DTCC

HIDDEN IMPACT:

THE REAL COST OF TRADE FAILS

Broker-dealers process ***millions of trades every day*** without any exceptions and with a high level of straight-through processing (STP). The fully allocated cost of those trades is extremely low—only about ***37 cents per trade.***

However, when a trade fails, STP breaks down—impacting various operations and quickly racking up costs, which can become ***100s or 1000s of times costlier*** for those brokers.

Costs and losses from just a ***2% global fail rate*** are estimated to be ***approximately $3 billion annually.*** [1]

7 Key Areas of Impact

An institutional trade failure touches multiple operational areas and requires many steps and staff resources to resolve.

1. **SSI REFERENCE DATA:** The workload to maintain and improve SSI data quality.
2. **TRADE SUPPORT:** Time spent to address client queries, trade exceptions and settlement failures.
3. **SETTLEMENTS:** Multiple and costly stages of manual work—pre-settlement, receive/deliver and fails management.
4. **AGENT BANK FEES:** Agent bank repair charges, Day and Night Delivery Orders (DDO and NDO) charges, claims expenses, buy-ins and sell-outs, plus intercompany settlements and Central Securities Depository (CSD) charges.
5. **ASSET SERVICING:** Fails on positions with upcoming corporate action events create significant amounts of work and risk, including payment and collection of interest and dividends, calculation of entitled positions, and counterparty follow-ups on election processing.
6. **FINANCING:** Substantial interest expenses to finance long inventory, especially for deliveries that fail.
7. **TECHNOLOGY EXPENSES:** With the tremendous cost of technological transformation, the complexities of integration and the ongoing burden of maintenance, brokers continuously face the dilemma of whether to build, buy or replace existing in-house solutions and reduce the need for proprietary platforms, tools and portals.

Comparing the Costs

A SUCCESSFUL TRADE	A FAILED TRADE
	Staff Costs: ≈ $50.00*
	+
	Unrecoverable Cost of Carry: ≈ 2.5% or $1,000 (for failure to deliver $5 mil corporate bond for 3 days)
	+
	Other variables can add significantly to the cost of fails:
	+ Regulatory capital
	+ Cash liquidity
	+ Counterparty risks
	+ Market price exposure
	+ Inventory shortages
	+ Settlement penalties
	+ Fines
TOTAL COST = $0.37	TOTAL COST = $50.00 - $1,100 +++ (100X - 1,000X more)

Solutions that Reduce Fails and Drive Savings Now—and in the Future

Efficiency improvements and true cost savings are within reach by maximizing the use of existing ITP investments and following recommended best practices.

Full SSI Automation with ALERT:

Achievement of full SSI automation throughout the industry is very much a community effort, as everyone ultimately benefits. When the middle and back offices are fully automated, the prevalence of clean, reliable settlement data reduces risk, enhances operations, frees personnel to perform more valuable tasks, and creates significant cost savings.

ITP offers a variety of programs aimed specifically at encouraging SSI automation via ALERT including Broker, Investment Manager and Outsourcer Lift Out services, ALERT for Prime Broker and our Automating SSIs Together (ASSIsT) program.

ALERT Global Custodian Direct (GC Direct) and Prime Broker Workflows:

ALERT's GC Direct and Prime Broker workflows provide custodian banks and prime brokers the ability to administer settlement instructions directly for their buy-side clients using industry standard ISO 20022 compliant messages. Utilization of these workflows means a vast reduction of investment manager updates in ALERT, resulting in a substantial increase in data quality and timeliness, as well as a reduction in touch points and operational overhead. Participating in a custodial managed model is more than conforming to an industry "best practice." Eliminating SSI-related trade fails not only benefits both sides of the trade but enhances the overall functioning of the marketplace.

CTM with Auto Affirmation:

Enables the affirmation of the broker TradeSuite confirmation once trades are match agreed in CTM, resulting in a very high trade affirmation percentage and low numbers of DK'ed trades for DTC products.

CTM with AKAS:

Utilizing CTM with ALERT Key Auto Select (AKAS) ensures the automated selection of correct SSIs for the investment manager including settlement preference and PSET match.

With AKAS, trade counterparties no longer run the risk of overly long settlement cycles caused by misinformation from one or both parties to a trade regarding SSIs—one of the key enablers to achieving a no-touch workflow.

DTCC Exception Manager:

With the Exception Manager platform, we've built a solution that gives clients the ability to publish, manage and communicate on exceptions throughout the trade lifecycle based on accurate source data, aligning to operational and regulatory requirements. By centralizing and standardizing exception processing across a common shared platform and providing detailed post-trade analytics, we enable faster resolution and deliver a significant reduction in the number of future exceptions.

Knock-on Effects:

By eliminating initial fails, future fails will be avoided on back-to-back transactions. Other benefits of a no-touch post-trade environment include reduction in repair charges, claims, processing costs, long-inventory financing, increased volume insensitivity and reduction in technology complexity.

What's Ahead

ITP is always focused on the future, continuously exploring and developing cutting-edge post-trade automation solutions.

Whether it's predictive analytics, broker-to-broker netting, enhanced inter-company reconciliation with CTM or enhanced settlements management capabilities, we are in close consultation with our clients and the industry to develop solutions that will bring the most value.

Discover the Institutional Trade Processing story and learn more about how together, we can re-imagine post-trade processing.

[1] Source: The TABB Group, LLC report, "Standing Together: An Instruction to the Investment Industry" (September 2016). Based on research with over 150 investment management firms, both long-only and hedge fund managers, from all major investing regions and across all AUM sizes.

*Staff cost estimates for failed equity and fixed income trades assume approximately one hour of total staff time (regardless of trade size) for settlement, middle office and sales support, fail control, asset servicing, operational risk and supervisory management activities, based on $75K total average annual staff compensation.