

Xceptor

Unlocking business value through streamlined reconciliation



Overcoming traditional challenges with Listed or Exchange-Traded Derivatives

Reconciling total equity for listed or exchange-traded derivatives (ETDs) is a critical process for financial institutions (FIs).

This process requires aggregating trade and position data from various brokers, exchanges and central counterparties (CCPs), often dealing with multiple data formats and inconsistent data feeds.

Furthermore, the high volume of data with legacy or internally-built reconciliation systems can lead to significant data management challenges that increase operational costs, expose the firm to financial and compliance risks, and limit scalability as the business grows.



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An opportunity for competitive advantage

Those FIs that can successfully navigate these challenges unlock strategic opportunities through enhanced data accuracy, increased operational efficiency, and better overall control of the ETD reconciliation process.

Streamlining ETD reconciliation can provide FIs with significant gains:



Swift reaction to market changes



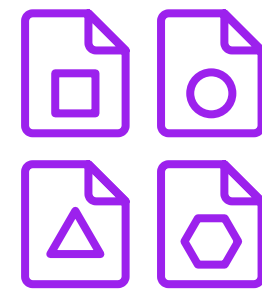
Improved regulatory compliance



Enhanced insight into cash and collateral management

By leveraging improved reconciliation practices, firms can transform a traditionally cumbersome process into a competitive advantage, optimising both resource allocation and business outcomes.

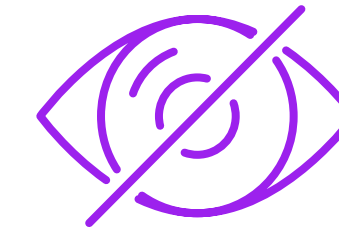
Key ETD Reconciliation challenges to overcome



Varying broker formats

ETDs are a high-volume reconciliation, where each position and trade includes a multitude of key financial data points, such as currency, price, lots, exchange codes and expiry dates. Adding to the complexity, brokers provide this data through a variety of channels (emails, MQ, SFTP, etc) in multiple formats (PDFs, scanned documents, excel spreadsheets), creating significant challenges in data extraction and standardisation for the derivatives operations team.

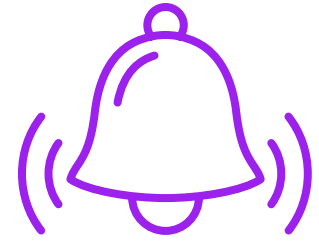
For FIs, the time spent standardising broker statements isn't just a data extraction issue, it's a critical component of operational data integrity and efficiency.



Lack of visibility

With varying data formats, often residing in disparate systems, operations teams face a significant challenge if they cannot access all key total equity information (cash balances, open trade equity (OTE), closeouts, cash journals, underlying commissions, fees associated with trades, and total equity in multiple currencies) in a single, holistic view.

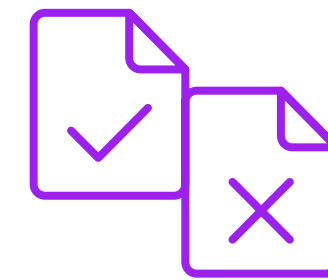
The absence of a 'single source of truth' for key data forces operations team to manually analyse individual positions and trades to identify the reasons for exceptions, which is time-consuming, inefficient and prone to error.



Exceptions and escalation notification

The exception management process in ETD reconciliation involves identifying discrepancies, classifying and prioritising them by risk, and promptly resolving them. Traditionally, a lack of workflow, manual assignment of breaks, and notification of high-risk exceptions via email, slow down the exceptions process and is time intensive for the operations team.

Furthermore, the whole end-to-end reconciliation process is typically not properly documented, lacking visibility and a framework for risk control, making it extremely difficult for new teams to maintain them. It is not unusual for spreadsheets to be shared by multiple teams and entities through SharePoint, emails, and shared drives, making it difficult to track data accuracy and to confidently maintain version control.



