

Interwoven Goes Peer to Peer' for OTC Automation

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Document management software company Interwoven has unveiled what it describes as the first peer-to-peer network platform for reducing errors in communications between counterparties in over-the-counter derivatives transactions. The platform, **Scrittura** P2P, was designed to facilitate trade confirmations on highly structured products, but it can be used to transmit any type of data among fund managers, dealers or prime brokers in standardized extensible markup language (XML) or financial products markup language (FpML) formats or customized formats.

The peer-to-peer concept replaces a centrally hosted hub with a direct connection between participants. Jos Stoop, VP of financial services solutions for Interwoven, which he joined when it purchased **Scrittura** in 2005 for \$16.3 million, says that shared hubs "potentially expose confidential financial data to third-party companies. Current processing systems also handle messages only in strict and inflexible formats, forcing all other data transfers to be processed outside the systems by hand, thereby contributing to the growth of backlogs."

The data exchanged could include affirmations, amendments and corrections to trade instructions, status changes, rate reset advices, payment advices, portfolio reconciliations and collateral margin calls.

As bilateral contracts, OTC derivative transactions must first have their economic terms affirmed before they can proceed to confirmation, which involves matching more-detailed information on payment timing and amounts. Without a confirmation, a deal is not considered legally binding, and processing and payment mistakes can easily occur. Standardized message formats are typically used only for vanilla transactions and do not lend themselves to more complex, structured deals.

Trading in OTC derivatives--particularly the burgeoning credit default swaps that, according to the International Swaps & Derivatives Association, totaled \$26 trillion notional in mid-2006--has been driven by hedge funds. The inability of dealers' backrooms to keep pace with the growth caused a global group of regulators to intervene in 2005, and the backlogs have been reduced with help from industry utilities such as New York's Depository Trust & Clearing Corp. and vendor offerings from the likes of Interwoven, T-Zero, Markit Group and Thunderhead.

A benefit of **Scrittura** P2P, says Stoop, is its direct message routing and integration capabilities. Rivals and industry analysts agree that such functionality is necessary to serve a competitive sell-side market and promote buy-side interest. It can queue messages and deliver them to the

appropriate middle- and back-office systems of counterparties that determine the workflow rules and processing. Such systems can include trading platforms, collateral management platforms and Interwoven products such as **Scrittura's** conformation processing system, which has over 30 dealer clients. By contrast, counterparty communications via e-mail or phone lack centralized logging, auditing or reporting.

Stoop, who founded New York-based **Scrittura**, estimates that error rates in creating manual confirmations are as high as 40 percent. Though it may cost several hundred dollars to process a derivative transaction by hand, fixing a mistake can climb into the millions, not counting hits to a company's reputation.

Scrittura P2P has won favor with an undisclosed number of counterparties sending messages for portfolio reconciliation--a process for ensuring that all trades match and none are "left hanging."

Scrittura P2P is sold on the basis of a site license for each counterparty, and there are no per-trade or message fees. Each counterparty can customize as needed, modifying workflows and adding message types. Communications options include dedicated lines and encrypted e-mail over public networks.