



Case Study

Successfully Implementing a Fully Automated OTC Derivatives Processing System

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June 23rd, 2008

Agenda

OTC Derivatives Trade Flow Value Chain

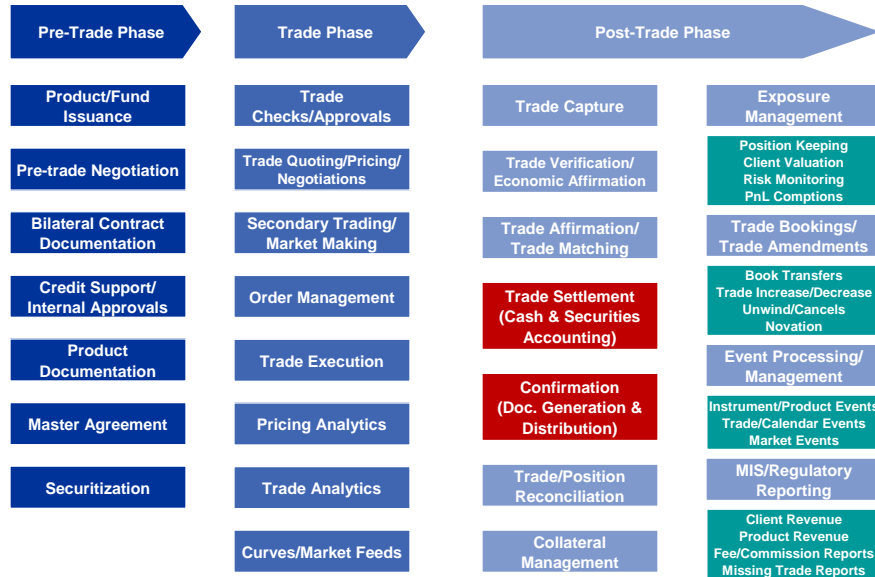
Pain Points in OTC Derivatives Trading

Case Study: Confirmations

- Project Background
 - Overview of the Markit Trade Manager
 - Proposed Impact & Benefits
 - Challenges
 - Lessons Learned
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Questions?

OTC Derivatives Trade Flow Value Chain



*Kishmore Ramakrishnan, "Achieving STP in OTC Derivatives — The Challenge of Constant Change," *Advanced Trading*, 2008
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Pain Points in OTC Derivatives Trading

To achieve greater STP and lower touch processing, the common initiatives underway at our clients are:

Risk Management and Pricing

- Finance and accounting systems unable to correctly capture complex trading strategies and therefore manual or placeholder entries are common
 - Adopting SOA to buy/build calculation engines that correctly compute the cashflows and obtain correct pricing from 3rd party providers
 - Decouple legacy accounting engines by feeding correct values daily from calculation engine

Confirmations

- Metrics for confirmations not easy to obtain
- Status of each and every confirmation not always known
 - Implement workflow tool with single repository across all confirmations

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Case Study: Project Background

The current confirmation process for a large multi-strategy hedge fund was **neither optimal nor scalable**.

In order to more closely align their OTC confirmations to STP they wished to **deploy the Markit Trade Manager** and restructure their entire process.

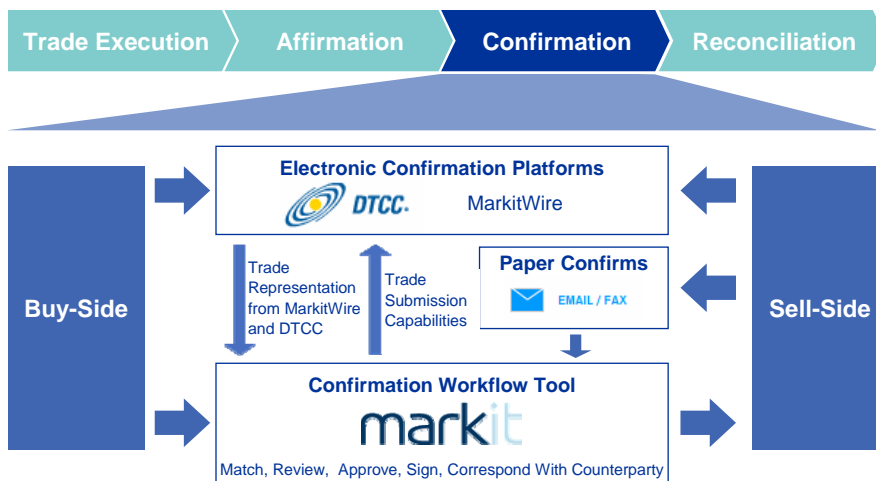
Background

- Investigate a more extensive adoption of confirmation “best practices”
- Highly paper-based confirmation process that was split between Legal and Operations
- Limited use of electronic confirmation platforms

Objectives

- Identify and resolve the current confirmation process issues by recommending processes more closely aligned with “best practices”
- Develop a future state OTC confirmation process that leverages the Markit Trade Manager

Overview of the Markit Trade Manager



Markit Trade Manager is a workflow tool to “electronify” the paper-based confirmation process and serve as a centralized location for the confirmation status of all OTC derivatives

Proposed Impact & Benefits

- Streamline the confirmation of “non-flow” derivative products
- Improve Legal (documentation) and Operations efficiency
- Implement a workflow tool and improve confirmation process

Confirmations Key Issues	Markit Benefits
Process / workflow inefficiencies	<ul style="list-style-type: none"> ▪ “Out of the box” workflow and document management tool ▪ “Electronify” a traditional paper-based workflow
Lack of Process Transparency	<ul style="list-style-type: none"> ▪ Reporting, audit log, status tracking, and counterparty correspondence
Timeliness	<ul style="list-style-type: none"> ▪ Improve confirmations process efficiency / speed
Confirmation Accuracy	<ul style="list-style-type: none"> ▪ Streamlines communication between checkpoints and counterparties
Market / Trade / Legal Risk	<ul style="list-style-type: none"> ▪ Collapsed confirmation period reduces exposure

Project Challenges

People	<ul style="list-style-type: none"> ▪ Stakeholders – project owned by Legal but largest impact was to Operations ▪ Education across organization as to the potential benefits of Markit for each stakeholders' function
Process	<ul style="list-style-type: none"> ▪ Non-standard post-trade process <ul style="list-style-type: none"> – Larger and more complex Hedge Fund – Did not adapt well to Markit “out of the box” workflow – Vendor implementation and deployment
Technology	<ul style="list-style-type: none"> ▪ Missing required data fields (e.g., transaction type) ▪ Reference data may require “massaging” depending on the complexity of trading strategy ▪ Limited customization due to ASP configuration

Lessons Learned

- Move all your “flow” derivatives onto electronic confirmation platforms by executing MCA’s
- Implement a workflow product to improve the timeliness and accuracy of “non-flow” OTC confirmations
- Redesign confirmation process to closely align to “best practice” and tool’s intended workflow
- Focus early on trade representation from electronic confirmation platforms and paper workflow tool
- Before implementation ensure current process and needs will adapt to an “off the shelf” workflow product
- Extract trade data from source systems
- Gain buy-in from all stakeholders
- Involve your counterparties early in the implementation process

Questions?