

Optimal Operations

Rupert Perry, founder and CEO of Pirum, talks to **Roy Zimmerhansl** about the latest developments in operations automation at the 2010 ISLA Conference

Zimmerhansl: One of the major hassles for us as a borrower was the process of calling in returns - finding the right person, getting through and passing on all the details then hoping that both sides have written down the details correctly. Where does your product offering stand on that?

Perry: We take the information booked by a borrower and, using our real time feeds, match up to the lender side to work out exactly which trade the return should be booked against in their system.

We then send a message to the lender to have that return automatically called into their system. Once they have booked it, we then, through their real time feed, get it back again and re-reconcile it, so in case they book it into different shapes or into different accounts we will then recheck it when it comes back into the system.

For example, take a return for 1,000 shares which on the lender side was actually two trades of 500 shares. When we get the two shapes of 500

back from the lender we'll recognise it's different to what the borrower has. We then automatically reshape on the borrower side, taking the borrower's 1,000 return, cancelling it and booking two shapes of 500 instead so that it all matches up.

In addition, we try to make sure that all of the typical logic that a lender would want to apply around booking a return, checking for cut-offs and all the different types of things they want to check, can be validated up front even before we've actually sent the transaction to them. If it doesn't meet one of those things we can notify the borrower straight away. So it's a much faster and more efficient process.

Zimmerhansl: And is that customised by lender or is that a generic profile?

Perry: It's completely customisable for each lender. Each of the different rules we decide with the lenders and they can be changed on a per-relationship basis. We don't find it

happens very often but it can do and we can support that within the system.

Zimmerhansl: So it is more than just a reconciliation process, it actually does impact the settlement cycles and the end process.

Perry: Yes, we are automating the complete process.

You wouldn't believe how often returns are booked against the wrong side on the lender's system. For example, if a borrower is doing a return, if there are multiple trades out in the same security, they'll pick the trade with the highest rate.

Then when the lender gets it, they'll book it against a different trade and then, because it's the same security, the trade will settle in the market, but the next day you end up with what we call an allocation break on fee rate, because clearly while the total quantities still agree, the different quantities at the different rates no longer agree.

Zimmerhansl: I have to disagree with you on one point there. You said that I wouldn't believe the number of times trades get booked against different returns - I would.

It strikes me that Pirum's products reflect the real life of our business process. As an operations function, clearly you have most control over your internal processes, so firms looking at improving those processes will concentrate on their internal cycles. After you feel you have that under control, the natural step is to look at improving those processes in conjunction with your external counterparties. The natural next step



for that is the real time environment and you have moved into that space.

Perry: We have and you are right to say that people are focusing more and more on the external processes.

I think this is something the industry is recognising as well. For example, ISLA has recently announced its Automation Standard, which is designed to raise the profile of automation between counterparties in the market. The Automation Standard has a whole series of steps over the coming years, where people will be expected to use more and more of the services.

As it stands, firms will get the ISLA Automation Standard Award if they use Contract Compare as the very first starting point. The next step change will require firms to be on a billing comparison platform and then in a year or two's time, automated marks and returns will be included. So the whole industry will gradually move forward lock-step from the level they were at a few years ago where there was no automation at all.



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We do find those who have pushed the farthest ahead have the clearest and easiest run.

You book the trade, which has probably been agreed on an automated trading platform up front, it gets compared automatically, marked automatically, returns are automatic, so the guys in operations barely touch it and there’s very little to actually go wrong.

You are removing the element of human error that can creep in, and the more automation that’s in place,

the cleaner everything looks and the less there is for everyone to do. That in turn enables you to drive a much higher volume without having to hire many more staff.

Zimmerhansl: Clearly it’s not going to be possible to eliminate all the errors so where there are errors it is also about highlighting them quickly and efficiently and allowing people the opportunity to deal with them.

Perry: Absolutely. There are two stages – the first stage is to detect that there is a problem, and the second stage is that you need to know exactly what the problem is and get it fixed as quickly as possible.

Zimmerhansl: The ISLA Automation Standard sounds like quite an exciting initiative and has the opportunity to transform the industry.

Perry: You are right. They are trying to move the industry forward. The difficulty is that it’s impossible to move everybody forward at exactly the same time so it can only be

but the next generation is real-time services and automation.

We are working on non-DVP payments automation, both for prepay and return cash. DVP is agreed as part of the security settlement, but for non-DVP there are a whole series of payments for many different trades that must be settled on any one day and currently this involves a fairly manual process.

Zimmerhansl: Which is?

Perry: Each side runs a report listing all of the loans that need to be prepaid then talks to their counterparty. If the totals agree then great, but if they don’t then they have to go through everything by hand.

We are taking that process online. With the information on a screen, they don’t have to call the counterparty. Once the discrepancy has been identified they can then, using the real-time feeds in their own system, get it booked, get the amount agreed, flick the button and have all the postings made directly into their system.

done in steps. They are encouraging participants to join the platforms.

What we’re looking to do is provide a platform for the future and we’ve built out an awful lot of services that are going to achieve an astonishing level of automation and efficiency.

It is a question of driving up utilisation and using the tools that have been built. We see a natural progression from the overnight tools that most of the market has adopted already, so most people are using the products we introduced 10 years ago,

Zimmerhansl: And it does the same work for returns?

Perry: On returns it is similar. We are doing a whole load of things to improve that process as well. We are in the process of building something where we make the notification process much smoother and much more efficient to people who are not providing a real time feed. That will be coming later in the year. *