



Reduce Risk and Enable Scalability in Derivatives Processing by Modernizing Processes and Technology

In a fast-paced operational environment, it's not uncommon to see permanent processes forged from temporary solutions to an immediate problem. This is especially true for derivatives operations, which frequently accommodate requests for new products to meet front-office needs while maintaining a complex daily workload. Opportunities for investment managers to create alpha can be fleeting and necessitate moving quickly to capture value for investors, often requiring operations to pivot with little notice. Given the customization available in the OTC space, it's also common to see established processes tack on inefficient work arounds to existing workflows to manage substantially similar products. This backlog of business and technical debt can cause delays to major system updates or implementations, limit the scalability of certain products, and even fail to record the full value of historical transactions accurately.

As organizations implement new vendors or move to outsource their back office or trade support teams, modernizing processing for all asset types becomes imperative. Failing to remedy these previous work arounds prevents organizations from getting the full benefits from newer, better systems post-implementation or can even lead to customization beyond what vendors can support. In addition, outsourced operations frequently cannot accept assets processed improperly due to operational constraints and may request they be correctly onboarded before outsourcing can occur. In these cases, failure to correct previous work arounds destroys business value by delaying implementation of new systems or outsourcing. Remedying these issues prior to large projects enhances the current operating model while reducing risk of causing delays to larger projects.

As more firms utilize more unique derivatives to chase alpha, reduce tracking errors, reduce regulatory-driven costs by ownership thresholds, or hedge the risk of asset and counterparty default, the volume of the complex assets is likely to continue to increase.

Any operational workarounds put in place to enable trading and manage resets are compounded in this environment and can become untenable, limiting an organization's ability to scale. Modern ABOR platforms enable more complex derivative types to be properly managed in accounting with robust security masters that accurately record all relevant features and more accurately categorize gains and losses. Several IBOR solutions enable straight-through processing while reducing errors and manual touchpoints through trade matching and lifecycle management tools. Some of these solutions integrate with existing systems, helping firms modernize derivatives processing without a complete platform overhaul. If re-platforming is necessary for aging systems, reducing risk while allowing operations to scale can be well worth it.

Another key driver organizations should consider when modernizing derivatives operations is the potential business value obscured through these workarounds. The most complex products are frequently booked under a single entry to alleviate processing issues. In the worst-case scenario, this could conceal unaccounted-for gains or losses and necessitate large adjusting entries for accumulated differences. Even if these comingled entries aren't masking any errors, firms could miss out on meaningful data. Enabling complete ABOR and IBOR entries for these products enhances business value beyond the trading strategy by enabling further analysis.

HOW MERADIA CAN HELP

With over twenty-five years of industry experience and deep expertise in products, systems, and industry best practices, Meradia has the necessary skills to help your organization modernize its derivative operations. Whether you're preparing for a new internal or external platform, having issues with scaling operations, or just trying to get the most out of your data, Meradia's insights can help your firm achieve its goals.

Jake Daly-Leonard is an investment management technology and operations expert who provides Meradia's clients with strategic guidance on the adoption and utilization of the industry's leading derivative valuation and collateral management solutions. Jake has deep experience serving as a liaison between institutional asset managers and front-to-back office platforms. Similarly, he has also managed and executed transformational initiatives in the ABOR space.