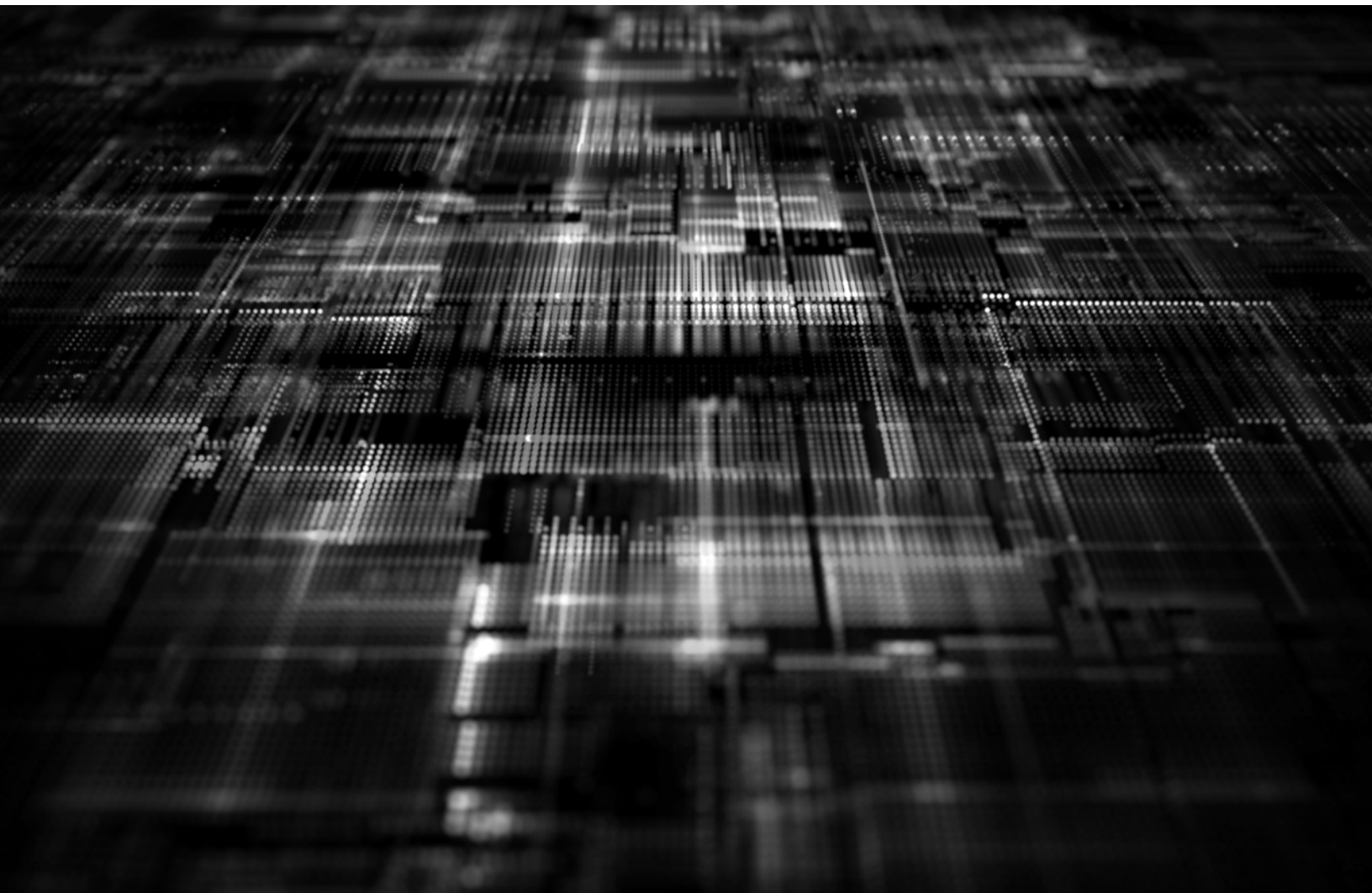


CAPCO

**ENABLING SALES AND TRADING
TECHNOLOGY ADVANCEMENTS**



SPEED READ

- Successful execution of technology initiatives is now critical to the success of financial institutions. Firms' sales and trading divisions may experience a loss of market share if they fall behind the market technology standard.
- While developing new tools and applications, firms should be cognizant of utilizing market data, incorporating client information, maximizing workflow efficiency, and ensuring salesforce engagement and adoption.
- There is a growing need for the continuous assessment and build of governance frameworks to ensure proper channels are in place for the salesforce to provide feedback and identify areas for improvement for their tools and applications.
- Due to COVID-19, the transition to remote working reshaped sales and trading technology strategy, accelerating its outlook and capability.

INTRODUCTION

The contemporary trading floor has already experienced a transformation from what was once a loud and hectic atmosphere to a tamed version that is increasingly centered around electronic trading and communication. This trend will continue, and sales and trading will see a much larger dependency on technology. This change has been accelerated by the impact of COVID-19, transforming the trading floor again into something entirely unfamiliar.

Financial institutions are continuing to face strict regulatory requirements after more than a decade of new regulations stemming from the financial crisis of 2008. Sales and trading have been strongly affected by regulations, such as Dodd-Frank and MiFID II. As a result, the trading floor has witnessed a great

deal of change driven by utilizing technology to comply with regulation while also striving to create efficiencies. Emerging technologies have been implemented not only to ensure regulatory adherence, but also to enhance daily workflow through increasing automation, improving data analytics, and offering top-tier client servicing capabilities.

The centrality of technology in capital markets has driven the industry to prioritize investment in sales and trading technology as a key enabler for providing employees with more leverage and increasing market share. The sales desk that can provide clients with the most competitive quotes, smoothest execution, and smartest trade ideas is positioned to benefit the most.

NEEDS & TRENDS

Challenges

The entire sales and trading function faces a multitude of challenges and opportunities when maximizing the benefit of new technology solutions. These are described as:

