

## RISK MANAGEMENT TECHNOLOGY PRODUCT OF THE YEAR CLS AGGREGATION SERVICES, CLS AND TRAIANA

Algorithmic trading is taking hold in the foreign exchange market, leaving prime brokers regularly having to handle several hundred thousand trades a day. On busy days last year, volumes came close to hitting capacity at several banks and slowed vital market infrastructure. With the market showing few signs of shrinking, participants have had to address the problem.

The industry has already looked to tackle the thorny issue of settlement risk with the establishment of CLS Bank in 2002. However, it became clear a solution was needed to help resolve post-trade processing. The answer began to materialise in April 2009, when CLS and interdealer broker Icap announced a joint venture to create a trade aggregation service for the over-the-counter forex market. Called CLS Aggregation Services, the project was backed by eight banks – Bank of America, Credit Suisse, Citigroup, Deutsche Bank, Goldman Sachs, JP Morgan, Morgan Stanley and Royal Bank of Scotland – with technology provided by Icap subsidiary Traiana.

“The key to the success of the project was orchestrating both the founder banks to agree to a new standard post-trade workflow, and for CLS in partnership with Traiana to develop, test and launch this major new interbank service in record time,” says Alan Bozian, chief executive of CLS Group and president and chief executive of CLS Bank International.

CLS and Traiana built an engine that accumulates all matched trades between two counterparties in a currency pair over an agreed period or agreed total value. It then aggregates them and confirms the aggregated trades to the respective back offices, which can submit them for settlement via CLS Bank.

“Addressing the capacity constraints required a number of key capabilities that CLS and Traiana were uniquely capable of providing, including connectivity to major market participants, aggregation technology and integration with the proven back-office and settlement processes already in place,” says Gil Mandelzis, chief executive of New York-based Traiana.

Morgan Stanley and Citi were the first banks to pilot the service, which officially went live in January 2010. By December, all eight founding banks were live and the service had aggregated more than 164,110 gross trades in a single day (November 30), reducing them to 9,008 – a compression rate of nearly 95%.



Alan Bozian, CLS Group

“CLS Aggregation Services is a key element in ensuring efficient operation of the forex market,” says Andrew Coyne, managing director, head of foreign exchange prime and G-10 e-commerce at Citi. “The service reduces the footprint of ticket volume on the global infrastructure. It reduces unnecessary processing and related overheads. Most innovation comes from necessity, and this service was a response to the changes in the nature of the underlying market. It’s a very smart response to a straightforward but nevertheless significant issue.”

Market participants say the service really proved its worth during the US flash crash on May 6, which saw an unusually high spike in forex trading volumes. Some major players that were not on the service are believed to have had trouble keeping their trading and back-office systems running during that time. CLS Aggregation Services could help deal with spikes in volumes in future.

“Our foreign exchange volumes have increased 10-fold over the past year due to a number of strategic initiatives. With the introduction of CLS Aggregation Services, we can match and aggregate interbank spot trades in real time, significantly increasing our overall ability to handle more volume in the future,” says Todd Miller, managing director, global chief operating officer of foreign exchange and emerging markets at Morgan Stanley.

The significant aggregation of trades under CLS Aggregation Services does raise the question of what is in it for CLS, since it makes its money from processing transactions. “The service does reduce the number of transactions CLS would process and thus could impact its revenue model,” admits Bozian. “However, CLS prices on values of trades and not just volume. Aggregation by definition means no change to the value submitted to CLS, which is the larger driver of revenues.”

Reducing the operational risk of growing forex volumes was a problem the market had to address at some point. “CLS Aggregation Services has solved an industry problem we all knew we had to face. It’s really been a joint effort between CLS, Traiana and the founding banks,” says Miller.

Mandelzis agrees: “Not only does CLS Aggregation Services help to facilitate future trading growth, but it ultimately strengthens the market infrastructure.” ■