



Business challenge

To sharpen its competitive edge, Jefferies set out to enhance its offering by providing hedge-fund clients with deeper, more accurate insights into risk across their portfolios at lower cost.

Transformation

To source market data for risk reports, Jefferies switched to a managed data service from IBM that integrates with IBM® Algo Risk® Service on Cloud to offer daily risk metrics and stress tests.

Business benefits:

90%
reduction in reliance on previous data vendor generates major cost savings

20%
shorter cycle times reduces risk of delays to critical reports

Enables
expansion of special margin rules to a broader range of clients at no extra cost

Jefferies Unlocks huge cost savings and offers deeper insight to clients with market data from IBM

Jefferies offers a broad range of products and services spanning investment banking, equities, fixed income and wealth management to clients in the Americas, Europe, the Middle East and Asia. Headquartered in New York, the company has offices in over 30 cities worldwide, employs 3,300 people, and holds USD 11.4 billion in long-term capital.

“Our Prime Brokerage group has been working with IBM for more than ten years, and it’s one of our best vendor relationships.”

Ehab Sorial
Senior Vice President,
Prime Brokerage Technology
Jefferies

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Weathering stormy market conditions

Prime Brokerage is a special group of financial services offered predominantly to hedge-fund managers, including financing, cash management, leveraged trade executions, and risk assessments. Essentially, the services help hedge funds to function and grow—and allow the fund managers to shift their focus from day-to-day investment activities towards investment goals and strategy.

Jefferies is one of the world's leading financial institutions, and its Prime Brokerage business serves numerous mid-size and large hedge funds. But in challenging times for the Prime Broker industry, as fierce competition between investment banks meets record-low interest rates and tightening regulations, even top players like Jefferies are under pressure to defend their market share and sharpen their competitive edge.

Ehab Sorial, Senior Vice President, Jefferies Prime Brokerage Technology, begins: "We are always on the lookout for ways to enhance our offering and offer fresh value to our hedge-fund clients. One of our ideas was to improve our reports detailing the risk exposure across their portfolios, by incorporating more detail and raising accuracy.



"In light of the rising competition, we also targeted a reduction in the fees we were paying for market data, which is vital to risk analysis but represents one of the largest costs for Prime Brokers."

Taking the plunge

After evaluating offerings from a broad range of vendors, Jefferies decided to replace its incumbent market-data provider with a managed data service from IBM.

The service integrates with Jefferies' existing IBM® Algo Risk® Service on Cloud solution to provide daily risk metrics and stress tests for each client's portfolio. The data also helps Jefferies manage its own business and ensure that it is striking the appropriate ongoing balance between risk and reward.

“We opted for the managed data service from IBM for several reasons,” recalls Ehab Sorial. “First, we have been using IBM Algo Risk Service since 2006, and we are very happy with that solution. Second, we saw that we would be able to avoid disruption to clients by sticking to our existing overnight cycle for risk reporting. Third, the IBM service would enable us to dramatically lower the expense of market data, without sacrificing data quality.

“The deployment was surprisingly smooth. You can always expect hiccups when introducing a completely new service, and we did have some initial issues with timing and data consistency. IBM stepped up to the plate and helped us iron out those issues, so that within the first few months we had the process running seamlessly. Since then, the service has proven to be extremely stable. IBM delivers reports to us on time, and they are very high quality.”

Now, every evening after close of business, Jefferies sends IBM a preliminary snapshot of the day’s holdings, before compiling and transferring the full data a few hours later. The first wave of data enables IBM to get a head-start on its risk reporting for the day, reducing the potential for delays. IBM Algo Risk Service on Cloud crunches the data to produce comprehensive risk reports, detailing each client’s holdings alongside various risk metrics and stress tests.



Next, IBM sends the data to Jefferies, which generates reports and sends them to its clients, ready for them to digest before the new day’s trading commences. Jefferies also uses the data for its own risk-assessment processes.

Unearthing richer insight and substantial cost savings

By switching to the managed data service from IBM, Jefferies reduced reliance on its incumbent market-data vendor by 90 percent, unlocking substantial cost savings.

In addition, Jefferies has found the IBM data to be more accurate and of higher quality than that of its previous vendor, providing a better foundation for risk reporting. Ehab Sorial continues: “IBM enables us to provide our clients with rich daily insight into the changing risk position of their portfolios as the market moves. We have expanded the range of parameters we report on, and IBM stress-tests our clients’ portfolios against various scenarios, such as a market shock or a change in government in a certain country.

“Our clients benefit from deeper insight than ever, helping them make smarter trading decisions, better manage their portfolios, and stay on top of tough regulations concerning risk exposure and leverage. Most of our clients opt for our standard package of risk reports, and we generate custom reports for certain larger clients.”

The significant cost savings on market data have enabled Jefferies to expand its offering and potentially to increase its revenues by giving more opportunities to clients.

“Previously, we supplied risk reports to clients on an as-needed basis, because market data was expensive and we didn’t want to purchase any that we wouldn’t require. Now that we buy market data from IBM at much lower cost, we supply risk reports to all of our clients,” recalls Ehab Sorial.

“Similarly, we were able to offer special margin rules to just a small percentage of our clients before. Extending those rules to all our clients would have required us to spend at least 50 percent more on market data.

“Thanks to the new arrangement with IBM, we are able to offer this premium service to a much broader range of clients at no additional cost: a true win-win for Jefferies and for our clients.”

By enhancing its reporting offerings, Jefferies is also delivering additional value, helping it retain existing clients and win new business. In particular, Jefferies can demonstrate how its risk reports are more accurate and sensitive to change than those of rival firms.

Rapid data processing from IBM has enabled Jefferies to shave an hour off its overnight reporting cycles – a time saving of 20 percent.

“Many of our clients depend on our risk assessments for the next day’s trading, so if we don’t deliver the reports on time, our clients could lose money and we could incur reputational damage,” explains Ehab Sorial. “With the new service from IBM, we have an extra hour to rectify any problems before they impact our clients, giving us greater peace of mind. We also now have additional capacity, with room to accommodate a 50-percent rise in data volumes while still hitting our report-delivery deadlines.”

In the future, Jefferies plans to empower its clients to perform what-if analyses on-the-fly using IBM’s market data. For example, clients will be able to simulate the effects of purchasing additional shares in a certain company on their portfolio risk and returns, so that they can make better trading decisions.

Ehab Sorial concludes: “Our Prime Brokerage group has been working with IBM for more than ten years, and it’s one of our best vendor relationships. Annually I deal with between 12 and 15 different vendors, and in terms of understanding, support, maintenance, contract negotiation and flexibility to accommodate changes, IBM is among the best of the bunch.”

Solution components

- IBM® Algo Risk® Service on Cloud

Take the next step

IBM is working with organizations across the financial services industry to use IBM Cloud, cognitive, big data, RegTech and blockchain technology to address their business challenges. Watson Financial Services merges the cognitive capabilities of Watson and the expertise of Promontory Financial Group to help risk and compliance professionals make better informed decisions to manage risk and compliance processes. These processes range from regulatory change management to specific compliance processes, such as anti-money laundering, know your customer, conduct surveillance and stress testing.

To learn more about IBM financial risk and regulatory compliance solutions, visit ibm.com/RegTech and follow us on Twitter [@IBMFintech](https://twitter.com/IBMFintech)

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