



firm58

UNIFYING THE financial enterprise

How well does your post-trade management system perform?

“Financial services institutions today cannot afford to continue cobbling together disparate applications without consideration for the impact on the entire transaction lifecycle, their ability to monitor and control operations, or their ability to deliver comprehensive and coordinated real-time services to their customers.”

MICHAEL A. LANE
 Managing Director of
 Global Financial
 Services Solutions
VITRIA

- Can your back office systems keep pace with the increased trade volume and complex product mixes generated by electronic order management systems?
- Can you quickly and accurately identify which accounts and trades generate the most profit for your business?
- Can you accurately calculate your brokerage, clearing and execution fees on a daily basis?

The dramatic changes reshaping today's securities industry are creating intense new pressures for financial services firms. Growing trade volumes combined with the proliferation of electronic exchanges have sharply increased trade complexity, driving up costs and processing demands. Globalization has forced companies to deal with multiple currencies, 24x7 trading, and a constant flow of cross-border settlements. Mergers and acquisitions have created integration nightmares, with companies struggling to connect highly fragmented legacy systems across multiple locations. Regulatory and legislative reforms mandate higher levels of security, risk management, and visibility across the enterprise. At the same time, market uncertainty and lower profit margins are pushing companies to improve operational efficiency, minimize staff, and shrink overhead, yet raise customer service levels.

These changes create diverse concerns for securities organizations. For example, the advent of electronic trading allows day traders and institutions to easily shift their business from one firm to the next—making it crucial for broker dealers and futures commission merchants (FCMs) to develop new value-added services to retain existing customers and attract new ones. Proprietary trading firms must find ways to cut unit costs and optimize limited IT resources while minimizing disruption to their core trading business.

To meet these challenges, organizations have launched a wide variety of best practice initiatives and internal improvement efforts. Yet results have been mixed at best. While many companies have successfully streamlined and automated their pre-trade order management systems, post-trade systems have not evolved at the same rate. More often than not, back-office technology is aging and obsolete, relying on 15- or even 20-year-old systems that are difficult to maintain and operate. In fact, for many firms, technology actually serves as an impediment—rather than the enabler it is meant to be. The inefficiency and non-integration rife in post-trade systems frequently prevent companies from seeking valuable new customers or capitalizing on business opportunities that could strengthen their competitive position.

As market pressures grow, the need to resolve these problems becomes increasingly urgent. Yet few companies can afford the large up-front expense and trading disruptions caused by major system overhauls. However, with systems stretched beyond their original capacity, the question is not if, but when the breaking point will occur.

The Need for a Breakthrough



While most firms understand the need to transform post-trade management systems, few have succeeded in doing so—because paradoxically, the industry pressures making greater back-office efficiency crucial also deter companies from making requisite changes. The disruption and high up-front costs associated with installing new systems or redesigning existing ones are often prohibitive, especially for small and mid-sized firms. Additionally, results often fall short of what is expected, heightening the reluctance to invest in major revisions.

Instead, many businesses use a stop-gap approach, patching aging core systems to enhance functionality, resolve a specific problem, or manage a particular asset class. These patches are typically added in a piecemeal fashion over time, creating a series of short-term fixes rather than a well-thought-out, long-term solution. The result is an array of “siloesd” applications that perform the same functions for different assets—rather than one application capable of handling these functions for all assets. Worse yet, the stop-gap approach forces applications to be rewritten as business needs change.

Manual workarounds are also commonplace. However, these workarounds consume valuable staff resources, increase error rates and are inherently inefficient. More often than not, as volume increases, additional staff must be hired which further increases costs and the risk for manual errors.

