

## Systems fail to meet the operational demands of buy-side firms using OTC derivatives

**London, 07 June 2006** – At a recent industry panel discussion on the operational support of derivatives in fund management, industry experts concluded that investment managers don't yet have the systems to meet their operational needs when using OTC derivatives.

The panel discussion 'Operations: Supporting Derivatives' was chaired by Catherine Doherty, Principal at Investit, the leading fund management consultancy. The panel included representation from ISDA, Eurex, Threadneedle Asset Management, JPMorgan Worldwide Security Services, and Swapswire. The panel discussed operational issues, such as management and margining, pricing and valuation issues and trade confirmation.

The panel agreed that the major issue for investment management companies using derivatives was the capture and use of data when trading derivatives. Investment management companies need the ability to view a derivative as an individual instrument *and* as part of an aggregated/disaggregated portfolio or investment strategy – combined with the physical assets. Tracking a derivative downstream from the trade for operational, risk, performance and client reporting requirements is very labour intensive without formal systems. Investment managers' operations areas are struggling without complete data capture at time of the trade and the core accounting systems coping with these instruments.

While system vendors are making great advances into the area of derivatives, they are still behind investment management companies' needs. There are good systems for physical assets and exchange traded derivatives and good systems for OTC derivatives. But there is no integrated platform that is good for all instruments.

And there is no quick solution to the problem for investment management companies. Third party administrators are coming up against the same challenges. While they have the systems in place to capture and process the lifecycle of OTC derivatives, they can't yet provide a single platform to meet all their clients' requirements.

The panel agreed that one of the major issues involving OTC derivatives – outstanding confirmations – had been much reduced through systems such as Swapswire and DTCC.

***Commenting on the panel discussion, Catherine Doherty at Investit said:*** "Derivatives are a new category of instrument for many who are still feeling their way in this evolving market. Our panel discussion gave them food for thought. Fund managers' operations departments really need systems that aren't yet in existence. They need to view portfolios on an aggregated/disaggregated and individual security basis. And without the data to do this, it is unlikely they will be able to keep pace with the rate of growth in the use of derivatives by the front office."

“Outsourcers are also facing problems in this area. While they have different systems for tracking individual assets, including OTC derivatives, they have not yet found a way to integrate these into one platform to provide investment managers with the full support they need.”

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## About Investit Intelligence

Investit Intelligence is a customised information tool for all people concerned with turning high-level business plans into reality. Investit Intelligence consists of a number of research and survey services.

- Investit Intelligence Member Service

The member service is an interactive service where members take an active role in selecting, shaping and researching topics by voting on new discussion and research ideas.

- Investit Intelligence Business Process Assessment – defining best value

BPA is a service where Investit works closely with COOs of investment management companies to identify the value output of all business processes and how that compares with peers – it’s an essential decision-making tool.

- Investit Intelligence IT Value Survey

The IT Value Survey looks in detail at the spend, effectiveness and plans of companies IT departments. It is an annual survey particularly designed for COOs and Heads of IT.

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The Performance & Risk Survey is the only tool specifically designed for, and by, Performance heads in Investment Management companies. It looks at performance and risk systems, performance roles and remuneration, future trends and benchmarks against peers.

## About Investit

Investit is the leading investment management consultancy. It has a unique range of services, providing expert advice across all areas of investment management companies, from front to back office. Investit also offers detailed research and benchmarking services. Investit was founded in 1998 and includes five core expertise areas: investments, client management, performance and risk, operations and technology. In 2002, Investit People was added to provide specialist recruitment services to support project work. Investit Intelligence completes the offering with a range of specialist surveys and detailed research papers. For more information, go to [www.investit.com](http://www.investit.com).

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