

SPECIAL REPORT

Managing front-office brokerage operations during the coronavirus crisis

In association with:

The FIS logo consists of five small grey circles arranged in a horizontal row above the letters 'FIS' in a bold, white, sans-serif font.

The success of sellside front office operations teams in their ability to relocate staff to their homes during a period of unprecedented volatility stands testament to the operational resilience of the industry and the power of technology. However, getting staff back in the office may prove an even more complex challenge.

News reports of a new virus began to emerge in early February. Within days, senior operations executives at banks and brokerages with operations in Asia, where the outbreak began, started to take measures to protect staff.

Learning from the experience of the SARS outbreak in 2003, a range of measures were put into place including mandatory face masks, temperature checks on site, reduced office hours and splitting the workforce into teams working between the office, disaster recovery sites and their homes.

By late February, despite stock markets appearing to shrug off any major risks, the worsening epidemic in many countries was causing increasing concern. At this stage, however, most sellside institutions were working on the basis that their disaster recovery plans would be sufficient to mitigate the worst of any potential crisis and its impact on operations.

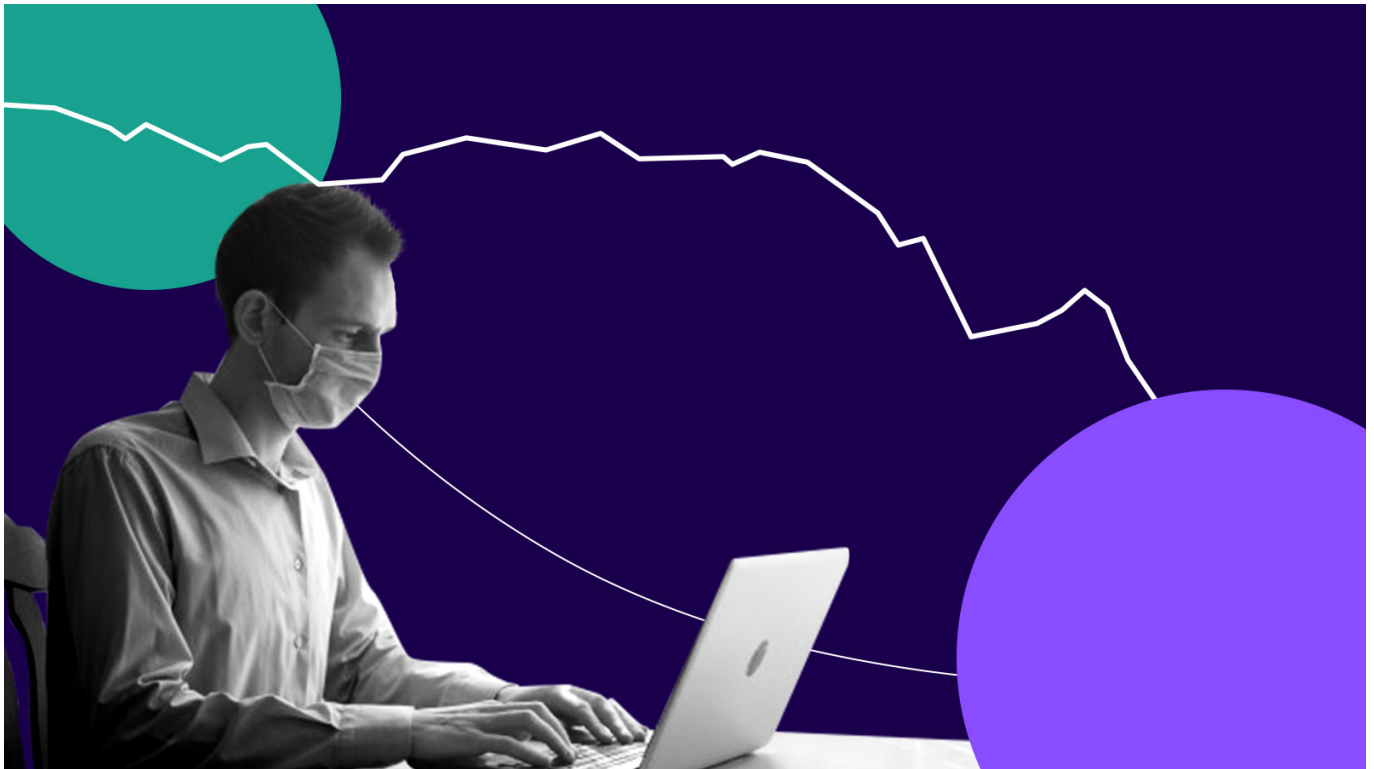
In early March, major Western banks began to follow their Asia counterparts and implement split teams. It wasn't until the second and third weeks of March as stock markets finally began to take account of the unfolding crisis, that the true scale of the pandemic began to emerge.

