas and Europe. In the future, inequality is likely to influence elections, contribute to political and economic nationalism, and could create conditions that spark open conflict.





2.2.6 Data Aggregation and standardisation analytics

Managing data from bespoke sources is now frequent business as usual activity for firms and is creating success and introducing new risks.

2.2.7 Consolidation

Accelerated consolidation across the industry including mergers of competing firms, providers, and suppliers bringing concentration risk as the number of service options reduce due to profitability and scale seeking.

2.2.8 Regulation

Two regulatory impacts during 2020 are the LIBOR decommissioning and transition to risk free rates and changes following the UK's 2020 Brexit process are demanding significant resource from front to the back of the organisation. Both have the potential to cause exceptions, unexpected economic effects and uncertainty, both at the same time.

2.2.9 Black swans

The collapse of Archegos Capital has put total return swaps and margining back in the limelight. Everyone assumes that mandated clearing and UMR has put shock absorbers into the derivatives market to prevent firms like Archegos causing economic destruction. We expect to see regulators take action as a result to improve firms risk management and trade reporting.

2.2.10 The absence of transformation

Competitors don't stand still – firms who don't invest to reduce cost and increase efficiency will be left behind by those that do. A poor outcome can have an immediate impact on your firm and force a change of direction. These can include but not limited to brand, reputation, and relevance and competitiveness within the industry.





3

Risk identification and measurement

At Prodctr we call the process of reviewing and mitigating these risks our Transformation Roadmap Service (TRS). In this paper, we share why a growing number of firms are looking to use a transformation roadmap service, the key drivers, market offerings and providers, and key questions senior leaders should be thinking about.

Our Transformation Roadmap service is an opportunity for firms to review how to define services, simplify operating models, review productivity versus industry, transform and plan for growth. Below are examples of how we approach the initial risk assessment process, which we tailor to each firm.

3.1 How we approach risk assessment and prioritisation

The Prodctr TRS has been road tested multiple times and follows a logical flow. Many inputs are required to complete the risk assessment which this chart shows. For each risk we consider the probability of occurrence, the severity of its occurrence and the overall impact. This enables the joint team to prioritise change and see 'the wood for the trees'.



For each risk we consider the probability of occurrence, the severity of its occurrence and the overall impact.

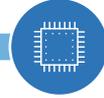


For each risk we consider the probability of occurrence, the severity of its occurrence and the overall impact.



Front to back risk assessments

Conduct assessments on your technology functionality, trade processing and data stores, data integration & analytics platforms for effective & efficient processing, reporting & insights



Technology maturity

Conduct "health-checks" on your investment technology portfolio to strengthen your ecosystem for increased productivity unit cost ratio and usage.



Technology & operations capability

Identify and measure performance in technology delivery & operational capabilities to support transformation through new ways of working.



Operational readiness

Leverage benchmarking, diagnostics & portfolio data to analyse your firm's technology operating model & business readiness for technology adoption and transformation requirements.



Service taxonomy

Conduct structural, qualitative and validation risk analysis of challenges to evolve into core and common problem statements areas.



Productivity measurement

Implement productivity measurement calculations for trading, allocation & optimising of operational costs.

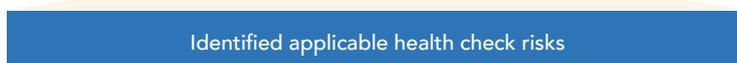


Simplify

Conduct a review of the investment operating model and enable simplification and compression of asset class trading functions and technology operating processes.



Identified Risks	Severity	Probability	Overall Impact
Economic	High	Medium	High
Legal	High	Low	Low
Operational	Medium	Medium	Medium
Reputational	Medium	Medium	Medium
Regulatory	Medium	Low	Low



4

What is the Prodktr Transformation Roadmap Service?

Our Transformation Roadmap Service (TRS) is utilised when an investment firm transacting capital markets instruments supported by an investment operating model requires the evidence and analysis they need to simplify and upgrade their internal processes and systems to make their firm competitive.

4.1 Why embark on a risk-based transformation?

Typical reasons why firms embark on a transformation project:

Relevance to my firm

- | | | |
|---|----------------------------|----------------------------|
| <p>1. Cost Reduction: due to higher trading and investment operating costs and lower revenues. firms would use a roadmap strategy to review, simplify and reduce the high costs of cross-asset front to back operating models (such as technology, personnel, etc.) as well as moving to a variable or on-demand cost model measured by productivity. Our review process is focussed on cost reduction and efficiency.</p> | <input type="radio"/>
Y | <input type="radio"/>
N |
| <p>2. Creating a fact based business case: Our review process provides a current state initial risk assessment, with risk severity, probability and impact measurements. We then provide a problem statement and business case to give a fundamental justification for investment in change.</p> | <input type="radio"/>
Y | <input type="radio"/>
N |
| <p>3. Empowering new opportunities: Gain access to new technologies and service providers to accelerate change to remain viable, sustainable and maximise your commercial opportunity.</p> | <input type="radio"/>
Y | <input type="radio"/>
N |
| <p>4. Firms are in the same boat: They all want increased efficiency with lower cost and look to transformation programmes to provide a path to the future. Additionally, many firms look externally for third party solutions or better market infrastructure.</p> | <input type="radio"/>
Y | <input type="radio"/>
N |
| <p>5. The outcome of many transformation reviews leads to outsourcing: Firms are choosing to outsource services such as trading, data, investment accounting and post trade services, and gain access to best of breed expertise, scale and sustainability.</p> | <input type="radio"/>
Y | <input type="radio"/>
N |
| <p>6. Firms are looking to make their infrastructure into a profit centre: Most firms are now reviewing how to offer services externally to further monetise their existing platforms and cross-sell their capabilities or solutions.</p> | <input type="radio"/>
Y | <input type="radio"/>
N |



