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Communicator Speeds Tie-Out

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Communicator has launched what is believed to be the first system that provides same-day tie-out, or reconciliation, for over-the-counter derivatives trades.

Delivered via a secure Web site with an audit trail, the White Plains, N.Y. company's Trade Date Tie-Out service is one of an emerging series of offerings that address risks in the exploding derivatives markets. Derivatives, or instruments whose value depends on the behavior of an underlying asset value or event, have raised concerns among regulators about so-called systemic risks in the global financial system.

Front- and back-office technologies hold potential solutions. Much of the risk-management attention in derivatives is focused on ensuring quick and accurate settlement of trades. Timothy Geithner, president of the Federal Reserve Bank of New York, which held a gathering for top derivatives dealers last week, said at a Bond Market Association meeting in April that credit derivatives and structured credit products have "resulted in considerable back-office backlogs that create significant operational risk for market participants" as well as a critical need for "strong operational controls [that] can help ensure smooth market functioning in times of stress."

Communicator, developer of the Compliance Hub trade documentation and confirmation platform for buy- and sell-side firms, introduced the tie-out service Sept. 12 to reconcile daily OTC derivative trading activity.

Several firms are already implementing the service, Communicator says, including Pacific Investment Management Co., which helped to design the system from the buy-side perspective and ING Clarion Capital. Hans Hufschmid, Chairman and CEO of GlobeOp Financial Services, a leading supplier of operational support and risk management services to hedge funds, said "This will have a positive impact on our hedge

fund clients, enabling them to better manage risk from the start of the post-trade processing through full execution."

Communicator president and CEO Leo Schlinkert explained to *Securities Industry News* that in a typical trade—say, a \$100 million credit default swap based on a General Motors Corp. bond—the sell-side firm faxes out a three- or four-page confirmation document to the purchasing hedge fund. Because of adjustments and other common glitches, trades can remain unconfirmed for 30 days or longer.

Communicator's automated tie-out service cuts the turnaround time to under ten days by allowing institutional investors and broker-dealers to immediately acknowledge their trades and resolve unrecognized trades or unknown assignments on the trade date. The system effectively lowers, aggregates, manages and reduces the number of outstanding OTC derivative confirmations. Money managers are able to identify risk areas or bottlenecks in the process with reports focused on age, counterparties and products. The service also provides assignment details, including each firm's position in the trade and an audit trail of every firm's trade acknowledgment.

"It allows for real-time communication between the money manager and the dealer," said Schlinkert. The fee for the service is paid by the buy-side money manager and is dependent on trading volume.

Trade Date Tie-Out complements Communicator's Compliance Hub, which elimi-



Leo Schlinkert

nates paper from the confirmation process.

From a compliance standpoint, faster confirmations have clear benefits beyond reduced paperwork. Unconfirmed trades can create open-position risk, so efficient auditable processing can lower a firm's exposure, a big plus in an environment of heightened regulatory scrutiny. "It is auditable because it is an electronic communication between two parties," said Schlinkert. "There is full retention and full reporting."

Several hedge fund executives agreed to speak with *SIN* without attribution about the impact of Communicator's product, and their reaction was largely positive. "The old way of doing this was so outdated," said the head of derivatives documenta-

tion for a large hedge fund. "An electronic tie-out pretty much eliminates paper."

"More firms have higher volumes of this type of transaction," added the director of operations at another hedge fund. "I haven't seen any other software that provides the same service, which lowers risk and provides an audit trail."

"We want to be proactive and address outstanding and unconfirmed trades," stated David Lown, EVP of Pimco. "Compliance Hub's Trade Date Tie-Out service gives us a process to mitigate risks upfront."

"The back office has always used technology to catch up," noted Schlinkert. "Today's technology, with its audit trails and secure communications, is a perfect tool to lower risk in this marketplace." ■



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