1. Regulatory

Regulatory adherence continues to be the most crucial consideration in the development of new functionality within trading systems and applications for the salesforce. Regulators are increasingly focused on the timeliness, accuracy, and completeness of regulatory reporting. Through enabling the automation of these processes, salespeople can spend more of their day speaking with clients instead of sorting out reporting discrepancies with internal parties.

2. Analytics

The shift away from voice trading has led financial institutions to invest heavily in developing state-of-the-art electronic trading platforms, as client demand for continuous price streams intensifies. Year-over-year, institutional products, such as investment-grade bonds, have notably experienced a consistent increase in the volume of transactions traded electronically. With this rise in electronic trading comes the increased importance of data quality. Accurate data and strong analytics, reinforced by a quality risk management process, have become a necessity as the spreads on electronic trades narrow.

3. Prioritization

Competition among financial institutions in the battle for a competitive edge has led to additional focus on investing the time and resources to generate technology-based strategies. Once a firm's sales and trading division has sufficiently achieved technological parity with its competitors, the business case to continue to advance becomes less obvious. This is due to the plethora of existing functions that can be enhanced in combination with internal application development initiatives. Deciding on the prioritization of proposed initiatives remains

imperative in shaping the future of sales and trading. Prior to kicking off development, internal teams should estimate the annualized benefit of each proposed initiative to ensure the allocation of funding is being maximized to avoid any unnecessary costs.

4. Adoption

Finally, what good is providing sales and trading with best-in-class tools and capabilities if they are not being properly utilized? Reduced adoption of new technology enhancements due to the lack of participation across the salesforce can severely delay the optimization of these costly upgrades. Without the proper marketing, product training, and material instruction in place, the implementation of new features and applications can cause more issues around frustration and time-loss than they are intended to alleviate.