As Italy became the first European country to be engulfed by the virus, sellside operations teams across the world found themselves in a race against the pandemic and government lockdowns. One bank executive that spoke to Acuiti for this report said that *"in 48 hours, the situation changed beyond recognition"*.

During this time, it quickly became obvious that the team-based response was insufficient to stop the transmission of disease. At least one major bank experienced an outbreak that shut down a whole trading desk and the threat to operations posed by the virus increased dramatically.

"In 48 hours, the situation changed beyond recognition."





It soon became clear that most, if not all, staff would need to be relocated to their homes. For any in doubt, lockdowns soon followed which mandated remote working for all but essential staff.

This move to remote working presented unprecedented operational challenges for front office operations with different firms facing specific challenges based on their business lines. For all, there was the huge logistical task of delivering screens and computer equipment to individual's homes and IT and logistics teams worked around the clock to set up home working environments.

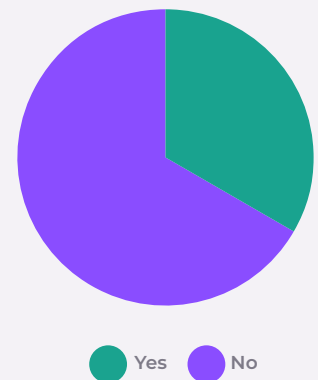
Firms with large voice broking operations had to quickly move from a world in which teams of traders sat around desks equipped with state-of-the-art surveillance to a decentralised environment in which individuals worked from home.

Physical turrets on the trading desk were replaced by "soft turrets" deployed remotely; surveillance tools were downloaded onto home computers; risk systems and monitoring tools were recalibrated; connectivity to venues and APIs to execute and report trades was tested and retested.

But, in a world where the natural workflow of trading requires visual interactions across a desk, there was the additional challenge of recreating as far as possible the environment and interactions between brokers on a physical desk.

Some brokers allowed teams to work together at one staff member's house, but most had to establish remote communications between individuals on a desk, all working in different places with video conferencing platforms set up to provide the visual interaction.

Did your disaster recovery plan envisage a scenario in which everyone worked from home?



Source: Acuiti survey of sellside executives

One a scale of 1-7, which of the following front office processes have you had the most issues with during the crisis?



Source: Acuiti survey of sellside executives

In numerous instances, home broadband capabilities were not sufficient, enhancing the risk of miscommunication that could lead to missed trade opportunities or outrades. In such scenarios, additional connection capabilities had to be built at the individuals' homes.

For firms that kept a skeleton staff or maintained some desks in the office, social distancing rules had to be put in place and communications established with remote workers as well as external clients, all of whom were going through the same switch to remote working.

All of this was going on during a period of unprecedented volatility. Markets across the world were in freefall with near-record drops being recorded on consecutive days in major equity markets. Inevitably front office processes came under pressure.

A survey by Acuiti of senior front-office executives found that the most severe issues firms faced in the front-office were in pre-trade risk and surveillance operations.

