Home is where the advantage is

Technology solutions exist that will give your traders the support they need to deliver, says Jean-Paul Musicco of Trading Apps

In sports, statistically speaking, the home team has an advantage over the visiting team. This is for various reasons: familiar facilities, possibly travel and time change challenges, and most likely, supportive fans. This advantage, for those of you who are not US college football fans, is known as the '12th man'. Football teams allow a maximum of 11 players on the playing field at a time, so referring to a home team's fans as the '12th' man implies that the home team has a potentially helpful role in the game.

There has been a significant amount of analysis to support this theory and we all know that the Las Vegas bookmakers live and die by the odds they offer to potential gamblers.

At Trading Apps, we believe that the right type of software can be the 12th man that your business so desperately needs to gain the home-field advantage. As you look at your own business today, you realise that you have lots

of different inputs (staff, global regulatory rules, capital, etc), as well as various forms of data, to run your business as efficiently and as profitably as possible. Trade data, historical trade data, specific security data, third party data, disparate data from other systems—the list goes on. Data is the theme of late for the financial services industry, along with the rest of the world.

Coupled with data management, another key component is the trade negotiation component of your counterparty relationships, which if employed correctly for your trading staff, can enable several types of scalable solutions to give your global trading team the extra edge.

Securities finance is still one of the few remaining markets that do not execute a majority of its transactions via a centralised execution platform.

And due to the bilateral nature of this business, it is imperative that you employ tools that can handle both structured messages and non-structured messages, such as Bloomberg and email messages, in an optimal way.

Trading Apps has spent the last few years focusing on the non-structured messaging trade component by building complex 'parsers' that are embedded in our Pre-Trade App so that your firm, without forcing your counterparties to change their workflow, can accept all types of messages into a centralised Pre-Trade Manager that is directly linked to your inventory, with a custom set of algorithms.

Present that collective information to your expertly trained traders and let them make the final decision whether to override the indicative pricing, or let it instantly respond to the counterparty. That is the definition of scalability and efficiency, which is something every trading desk should be looking for in this day and age.

Whether you trade fixed income repo or conduct equity finance, are located in the US or across the globe, you effectively have two types of trades that are a part of your securities finance book: general collateral and specials. One type requires the ability to handle significant volume and the other, specials, requires numerous inputs from various data providers to identify the most accurate price.

based on the sensitivity of the market, and looking to maximise every basis point. By creating a set of dynamic rules through various algorithms, traders can manage the volume of bilateral and centralised requests via tools such as our Pre-Trade App and our Inventory App, which use centrally located algorithms.

So for this aspect of your business, the negotiating tools and the algorithm provide the scalability and the efficiency of moving lots of product at the right finance price. Finding a scalable solution to trade significant secured funding trades via various distribution channels allows for better metrics on what are historically constrained by limited amounts of balance sheet and unsecured funding.

By having software that incorporates the usage of algorithms along with trade negotiation tools, your desk will feel like it has the home field advantage.

Now on to the most profitable part of your trading book and its unique requirements. Specials tend to trade with greater variance in pricing when compared to the general collateral book, and that is due to a lack of transparency, supply and potentially greater inputs that have a direct impact on each trade.

Employing a robust algorithm that aggregates numerous inputs that you deem influential for determining the finance price is essential. More importantly, displaying those inputs in our Trade Entry App allows traders to respond to counterparties much quicker and with greater certainty that the price offered or bid is determined by quantitative inputs rather than mainly qualitative components that typically do not win the day with your counterparties.

By responding quicker than your peers, who are employing traditional trading tools, and having all of the essential data in a centralised trading tool, the odds are in your favour, just like the home team.

The best quant traders in the world attempt every day to take much of the subjective and qualitative input out of their decision making when managing risk. Securities finance should be no different.

Engage your data and don't let it bog you down by the enormity of it all. Employ sophisticated front-office tools that Trading Apps designs as per your firm's requirements. Let Trading Apps be your firm's '12th man' and create a home field advantage. **SLT**

So based on that fact, you would want to employ software solutions that sort through the various types of data and employ analytical tools such as algorithms to give your firm the statistical advantage of the home field.

Regardless of whether you are an agent lender looking to actively lend your client's securities or a global investment bank that has all types of internal and external clients to satisfy, you will be busy optimising your requirements or needs daily. Typically, it is the finance price threshold known as the, fee or the lack of rebate, that dictates where this securities finance transaction lies. General collateral trades are all about scale and volume, but at the right price

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