STRAIGHT THROUGH PROCESSING –
A STRATEGIC APPROACH

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Straight Through Processing (STP), the seamless integration of systems and processes spanning the entire securities trade life cycle, has several strategic imperatives. This means that one should not look STP initiative as an one-time operational plan, which has the limited objective of achieving a reduced settlement cycle.

The general tendency is to measure the success of STP initiatives, undertaken by an industry participant, in terms of cost savings or minimization of failed trades.

But the real measure is its impact on the competitive position of the participant. This could be in terms of the ability to rapidly introduce new products, improve customer service levels, reduce market and operational risk, or handle large volumes due to new products or asset growth.

The need of hour is an approach to achieve an integrated STP in tune with the strategic and tactical needs of your business.

Key Challenges
The biggest challenge in STP is to determining the best approach to take. This is due to certain key factors - the two elements of STP strategy: internal STP and external STP.

Internal STP relates to the trade and settlement processes that are internal to an industry participant. For example, in the case of an investment manager, this includes authorization of orders, placement

of orders with brokers, receiving details of executions, allocation process and so on.

On the other hand, the external STP is about connecting seamlessly to all external partners in the trading and settlement process, including the industry matching utilities[1].

Industry participants have been making significant investments for several years now, to streamline internal processes and operational infrastructure relating to trade capture and settlement.

However, these investments have only resulted in patches of integrated processes or "internal STP" in the settlement chain.

Further, there is inconsistency across different industry participants in streamlining trade cycle segments. For example, one segment of asset managers would have optimised pre-trade decision-making, order placement and execution processes.

Another segment would have automated and streamlined the allocation process and its communication to brokers. In either case, the remaining processes might still be manual and not streamlined.

Technology Challenges
The technical architecture required for securities processing in future will thus be significantly different than it is today.

It must connect diverse platforms: internal and external, domestic and global. It must be reliable, scalable and must accommodate future requirements.

Further, the architecture must leverage investments made in existing infrastructure. The critical technological considerations for STP are:

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[1] Such as Omgeo and Axion4 to name a few.

- Cost-effective integration of pockets of STP running on disparate technologies
- Architecture to convert legacy batch applications to support real-time transactions
- Integration with the industry-matching utility
- Assessment of security risks involved in electronic data transmission
- Impact of real-time maintenance on the current system, network management procedures and tools
- Scalability and reliability of the systems in case of steep rise in transaction volumes
- Flexibility of the systems to incorporate frequent changes during the transition period

Competitive Advantage

STP is not just an operational initiative. As a strategic imperative any STP program should look beyond a one-time operational plan with a limited objective of achieving a reduced settlement cycle.

Internal STP is a necessary prerequisite for external STP. Broader benefits could include[2]:

- Superior investment decision process owing to real-time information on holdings and Mark-to Market
- Optimisation of trade processing infrastructure to reduce processing costs, risk of failed trades and associated market risk
- Release of valuable human resources to core investment activities
- Increased flexibility to introduce new products and achieve faster time-to-market ability to efficiently handle larger volumes arising out of asset growth, and increased transaction flow

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[2] in the case of an asset manager for instance

You can realize all of these benefits by taking up an STP exercise that is not necessarily aimed towards T+1 compliance.

STP Solution Framework
An STP solution has to be highly customized to a particular company's requirement. The canvas for STP is much wider than what T+1 dictates and can extend the process chain to pre-trade and support applications. Thus, you must address these key questions related to internal STP:

- How to leverage the investments already made in internal STP?
- How to ensure that all pockets of internal STP are integrated?
- How to ensure that internal STP elements comply with the industry utilities?

The solution will depend on diverse factors like

- Business
- Technical

And other - including:

- Increased demands on performance and timeliness due to shortening of trade cycle
- Outsourcing of relevant applications
- Degree of integration between front and back office
- Performance levels defined internally as optimum for scalability and throughput
- Divisibility of internal responsibilities among functions
- Use of software products
- Current technology platforms
- Prevalent corporate culture

Given these imperatives, an approach to identify, analyse and implement business and IT solutions leading to STP is as below.