Inflexible matching rules

In ETD reconciliation, inflexible matching rules are another challenge when dealing with data across multiple systems. Matching rules are important in matching trade data between internal systems and external sources like brokers, exchanges and counterparties. However, ETD data often needs unique identifiers (such as a consistent trade ID across all systems), making it challenging to automate matching. Each asset class, trade type, and broker may have different formats and identifiers, requiring distinct matching logic.

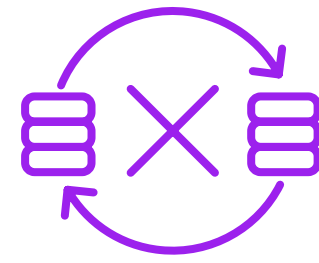
Operations teams frequently need to manually adjust matching parameters to account for these differences, which is a time-intensive process. Inflexible match rules also lack the flexibility to accommodate exceptions or changes in data structures and it is harder to adapt as trading volumes and data complexity increase. The lack of an audit trail of match rules updated in the system and manual matching is commonplace, while there is often no record of manual changes or adjustments made to resolve mismatches – all of which increase audit and control risks.



Reporting

With daily high-volume trades and positions data processed, generating timely and accurate reports for open and closed trades, settlements, and margin requirements has become increasingly complex.

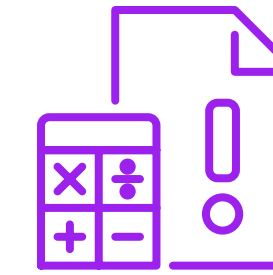
Relying on manual report generation increases the risk of missing trades and failing to meet settlement deadlines. Furthermore, a lack of standardised audit trails and customisable reporting templates for different brokers during the closeout process further complicates the reporting requirements.



Lack of trading and accounting systems interoperability

Once reconciliations are completed, both matched and unmatched transaction data need to flow seamlessly into downstream systems like Murex, Summit, FIS, and ION to support critical functions such as the closeout process and accurate financial reporting.

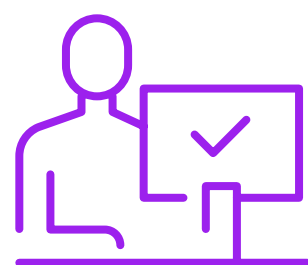
Without interoperability, operations teams face delays that can impact timely settlement, increase financial exposure, and lack of data audit.



– FX rate discrepancies - US trading firms

FX rate discrepancies is a significant challenge for US trading firms engaged in multi-currency transactions. When reconciling cash balances and open trade equity (OTE) across various markets, differences can arise between the FX rates provided by internal treasury systems and those from external brokers.

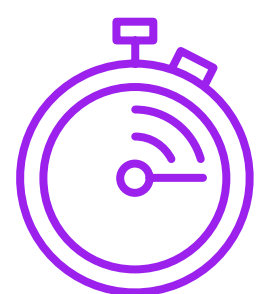
These discrepancies can lead to imbalances in P&L reports and complicate liquidity management, affecting cash flow forecasting and overall financial stability.



User access and permissions

Appropriate user access and permission management is necessary for maintaining control and transparency in the reconciliation processes. Financial institutions should enforce strict segregation of duties to prevent unauthorised access and mitigate operational risks.

This becomes challenging when reconciling trades across multiple brokers, markets and regions within a single system. Without clear access protocols, institutions risk data breaches, compliance violations, and potential conflicts of interest.



Time to market

Each of the challenges above can slow down time to market, particularly when onboarding new reconciliations or launching new financial products. Complex regulatory requirements, reliance on cross-functional teams, and limited resources often create bottlenecks that impact operational agility. For FIs, a delayed time to market can mean lost competitive advantage, increased compliance risk, and missed revenue opportunities.

The negative impact of inefficient processing

Financial institutions performing ETD reconciliation often rely on spreadsheets, legacy or internally-developed solutions. This approach is slow and requires many manual touch points, particularly when managing large data sets, with multiple positions, across various markets and brokers.

