

SPOTLIGHT: MMX

New DTCC Service Aligns with Managed Accounts Industry's Evolving Needs

With MMX, DTCC is bringing the weight of its communications infrastructure and risk management skills to bear on the development of the emerging model management market.

Big changes are underway in the managed accounts industry, thanks in part to DTCC's Model Management XchangeSM (MMX), a service DTCC plans to roll out in early 2012. MMX, a service offering of DTCC Solutions LLC, will help transform the way investment managers and broker/dealers deliver portfolio management services to clients.

DTCC began developing MMX after it spotted a trend in the managed accounts or managed solutions industry: firms were moving away from separately managed accounts (SMAs), whose market share has been shrinking since 2008, and toward unified managed accounts (UMAs) – specifically, toward a type of UMA called “model” portfolios.

DTCC designed MMX to give the industry an unprecedented level of standardization and risk-mitigation in the communication and distribution of “models” – the investment strategies an investment manager creates – to the broker/dealers that in turn apply the models to customers' investment accounts.

As DTCC's MMX Project Lead David Gardner put it, “With MMX, DTCC is bringing the weight of its communications infrastructure and risk management skills to bear on the development of the emerging model management market.”

Strategic re-positioning

Until a few years ago, DTCC's managed accounts efforts focused on improving the processing of SMAs. The Money Management Institute (MMI), a consortium of investment managers and sponsor firms, had tapped DTCC to streamline communications, increase efficiencies and reduce risk in SMA processing. The result was the Managed Accounts Service (MAS).

But, observing the industry's shift to UMAs and model management, DTCC in July 2008 published a report detailing the improvements it could bring to the UMA sector, a move that cast DTCC as the processing-solutions provider for all managed-account platforms.

“After extensive research and discussions with industry participants, we were able to validate the market movement toward model portfolios,” said Ann Bergin, DTCC managing director and general manager, Wealth Management Services. “Leveraging MAS and lessons learned from developing

DTCC

that solution, we quickly changed direction and focus in order to build a model management solution to address the needs of this new, growing market.”

Right time, right place

With a nod from MMI, DTCC quickly shifted gears, leveraging what it had created for MAS to build the business requirements for a model management system.

DTCC discovered tremendous inefficiencies and process redundancies in the methods investment managers were using to distribute their models to broker/dealers. “Some managers email their models to sponsors; others key in their models to proprietary websites or leverage the old SMA infrastructure to send their models through,” said Gardner, also a consultant with Smart Consulting, one of DTCC’s strategic partners.

“We saw that model management has great potential to scale up, but managers lacked the tools to do it,” said Tina Broder, DTCC product manager, Wealth Management Services. “That’s when we realized we could do for the model business what we did for mutual funds, which is to allow it to scale infinitely.”

As Gardner noted, “We entered the model management world when it was just getting started and offered processing solutions. We were in the right place at the right time.”

How it works

DTCC developed MMX to sit between investment managers and broker/dealers and facilitate the distribution of models, thereby centralizing and standardizing this process and creating an audit record of the exchange.

To mitigate the risk that a manager (or model “provider”) could send a model to the wrong broker/dealer

(or “receiver”), which could affect tens of thousands of accounts, MMX incorporates a security and entitlements validation process that forces providers and receivers to validate any entitlements.

“As [DTCC CEO] Don Donahue has said, DTCC’s role in the industry is to identify risk, lift it out and mitigate it,” Broder said. “This is exactly what MMX is all about.”

DTCC works closely with several industry committees to define best practices and ensure the managed accounts industry realizes the full benefits of standardization in the evolving UMA market.

“For instance,” said Gardner, “we’re working with MMI to implement standard model messages for use by anyone that transmits models. Getting everyone to speak the same language is a huge step for the industry and will help it scale up.”

Out of the gate

DTCC is testing with 14 investment managers and Morgan Stanley Smith Barney (MSSB), a leading receiver of models for its client accounts.

“MSSB has announced that all of its investment managers will use MMX,” Gardner noted, “so as soon as we come out of the gate we’ll penetrate a good 60% of the market.”

“From here,” added Broder, “we have great potential to develop new products and applications.”

—Written by Karen Rester

For more information about DTCC’s Model Management Xchange solution, please contact tvalente@dtcc.com.