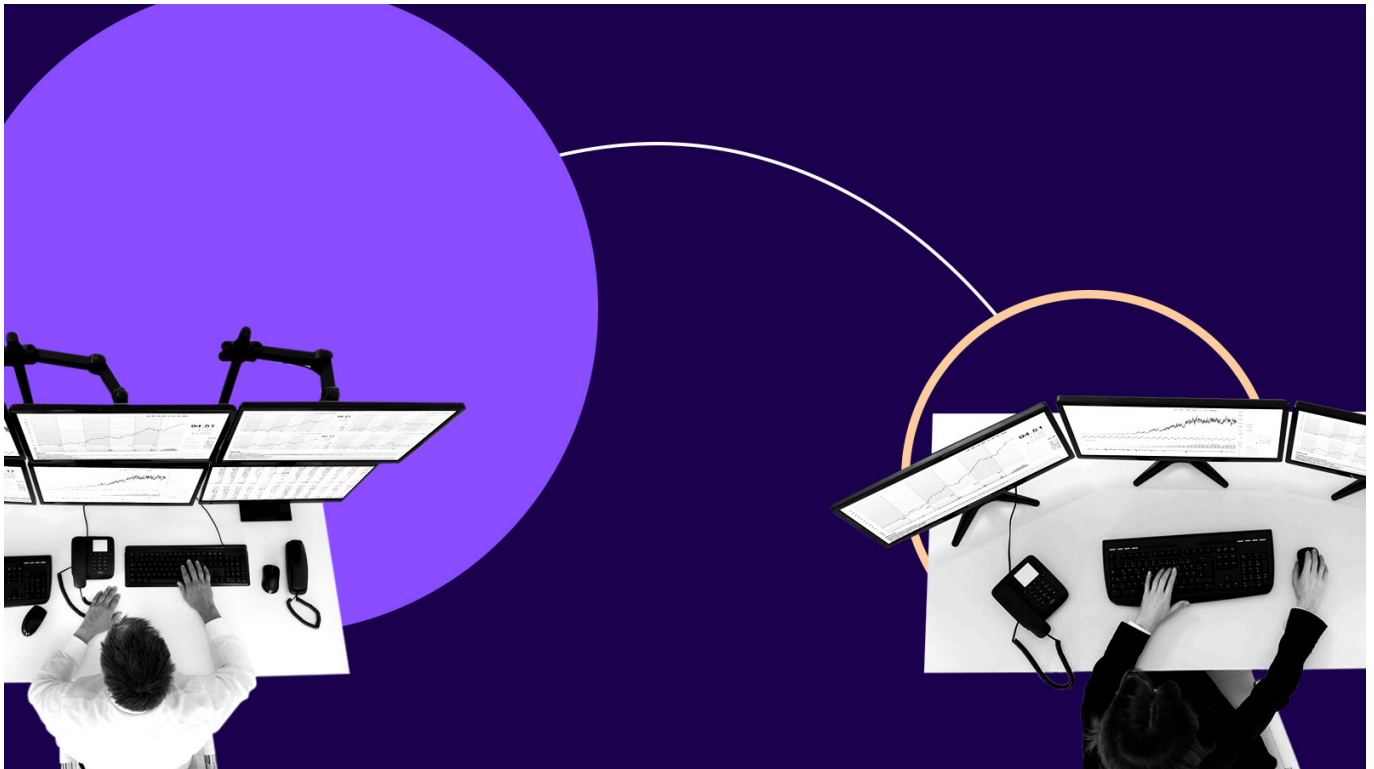
Some functions were unable to be replicated in a remote environment. Trading floors are under constant video surveillance, something that cannot be replicated with traders working from home. Mobile phone bans became impossible to enforce.

Communications between the middle and back office also came under pressure. Middle office functions that were used to sitting in the same space as the traders with seamless communications were now reduced to phones or chat boards.

Remarkably quickly however, these issues were addressed. Markets continued to function as intended and firms and individuals adapted to the new normal. Advances in technology and operational resilience enabled the industry to rise to the biggest operational challenge it had ever faced.

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Getting the front office back in the office

Relocating front office operations to home environments during a period of immense volatility posed an unprecedented operational and logistical challenge. The task of moving staff back to the office will be less logistically challenging but inherently more complex.

Banks and brokers across the world are already in the process of implementing measures to create a safe office environment and many are beginning to increase the numbers of staff in the office.

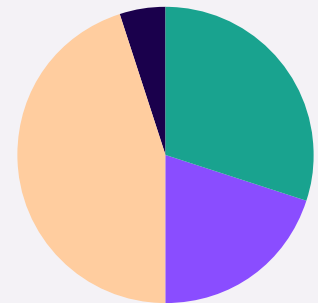
Government advice for bringing staff back to the office varies around the world but the onus upon employers to create a safe environment for staff when they return to work is uniform.

