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*Jonathan Schwartz
President and chief
operating officer,
Sun Microsystems*

WELCOME to the SIA BOARDROOM MINUTES

I spend a lot of time in Manhattan. To be honest, I can't get enough of it. This is where Sun grew its roots in financial services in the late 1980s and it's a core focus area for us today, so it is a great pleasure to keynote at the Securities Industry Association's annual Technology Management Conference.

This newsletter provides a snapshot of some of the innovation taking place on the Street. For the past few years, I've watched financial firms focus on making technology do more for them. T+1 gave birth to STP, and now we are focused on cost-saving automation of the whole transaction life cycle – especially compliance. Quite rightly, the focus now is on data management: get your data infrastructure right and you lay the basis for satisfying regulators, managing risk and seizing market opportunities.

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WHERE SUCCESS IS MEASURED IN FRACTIONS OF A MILLISECOND



*Rubinow: 'Technology
should bring buyers
and sellers together'*

Since it emerged on the scene in the 1990s, the electronic market Archipelago has been driving change in the securities industry. As it prepares to merge with the New York Stock Exchange, we talk to CTO Steve Rubinow

What a difference two years makes. In 2003, the ECN-turned-exchange Archipelago expected its systems to handle 5,000 orders per second, with a round-trip response time of no more than 100 milliseconds.

"Those figures sound like something from the days of the model-T Ford," says Steve Rubinow, chief technology officer, ArcaEx. "Today, we can handle almost 20,000 orders per second. We are doing much of our work in single-digit milliseconds and our goal is to bring that down to one millisecond or below – 100 milliseconds is a lifetime!"

Speed has always been the ECNs' trump card. Since their emergence in the mid 1990s, ArcaEx and its counterparts have driven huge change in the securities market, introducing competition, and dramatically altering the way stocks are traded on Nasdaq. Assuming the lawsuits can be resolved, Archipelago's proposed merger with the New York Stock Exchange is one of the most significant steps yet in the move to all-electronic trading.

Today, while algorithmic trading continues to push up transaction volumes significantly, the number of actual trades has not kept pace. Since it only makes money when trades take place, ArcaEx – like every other exchange – is under pressure to reduce overhead by installing "faster, better, cheaper" technology.

The company moved to a Sun platform in 2002. Now it is poised to upgrade to Sun's flagship Unix operating system, Solaris 10. "We have Solaris 10 in the lab and the results are very exciting, particularly the speed enhancements we get just by changing the OS," says Rubinow. "Sun has put a lot of work into enhancing the TCP-IP communications, and that is a 'free' benefit for us: all we have to do is install it and we are already realizing the benefit without having to change any of the code. *Continued on page 6*

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WELCOME LETTER,
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Thanks to ECNs, the trading landscape has been altered irreversibly. Exchanges initially sought to imitate them; now they are merging with them. And with the rise of hedge funds and spread of low/no-touch trading, we are seeing a growing appetite for sophisticated technology on the buy side: how best to supply this new community is the question vexing me and my team today.

At Sun we're delivering technologies like Solaris 10, the world's most advanced operating system, that are the foundation for solutions addressing these trends. Where we see gaps in the market, our approach is to work proactively to fill them. Accenture's Managed Reference Data Services and Claimonitor's automated claims-matching service (both covered in this newsletter) are examples of Sun's managed services going the extra mile to enable change. Just nine months ago, in New York, we launched the industry's first true computing utility for \$1 per CPU Hour – the Sun Grid. These projects represent the industry interpretation of that vision.

I see these new services as the first step on the road to a different computing model. Why do we need one? Because the next wave of opportunities for growth and savings will come from revisiting business and cultural models, and using them to gain greater efficiency and competitive advantage. The computing world has moved from hand-tooled infrastructure to embracing standardization. The next step is putting those standards to work – utilization.

Welcome to the world of utility computing – where computing and business power will be delivered like electricity. Sun is bringing the future to you today. **Jonathan Schwartz**

A BETTER WAY to MONITOR BEST EXECUTION

If regulators come knocking, how do brokers prove they are delivering best execution? A research project involving predictive analytics could help provide an answer

For securities firms, “best execution” is emerging as the next frontier for compliance.