Outcomes

The financial institutions that are reluctant to properly invest in sales and trading technology are prone to a variety of setbacks that can potentially become increasingly more difficult to overcome. The most obvious result is that from regulatory risk. Banks that struggle to meet regulatory standards can face substantial fines, constraints, and loss of future business due to the negative effect on brand reputation.

From a competition standpoint, firms will likely experience a loss of business in both electronic and voice trading if they fall behind the technology standard of the market. Although still a relationship driven business, when it comes to electronic trading, clients become frustrated if they consistently encounter slow quote times and poor technological capabilities. Banks will fall behind in the electronic trading business if they cannot provide clients with competitive prices in an efficient manner. In addition, clients are interested in more than just receiving quotes and expect the sales desk to proactively present valuable insights and bespoke trade ideas. Clients favor and will take their business to

the sales desk that can reliably provide the smartest trade ideas, now largely generated by intelligent technologies.

Investing in technology solutions is often costly and time consuming. Significant investments in technology will be wasted if not adequately adopted and utilized by most stakeholders. The mismanagement of technology roll-out can result in a low ROI and even discourage the use of innovations in the future by developing negative associations.

Direction

Over the past several decades, the sales and trading function has witnessed the importance and power that technology has in shaping the future of the business. The industry will continue to see investment in developing and maintaining subject matter knowledge and a commitment to developing sales and trading technology. Firms are placing additional emphasis on performing proper due-diligence and impact analysis before executing system changes.

As the industry continues the advancement of technological progress, there will be a growing need for the build out and continuous assessment of internal controls and governance frameworks to ensure there are proper channels in place for the salesforce to provide feedback and identify areas for improvement. As the dependence on technology increases, there will also be a larger need to adopt reviews, exception management, and data reconciliations to highlight the biggest revenue generating or cost-saving opportunities.

Firms should formally embrace and actively maintain engagement and adoption of best practices to ensure appropriate return on investment is realized. The most successful firms will accomplish this by bridging the salesforce with product owners to ensure the necessary training, communication, and assistance is available to successfully utilize new technology in practice.

CORE & ADVANCED SOLUTIONS



ANALYTICS

- Overlaying proprietary and market data to identify new information to drive business opportunities tailored to client and business needs.



INTELLIGENCE

- Creating new technologies to capture, digest and present meaningful data to the users concisely, weaving these seamlessly into the user workflow.
- AI and machine learning equipping sales and trading with more intelligence, will enable them to focus on more complex tasks and analysis, improving client relationships and increasing market share.
- Regulatory requirements pre- and post- trade publication requirements need to be supported by traders and systems. Strong opportunity to leverage newly captured information to enrich user intelligence.



EFFICIENCY

- Applying front to back design principles across the user workflow to minimize time and effort investment in the user workflow. Redesigning tooling to be user-friendly and attractive.
- Big data and cloud computing present opportunities to store and gather large amounts of data more efficiently and at a reduced cost.



ENGAGEMENT & ADOPTION

- Utilizing tailored marketing solutions and dynamic digital experiences to effectively communicate new features, training, and tools to the user group to improve the target audience's engagement and adoption of new technologies.
- Supporting employee engagement and championing adoption of technologies across divisions, using a variety of creative formats and marketing tactics.

EFFECTS OF COVID-19

Overview

The unprecedented public health, economic, and societal impacts of COVID-19 have challenged financial institutions to adapt and infuse resilience into their business models. In the immediate aftermath of rapid spread, unique complexities arose, as firms strove to enact protective measures and preserve sales and trading activities vital for market functioning. Sales and trading desk technology dependability faced a critical test, as the unforeseen crisis displaced a traditionally office-based workforce. This transition to remote working reshaped desk technology strategy, accelerating its outlook and capability. Meanwhile, financial services institutions that had heavily invested in their sales and trading technology previously exhibited a competitive advantage once the pandemic hit.