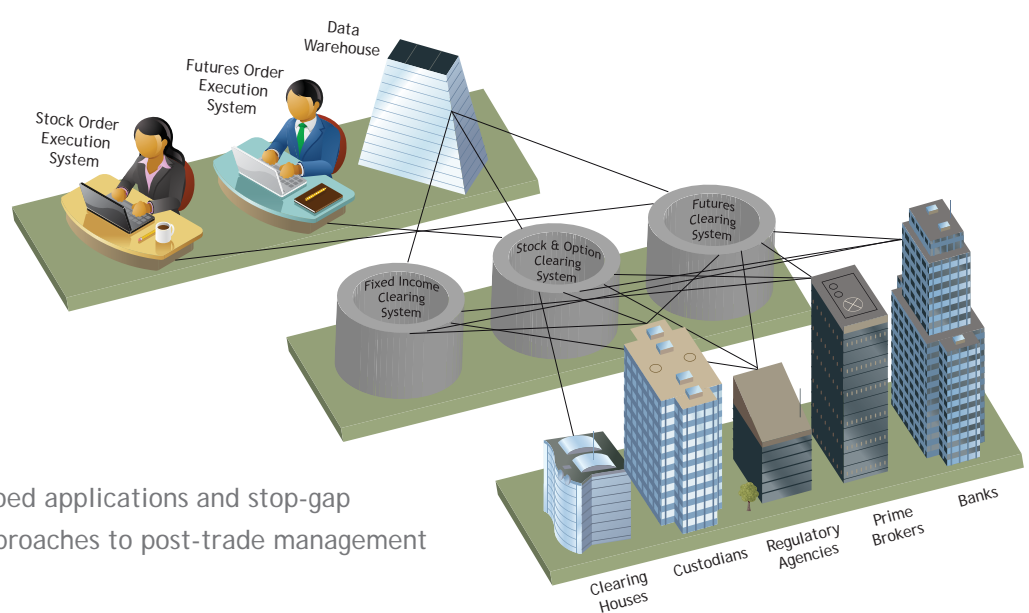
Some companies resort to creating custom “middle-ware” in an effort to automate and integrate the enterprise. Yet the problems of managing and aligning myriad standards, data models, and protocols can make these solutions time-consuming and expensive, adding to fragmentation and manual intervention rather than eliminating it. Moreover, reliance on old and increasingly obsolete technology means that changes and upgrades typically require reprogramming by IT staff. For firms understaffed from an IT perspective, this can mean waiting weeks or even months for critical functionality.

Working with business partners and third-party vendors has helped organizations automate parts of their business, but limitations in these solutions create complications as well. For example, a company might use one clearing firm for equities, another for futures, and a third for forex. With current solutions this scenario would force firms to maintain multiple rule sets and costly point-to-point connections. Additionally, these solutions cannot be automatically extended, resulting in reprogramming fees each time the market issues a new financial instrument. Poor integration and weak configuration capabilities ultimately prevent visibility across applications and portfolios, heightening risk and prohibiting timely response to changing market conditions.

Clearly, a new solution is needed—one that gives firms a non-disruptive, cost-effective way to not only streamline and automate all their post-trade processes, but also integrate front- and back-end systems across the enterprise.

“Errors and delays in settling trades imply greater operational risks... Furthermore, should capacity problems emerge because of volatility-induced spike in trading volumes, the equity markets themselves could be compromised.”

ALAN GREENSPAN



Siloed applications and stop-gap approaches to post-trade management

To be effective, post-trade management solutions must provide the following key capabilities:

1. End-to-end integration throughout the transaction lifecycle
2. Web-based, on-demand services, and
3. On-demand access and visibility across all applications, systems, and accounts.

END-TO-END INTEGRATION

Rather than continuing to add stop-gap solutions, custom middleware, or additional staff, firms need an efficient and economical way to seamlessly integrate their current systems and applications—both internally and with external partners and vendors. Creating a unified, end-to-end solution that connects all parts of the enterprise with counterparties and constituents is the only way to effectively automate and streamline the flow of information throughout the transaction lifecycle.

WEB-BASED, ON-DEMAND SERVICES

Though post-trade functions are mission-critical, they are also horizontal services that can be effectively delivered via the Internet. A web-based, on-demand approach to managing post-trade services cuts capital expense and enables firms to leverage the significant economies of scale inherent in using one application to perform the same functions on multiple products. This approach eliminates capital acquisitions for software or hardware and removes the burden of maintenance and upgrades associated with in-house systems. Additionally, rapid deployment and site redundancy minimize time to value and ensure continuous system availability.

EXTENSIVE REAL-TIME VISIBILITY

Real-time visibility across applications, portfolios, and accounts gives firms the comprehensive information they need to quickly and effectively determine optimal market strategies, accurately analyze income and expense, and easily generate consolidated position ledgers to deliver better customer service. A clear and continuous view of all operations and business processes helps firms comply with regulatory and government requirements and decreases overall risk.

UNIFYING THE FINANCIAL ENTERPRISE

Financial services firms operate in a constantly changing and complex global supply chain that crosses geographic borders, languages, time zones, and currencies—as well as diverse technologies. Banks, broker dealers, clearing houses, prime brokers, customer relationship managers, FCMs, and regulatory agencies inside and outside the enterprise each play an essential role in the pre- and post-trade lifecycle. Successful transactions depend on the continuous, smooth flow of data back and forth among all supply chain participants.

