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Trading Desks in BCP Mode: A New Normal of Buy-Side Trading after COVID-19

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This article, which originally appeared in the Global Trading Journal, explores how the trading desk and the technologies that surround it have evolved given the new norm of prolonged business continuity measures brought about by COVID-19. It was jointly written by Ferris Kwan, Senior Vice President and Head of Trading, Securities Financing & Treasury Technology at GIC, and Janette Shim, Regional Director, Sales & Relationship Management, Trading Solutions at FactSet.

INTRODUCTION

In 2020, in the span of a few short months, the COVID-19 pandemic has brought about radical changes in the ways we live and work, and the business of Institutional Asset Management has had to pivot quickly to adapt to this new normal. Buy-side trading desks are trading a higher volume of orders that need to be handled with greater care and discretion than ever, given high market volatility, amidst a rapidly changing environment and heightened uncertainty.

In Asia, and specifically Singapore, the first wave of COVID-19 occurred in early February. In response, some organizations went into a partial Business Continuity Planning (BCP) mode by splitting teams to operate in different sites, or by having a portion of the workforce work from home (WFH). While it is likely that few Business Continuity Plans have been crafted with a once-in-a-century global pandemic in mind – having a well-tested BCP process is essential for an organization to ride through this difficult period. This quickly escalating threat has forced much of the world into potentially months of “Working from Home” as countries around the globe drastically limit the mobility of their workforces.

This has in turn forced asset managers to enact full-blown BCP measures to enable entire organizations to work from home.

SWITCHING INTO FULL BCP MODE

However, executing a firm’s mission-critical, real-time trading operations while under full BCP, is extremely challenging. It takes teams across Business, IT, and Risk Management functions to come together to analyse contingency requirements, implement infrastructure upgrades (such as VPNs, network bandwidth, etc.) and making unplanned purchases of IT equipment at short notice to provide for a surge in remote access. Policies have to be reviewed to allow

sensitive functions to be carried out from outside office premises. All these are needed to allow entire operations to be run reliably and securely from employees’ homes.

Prolonged WFH arrangements and choppy market conditions necessitate a firm to review and change its firewall configurations and entitlements to enable trading applications and their full suite of features, to be made available to teams trading from home or at the office. As such, simplicity in the integration layers between platforms is very important to ensure entire operations can failover from production to disaster-recovery environments quickly.

Ferris Kwan, Senior Vice President and Head of Trading, Securities Financing & Treasury Technology at GIC, explains “Having a primary EMS (Execution Management System) which is able to deal in multiple asset classes definitely enables a buy-side firm to switch to WFH mode with relatively little hassle, compared to if one were to have multiple applications for different products and multiple pipes to switch over. We also need experts who understand our business and workflows well, and thus are better able to cater to our trading technology needs. This will make the BCP mode transition much easier.”

Janette Shim, Regional Director, Sales & Relationship Management, Trading Solutions at FactSet, adds “As a service provider in trading technology and solutions, the stability of Enterprise EMS is of utmost importance to our clients, who all need to make BCP transitions in result of the COVID-19 crisis. For example, in the initial stages of this transition, we incorporated system change freezes voluntarily to maintain our systems’ steady-state, providing maximum reliability to withstand the volatile markets and trading volume spikes globally – a situation that persisted for weeks,” explains Shim.

“It is paramount for EMS stability, that service providers have the appropriate internal tools in place, accessible on BCP mode, to monitor system stability and performance closely, and provide comprehensive support, around the clock,” Shim continued.

For traders, the ability to process and render data, both structured and unstructured, and the connectivity of a trading platform to traditional exchanges and alternative liquidity venues is extremely important, particularly during prolonged periods of high market volatility. This is driven by the following considerations:

- Capacity to compute and ingest data. Valuable insights can be learnt, and back-testing using these datasets can lead to more robust algorithms and more automated workflows.
- While pre-trade analytics may or may not be relevant in such extraordinary trading conditions, in-trade analytics is unquestionably vital for the trader to have an accurate read of the markets and employ the correct approach to the trades. Post-trade transaction cost analyses validate the results.
- Access to liquidity as well as the quality of this liquidity. Very often, the depth of a buy-side/sell-side relationship defines the quality of the liquidity. This is especially true for OTC products and illiquid securities.

