

Blue System Inc (www.bluesysteminc.com) (Blue) is a NFA regulated securities market intermediary in the US. Its sister firm Blue System in London is regulated by the FSA in the UK. As an introducing firm, Blue brings together a cohesive network of brokers who can offer trading access to each other's markets. A critical part of it's offering is a technology solution that helps a member broker to quickly set up a trading infrastructure that can be offered to all of it's direct clients. The technology components comprised the front end trading system, decision support tool, centralized risk management, and connectivity to various exchanges. Blue decided to assemble best-of- breed components together to afford an unassailable advantage to it's users. Further, as a unique proposition, Blue decided to offer the technology platform on a pay-per-use basis, with zero up-front cost.

The Business Problem

An important component of the trading infrastructure provided by Blue, was the centralized risk management system. When a broker signs up with another broker in the network for cross exchange transactions, they set up trading limits for each other. In turn, the brokers also set up trading limits for their end clients. However, different brokers were used to their own risk management systems, and in keeping with it's promise, Blue wished to offer a risk management system that would be better than what all of it's member brokers would currently be using, would be fast, and yet be easy to integrate into the broker's current back office system.

The Solution

After keen search and evaluation, Blue decided to use Chella's ActiveMargin risk management system as a standard for it's offering across the globe. The risk management system would offer the three levels of validation built into it, namely

- ⊕ Can the incoming order cause, in conjunction with the existing position of the trader and all the other working orders, the portfolio risk of the trader to exceed permissible levels? No matter which of the working orders get executed, and which do not, can we safely say that the market risk of the resulting position will not exceed the permissible levels? This check is the “worst-case risk” check.
- ⊕ Is the trader already at a point where the cash, payable by him to the exchange to support his position (as distinct from his risk) does not exceed permissible levels?
- ⊕ No matter what his permissible trading levels are, does the trader qualify for submitting this order on other grounds? For example, would the trader violate position limits, if any, set by the exchange?

To implement criteria 2 above, the system also had to implement conventional margining techniques like SPAN, apart from the value-at-risk system that was already part of it. To implement criteria 2 above, the system also had to implement conventional margining techniques like SPAN, apart from the value-at-risk system that was already part of it.

In Blue's perspective, this made the central risk management a tool of competitive business advantage for its member brokers, as much as it was a defensive application. In the broker's perspective, frequent traders enjoyed higher trading space and could churn their portfolio better, which would result in higher system that would be better than what all of its brokerage revenues and delighted customers. It was a win-win for all, brought about by superior risk technology.

Blue is currently targeting connectivity to the 4 major exchanges; CME, CBOT, Eurex and LIFFE. In due course, Blue would have connected to 70 of the world's largest trading houses, and in one stroke would offer its brokers worldwide connectivity on tap.