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Q&A with the DTCC's Michael Bodson: everything post-trade 'is up for discussion

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Michael Bodson, the president and chief executive of the Depository Trust & Clearing Corporation, tells FN how the changing landscape of the post-trade market is leading to a fundamental shift in approaches to risk management.

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US-based post-trade services firm the DTCC is looking to lead the charge in creating a new paradigm for market infrastructure, as cost pressures bear down on the financial industry. The result is that institutions are becoming more comfortable with sharing their financial market infrastructures.

With a governance structure that includes around 345 shareholders from across the industry, Bodson believes the firm is in a strong position to capitalise on this trend.

Last week, Bodson joined the management board of Omgeo, a provider of post-trade processing services, as chairman after the DTCC finalised a deal to buy the remainder of the company it did not already own from Thomson Reuters.

Bodson spoke to Financial News about the evolving role of the post-trade industry.

Financial News: How does DTCC view its role in financial markets, as post-trade functions continue to rise up the list of priorities for regulators across the globe?

Michael Bodson: We have always viewed our core clearing and settlement functions as critical to the stability of the financial market. Pre-2008, many of these issues were buried in the background and people took post-trade for granted, like electricity.

But since the crisis of 2008 and the collapse of a series of firms, the understanding of the importance of the global post-trade infrastructure and how it helped mitigate the risk of contagion and handle the wind down of firms, has gained a new appreciation and sensitivity. We are now designated as a SIFMU [systemically important financial market utility], so the regulatory oversight we are subject to has increased and we are all for that.

People need to have confidence that their systems work well and that there are appropriate checks and balances in place. The other part is our entry into the OTC market, through our Global Trade Repository project. We think this is a big step forward in creating transparency and giving regulators oversight into what is happening in the market.

FN: How significant do you think the dangers associated with a greater reliance on post-trade infrastructure are?

MB: This comes back to the old joke of: You can put your eggs in one basket, just make sure you watch that basket very closely! With post trade infrastructure, there needs to be a balance between concentrating risk so that you have a holistic view, while ensuring the inherent risks are appropriately managed.

Regulators are very focused on this. We have regulatory oversight across various parts of our business from the Federal Reserve Bank of New York, the Securities and Exchange Commission, the Department of Financial Services in New York and the Commodity Trading Futures Commission, and that is just here in the US.

We have a strong dialogue with these regulators, which is particularly important in dealing with unknown risks, or the next "black swan" event, so that when the next Knight Capital or Superstorm Sandy event arises, regulators and market participants know how to deal with it and minimise the impact.

FN: Are there post-trade services that should be shared across banks and other financial institutions?

MB: Yes, and what we have done with Omgeo is an example of this. We had a joint venture with Thomson Reuters for over 10 years, but I think the industry saw the need to make post-trade processing more of a utility. From DTCC's perspective, Omgeo brought assets into play that we didn't really have, such as strong global buyside relationships.

FN: What are the other areas of post-trade infrastructure that can be transformed into a utility?

MB: The industry has learned that it does not need to control every part of the value chain right the way from pre- to post-trade. I think everything pre-trade and post-trade is up for discussion. The question is: what is the return on investment and what are the benefits of working in combination with other firms.

We have expanded in client documentation, through the memorandum of understanding we set up with market participants to create a utility that will collect and manage client entity reference data. Client documentation is one of those areas every firm needs, but offers no real competitive advantage.

However, there is operational, reputational and regulatory risk associated with it, so firms need to spend a fair amount of money to ensure they get this right. By combining those efforts and concentrating it in one place, it is easier for the industry and raises the standard of risk management.

We are only scratching the surface of what could be a five-10 year trend of really changing the way the post-trade operating model works globally.