

Syn~Settlements

Five year plan at Mitsubishi UFJ Securities International

By Jamie Darlow

Japanese banking giant MUSI has dropped its transaction failure rates and upped its STP rate to 95% with a single back office platform for equities and fixed income.

The desire to increase efficiency, the specific requirements of dealing with both the Japanese and London markets, and an expansion in business drove one of the world's largest banking groups to develop a single platform for its equities and fixed income back office. Don Simpson, managing director of operations and technology at Mitsubishi UFJ Securities International (MUSI), says **Syn~**, the system developed by Coexis, has helped to lower transaction failure rates and improve STP.

The **Syn~** project started in 1999 as a response to the Japanese regulatory 'bigbang', which allowed Japanese banks to enter the equities brokerage business. **Syn~** was selected by MUSI (then known as Mitsubishi Securities International before a merger with UFJ) as its platform to develop two systems: equity settlements and reference data. **Syn~** went live with MUSI for reference data in 2001, for equities in 2002 and, most recently, for fixed income in February 2006.

The introduction of **Syn~** has allowed improvements in efficiency and STP for the equities business and has enabled significant expansion in that area, MUSI claims. The business environment, following the bursting of the tech bubble, delayed further investment to replace the old platform, Gloss, in fixed income settlement processing. However, by October 2004, the environment had changed. The merger with UFJ had started and there was a clear desire to initiate rapid expansion of the business once the merger was complete.

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*Don Simpson
Managing Director of
Operations and Technology
Mitsubishi UFJ Securities International*

Coupled with this problem were the particular requirements of MUSI's Asian and European markets. "We clear Japanese securities in London, so we have to be able to handle processing requirements that are very peculiar to the Japanese market," Simpson says. "One requirement is rounding, but there are other unique Japanese business processes. There are applications that can do bits of it, but it's having all that functionality that's important for us. "MUSI's Japanese clients are also keen to avoid any errors, putting pressure on the company to engineer secure processes. "The problem is those processes involve double checking with people and that can be expensive," he adds.

The choice was to upgrade Gloss or look at an alternative system. "Upgrading Gloss would have been as big a job as implementing a new system," Simpson explains. "Furthermore, we had infrastructure already in place supporting the existing **Syn~** equities system. **Syn~** was an obvious potential solution, however, at the time it lacked some of the fixed income functionality. We looked at a number of alternative systems but there were very few that were suitable for our needs: modern and reasonably future proof." This shortfall and the potential synergy benefits of having the same platform for equities and fixed income, together with the lower project risks and costs, led MUSI to select **Syn~**.

For the middle and back office, MUSI is now aiming towards a single product where functions are carried out on a single platform, explains Donal O'Brien, development director at Coexis. The front office still runs a multitude of different processing systems because each asset class has different requirements and so needs different products.

MUSI currently uses Fidessa for equities as an order management and booking system, Bloomberg for fixed income, and Martini for stock borrowing, lending and repo. "We are also in the process of introducing a system from Ion for trading and order management for fixed income," adds Simpson.

"The single platform lowers the chance of inaccurate, inconsistent or incomplete reference data causing a transaction to fail," O'Brien says. Complex transactions like swaps or future FX transactions can also fall foul of regulatory requirements like MiFID and UCITS III if the requisite data is not supplied.

The benefits from implementing fixed income have been significant, according to Simpson. MUSI has seen a "massive improvement in productivity" as a direct result of the back office system. Error rates are low because of increased internal and external real time reconciliation in the back office and low error rates mean there are few interruptions to transactions, such as for amendment. "Where we don't get STP, it's in various transactions we choose to stop for control reasons for example, which we don't wish to automate," Simpson explains. "MUSI has one of the lowest transaction failure rates in the industry and the STP rates are very high, around 95%," boasts O'Brien.

The end result for MUSI is an expansion in business, enabled both by the increased efficiency in the back office and the market upturn in Japan. "Since going live, Syn~ has enabled us to expand our fixed income business by 100%, and when we go live with Ion, we expect to expand rapidly by a further 200%," Simpson adds.

While the business is set to expand, Simpson sees no need to significantly expand the back office because the capacity is already there. "At the moment we are massively efficient compared to a year ago – 150% more business with only about 10% more staff. And in a year's time we will be doing 200% or 300% more business," he says.

"We are looking to grow our equities processing tenfold and our bond processing fourfold. Although the equity growth is expected to be largely yen based, we expect significant growth in both volume and complexity in our international securities on the fixed income side," Simpson concludes.

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