Kwan adds, “As GIC has invested heavily in fostering meaningful relationships with our counterparties, we have been managing well in a financial system in a state of distress. Widened spreads point to a degradation of liquidity in electronic trading for many instruments, suggesting weaknesses in pricing engines, while there have also been unprecedented anomalies such as negative prices in WTI Crude Futures. This is where continuous investment into technology and innovation makes all the difference. Regardless of experience, traders need tools and analytics to navigate such turbulent market conditions.”

THE NEW NORMAL FOR BUY-SIDE TRADING AFTER COVID-19

After experiencing a global pandemic that has deeply changed our lives and how the industry communicates, many buy-side firms will be looking at their current infrastructure and the associated costs to evaluate if they are well positioned to handle a similar crisis going forward.

The Technology teams across the Asset Management industry will have to look at what needs to be improved and fine-tuned in their current technology stack to support the new normal post COVID-19 of trading desks. Likewise, vendors need to continuously innovate and serve the needs of increasingly tech-savvy customers — distributed architecture to distribute the risk and increase resiliency, open technology stacks that allow customers to integrate with existing systems, and APIs and developer interfaces to build customisations.

Asset managers that have consistently invested in technology to achieve scale and operational efficiencies will undoubtedly continue to enjoy the benefits. “Trading desks that invest in their technology are not nearly as exposed to common human errors or the operational risks that come from trade breaks and compliance breaches. This is especially true during BCP times. The system needs to be nimble so that it can provide adjustments on-the-fly, as the market changes,” explains Shim.

Kwan sees this also as a golden opportunity for asset managers, vendors, and brokers who have invested in Machine Learning, to get a better understanding of the continuously evolving financial markets: “R&D from the data collected from this COVID-19-triggered recession can lead to more robust trading strategies, workflows, pricing engines and algorithms.”

“For traders, the EMS is like their cockpit. Access to cutting-edge tools and technology will allow a single point of access to all required analytics and liquidity. It also fulfils its role as a co-pilot of sorts, in its ability to deliver powerful automation to many aspects of the trade execution cycle. We’ve seen an increasing proportion of our clients’

investment going into trade automation powered by technology living in the EMS in recent years,” said Shim.

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Ferris Kwan
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Shim explains that “Going forward, we see ourselves increasingly solving clients’ challenges by offering a full Portfolio Lifecycle solution, or in the broadest terms, the process of executing an investment idea: Everything from researching the idea, testing a scenario, generating an order, running it through compliance, then down to trading for execution, settlement, and tracking performance attribution. Our technology-driven approach to assist buy-side firms across the portfolio lifecycle is to offer a comprehensive solution, enabling a firm to leverage the benefits of a “one-stop-shop”, while at the same time allowing for flexibility and modularity in our implementation. This would allow firms to take a “best-of-breed” approach, as every buy-side firm has its unique challenges and needs, not to mention, software refresh cycles.”

Buy-side traders are more than ever in need of the best tools and analytics to navigate increasingly complex and volatile markets. Trade automation and optimisation will continue to be important aspects of EMS development. Consolidating multi-asset class workflows into a centralised EMS, and hence rationalising a variety of complex trade processes into a single trading platform, will be key, especially as trading teams are forced to work for extended periods under BCP arrangements.

By continuously embracing innovation and investing in technology and systems, firms are starting to reap sizeable benefits, such as minimising human errors, achieving economies of scale with data and trading volumes, and better capacity for remote access. This could be the crossroad where such decisions will differentiate the buy-side players who have been advancing their trading technology alongside their long-term strategic goals.