Industry Case Study: OMS Regulatory Compliance

The Client:

The client is a major global futures commission merchant (FCM) with operations in North America, Europe, the Middle East and Asia Pacific. The client operates multiple front end execution management systems, numerous sales/trading desks and connectivity to over 57 global equity, options and derivatives markets.

Last year, the client did an exhaustive analysis of various execution management systems (EMS) and order management system (OMS) platform providers, and ultimately chose Fidessa to replace several existing execution management systems.

The new OMS included subsystems for client order management, trade management, position management, risk management, client trade allocations, and multi-market access.

The Challenge:

As part of the introduction of a new, central OMS, the client wanted to ensure that the system was compliant with various local market regulations prior to cutover.

Additionally, the project involved integration challenges with connecting to internal legacy systems, multiple FIX engines and numerous trading and support desks.

A project management office (PMO) was established, a number of work steams were created that related to various aspects of the project. One of these was regulatory compliance.

The global head of compliance for the firm wanted to ensure that the system met vendor claims, especially from a regulatory compliance perspective.

Typically the functional requirements and QA test scripts are developed by business analysts who often don't have the in-depth knowledge of the latest regulatory requirements or compliance issues.

For the regulatory compliance work stream, the client had numerous compliance requirements and order/trade support functions that must be addressed by the new OMS:

Pre-trade risk controls, DMA controls, limit order protection, limit order display, maximum order sizes, maximum position sizes, permissible native order types, complex orders, best execution, trade reporting, market data permissioning, OATS/OTS, Reg. SHO, Reg. NMS, user authorization and permissioning, drop copies, audit trail, market abuse controls, other local market nuances.

Support for these functional areas are required to be compliant with each of the 57 exchanges that the client trades on.

The Solution:

The regulatory compliance work stream owners interviewed several management consulting firms, with the goal of contracting one to oversee all the regulatory requirements that the new system must be compliant with.

After the OMS vendor analysis, the client selected Tellefsen and Company (TCL) to develop a number of deliverables required in the regulatory compliance work steam. These included:

- A comprehensive set of OMS and trade execution compliance requirements specifications for each of the 57 global markets that the client trades on. These specifications included a market overview, specific pre-trade, at-trade and post-trade regulatory requirements, a listing of permissible native order types, the local regulatory and jurisdictional oversight and any local market nuances
- A gap analysis of the vendor's proposed OMS system versus any known features/functions in the 57 markets
- Development of a test strategy, test plans and test cases to be utilized in the Quality Assurance review of the new system
- Coordination of the necessary regulatory compliance test cases to be run in conjunction with the external firm conducting the QA testing of the system
- Independent test results and verification reporting of the regulatory compliance test plans/test cases (pre-production)
- Independent, post-production validation and attestation reviews of the system features/functions and output versus the OMS compliance specifications and test plans

The TCL project team worked with a multi-disciplinary project team, including the client, the vendor and the external QA testing team. The regulatory compliance work stream included the overall project manager, the head of electronic trading strategy and solutions, the Fidessa senior project manager and the QA test team project manager.

The Results:

The project began in January 2012.

The TCL-developed compliance requirements specifications were vetted by the client compliance staff responsible for each of the 57 global markets. TCL then prepared test plans designed to test compliance with the various markets regulatory requirements. These test plans were then executed by the firm providing QA services. TCL reviewed results and created a scorecard which the client reviewed prior to authorizing cutover to the new OMS.

The first set of markets and sales/trading and support desks were rolled out on schedule in July. Trading desks and transaction volumes were ramped up as users became comfortable with the system features and functions. The second tranche of markets and desks were introduced in September.

After rollout, TCL staff reviewed the production system with client staff to further ensure that the post-production system met compliance requirements.

The project is on track for full roll out to all remaining markets, desks and users by the end of December.