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A demand for data

Ben Pumfrett of RBC Investor & Treasury Services talks to Jenna Lomax about the front office's increasing demands for data, and how the company is helping to prepare its clients for shortened settlement windows

Looking back over the last two years, to what degree has the role of the middle-office changed? What has been your clients' experience?

The demand for data from the front office continues to grow — both in regard to the breadth of data as well as the frequency it can be consumed in near to real-time. The pandemic has also highlighted the resilience of some clients' operating models in the middle-office space and brought more focus on that area. We have definitely seen an increase in asset managers' appetite for reviewing their operating models, with a focus on scalability and resilience, and technology is often at the forefront of the potential solution for both: making use of technology that is more automated, or reviewing technology to fit a working-from-home model.

As well as this, as part of that operating model review, clients are considering more outsourcing, and how they can strengthen their operating models via this route. Outsourcing to a service provider, like RBC Investor & Treasury Services (RBC I&TS), can provide more strength in certain areas, and asset managers in particular appear to have pushed it up the list of priorities, especially post-pandemic.

Certainly, from a data point of view, there has been continued pressure on the middle office. Whether that is to comply with the Central Securities Depositories Regulation (CSDR), the Uncleared Margin Rules (UMR), or other market changes — the move to T+1, for example — all of that is folded into reviews of operating models and technology. The crucial point in this, is that the middle office is set up to support these businesses from both a scale and efficiency perspective. Some of the pressure on the middle office also comes from the presence of legacy technology and connected projects becoming wider in their implementation, such as M&A activity or new front-office technology.

How has the asset management industry evolved or influenced recent changes to process in the middle office? To what degree do external factors have an effect on middle-office operations?

Diving a bit deeper into the data angle, what we are seeing is the front office demanding data from the middle and back offices. This demand, particularly for intraday data, to inform various decisions — whether that be around liquidity management or risk management — is driving technology integration between platforms. There is also greater integration of different functions in the industry, for example front-to-back processing, as a result of technology that has enabled more open architecture.

From a technology perspective, application programming interfaces (APIs) are coming into their own. A micro service-type environment is becoming increasingly commonplace for the front office to pick and connect to services in a bespoke way, rather than utilising multi-unit integrations to enable systems to communicate with each other. There was demand from asset managers in the front office, and now the technology is there to support this need.

How has RBC I&TS better equipped clients to deal with shortened settlement windows or market changes, such as the CSDR penalty regime, particularly from a middle- and back-office perspective?

The middle office can be outsourced, which removes the burden associated with industry and regulatory change for clients — we are essentially doing what some would call the 'heavy-lifting' for these clients.

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With the implementation of the penalty regime under CSDR, there have been teething problems in the market; however, we have insulated many clients from this. In some cases, it required heavy-lifting in terms of ensuring that asset managers are comfortable with the impact of the regulation. We have seen similar issues with UMR Phase 6 preparations, where some of the smaller clients had challenges preparing for the regulation and therefore required our assistance in order to be ready for implementation this month.

How do you think managers are coping with those growing amounts of data that they are having to manage and digest?

Asset managers often struggle with the sheer demand for data in their daily schedule, and they do not have sufficient time to sift through it, or even to find the data they are looking for. The question for providers like us is: how can we best support this need, and give them the insights, and in particular, the oversight, that they require?

Clients need this data and we understand that it needs to be available to them, therefore we have been carrying out significant work to provide clients with the tools which enable them to focus on the items required for any particular day.

UMR Phase 6 was implemented on 1 September. Were market participants ready for this?

From a market perspective, the Uncleared Margin Rules (UMR) are now in Phase 6, and on the scale and technology side, there is more work to be done. When you look at the early stages of regulation, some clarity was required, or there were questions surrounding certain aspects. For example, standard initial margin model creation is used to calculate the initial margin values.

Much of the industry, particularly on the sell side, was ready, however the level of preparedness was not so advanced for certain buy-side firms. During the earlier phases of UMR, there were just a couple of larger buy-side firms that were in scope, but this latest phase has brought the largest number of participants into scope, estimated to be just over 1000 firms. In terms of readiness, the smaller buy-side firms are not necessarily where they should be at this point. One of the biggest challenges they have is identifying if they are actually in scope. As such, there are remaining questions as to how they are going to be able to continue trading bilaterally within their thresholds, how that will be monitored, and if they will need a new set-up to comply with the regulation.

In-scope firms may have felt the strain to be ready on time. Solutions need to be onboarded and implemented and legals agreed, which can take considerable time. We may see a period where some buy-side firms struggle to be fully compliant with the regulation from the get-go.

Can you outline how automated collateral management services assist clients with their compliance with UMR Phase 6?

UMR adds a whole level of complexity to middle-office processing that did not previously exist. For example, on the variation margin side, asset managers have to do relatively simple calculations, but initial margin is far more complicated with the SIMM modelling. However, the good news is that vendors can provide services that allow buy-side clients to outsource certain aspects of collateral management, such as the core calculation of exposure using the risk sensitivities. There is also another set of connectivity requirements that clients need to manage, such as tri-party services. For these requirements, outsource providers such as RBC I&TS can provide that infrastructure, to allow clients to better support and comply with UMR. ■