4.2 Stakeholders and governance

During any project it is vital that the right people take ownership of the goals and direction of the team. At the beginning of a project, we create a steering committee. The purpose of the steering committee is to support the delivery of the transformation operating model. The focus will be on driving and managing the successful delivery of a scalable and robust global operating model to meet the firm's business objectives by creating a flexible, scalable, and adaptable solution that is both robust and risk managed.

Membership typically includes the project sponsor; the accountable executive; the heads of investment or front office, trading, risk, legal, audit, compliance, operations, technology, and the programme lead. Membership will be tailored to the scope of the project.

4.2.1 Roles, Responsibilities of the Steering Committee

- Set the objectives for the project
- Control the budget and resources for the project
- Monitor project progress
- Coordinate any sub-working groups who support the steering committee
- Review and approve project deliverables
- Escalate decisions where necessary
- Monitor and manage project dependencies
- Receive, review and approve the risk assessments, future state model and implementation plans

4.3 What does a transformation project look like?

Like any journey we begin by establishing the objectives and engaging the right people to govern the project. We progress through mapping the current infrastructure, building a prioritised risk catalogue and planning for the future. Once we have a detailed future state, we explore options for delivery where we consider the best options for each future component and use industry benchmarks to guide our choice. Finally, we carry out the implementation where Prodkttr can utilise our **ProdkttrSegue** data transformation tool to accelerate systems migrations.



What is ProdkttrSegue?

The ProdkttrSegue tool empowers Prodkttr to transition investment operations processes from one technology / service provider to another efficiently and safely. There are four main functions:



Extract

Our platform can pull data from multiple sources and store that in an integrated way. In one project we retrieved data from seven other databases in order to then push the data onwards to the target system.



Scrub

A control check is completed to ensure all trades are included for the data point and all required fields are sourced



Export

The conversion files are created and exported in the format outlined by the new service provider



Control

Prior to loading the trade files a final quality control is completed to ensure all required fields are included in the right format.



Find out more at
<http://prodkttrsegue.com>



Typical reasons why firms embark on a transformation project:



5

What should senior leaders be thinking about?

Transformation Roadmaps have increased in popularity from investment firms who have been under cost pressures but with a wish to scale-up their flow business operations and simplify infrastructure, reduce complexity, footprint and providers. We believe this trend will continue, especially given the tough economic conditions arising from the pandemic.

Try our self-assessment within your firm and talk to your senior colleagues on whether a transformation review would add depth into your strategic planning.

Category	Consideration	I should discuss this with...
Value drivers	In what way is your firm actively working to increase the value and efficiency of your business infrastructure?	
Future view	How is your firm evaluating new platforms and services to empower the future of your firm?	
Metrics	What metrics are you measuring for productivity and efficiency?	
Operating model	How does your firm review the effectiveness of systems and processes?	
Benchmarks	Does your firm use external benchmarks to position your firm against industry best performers?	
Culture	How does your firm cultivate agile working and a service oriented mindset?	



6

Some examples of how we've transformed businesses

We know from experience that each firm's internal organisation, technology and culture are different. We always tailor our service to fit your firm.

Some examples of how Prodctr customised our clients' businesses include:

Modernise Target Operating Model

Outsource to insource transform options. Includes customized solutions or technology such as post trade and collateral, or confirmation and settlements management systems integration with the client's own technology, in addition to outsourcing.

Middle Office Services (IBOR)

Includes outsourced solutions or technology such as Investment book of records (IBOR) cash and securities position management systems integration with the client's own technology, in addition to full-service outsourcing and all post trade service processing including confirmation and settlements

Investment Simplification

An initial assessment of the current state trading and investment operating model including future design options. Implementing a strategic trading service delivering on the needs of increased trading scale via straight through automation and simplified investment asset class operating model with superior productivity efficiency.



Read about how we transformed a global investment manager: prodctr.com/our-work/#GIM



7 Customer feedback

“Prodktr’s financial technology acumen and combined derivatives and outsourcing domain expertise make it an excellent business transformation delivery partner to support the development of our multi asset operating model, Derivatives Roadmap.

— *Head of Investment Operations,
Global Asset Manager, Dublin*

“Prodktr’s technology domain and combined legal and financial data expertise make it an excellent innovation service provider to support the development of our knowledge framework tool, Mattersmith Knowledge. I was most impressed with the way Prodkt’s team grasped the ontological and semantic concepts which underpin our design and converted them into service functionality.”

— **ANDREW SCOTT,**
*Founder of specialist law firm and
technology business, Mattersmith*



Invest an hour and see the future

Our team have wrestled with these situations for many firms. If you can afford one hour to talk with us, we believe we can provide an insight to your future.

Start understanding your risks by talking to Prodctr or contact us

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