The reality, however, is often far different. Integration challenges, batch-oriented communication, and excessive manual intervention impede information from moving quickly and easily from point A to point B to point C and back again, with inefficient post-trade management systems often the crux of the problem. Too often, the result is managed chaos that must be accepted by everyone, but benefits no one.

As competitive pressures and supply chain complexity increase, the need to transform post-trade management systems and unify the financial enterprise grows as well. Only by creating a system that automates and streamlines interaction among all supply chain participants can firms gain the efficiency, visibility, and control essential for success.

“Outsourcing moves the institution from the fixed cost base of an internal back office to a variable regime, which is inherently more flexible and able to adapt to the changing business requirements typical of the industry today.”

ROBERT LATI
Senior Analyst
TOWERGROUP

The Firm58 Answer: Rapid Results for the Long Term



More than ever, today's financial services firms need a next-generation solution that eradicates the managed chaos of the current post-trade environment and seamlessly connects them with internal and external supply chain participants—whether they are down the street or across the world.

Firm58 offers a web-based solution that automates middle and back-office trade operations in the financial enterprise. Firm58's technology captures transaction data in any format, eliminating the need for firms to create and manage their own networks. This saves countless hours of work normally required to translate data into specialized protocols, build custom integrations, and handle formatting changes both internally and with hundreds of customers. Firm58's technology platform acts as a centralized conduit through which companies, their customers, and their business partners can send and receive data that is automatically translated into their preferred format.

Central to the is the company's ability to capture transaction data is Firm58's unique Asset Library, an intelligent, fully configurable data repository and notification system that contains complete specifications for all assets. The Asset Library also maintains rule sets that define and control how an asset operates throughout its lifecycle during activities such as clearing and settlement, matching, margining, and identification. In addition, companies can easily create their own virtual asset classes that can be traded, tracked, and balanced just like any other asset. Unlike applications that need reprogramming every time a new security or derivative is issued, the Firm58 Asset Library puts businesses in control—allowing them to instantly revise parameters through a simple point-and-click interface.

With these core capabilities, Firm58 clients can utilize trade data across asset classes, launch new products quickly, improve risk management, and enhance customer service. Firm58 reduces an organization's current costs and transforming the back and middle offices from cost centers to value centers. The platform is asset-independent, enabling Firm58 to handle any type of financial asset at any time—from equities to futures to currencies. This makes it easier for firms to grow or diversify their product mix and enables them to electronically track and manage all assets including virtual assets such as soft dollar-related programs.

The Firm58 solution enhances existing infrastructure and relationships by automating and streamlining post-trade processes throughout the financial supply chain. The customer-centric, workflow-driven architecture means the solution can be easily configured to fit a client's business needs—rather than forcing clients to adjust their processes to meet the requirements of the software. This facilitates efficient operations, rapid entry into new markets, and flexible pricing and incentive strategies. Additionally the Firm58 modular, deployment methodology is not disruptive; firms can add or subtract services as their needs and budget permit—so they can continually add value while minimizing risk.

Through Firm58, firms gain the tools and capabilities they need to improve customer service, cut costs, and generate new revenue opportunities crucial to maintaining a competitive advantage. The result is a streamlined, flexible, and lean enterprise with the right tools and information to meet the demands of today's marketplace.

Unifying the financial enterprise



Among existing solution providers, only Firm58 delivers on-demand technology critical to transform inefficient post-trade processes such as billing, profitability analysis, and CSA/CCA/soft dollar program management.

MULTI-DIRECTIONAL TRANSPARENCY

The Firm58 solution is designed from the ground up with a primary focus on integration. This unique approach ensures that firms can hit the ground running and gain rapid results—rather than spending months struggling to resolve the integration issues typical with traditional solutions. The configurable hub-and-spoke workflow model means that supply chain participants can make changes and upgrades without impacting the others.

The Firm58 tri-level integration model provides a single, cohesive point of connection between Firm58 and other supply chain participants. This ensures a contiguous, smooth flow of information 24 hours a day, 7 days a week—reducing the need for costly manual entry and making data readily available to customer service and revenue-generating systems. Service-to-internal integration connects the Firm58 platform with a company’s existing business systems, such as general ledger, customer management, and order execution applications. Service-to-business partner integration connects Firm58 with external entities such as exchanges, clearinghouses, banks, and regulatory agencies.

SOFTWARE-AS-A-SERVICE

Firm58 leverages the Software-as-a-Service (SaaS) model to capitalize on the advantages and principals of networks, alleviating the costly and painful implementation issues so often experienced by today’s financial services firms. Successful execution of this model eliminates the burden of building and maintaining internal infrastructures, allowing companies to concentrate on their core business. Supply chain partners connect through the Firm58 network, where rules and data formats necessary for communication are maintained—providing a seamless, real-time flow of transactions and information while dramatically reducing costs.