Though guidance is on offer from regulators, for brokers it remains a challenging concept. Is it a matter of obtaining the optimum price (which may take time), or does the client just want to off-load shares quickly? The issue is far from straightforward. Yet the European Union, for example, seems set to include a best-execution requirement in its forthcoming Markets in Financial Instruments Directive (MiFID), an update to the European Investment Services Directive, due to go live in 2007.

In the face of such moves, sell-side firms are beginning to feel that they should have in place a process that will enable them, if necessary, to demonstrate to regulators that they have acted in their clients' best interest. A research project involving Z/Yen, a specialist in predictive analytics, the London Stock Exchange and Sun could help them achieve that objective.

The exchange already offers a post-trade best-execution monitoring tool to some of its members. The Execution Quality service allows retail brokers to analyze their trading activity in terms of achieving “best price” and compare their performance with that of their peers. They can also see how many trades fall outside the best price parameters. Sun and Z/Yen are conducting research to determine whether the latter's software could improve the efficiency of the exchange's service.

“Certain trades can fall outside the best price, yet not be abnormal,” says Gurbinder Bansal, product manager,

Mainelli: ‘Other methods leave you sifting through huge numbers of false positives, which can prove time-consuming and costly’



information services, at the LSE. “Z/Yen's software sifts through exceptions and tells you which ones you need to focus on. The aim of the research project is to see whether we can massively reduce the number of exceptions that need to be manually investigated.”

Z/Yen's PropheZy system is already being used in the financial services sector in a range of applications from loss prediction to liquidity analysis. One investment bank, for example, has been running trials to see whether PropheZy can help it improve STP. PropheZy works in real-time to predict the trades likely to cause trouble, and so far is achieving success rates above 90 percent.

What sets it apart is its use of dynamic anomaly and pattern response (DAPR) data analysis techniques. The system continually rebuilds itself, incorporating previous experience. It can, for instance, adjust to the fact that today's unusual trade may be tomorrow's norm, whereas traditional rules-based approaches can't keep up with the rate of change.

In the context of the LSE's best-execution monitoring efforts, that should mean that PropheZy is better able to identify the small number of trades that really do warrant further investigation. “With other methods you are left with the problem of having to sift through huge numbers of what statisticians call false positives, which can prove time-consuming and costly,” says Z/Yen executive chairman Michael Mainelli.

Having carried out an informal test of the system last fall, Sun and Z/Yen are now enlisting market participants in a more comprehensive trial. If these bigger trials prove the effectiveness of the system, they could pave the way for the stock exchange to use PropheZy as the basis of a set of tools that build on its existing products. “I see PropheZy potentially as a bolt-on to Execution Quality,” says Bansal. “It could also provide the foundation of a broader product for the institutional market.”

Beyond the trial focused on the exchange, Z/Yen and Sun hope to create the foundations for product offerings that can be made available over the coming months as the market steadily absorbs the implications of this new aspect of compliance.



“Algorithmic trading is advancing quickly. In the US hedge fund space, 46% of trades are low- or no-touch. On the institutional side, it’s 31%. We see those figures rising to 55% and 42% in the next two years”

Larry Tabb
CEO, Tabb Group

POWER in the HANDS OF HEDGE FUNDS

Apama’s algorithmic trading engine comes with tools that enable traders with no programming skills to develop models on the fly

These days, algorithmic trading accounts for 25% of US equity trades, a fivefold increase from 2002, according to Goldman Sachs.

Using mathematical calculations to execute complex trades, algorithmic trading breaks down large orders so that they are “absorbed” more easily. For the growing number of hedge funds algorithmic trading offers anonymity and speed.

Into this space, Apama is targeting a solution with a difference. In addition to an algorithmic trading engine, the company, which has just been acquired by Progress Software, offers a set of tools that allow traders with no programming skills to “paint their own” models. Apama numbers JP Morgan, Deutsche Bank and ABN-Amro among its clients.