Business Continuity

As the effects of COVID-19 reverberated across the globe, a segmented approach to sales and trading workforce management emerged to alleviate exposure risk. Namely, business continuity plan (BCP) sites materialized. Based on the presumption that distinct groups reduce the likelihood of cross-infection, BCP sites represented an early solution to ensure business as usual (BAU) conduct and workflow efficiency. With all sales and trading workplace tools encapsulated in workstations, apprehension over insufficient remote setups promoted the activation of BCP sites. In the end, many financial services institutions could not escape the disease's reach, as simultaneous infection across BCP sites nullified the original aim. The shift to full remote working occurred swiftly thereafter into the second quarter of 2020.

Regulatory Environment

As the pandemic evolved, financial services institutions were challenged to quickly develop vigilant processes for remote oversight of sales and trading conduct, while financial services regulators reinforced firms' responsibility to adhere to regulatory requirements and safeguard market integrity. Against the backdrop of altered workplace settings, market-abusive behaviour

detection/prevention, data security, fraud, cybersecurity, and privacy standards represented critical domains wherein compliance would continue to be prioritized. Throughout the industry, recorded phone lines were hurriedly assembled to ensure continued compliance and surveillance through systematic record keeping.

Momentum for technology innovation in supervision and surveillance has reached a renewed importance. Regulators are increasingly flexible on propositions to technologically innovate. The Financial Industry Regulatory Authority (FINRA) expressed:

“The use of remote offices or telework arrangements during a pandemic may necessitate a member firm to implement other ways to supervise its associated persons who change their work locations or arrangements for the duration of the pandemic.”¹

From a firm perspective, current sentiment mirrors that of the regulators: due to an increasingly virtual workplace, technological advances stand poised to resolve remote oversight and compliance inefficiencies. Financial services institutions embracing remote adherence to regulatory requirements through technological innovation have a significant advantage in the ease of future compliance.