In the UK, the government has set out a series of measures that companies must take. These include ensuring wherever possible that workers are kept 2m apart, using screens or barriers to separate employees, reducing the number of people each person has contact with and using back-to-back or side-to-side rather than face-to-face desk arrangements.

In addition, the government suggests staggering arrival and departure times, creating more entry points into the workplace, introducing one-way flow at exit and entry points and reducing maximum occupancy for lifts.

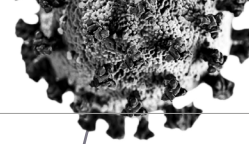
As with the move to remote working, the challenges of adapting to the new normal will vary significantly depending on business line and function. Some electronic trading desks and certain middle and back office functions that are functioning well in a remote environment as well as teams working on new projects will likely be among the last to return.

Is your organisation ready to bring traders back with social distancing rules in place?



- Yes, already in place and traders in work
- Yes, we are ready but traders not back yet
- No, but we will be soon
- We will be unable to return with social distancing

Source: Acuiti survey of sellside executives



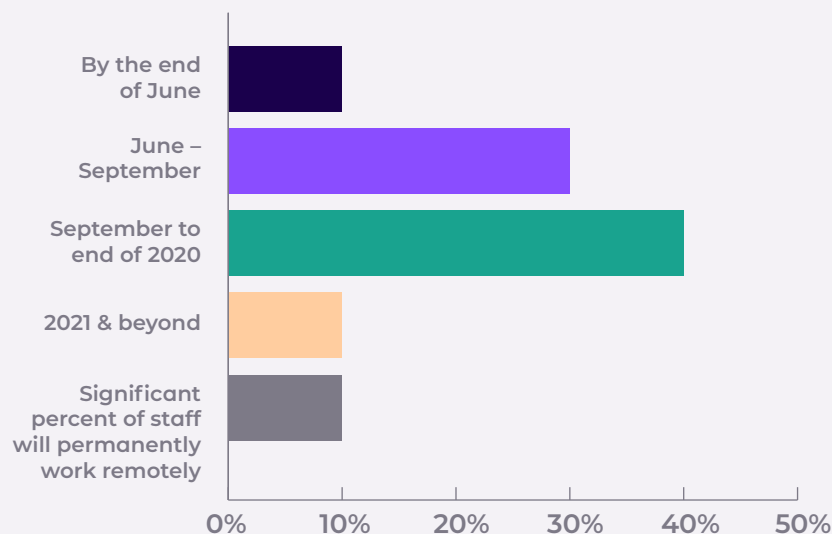
The priority for the sellside executives that Acuiti spoke with is getting front office, revenue generating, roles back into the office. However, in the UK, the FCA has said that support staff need to be brought back at the same time in numbers correlating to trading and broking roles.

Firms are planning for a phased return from June 1 in the major US and European financial centres. A top concern for many currently is the commute. While it is possible to create secure environments for staff in the office, getting to and from the office safely remains a major challenge with concerns most commonly cited about city underground systems being potential hotspots for transmission.

Managing differing levels of willingness to return to the office among employees will also be a significant challenge. While some staff are raring to be back in the office, others will remain hesitant and older employees or those with health conditions that expose them to more risk from the virus will need to remain shielded for some time to come.

When staff do return, they will have to adapt to the new restrictions. Few executives Acuiti spoke with believe that desks of voice brokers wearing masks and shielding between screens will work in the long-term. Firms will therefore have to think now about how they will enforce social distancing rules, how they will be relaxed and, crucially, what they will do in the event of continued breaches by individuals or teams.

When do you expect the majority of staff in your organisation to be back in the office?



Source: Acuiti poll during webinar

Considering the inevitable restrictions on capacity in the office, most sellside executives that Acuiti spoke with for this report anticipate in the medium-term that some desks will be based in the office, while others, probably those trading in more exotic instruments with lower volumes or those with higher electronic volumes, will remain in a remote environment.