Sun and Apama are discussing the possibility of offering the solution, which runs on a Solaris platform, as a hosted service. “The sell side is starting to commoditize the algorithmic trading market and that makes room for a better play on distribution: I think the timing is

right for someone to come in with an ASP offering,” says Tower Group’s Rob Hegarty. “It will bring greater distribution and servicing efficiencies to big broker-dealers and, more importantly, provide that access level to the smaller specialist firms.”

Apama’s solution grew out of a Cambridge research project. Focusing on “complex events”, Apama founders John Bates and Giles Nelson developed and patented a radical approach to analyzing data in real time and acting on the findings, without recourse to a conventional database, which slows everything down. The approach can be used to develop location-based services, in both defense and telecom, but Apama chose to focus on financial services.

“With the delivery of real-time data to the desktop, we saw there was a range of applications that would need to capitalize on this fast-moving data and correlate across multiple streams,” Bates explains. “You might, for example, look at both a news stream and a stock stream and say, tell me if any news article about an oil stock is published, followed by a rise of 5% in the value of the stock, within five minutes of the publication of the article. That kind of correlation of time-based patterns is difficult to do using traditional methods.”

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NEWS IN BRIEF

Extreme performance

The Swedish company Orc Software has achieved sub-millisecond latency from market data to trade execution in benchmarks of Liquidator 5.1, its algorithmic trading system, running on a Sun Solaris 10/AMD Opteron platform. A server-based addition to Orc Software’s main platform, Liquidator functions as a super-fast “robot” enabling traders, for example, to seize opportunities for arbitrage or pairs trading. “Our tests show a response time of less than a millisecond,” says head of algorithmic trading Jonas Hansbo. “Speed is of utmost importance for running the strategies, getting orders to market and reacting to market events.”

AML compliance

Current anti-money-laundering demands are prompting many firms to focus on the quality of their alerts and suspicious activity reports. Working with its partners Mantas and Actimize, BusinessEdge Solutions has identified the most frequent issues companies face. It can help them modify the underlying algorithms or data feeds of vendor-provided scenarios, with the objective of reducing the number of false negatives and positives typically produced.

Post-trade automation

SunGard has launched StEP Trade Management, a pre-packaged solution to automate allocation, confirmation and settlement processing. The solution, which runs on a Sun Solaris/SPARC platform, enables firms to connect up easily to financial networks such as SWIFT and the SunGard Transaction Network.

The StEP Trade Management dashboard gives business users a unified view of the post-trade process and the ability to control that process across asset classes and external services.



MANAGING DATA LATENCY

When Collins Stewart Tullett acquired Prebon Yamane it faced a new set of infrastructure issues

CST needed to distribute real-time market data to an additional 1,000 brokers. Its systems would need to support up to 800 real-time concurrent connections in 14 cities worldwide. Moreover, they would have to accommodate existing desktop trading applications and support CST's 60 Triarch data sources, plus the new trading applications used in Prebon.

CST took the opportunity to review its entire data management and distribution needs, ultimately commissioning Sun and Reuters to build a new real-time market data solution on top of its existing infrastructure.

The Reuters Market Data System (RMDS) provides the core data management engine. RMDS combines the best features of Triarch with an improved wide area networking capability, providing additional features for data filtering and update frequency management. By profiling the frequency and type of data updates, CST has been able to reduce overall data latency, which in turn has allowed it to use fewer servers and reduce costs by simplifying support.

CST evaluated a Linux/Intel solution, but found no cost or performance benefits over Solaris on SPARC. "We'll save money and also be able to offer a more flexible, resilient and scalable service to brokers, clients and data sales customers," says CIO Geoff Chapman.

BUILD GOOD PRACTICE into YOUR ORGANIZATION'S DNA

Why is enterprise data management now a top priority for every CIO? The key reason is regulatory compliance

"There is a new urgency for effective data management," says Dhiren Rawal, head of global sales in Accenture's data management practice. "With Basel II, if you can't get your end-of-day pricing solution delivering auditable data, your capital requirements are going to go up.