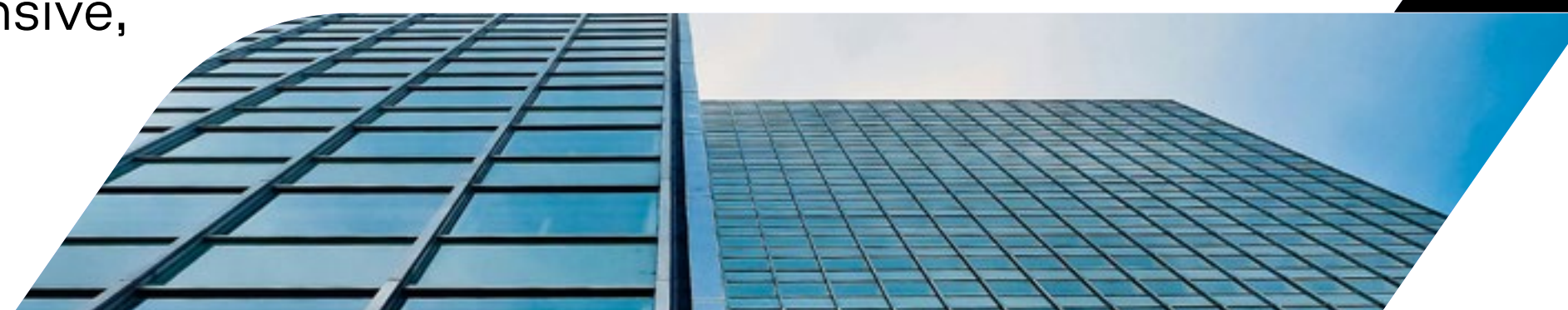
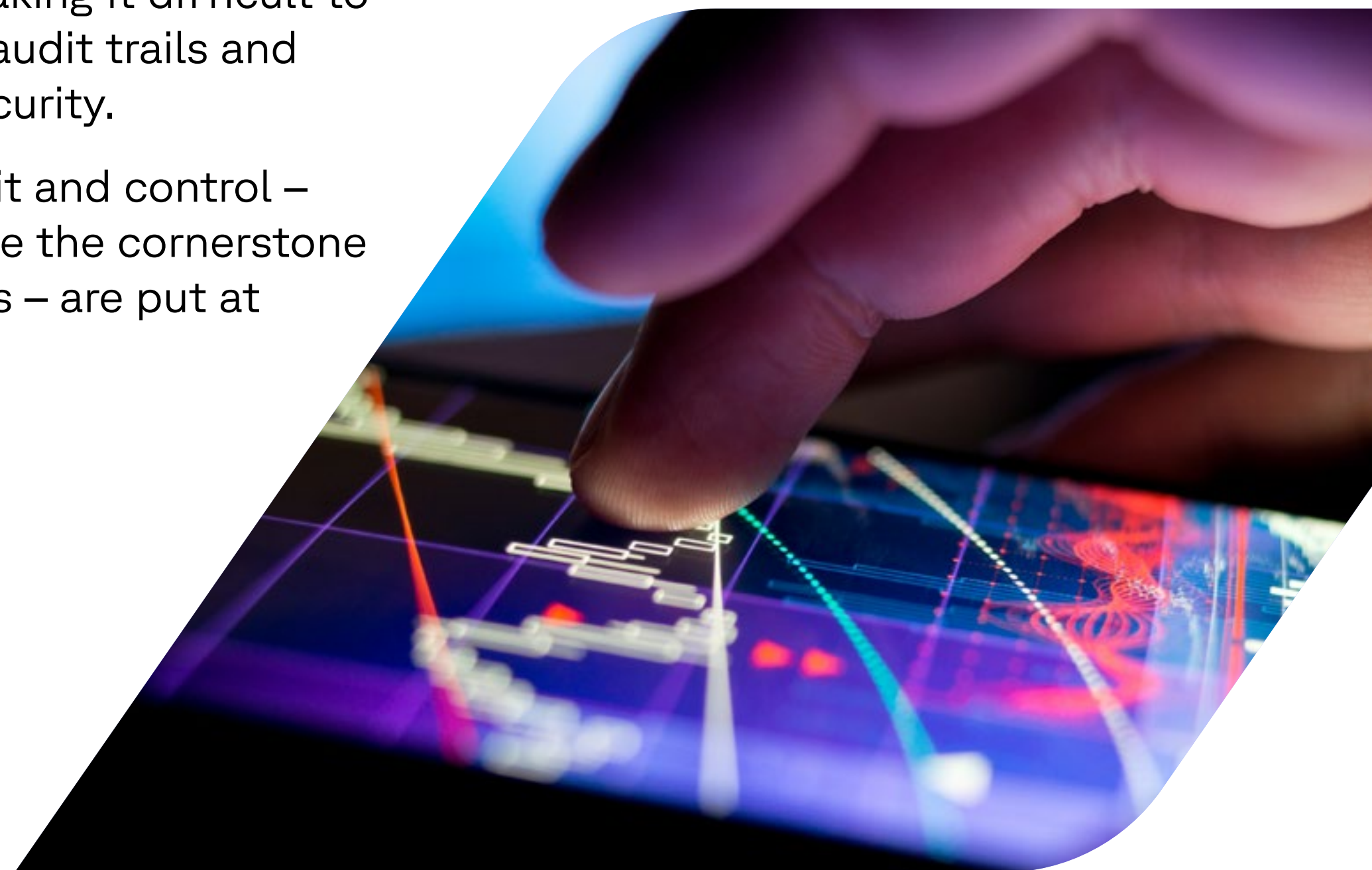
The closeout process is a big challenge for the operations team as it involves identifying trades with upcoming settlement dates and communicating this information to the clearing broker. This is an essential requirement, and it becomes challenging when manual reconciliation hampers the ability to quickly generate send lists of trades to brokers, based on their settlement dates.

