



Securities Trade Life Cycle

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Brokerage Firm

- Made up with many departments
- Usually Brokerage firms play multiple roles
- One of the role is Securities Trading Organization (STO)
- Play a vital role in Securities Market
- Involve and execute large securities transactions
- Securities Trading department usually comes under 'Capital Markets' business of the firm

STO

- STO facilitates trading of securities for their clients
- Sell Services - Sell various Securities as customers demand
- Sales Team (Sales Traders) deals with customers
- Traders execute Trades
- Usually have one or more branches

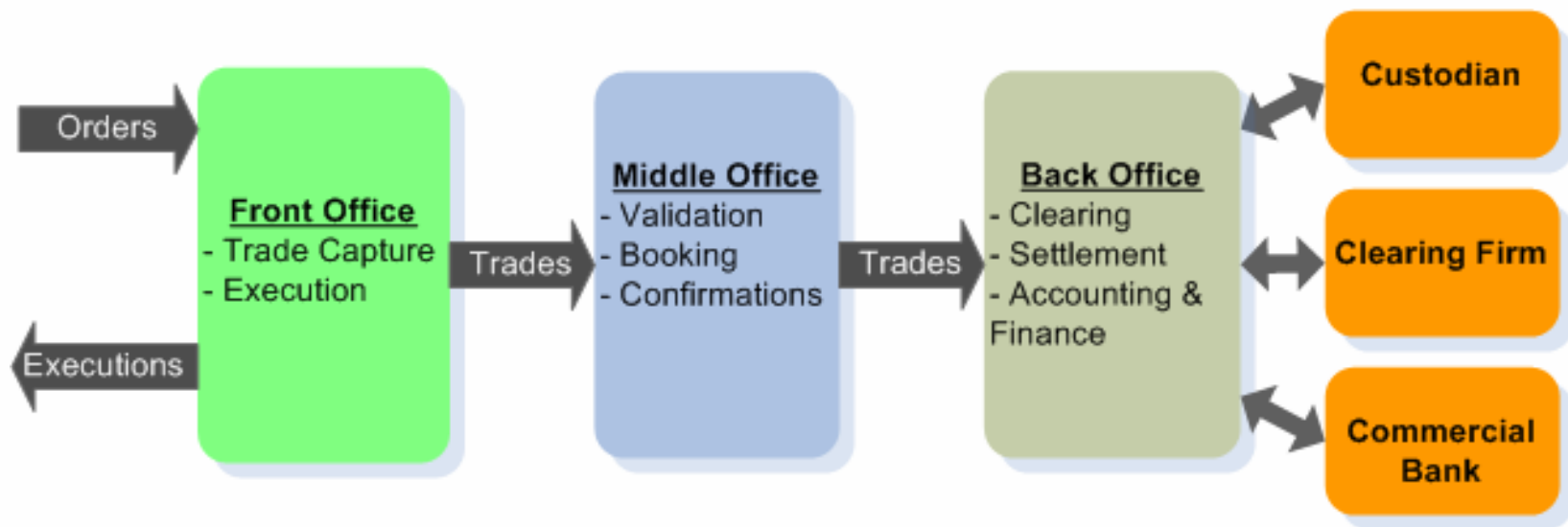
STO - Departments

- Sales
- Order Room / Trading Floor
- Middle Office / Purchase & Sales
- Accounting / Back Office
- Cashiering

Trade Life Cycle

- From the Trade Origination to the Settlement
- Trading
 - Trade Origination / Order Origination
 - Trade Execution
- Operations
 - Trade Validation
 - Trade Confirmation
 - Clearing
 - Settlement

High Level Flow



Securities Trade Processing Flow

Order Origination

- Orders are received from Clients
- Clients
 - Institutional Clients etc
- Received by Sales Trader
 - By Phone or
 - Electronically
- New Orders are entered into Order Management System (Trading System)
 - This step is referred as 'Trade Capture'