Firm58 also assumes responsibility for system reliability, performance, and security. Using world-class Equinix data centers to house the software and leveraging high-performance server and network technologies, Firm58 ensures business continuity and performance requirements are not only met, but also exceeded.

An intuitive user interface minimizes the need for training and allows firms to get up and running quickly without business disruption. Support of a wide array of data formats makes it easy for firms to add or subtract services or make changes—eradicating the need for costly reprogramming by IT staff.

Furthermore, the subscription-based, pay-as-you-go Firm58 fee structure encourages rapid adoption by removing the large up-front capital costs and budget strain associated with traditional solutions.

DYNAMIC POST-TRADE MANAGEMENT

Dynamic post-trade management capabilities provide the sophisticated marketing analytics and comprehensive information financial firms need to make intelligent, strategic decisions that ensure continuous performance improvement. Companies gain exceptional real-time visibility in three key areas: Operations, finances, and customers.

Error monitoring tools alert firms to problems and exceptions as they happen so they can be resolved immediately, rather than at day’s end or the next day. The solution also makes it easy for firms to support and track promotional billing and incentives, handle balancing, and submit regulatory reports.

Comprehensive visibility into income and expenses—including hard-to-track soft costs—provides the information needed to analyze pricing and calculate profitability. Revenue analysis and reporting tools quickly and accurately determine asset value for accounts, individuals, trading groups, or the entire firm, providing a solid basis to assess the impact of changes in price, customers, or product mix.

A single view of the customer enables firms to quickly deliver real-time valuations of an entire portfolio across multiple assets—without having to resort to manually generated spreadsheets or waiting for month-end statements.

The Cost of Not Acting



By delaying action and continuing to rely on aging technology and inefficient post-trade strategies, companies miss out on a crucial savings opportunity that directly impacts the bottom line and dramatically improves profitability. While firms typically focus on top-line growth rather than cutting costs—often because they lack the resources to do both—this approach can be shortsighted, particularly at a time when profit margins are low. The financial industry's average net profit margin is 13%*, which means that a company with \$100 in revenue would have \$87 in expenses and net income of \$13. Therefore, as shown in the table below, if \$1 in expenses is saved, expenses decrease to \$86, while net income increases by \$1 to \$14. Keeping the profit margin constant at 13% a firm would have to generate an additional \$7.7 in revenue to achieve the same \$1 net income increase. In other words a dollar saved in expenses equates to \$7.7 earned in revenue.

13% Net Profit Margins for Financial Sector and Regional Brokerages*

Revenues	Expenses	Net Income
\$100	\$87	\$13

Saving \$1 in expenses results in \$1 Net Income increase:

\$100	\$86	\$14
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Accordingly, the firm must earn an additional \$7.7 in revenue in order to achieve the same Net Income increase:

Net Income (NI)	Revenue (R)	Profit Margin (M)
\$14	R	0.13
	R	\$14/.13
	R	\$107.7

Change in Revenue: $\$107.70 - \$100 = \$7.7$

Accordingly, \$1 in expense savings equals \$7.7 earned in revenue:

Revenues	\$ 107.7	\$ 100
Expenses	\$ 93.7	\$ 86
Net Profit	\$ 14.0	\$ 14

*Source: Yahoo! Finance

Adopting the Firm58 solution gives companies the best of both worlds - allowing them to realize dramatic savings while maintaining focus on their core business.

WHY FIRM58?

Among existing providers, Firm58 stands alone in offering an on-demand, networked, end-to-end solution that transcends traditional point applications to enable firms to turn their post-trade operations from cost centers to value centers. Rather than providing static solutions focused on business in the present moment, Firm58 offers a flexible, workflow-based solution that can easily accommodate the constant change facing the securities industry—ensuring effectiveness both now and in the future.

More than ever before, firms must look beyond the immediate and adopt the tools, capabilities, and vision that will serve them for the long term. To do this, they need solutions that incorporate a clear and effective strategy to streamline and automate post-trade management and ensure seamless connectivity both inside and outside the enterprise.

Forward-thinking firms are increasingly aware of the value of outsourcing horizontal processes within their business—allowing them to cut costs and boost efficiency while focusing on more strategic concerns.

As competition increases, the need to continually enhance customer service and capitalize on new revenue opportunities becomes more important than ever. The breakthrough functionality, visibility, and efficiency that Firm58 delivers gives financial service firms the capabilities they need to take advantage of these opportunities and better position themselves to succeed in today's marketplace.



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