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

Front Office
- Trade Capture
- Execution

Middle Office
- Validation
- Booking
- Confirmations

Back Office
- Clearing
- Settlement
- Accounting & Finance

Custodian

Clearing Firm

Commercial Bank
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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