"With the Patriot Act, knowing who you are doing business with has become a key requirement, so you need clean counterparty data. And the Sarbanes-Oxley legislation is pushing people to ensure that their portfolios and funds are properly valued and named."

With regulators riding to the defense of the small investor in the face of trading strategies such as "market timing", it is increasingly important for firms to be able to provide a clear audit trail through their activities. "Hedge funds, for example, used to need to know on a monthly basis the net asset value of each fund—now they need those figures on a daily basis and soon it will be in real-time," says Mash Patel, CEO of Kurtosys, which manages the headache of delivering detailed client reports for custodian banks such as HSBC and State Street.

The challenge for companies is to put in place an infrastructure that will enable them to achieve compliance on many different fronts. "The aim should be an architecture that allows you to collect data in a common format that can be reused to satisfy a whole variety of regulatory and legal demands," says consultant John Cant, whose company MPI contributed to Sun's SunTone RM methodology for managing technology-related risk.

Says Nigel Woodward, Sun's global manager for capital markets: "Data management is becoming increasingly important for our customers and partners from a strategic point of view. It's like front office vs back office: the tables are turning in the realization of how critical the basics can be."

For Larry Tabb, founder of the Tabb Group, the focus on data management is partly a result of the industry's success with straight-through processing. "In high-volume commodity products STP is now a non-issue,"

Nigel Woodward
Global manager for capital markets and securities, Sun Microsystems



"Get your data right first, then you can build everything else on top – tactical management reports and spreadsheets can look good, but it's like trying to build a house without foundations"

he says. "The question is how do we move into more complex products, and one of the issues there is the quality of the underlying data. Getting clean reference data is a problem."

The earlier in the trade cycle firms can tackle data issues, the better. Up to now, reference data, for example, has been a post-trade process, but developments such as direct market access, where a hedge fund may trade through their broker's infrastructure, make it necessary to make it a pre-trade process. "If a broker receives an order from a hedge fund with an identifier that can't be matched, the trade won't go through," says John Cant. "It requires a manual fix and it is difficult to do that when you are not in control of the overall trade flow." Above all, he says, as new processes are developed, they should be "built into the DNA of the organization", so good data management practice becomes a way of life.

Concludes Woodward: "Get your data right first, then you can build everything else on top – tactical management reports and spreadsheets can look good, but it's like trying to build a house without foundations."

CUT COSTS by OUTSOURCING REFERENCE DATA MANAGEMENT



Accenture has teamed up with Sun and Asset Control to deliver clean data to customers on a managed service basis

Bad reference data has long been a headache for the securities industry. Something as simple as a discrepancy in the way a currency is represented can cause a trade to fail – and a single failed trade can cost as much as \$150 to repair. The global consulting firm Accenture is addressing the issue with an outsourced offering known as Managed Reference Data Services (MRDS).

Recent Tower Group research indicates that over 38% of the market sources reference data from more than 16 vendors – an immediate exposure to inconsistencies – and that the infrastructure costs for reference data are in the order of \$10m per annum for the large firms. These statistics point to exposure to operational risk and opportunities for cost reduction and efficiency improvement.

“Typically, we find our clients have taken a very siloed approach to reference data,” says Dhiren Rawal, head of global sales in Accenture’s data management practice. “Over the years, they have used different data sources and technologies. They have multiple databases and multiple instances of the same data being driven through the organization. The result is failed trades, manual repair efforts and many issues with management.”

Accenture has formed a strategic alliance with the data management technology specialist Asset Control, whose software provides the basis of the MRDS solution (see panel). “As firms embark on solving the reference data challenges, they have to address the organizational, process and technology issues associated with data management, and these

programs are costly and time-consuming,” explains Rawal. “MRDS offers firms the ability to utilize a simplified business and technical architecture for delivering clean reference data across the enterprise.”

“We compare and consolidate multiple data sources and create a common data repository that can easily be distributed to consuming applications. And we provide a global network of service centers from which our validators manage the central repositories.”