Sales and Trading Communication

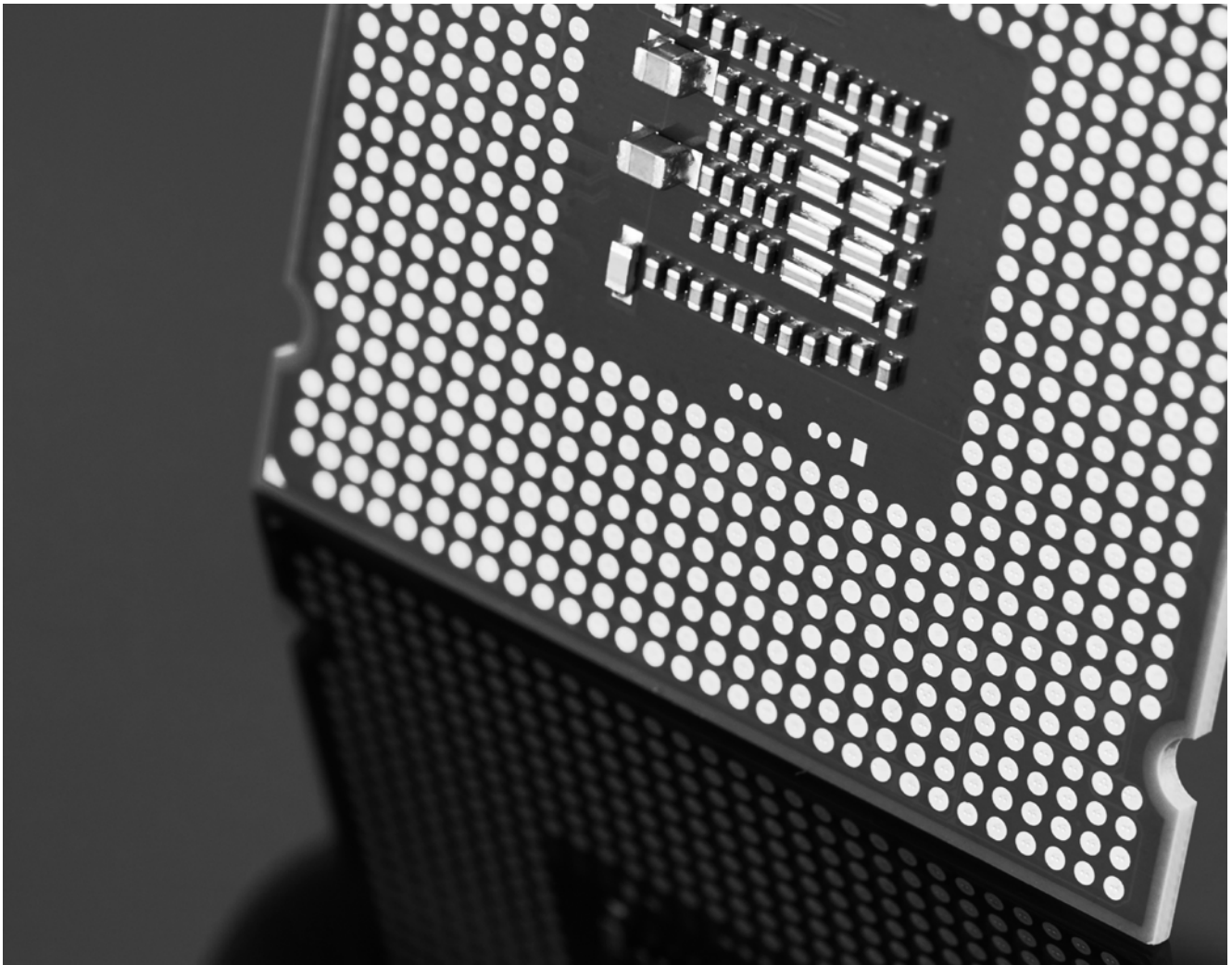
Real-time communication is imperative for sales and trading roles. A constantly evolving market environment commands swift sales communication to trading desks for execution. While on-location sales and trading communication had been largely untested, COVID-19 has significantly disrupted this BAU aspect. As remote working continued into second and third quarters of 2020, financial services institutions displayed an increasing reliance on instant communication technology. Namely, financial services institutions are witnessing an unprecedented rise in chat platform and video conferencing usage. According to David Gurle,

CEO of Symphony Communication Services, an instant messaging service for financial firms, the platform experienced a 40 percent increase in daily users, while Microsoft Teams usage more than doubled, and video conferencing applications, such as Zoom, have become household names.²

A Real-life Stress Test

The shockwave unleashed by COVID-19 shook the foundations of financial services institutions. Unlike regulatory stress testing, this was not a hypothetical exercise. Increased market volatility, characterized by inflated trading volumes, revealed gaps in

trading desk technology capabilities. Some trading systems even reached their functionality limits. Acknowledging the impact of COVID-19 as an opportunity to stress-test their operations, financial services institutions gained valuable insights into the dependability and efficiency of their sales and trading desk technology, subsequently building more performance assumptions into their existing models. To capitalize on these insights, key stakeholders are now leading prioritization efforts to strengthen the soundness and expand the capability of their sales and trading desk technology.



CONCLUSION

The design and implementation of technology solutions in sales and trading, accelerated by COVID-19, will continue to be a key driver for both enhancing the daily workflow of the salesforce and increasing the market shares of financial institutions. To maximize the value of new technology solutions, firms should keep in mind potential regulatory impacts, the capture and presentation of meaningful data, the prioritization of technology initiatives, and user engagement and adoption of the new tooling. With rising clients' expectations around a firm's ability to provide competitive quotes and intelligent trade ideas, sales and trading will go on to see an increased dependency on the technology necessary to satisfy these expectations. By utilizing the core and advanced solutions in analytics, intelligence, efficiency, and engagement and adoption, financial institutions can improve how they execute their sales and trading technology initiatives, critical to their success and ability to stay competitive.

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