Longer-term home-based trading will inevitably require changes to compliance practices, in particular with regards to surveillance. The FCA has said it requires communications of brokers and traders working remotely to be recorded as if they were on the trading floor but acknowledges that this will not always be possible.

To ensure an audit trail of trading, firms will have to approach surveillance in different ways. Technology that converts voice to machine readable data will be more heavily deployed and different techniques will become more important to identify erroneous trades.

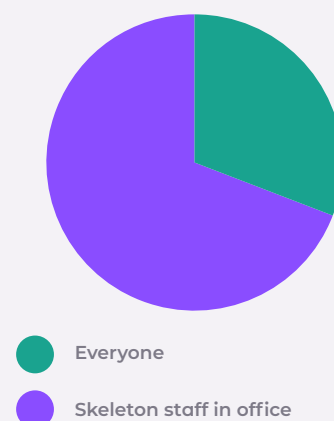
For example, firms will have to enhance their ability to identify and match communications preceding any trade and flag trades where there may have been communications conducted outside approved and recorded channels.

Another consideration will be how methods of execution have changed during the crisis. When the CME and NYSE closed their equity options pits as the virus spread, all trading went electronic accelerating an existing trend.

However, electronic liquidity in other instruments, such as interest rate swaps, dried up and the market moved to voice. Whether the acceleration to electronic trading in certain products creates permanent changes and how quickly voice markets return to the screen will need to be understood and considered.

The move back to the office is a timeline that no employers will want to force but there may come a point when a return for some staff will have to be mandated. This will be an HR issue but one with potential legal risk for firms. Banks and brokers are analysing insurance contracts to understand their liabilities but the prioritisation of the health of employees will inevitably drive caution in approaches.

Are your traders at your organisation currently working from home?



Source: Acuiti survey of sellside executives



Existing methods of evaluating productivity will have to evolve. In the maelstrom of the market volatility, it was impossible to evaluate the efficiency of every employee working from home as business conditions for most firms were so strong.

However, as volatility reduces and markets return to relative normality it will be required to ascertain which staff members are performing sub-optimally in a remote environment and delicate, targeted measures to address this will be required.

What is clear is that, while the project to send people home was done in haste with a very tight deadline, bringing people back will be a slow ebb.

As with the early stages of the crisis, operations teams are working on plans with limited visibility in a constantly evolving situation. Firms will need to work against provisional timeframes of how long social distancing will be in place and establish goals and phased returns based on those assumptions. These assumptions will need to be reviewed on a regular basis against the spread of the virus and with plans ripped up in the event of a second wave.

All executives that Acuiti spoke with are taking a conservative approach to the return to the office. Most expect there to be fewer people in the office in the long-term.

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The future of the front-office

Commentary in the wider world is currently dominated by predictions of fundamental changes in working practices and a permanent shift to remote working.

For sellside front-office operations, the change is likely to be heavily dependent on business operations. Electronic trading functions are easier to operate with staff working remotely while few expect voice desks to be based anywhere but the trading floor once things return to normal.

In the medium-term, managers will have to be flexible, considering a range of factors from an individual's health and commuting time to their roles and effectiveness working from home.

They will also have to adapt ancillary functions to meet the new normal. When offices reopen, visitors won't come to the office like they have in the past and the social side of business will change.

That will be most strongly felt in the sales process and creating and maintaining a safe working environment will require this challenge to be drawn out.

Client interaction in a social environment may never go back to the pre-Covid norm, travel restrictions will likely remain in place for months and a significant minority of people won't engage like they did before. Sales teams will have to adapt to that.

Managers will inevitably think about real estate in different ways after the crisis. Any move to remote working for some staff on a permanent basis will potentially reduce costs. Many will question the expense of maintaining disaster recovery sites, which have proved all but redundant in the current crisis and considerable cost can be saved if staff can shift to home working in the event of a crisis.

Ultimately the operational resilience enabled by technology of the industry over the past three months stands testament to its ability to adapt to whatever comes next. What the industry has been able to do in terms of relocating hundreds of thousands of staff members to work remotely during a period unprecedented volatility is nothing short of incredible. Adapting to the new normal, however, is a more uncertain challenge.

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