MRDS will be delivered as a managed service from Sun: that way customers can benefit from economies of scale. “The concept behind the Sun Grid, which enables firms to purchase computing power as they need it, really attracted us,” he continues. “We have also had success working with Sun in other parts of our organization, and this project seemed an absolute slam dunk for a Sun-Accenture partnership.”

Adds Nigel Woodward, Sun’s global manager for capital markets and securities: “These concepts are allowing us to change the cost equation for new

technology infrastructures. As the ‘manufacturers of compute power’, we can make this available across the market in different forms, lowering the barriers to entry for both services such as MRDS and new in-house functions that might fail to get started because of the perceived cost and risk.”

It’s not the first time the industry has turned its collective attention to the problem of reference data, but these days companies have little choice. “Regulatory pressures are making firms realize that if they don’t address the data issues they will pay a price,” says Rawal.

Compliance may be the driver, but there are huge potential benefits to getting the reference data problem under control.

“Our aim is to reduce the \$5 billion the industry typically spends annually on reference data: most of our clients stand to make savings of 30% to 50%,” concludes Rawal. “Sun’s technology – Solaris 10 on the Opteron processor – is an important factor, because it is enabling us to offer a high-performance service at low cost.”

MIX AND MANAGE: ASSET CONTROL’S HYBRID SOLUTIONS

Running on a Sun Solaris platform, Asset Control’s AC Plus forms the basis of MRDS. It can also be implemented as a turnkey solution for firms to run in-house.

For Asset Control’s CEO Ger Rosenkamp, managing reference data is about managing costs. “If you centralize data management within the enterprise, you create savings,” he says. “And if you centralize it across the industry, you can cut costs even more.”

Firms should analyze their data in terms of its potential to add value. The valuable proprietary data can be managed in-house and the “commodity” data entrusted to a shared platform such as MRDS.

Asset Control is looking to strengthen its partnership with Sun through its planned New York Solutions Center, where pre-built solutions will be customized and delivered as turnkey systems for clients.

ARCHIPELAGO FEATURE,
Continued from page 1

“Solaris 10’s diagnostic capabilities have also taught us a lot about our application and how it can be improved,” he continues. “Because we are so consumed with speed, we can always measure how long it takes for a transaction to go from one piece of the application to another, but we don’t always know why. Sometimes it’s the application, other times it’s deeper, at the OS level. Historically we haven’t had enough insight into the OS to know which operations are expensive from a time perspective. Solaris 10 points that out to you, so you can understand why your code is taking too much time and take steps to alleviate that.”

“It’s a ‘free’ benefit for us. All we have to do is install Solaris 10 and we are realizing the benefit, without having to change any of the code”

Steve Rubinow

Chief technology officer, ArcaEx

As Archipelago pursues its merger with the NYSE, Rubinow does not envision big changes on the technology front just yet. For the moment, the two organizations will operate in parallel. More generally, he suggests, the move underlines the consolidation that is taking place within the industry, not just in terms of companies coming together, but also at the level of technology.

“I think you will see consolidation by virtue of companies coming together, and also by virtue of the fact that people will be using the same technology to trade multiple instruments in a way they didn’t do before. For us, the primary purpose of technology is to bring buyers and sellers together. Period. What they are buying and selling is almost irrelevant.”

SOLARIS 10: a GREAT LEAP FORWARD

The move to the latest version of Sun’s flagship Unix operating environment, Solaris 10, is gathering serious momentum

Early adopters on Wall Street include the investment bank JP Morgan, which is deploying the OS in a series of grid computing, data archiving and virtualized data-center projects.

Across the board, more than 650 software specialists have committed to Solaris 10 on a SPARC processor, and 527 on the Opteron x86 chip from AMD. Work is under way to port more than 1,000 SPARC-based applications and almost 700 that run on the Opteron processor.

In financial services, growing numbers of Sun customers and partners are porting to Solaris 10 to gain better performance, reduce costs and improve the

manageability of their applications. The list includes Archipelago, Reuters, Z/Yen, Claimonitor, Enigmatec and Orc – all featured elsewhere in this newsletter. Eagle Investment Systems, which provides infrastructure products to support the investment management process, is also among them.