Map Existing Workflows	Map current workflow and business processes on the basis of reference process templates generated
Assess Architecture	Assess the current systems and technology in terms of what performance is required in the STP/T+1 scenario Prepare the systems architecture for future enhancement, functionality, scalability and business process efficiency
Analyze Impact	Evaluate the current process and conduct a Gap analysis Identify the issues related to end-to-end process automation and interfaces with external systems to enable STP/T+1 Examine the timing implications of industry initiatives and their impact on internal processes.
Build Roadmap	Evolve optimised & integrated workflow and technology solutions needed to achieve STP/T+1, lay down milestones in order to meet industry's target implementation date
Implement Solution	Evaluate make vs. build, select products/vendors and system integration partners and execute projects

STP Solution Steps

Implementation of STP
Deploying STP involves three broad activities.
  A. *Analysis of gaps in internal processes and operational infrastructure*
  B. *Integration of internal pockets of STP*
  C. *Integration with industry -matching utilities*
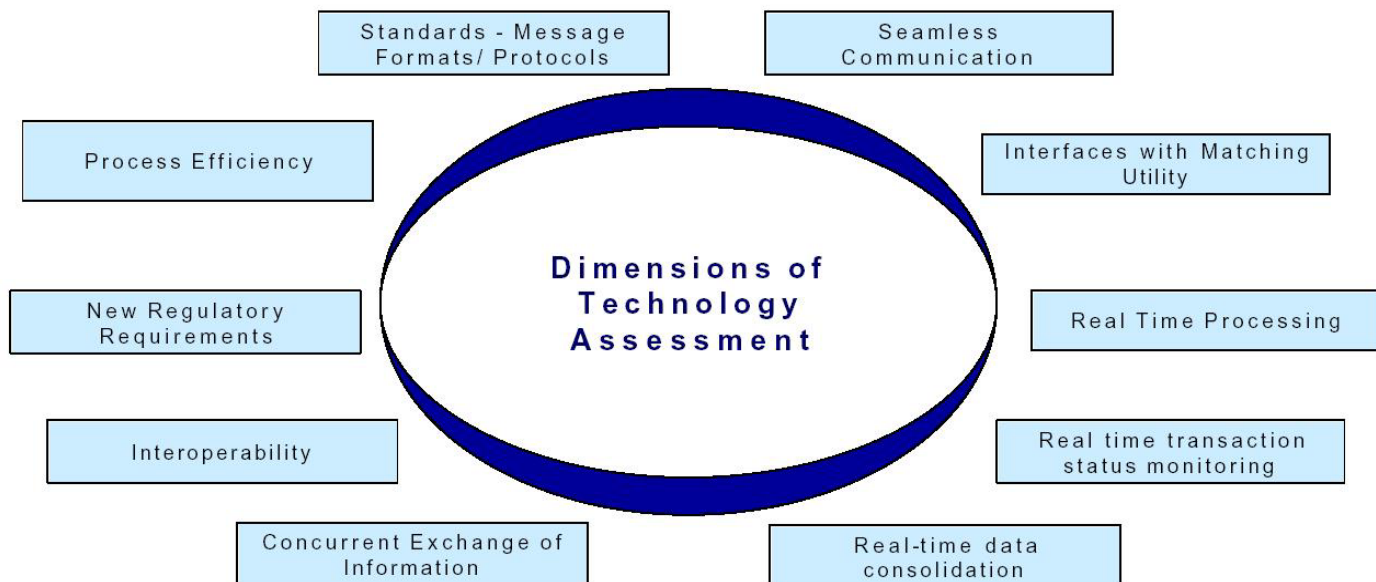
Technology Assessment

A. Gap Analysis

Gap analysis identifies potential process and technology bottlenecks that impede the STP plan.

- First examine the as-is business process models and supporting technical architecture employed by industry participants.
- Then benchmark the models against reference business models to evolve the to-be process models.

Figure above highlights some considerations for a technology assessment: Gap analysis forms the basis for identification of integration requirements among internal and external systems, discovery of issues related to common standards and connectivity, and evaluation of alternatives (e.g., modify /build /outsource) across elements in the STP chain.

B. Internal Integration services

Based on gap analysis, the blueprint for internal system integration is drawn up and implemented, the key steps being:

- Re-engineer existing systems and/or buy products and integrate them with existing systems
- Evaluate and choose vendors, consulting, and system integration services

C. Integration services of internal systems with matching utilities

The final step in the plan is to ensure external STP by integrating the client's trade and settlement-related interfaces with industry-matching utilities of choice.

Conclusion

STP has traditionally been viewed from the standpoint of reducing the industry trade life cycle. Accordingly, the focus has been to dovetail a trading participant's systems and processes to comply.

Contrary to this, STP is a strategic imperative that, when properly planned and implemented, goes beyond trade life cycle reduction and leads to enhanced business performance as well as long-term competitive advantage.

Process of STP implementation must takes into account above mentioned business objectives and leverages existing IT system investments. The solution IT architecture should not only interlink the diverse applications, but also link to business users' front desks, reference data sets, and the external trade partners.

The STP plan achieves smooth transmission of trade data with minimal business process disruptions. It smoothes decision making with effective access to more accurate and integrated data, while reducing the scope for inefficiencies in trade processing, leading to superior corporate performance.