

Risky business

How much? How fast? How efficient? All valid questions and ones that affect every infrastructure service provider – not least SIX x-clear. Times are clearly tough for all financial institutions and managing risk whilst reducing costs is more of a consideration than ever. However, should reduced tariffs ever impact on risk management or the stability of the infrastructure, it would be a situation where all market participants should step back and take note.

Risk management is a key issue that impacts every aspect of the trading landscape and SIX x-clear remains steadfast in offering the most comprehensive risk provisions. In today's market, anything other than real-time risk management introduces additional and unnecessary systemic risk into the clearing and settlement process. Managing risk is undoubtedly the core function of a CCP, however in a competitive market we've had a downward pressure on tariffs that has seen pricing drop throughout the industry – almost 75 percent within the last couple of years.

Lower costs are important. However, the market must avoid reaching a point where pricing levels threaten to lessen risk management capabilities or have a negative impact on the system stability of a CCP. Efficient and effective real-time risk management is even more important, especially given the systemic importance of a CCP.

We operate in an environment of very small margins and CCPs must retain enough funding to invest in stronger and better infrastructure. Whilst this is not currently an issue, it would be hugely counterproductive for the stability and sustainability of a CCP if its risk management system is compromised for the sake of a negligible tariff reduction. Continuous investment into the management of risk is vital for all (counter)parties, as it is this process that pays for itself in a default scenario.

Price will always be important and SIX x-clear is committed to offering a service that is competitive. Service also has its price. Therefore, we will not compromise on risk and have developed an approach that dovetails the two disciplines together – low price and low risk.

Marco Strimer, CEO, SIX x-clear

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Marco Strimer
CEO, SIX x-clear

With moves afoot on Capitol Hill to institute sweeping changes to the structure and regulation of the massive OTC derivatives business, clearing and counterparty risk has not been out of the spotlight. Central clearing is such a convincing concept and really proved itself post Lehmans. Although SIX x-clear does not clear in the derivatives markets but focuses on all cash markets products, we do believe that past events highlight the benefit of the CCP model and we look forward to seeing how the financial markets react to clearing in this space.

Update

Market Focus

In September, SIX x-clear increased its clearing capability, expanding into bond clearing for SIX Swiss Exchange. Bringing in a completely new fully multicurrency risk management algorithm set to clear any Fixed Income product, this introduction was an important step in providing further scope for clients to benefit from cross margin opportunities across products and markets. This enables SIX x-clear clients to fully cross-margin between a number of MTFs and exchanges.

As the summer drew to a close, SIX x-clear launched CCP services for Equiduct, NYFIX International Ltd (now NYSE Smartpool) and Liquidnet. In line with client demand, SIX x-clear also intends to provide clearing services to additional MTFs and exchanges subject to regulatory approval.

Demand to build on SIX x-clear's equity clearing expertise has driven additional product types as well as the provision of services for an increasing number of platforms. SIX x-clear is pleased to announce additional clearing capability with the introduction of CCP services for securities lending and borrowing transactions executed on the SecFinex platform.

Market Spotlight – SecFinex

In October, SIX x-clear in association with SecFinex, a NYSE Euronext Company and leading European marketplace for securities finance, introduced centrally cleared markets for securities lending in the equity markets of Austria, Denmark, Finland, Germany, Norway, Sweden and Switzerland. Prior to the availability of cleared securities lending transactions, market participants were required to operate on a bilateral basis.

Securities are lent with an agreement for them to be returned in the future. A lender mandates a third party, either a custodian or a specifically created agent, to source a potential borrower of a stock held in its portfolio. Borrowers, typically prime brokers (sometimes acting on behalf of hedge funds), post collateral in the form of cash or securities. Lenders have the right to recall securities at any time; once the security is recalled, the collateral must be made available for repayment to the borrower.

Since the collapse of Lehman Brothers, the securities lending market has been in a slump. Lenders have recently returned to the market but with a radically different attitude and determination to better protect themselves from future market turmoil. Clients have put restrictions on their programs, limiting how much they will lend, what type and quality of collateral are acceptable and have even banned working with certain dealers. A year ago, investors were reward-driven and focused on revenue. Now they are risk-centric with a keen interest in collateral and counterparty exposure.

SIX x-clear provides members a risk management solution for securities lending traded on the SecFinex marketplace. Peter Fenichel, CEO of SecFinex, said "We are delighted to partner with SIX x-clear in this very important market innovation which serves to enhance securities borrowing and lending market efficiency, transparency and transaction activity. The use of a central clearer has been widely anticipated for several years in the securities lending industry and provides an alternative to OTC trading. SecFinex wishes to be a force for constructive change and, through this initiative with SIX x-clear, is well positioned to play a pivotal role in the further development of the global securities finance market."



Peter Fenichel, CEO of SecFinex

Flexible Netting and a Market Friendly Reporting Options

SIX x-clear believes that standardization in post trade services is the need of the hour given further fragmentation of the trading landscape. With this in mind, SIX x-clear has developed a market-centric flexible netting and reporting model. SIX x-clear now offers customers a choice of four netting models applicable for the cleared trades of the majority of trading venues.

- No Strange Net Processing** – All settlement types including the exotic ones supported
- Shaping Model** – Strange net model considering the liquidity requirement of the member
- Aggregation Model** – Aggregation of Deliveries and Receivables for strange net
- Segregation Model** – Segregation of Cash and Security for strange nets

The flexible netting model provides members with seamless integration of their back end system with SIX x-clear. This allows them to have similar netting algorithm across different trading venues.

In line with the market wants and needs, SIX x-clear has developed different reporting options. In addition to the existing reporting options in SWIFT and direct links, SIX x-clear has introduced file transfer based reporting tools. These new simple text files can be sent to members using Secured File Transfer (SFTP) or WEBBOX the in-house web delivery option of SIX group.

Comprehensive Clearing Solution to GCMs

In addition to offering NCM wise risk management as a value added service to GCM, SIX x-clear is extending the following to comprehensively cover the solution for NCM business to GCMs:

- reporting of trade and settlement reconciliation
- fee reporting at NCM level to the GCMs

Additionally, in early 2010 SIX x-clear will offer full monitoring tools to GCMs for their NCMs in account level, thus responding to customer demand.

The whole team of SIX x-clear would like to thank all our partners for their support and trust in 2009. We wish all of our readers and their loved ones a peaceful and relaxing holiday period and all the very best for a successful and rewarding 2010.