“We are moving as quickly as we can to embrace Solaris 10 because it will allow us to improve the efficiency and the cost structure of our application,” says Eagle CTO Kevin Sullivan. “We see lots of opportunities to use a scale-out type of strategy so customers can run our software across a cluster or grid. Solaris has features that allow us to take advantage of the extra capacity of machines that are already on the network.

“Our applications are also very thread-intensive and Solaris 10 does a much better job of handling that kind

SMARTER WAYS to MAKE DATA CENTERS HUM

The systems whirr, the red lights flash, but most data centers are highly dependent on humans. Is there scope for more automation?

Enigmatec, a company founded in 2001 to commercialize research on distributed systems coming out of Cambridge and Edinburgh universities, is tackling the issue with a suite of policy-driven automation tools based on Java technology.

“In a world where firms are looking to dynamically scale performance and expect immediate recovery when disaster strikes, there is no time left for human decisions or human mistakes,” says David Bartoletti, Enigmatec’s vice president of marketing.

The company’s Execution Management System complements Sun’s provisioning and system administration tools: if the latter tell administrators “how” to do things, Enigmatec’s give them the “when” and the “why”, then do it for them.

“We automate operations through a series of intelligent agents – small Java containers that reside throughout

*Sun StorEdge 6300
and Sun Fire E4900*



the infrastructure and constantly monitor for failure or load changes anywhere in the application stack,” Bartoletti explains.

“We collate all that information and decide whether everything is healthy. If there is a problem, the agents communicate among themselves on the best policy to fix the problem, then automatically execute it. They become the hands of the operator.”

“As we focus more and more on different models of utility computing and look to automate-in resilience, technologies such as Enigmatec’s will be key,” concludes Sun’s Nigel Woodward. “They are at the forefront of our innovation with Solaris 10 and our layered software stack.”



of application. All these features give us design opportunities to improve the performance, scalability and cost of our infrastructure to our customers.”

TransactTools, whose software manages the FIX-based network traffic at Archipelago, has also been test-driving the latest incarnation of the Sun OS. It has found Solaris 10 on the AMD Opteron processor every bit as fast as Red Hat Linux running on the same chip.

“The results are comparable, but the big difference is that, with Solaris 10, you have a commercially

WHERE SECURITY IS EMBEDDED IN THE DESIGN

Sun is working with customers to architect and build infrastructure that is both secure and compliant

Their specific focuses aside, Sarbanes-Oxley, Gramm-Leach-Bliley, the Patriot Act and Basel II have much in common. The rulings aim to make firms both more transparent and more accountable for their processes – and require them to provide assurances that they comply on both these fronts.

In doing so, the regulations highlight information management systems as a potential source of operational risk. Firms need to pinpoint the weaknesses, then take steps to manage and mitigate the risks.

Sun can help. The company has been working with customers to build infrastructure that is both secure and compliant. The process begins with an assessment using the key risk categories created for the risk analysis service toolset SunTone RM.

The company has been working to improve interoperability within heterogeneous computing environments.

supported product, with Sun standing behind it – vs Linux, which is not wholly owned,” says vice president for engineering David Litner.

“Sun has taken a great leap forward with Solaris 10 in the enterprise server market. By taking it to a price point that is competitive with comparable Linux solutions and rewriting the network stack so that edge communications can be much, much faster, Sun has made Solaris a very viable alternative, where, up to now we have been recommending Linux on Intel for our messaging gateway solution.”

Concludes Sullivan: “Everyone wants more timely information for less cost, and the bottom line for our customers is that, with Solaris 10, they will get more information faster and cheaper!”

www.sun.com/software/solaris



Through its recent partnership with Microsoft, several initiatives have been created. In the area of identity management this is bearing fruit in new specifications that enable single sign-on between systems using Microsoft and Sun-supported networks.

The acquisition of Storagetek further enhances the proposition. By combining secure information lifecycle management and identity with the intelligent data management capability in SAM FS and Q-FS, Sun gains a full suite of offerings to further enable compliance and the auditability of information and data assets across the spectrum of the firm.

