

TECHNOLOGY DEVELOPMENT OF THE YEAR

MarkitSERV – CCP middleware

Market reform in the wake of the 2008 financial crisis is pushing over-the-counter derivatives firmly towards central clearing. Since then, a number of exchanges globally have moved quickly to provide central clearing services. An essential element of any such service is connectivity between the exchange and market participants, and the choice of connectivity technology provider can also be a critical element in determining not only time to market for the service but also the take-up by market participants.

The fact that Singapore Exchange (SGX) was able to be first out of the blocks in Asia was in no small part down to its choice of MarkitSERV as its middleware provider. With MarkitSERV's help, SGX was able to launch a clearing service for Singapore dollar-denominated interest rate swaps in November last year, which by July this year had cleared more than \$142 billion of trades.

The introduction of clearing creates technical and operational challenges for market participants in terms of getting to grips with the workflow, application programming interfaces, messaging requirements and product eligibility of a central counterparty (CCP). Building this connectivity at a bank can take months to complete and much longer when there are many CCPs that a participant must deal with. Furthermore, CCP connectivity is not a one-off effort. Over time, CCPs tend to add or remove eligible products, and change participant permissions and clearing functionality such as netting and withdrawal, all of which can mean continuous upgrades of the connections and workflows.

Addressing this kind of complexity and change is the classic role of a third-party middleware provider and London-based MarkitSERV has invested heavily in building and maintaining a connectivity platform for OTC derivatives clearing houses globally, including LCH, Clearnet, CME, Ice and Eurex. MarkitSERV also boasts a comprehensive product coverage that includes interest rate, equity, credit and forex derivatives products.

Access all areas

MarkitSERV's platform is open-access, which means that banks, brokers and buy-side firms need only connect to MarkitSERV once to access any CCP to which it has an interface. By creating a new channel for SGX, MarkitSERV made it easy for global banks in the region that already had MarkitSERV connectivity to link to the new clearing service. Furthermore, regional institutions adopting MarkitSERV for the first time to connect to

Christina Ang,
Singapore Exchange



the new SGX clearing service have the added incentive of automatically acquiring links to all MarkitSERV-connected CCPs – which could prove advantageous if other new CCPs planned for the region also adopt MarkitSERV.

MarkitSERV and SGX worked to develop the new connectivity service to send electronically confirmed trades into the SGX clearing house. A particular challenge for the project was that while most international dealers and some local banks were already using MarkitSERV, getting local market participants equally involved and committed to the clearing project was pivotal to its success.

“MarkitSERV's regional sales team worked with the local banks to present MarkitSERV and the benefits it would bring to the community – straight-through processing from trade capture to clearing, electronic confirmation of trades, better and more transparent operational processes, low-cost implementation options available for small organisations among the others,” says Stuart Billingham, director at MarkitSERV, who is based in Singapore. The campaign was highly successful, with a number of local market participants signed up to MarkitSERV, including DBS and UOB.

“In establishing a CCP clearing service for OTC-traded derivatives, one of the critical success factors is ease of market adoption. Hence, it was important that SGX leveraged existing global infrastructures that are in use by the majority of our market participants,” says Christina Ang, senior vice-president for OTC financial derivatives at Singapore Exchange.

Lawrence Chan, managing director at DBS, adds: “Although it was the only connectivity partner available at that time for interest rate swaps, MarkitSERV provided efficient and effective support to help members complete the implementation – which is exactly our expectation of a technology partner.” ●