New light through old windows

Regulatory pressures to improve monitoring and control over trading offer an intriguing opportunity to provide new hosted services for providers with the right combination of capabilities.

A series of crises and disasters have been rocking the financial world for more than 4 years now. The cumulative effects of these events are been felt everywhere, but very particularly by capital markets participants themselves as political and regulatory pressures for greater restriction, control, scrutiny and transparency has grown inexorably.

No-one now believes that this is just a passing storm, or that these pressures will relent or recede in time. Significant changes in regulation and expected behaviour are underway and probably unstoppable. However, this phenomenon has also given rise to demands for new types of information, systems and services to help meet the challenges. For firms focussed on delivering services to capital markets, it has opened up new possibilities.

In particular, there has been a big increase in demand for efficient, effective systems to help with the surveillance and monitoring of trading behaviour and traders themselves. While this trend may have begun with MiFID I and a narrow focus on manipulation of mainly exchange-based equity trading, it has now extended in every direction, crossing all asset classes, including commodities, energy and even FX, and the multiple derivatives thereof.

It has also gone beyond traditional exchanges to a wider range of execution venues and crossing networks. OTC traded instruments don't escape scrutiny either, even where they can't be forced onto regulated venues. The tsunami of new legislation around the world (Dodd-Frank, MiFID II, ESMA, REMIT to name but a few) serves to underline this point.

Although market participants may be loathe to invest larger sums in Compliance, Monitoring and Risk Management, many now realise they have no option if they are to continue in their chosen fields of business. Even if they are not forced by their regulatory supervisors yet, then reputational risk now provides an alternative incentive.

So many Capital Markets participants are actively looking for efficient and effective monitoring and control solutions. There are, of course, some very real practical constraints and considerations. Overlaying yet another application to the existing complex technical and applications architecture will fill many CTOs with dread. Ideally, they want something that dovetails easily into their existing operation and avoid unnecessary duplication. Getting hold of good clean data is a fundamental pre-requisite of effective monitoring but often easier said than done. Good sources of comparative market data are also essential to check pricing but can present a complex (and sometimes expensive) challenge. All these issues are over and above the core capabilities of monitoring - the ability to identify potential unusual or suspicious patterns and raising appropriate alerts.

The **Apama™** Market Surveillance and Monitoring (MSM) solution has proved successful, so far, as a leading example of the new breed of monitoring solutions that are now emerging. Its key USPs can be seen as:

- Real-time capability, scalability and performance to whole market volumes
- Multi asset class, multi market
- Open architecture, providing ease of connectivity
- Open, flexible logic , giving the ability to keep up with rapidly changing regulation and expectations
- A rich source of information, providing a holistic historic overview of trading data.

To date, most implementations have been bespoke and on client site. Hosted alternatives do have attractions to the client base, particularly if they can address issues about the complexity of sourcing data and prices. However, to date, there are a limited number of such hosted solutions in the market – most focused on equity exchange-based trading.

With the ever broadening scope of new regulations and expectations however, opportunities are now presenting themselves for new hosted monitoring services. Key differentiators in this new market may well include, not only the capability of the monitoring itself, but the pre-existence of connectivity, the availability of data, the avoidance of new local installations and the on-going support load and the speed and convenience of getting started quickly at an incremental cost. The long term potential of being able to exploit further value from the rich data sources should not be ignored either. Partnerships and alliances that can combine to deliver a service with more than one of these differentiators may well be looking at a new and significant service opportunity.

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