Rounding out this line-up are Sun’s comprehensive Identity Management product suite, the highly secure Solaris OE, secure middleware, web and application services, the N2000 Secure Application Switch and the Sun Client Solutions professional services group. Many suppliers offer add-on security point products or outsourcing “solutions”. Sun believes its Secure-by-Design portfolio – with its impressive technical capability, high degree of interoperability and flexible, cost-effective deployment options in support of a trusted IT environment and the associated regulatory compliance – put it ahead of the pack.

www.sun.com/security

APAMA FEATURE, Continued from page 3



John Bates
Founder, Apama

“The traditional approach is to build a program, which could take months. With this environment, they can put something together in hours”

Bates and his colleagues launched Apama as a commercial venture in 2002, believing that the algorithmic trading platform they’d developed was “a killer”. Three years on, they can see that the set of tools they have built around the engine that allows traders with no programming skills to build their own models is the real attraction.

“The market is changing so rapidly, not just in terms of prices, but also, say, arbitrage opportunities, and traders want to be able to capitalize on those opportunities immediately,” Bates says. “The traditional approach is to build a program, which could take months. With this environment, they can put something together in hours.”

Apama located their initial customers among the big banks and brokerages looking to service their clients. Now, they are increasingly finding openings among the buy-side players themselves. “The hedge fund community is evolving,” says Andy Menzies, Apama’s vice president of sales. “They have their own analysts and quants. Many are attracting next-generation traders from the sell side. A lot of buy-side institutions now want to deploy their own strategy management platform and the necessary infrastructure to support it.”

COST-EFFICIENT WAYS to RESOLVE BACK-OFFICE DISPUTES

A solution to automate the procedure for deciding who owes what to whom when trades fail and payments don't reach their destination is winning the approval of global banks

Developed to solve issues raised by the International Securities Association for Institutional Trade Communication's (ISITC) executive, Claimonitor is a payables-receivables matching engine, configured for a specific purpose.



Based on software from the data management specialist Metatomix, the solution will be delivered as a hosted service from Sun. Claimonitor Ltd, a new service provider created specifically to focus on this segment of the trade cycle, will manage the platform and oversee its further development.

"Claimonitor clearly listened to what we were saying," says Richard Cato, senior manager for operations at HSBC, and a former member of the ISITC committee. "Pursuing a claim manually is a time-consuming business. We tried to put a figure to it and arrived at \$60. That's simply to raise the claim – it doesn't include the cost of investigating it. Across the industry, we are talking about millions of dollars."

Claimonitor breaks the claims process down into three distinct functions: claim creation and entry, investigation and settlement. Subscribers begin by recording the data required to allege a claim. Once the data has been logged, the system automates all aspects of the claim issue, regardless of whether the counterparty is signed up to the service, and in the process provides a complete audit trail. "We've been keen to embrace industry standards, which is why we worked with ISITC," says Claimonitor managing director Craig Kirkpatrick-Whitby. "We believe it's an STP milestone for the market."

Stuart McKinlay, vice president, worldwide investment manager and consultant services at State Street, one of the banks set to pilot the system, is convinced Claimonitor will make a difference. "A lot of manual recording effort currently goes into the exchange of claim information," he says. "This will definitely reduce the cost and the opportunity for error."

Staff can enter payables and receivables separately; the system matches them up. "If Bank A makes a claim against Bank B, both sides of the claim are visible," explains Keith Hawker, director of European sales at Metatomix. "Ultimately, we will do net settlement, so that, where there are a number of outstanding claims, firms will be able to see how much is owed by one to another."

To provide the necessary scale and processing headroom, Claimonitor has been optimized to run on Sun servers based on the 64-bit AMD Opteron processor, under Solaris 10. "We are excited to be involved with Claimonitor," says Sun's Nigel Woodward. "It means extending our technologies into core back-office settlement operations, and we expect firms to see important cost savings and enhancements in efficiency coming from the initiative."

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