Open trade equity (OTE) is another significant challenge for operations teams. Managing OTE is essential to track the daily changes in the value of open positions across multiple brokers and markets. Without automated processes, and a lack visibility concerning OTE values, the whole operation can be time-intensive, leading to potential discrepancies in account balances and margin requirements.

Failure to accurately track OTE can impact the liquidity management and increase financial risk.

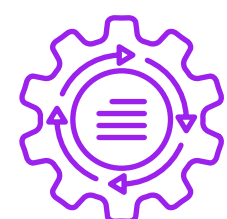
Operations teams who are faced with these challenges, and who have to manually identify and resolve discrepancies, suffer significant delays in settlement and reporting. Moreover, the reliance on spreadsheets limits visibility and control, making it difficult to maintain clear audit trails and ensure data security.

Efficiency, audit and control – which should be the cornerstone of FI operations – are put at significant risk.



Five key areas of focus for improvement

To overcome these challenges, FIs should focus on improving their total equity reconciliation processes in five key areas.



Automate manual process to save time, ease discrepancy management, ensure regulatory compliance, reduce risks, and accelerate time to market.



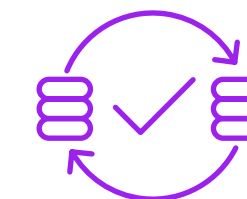
Implement dashboards to provide a single, holistic view with data aggregated from all key sources.



Automate reporting to enhance accuracy, compliance, and provide insights that support strategic decision-making and improve risk management.



Implement robust user access and permissions allowing managers to monitor and audit activities based on roles, locations, and counterparties, thereby strengthening internal controls and supporting regulatory compliance.



Enable interoperability between reconciliation, trading and accounting systems to streamline operations and mitigate risks. Ensuring swift data integration not only accelerates transaction processing but also strengthens the institution's ability to respond to market fluctuations, regulatory demands, and internal compliance requirements - ultimately safeguarding operational resilience.

Those FIs who can successfully achieve the above will overcome the challenges endured by many organizations and realise significant business value through enhanced operational efficiency and cost savings.

ETD reconciliation is a critical yet complex process that can – and should be – improved by embracing modern technologies and processes. As trade volumes increase and regulatory requirements grow, now is the ideal time to evaluate current systems and refine ETD reconciliation controls and processes.



To find out how Xceptor are helping other financial institutions to do just that, click the link below.

[Find out more](#)

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