Sales Department

- Sales Team
- Also known as Sales Traders
- Responsible for all client communications
- Market new securities
- Keep knowledge of market demand
- Supply market information (demand/supply) to other departments in STO
- Move Customer orders to Order Room

Order Room

- Traders
- Collect Orders from Sales Traders
- Responsible for execution of orders
- Use various avenues to execute the orders
 - Exchange
 - OTC
 - Internal inventory / Trader Book etc
- Return execution reports back to Sales Trader

Trader – Additional Responsibilities

- Reconciliation
 - Reconcile orders with execution reports
 - Verify executions against orders and their types
- Track Open orders
 - Inform clients if any open order
 - Organize GTC (good-till-cancel) orders
- Follow industry regulations and compliance rules

Purchase & Sales

- Recording / Ticketing
- Figuration
- Order comparison
- Confirmations
- Booking

Recording

- Unique Id is assigned to each trade and create Ticket with all the trade information
- Ticket ID is used for all further references during trade processing
- This process is also referred as **TICKETING**

Figuration

- Calculation of cash value of trade, commissions etc
- Recognize parties involved and amounts to be paid or received

Order Comparison

- Report Trade information to Order Comparison System and/or other compliance systems as required
- Trades are compared with counter party
 - Counter party / street side / contra
- Trade can't be processed until it is matched with street side report
- Reports are submitted electronically
- For eg: NYSE Floor trades are submitted to OCS within 20/30 minutes

Order Comparison cont..

- Unmatched trades are reported back and usually fixed manually
- Errors are usual and sometimes may cost to the firms
- Regulatory agencies may fine for reporting failures by firms

Clearing

- Follows the trade comparison step
- Clearing agency issues Contract to both parties
- At this time both parties accepted the trade terms
- National Securities Clearing Corporation (NSCC)

Confirmations

- At the end of the trading day paper confirmations are mailed to clients
- Confirmation contains complete details of the trade
- Clients use this as transaction record

Booking

- All processed orders are entered into firms books
- Updates Client positions, financial accounts and firms records and financials

Accounting Department

- Maintains the client accounts
- Manage the client funds in their accounts
- Responsible for calculating balance and maintain required funds based on the account types

Cashiering

- Responsible for exchanging Securities and Funds between trading parties
- Other responsibilities are
 - Vaulting (holding certificates, maintaining book of ownership)
 - Arrange bank loans to firms to maintain their positions
 - Borrow and Lend stock as required
 - Borrow and Lend funds as required
 - Track stock splits
 - Transfer securities (update company stock ownership records)

Cashiering Firms

- Cashiering functionality performed by either internally or outsourced other professional firms

Custodian

- Holds funds and stocks of the clients, collects dividends
- Stock can be recorded in actual client's name or custodian's name
- Proxy and other communications from Issuer are directed to clients
- Depository Trust & Clearing Corporation (DTCC)
 - Largest clearing and settlement corporation in US used by financial firms

Commercial Bank

- Lend money (loan) to Broker firms
- Underwriting of bonds (usually Munis)
- Facilitate International Trade (through issuing Bankers Acceptance)
- Act as custodians for Institutions
- Cashiering services to US Gov Securities

Straight Through Processing(STP)

- Electronically processing the trade without any manual intervention
- Objective
 - Reduce the processing cost and time
 - Reduce the Operational Risk (avoid errors)
 - Improve efficiency
 - push for same-day (T+0) settlement
- Any errors in trade processing in STP will be separated and handled manually

Settlement Timings

- Total time taken to process the trade after the trade date
- T+0 – Same day settlement (trade day)
- T+1 – One day after the trade day
- T+2 – Two days after the trade day
- T+2 – Three days after the trade day
- Settlement times varies based on the trade venue and other factors

References - Books

- “After the Trade Is Made: Processing Securities Transactions” by David M. Weiss
- “Securities Operations” by Michael Simmons – Published by Wiley

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